

Agenda Date: March 24, 2016  
Item Numbers: A1 and A2

**Dockets:** UE-160071 and UG-160072  
**Company:** Avista Corporation

**Staff:** Christopher Hancock, Regulatory Analyst

### **Recommendation**

Issue an order approving the proposed accounting treatment.

### **Discussion**

On April 6, 2015, the commission opened Docket A-150561 to investigate current utility and transportation industry practices regarding credit and debit card payments by customers, and to reevaluate the regulatory framework surrounding these payments. Staff solicited two rounds of comments from regulated companies and industry stakeholders, and conducted a workshop on June 9, 2015. Multiple regulated energy utilities and Public Counsel expressed interest in fee-free programs for customers paying with credit and debit cards. Avista's filing in Dockets UE-160071 and UG-160072 are a product of the interest generated by that workshop.

In the proposed accounting treatment, Avista seeks to defer, for up to 36 months, all fees paid by Avista related to offering a fee-free program for payment of bills by Washington residential customers that use credit and debit cards. Absent approval of this deferral, the company states that it will not move forward with a fee-free program. Avista has also sought similar treatment in Oregon and Idaho.

Under current practices, Avista customers who wish to pay their bills with a credit or debit card are faced with a \$3.50 fee that is assessed by the payment processor Avista currently uses. This fee never passes through Avista. All other standard forms of payment (i.e., money orders, checks, cash) do not involve a "convenience fee." Instead, the costs of processing these payments are recovered as a routine administrative expense through rates.

Avista can substantially reduce the cost per transaction with a new payment processor through two methods: by making agreements regarding the size of bills handled by the payment processor, and by incurring the costs of processing these payments directly.

In restricting fee-free payments to those from the residential class, the company has demonstrated to its new payment processor's satisfaction that these payments will be less costly for the payment processor to handle.<sup>1</sup> This, in turn, allows the payment processor to offer a lower cost per transaction.

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<sup>1</sup> A large component of the costs borne by the payment processor are due to the size of the payment being made; it is for that reason that the payment processor is concerned with the size of the typical payments made by Avista's customers.

The second method – having Avista incur the payment fees, rather than customers – qualifies Avista for use of the lower “utility rate” interchange rates assessed by payment networks like VISA and MasterCard. This lower interchange rate is a significant factor in the reduced costs per transaction. Access to this lower interchange rate requires demonstrating to payment networks that the utility is the entity incurring the costs of processing payments.

In order to achieve this second method of cost-reductions for its card-using customers, Avista seeks to defer the costs associated with processing these payments. Approval of the deferral would allow Avista to begin the fee-free program for residential customers in October of this year. The total length of time in which deferred costs are anticipated to be accrued is 21 months, based on an assumed suspension date of July 1, 2018, of Avista’s *next* rate case.<sup>2</sup> Assuming a future rate case filing date of July 1, 2017, this deferral would be available for review for intervening parties after nine months of accrual, and through the pendency of the rate case. Separately, Avista has also agreed to provide updates every three months on how the program is progressing.

Avista received 4,759,839 residential payments in 2014. Assuming a 15 percent adoption rate by these customers – consistent with the 14 percent adoption rate experienced by Northwest Natural<sup>3</sup> – Avista expects to defer roughly \$1.1 million over the course of a year. Over a presumed 21 month deferral period, this would amount to approximately \$1.87 million.

<b>Date</b>	<b>Event</b>	<b>Estimated Deferral Balance</b>
March 2016	Commission approves deferral	\$0
October 2016	Fee-free program begins	\$0
July 2017	Avista files next GRC	\$803,223
January 2018	GRC: Intervenor response testimony	\$1,338,705
March 2018	GRC: Rebuttal testimony	\$1,517,199
June 2018	GRC: Final order issued	\$1,784,940
July 2018	GRC: New rates in effect	\$1,874,187

Approval of a deferral would also allow the record to reflect known-and-measurable customer behavior under a fee-free program, without exposing the company to large losses.

Moving to a fee-free program would eliminate the \$3.50 “convenience charge” customers currently face, and instead would result in the company paying roughly \$1.50 per transaction for

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<sup>2</sup> Avista plans on filing its next rate case on July 1, 2017.

<sup>3</sup> Northwest Natural (NW Natural) currently has a fee-free program that is available to its Oregon and Washington customers. The vast majority of NW Natural’s customers are in Oregon, where NW Natural received approval for a fee-free program during their last general rate case. NW Natural has not sought recovery of these costs in Washington.

these same payments. Avista plans on proposing in its next rate case to recover the deferred balance from all customers over a two year amortization period.

**Conclusion**

Avista's proposed accounting treatment would enable the company to proceed with implementing a fee-free program for residential customers paying by credit and debit cards, at a significantly lower cost for each payment processed.

**Recommendation**

Issue an order approving the proposed accounting treatment.