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Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF AVISTA CORPORATION )**  
**DBA AVISTA UTILITIES' APPLICATION FOR )** CASE NO. AVU-E-16-01  
**AN ACCOUNTING ORDER RELATED TO )** AVU-G-16-01  
**COSTS INCURRED TO OFFER CUSTOMERS A )**  
**FEE-FREE PAYMENT PROGRAM. )** COMMENTS OF THE  
**)** COMMISSION STAFF

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The Staff of the Idaho Public Utilities Commission provides these following comments to Avista Corporation's Application for an accounting order related to costs incurred to offer customers a fee-free payment program.

**BACKGROUND**

On January 13, 2016, Avista Corporation dba Avista Utilities applied for an Order authorizing it to record, as a regulatory asset, the costs it incurs to offer a fee-free payment program to its residential customers. The Company does not seek to recover the costs now. Rather, it requests an Accounting Order that will let it defer its opportunity to recover those costs through rates to a later date. The Company asks the Commission to process the Application by Modified Procedure.

Avista currently uses a third-party vendor (Kubra) to process one-time payments that residential customers make through Avista's web site or by telephone. The vendor collects a \$3.50 "convenience fee" if the customer pays by credit or debit card. The fee also applies if the

customer pays using a checking or savings account but has not created an online “My Account” profile with Avista. Avista does not receive any portion of the \$3.50 fee collected by Kubra.

On the other hand, customers with a “My Account” profile may pay by phone or on Avista’s website using a checking or savings account without being charged a convenience fee. Customers also are not charged the fee if they pay by check, cash, or authorized pay station.

Avista would like to eliminate the “convenience fee” so its residential customers may pay their bills by any method without incurring an extra charge. However, Avista does not want to create a fee-free payment program if it will incur costs that will cause it and its shareholders to lose money. Avista estimates the cost per transaction will be \$1.50. The Company thus seeks to defer, for later recovery from all customers through rates, the costs it incurs to set up and offer the fee-free payment program. The Company expects the deferred costs will be about \$195,000 per year on an Idaho electric allocated basis, and about \$120,000 per year on an Idaho natural gas allocated basis.

With this Application, the Company asks the Commission to approve an accounting treatment that would let the Company defer the program costs for up to 36 months from the month in which the program begins. Every six months, the Company would update the Commission on program participation rates and fees incurred. Then, after the Company has 12 to 18 months of history with the program, the Company would seek to recover the program’s costs as part of a general rate case. In the rate case, the Company would ask to amortize and recover the costs from all customers over a two-year period, with no return on the unamortized balance. The Company also asks the Commission to approve this proposed ratemaking treatment. As noted above, while the Company is asking to track the fee-free program’s costs for possible future recovery through rates, the Company’s Application does not seek to recover those costs, or increase rates, at this time.

In the Comments below, Staff summarizes its review of the Company’s Application and the actions Staff recommends the Commission take in this case.

## **STAFF REVIEW**

Staff has reviewed the Application and supports the Company’s request to offer fee-free payment programs for residential customers and defer the processing costs associated with the programs for later recovery. However, while Staff recognizes the benefits of offering fee-free payment options, it has concerns about the Company’s proposed amortization period. In the

section below, Staff discusses the impact of convenience fees on customers, and the benefit of the Company's proposal to remove these fees. Staff then discusses its concerns about the Company proposed amortization, and support for the Company's proposed jurisdictional allocation of costs associated with the fee-free program, and customer communication plan. Lastly, Staff discusses the customer-relations aspects of the Company's proposal, and notes that the sole customer to comment supports the Company's plan.

### **Impact of Convenience Fees on Customers**

In the past, few customers used credit cards to pay utility bills. Fewer still used debit cards. Card use was viewed as a convenience rather than a necessity, and utilities were reluctant to absorb the cost of handling these transactions. Accordingly, the customers who used the service paid for that privilege.

These past practices have changed in recent years. According to the 2013 Federal Reserve's Payment Study, there has been a consistent decline in consumers paying for goods and services by paper check, while debit and credit card transactions have increased. Using a credit or debit card to pay for products and services is now a routine practice, and most businesses and service providers, especially in the retail sector, no longer charge convenience fees. As more customers come to rely on payment by debit and credit cards, they become frustrated by and object to paying an extra charge to pay utility bills using their preferred method.

In addition, convenience fees often have the greatest impact upon society's most vulnerable population, including low income individuals who struggle to meet the basic necessities of daily living. Many low income people are unbanked or underbanked. "Unbanked" persons lack a savings or checking account and do not have a financial relationship with a bank or credit union. "Underbanked" persons may have a checking or savings account, but also use alternative financial services. Both unbanked and underbanked households rely on non-bank financial services for an array of products such as check cashing services, payday loans, tax-refund advance loans, rent-to-own services, pawn shop loans and auto title loans, all of which charge high interest rates. They may use credit and prepaid debit cards to pay their bills. Unbanked households have limited options to avoid paying a convenience fee since most fee free payment options require readily available cash.

According to the 2013 FDIC National Survey of Unbanked and Underbanked Households,<sup>1</sup> 28% of U.S. households were either unbanked or underbanked. In Idaho, 6% of households were unbanked, and 19% were underbanked, for a combined total of 25% or 140,543 households. More than half of the unbanked cite their inability to build up a reserve in an account or maintain a minimum balance as the main reasons they lack a bank account.<sup>2</sup> Other contributing factors include high fees, unpredictable and unknown fees, distrust or dislike for banks, lack of ID, bad credit, and a poor past experience. Age can also be a factor. Nationally, about half of people between the age of 18 and 24 are unbanked and underbanked due to lack of established credit. Those who have a relationship with a bank or credit union tend to rely on credit and debit cards for financial transactions.

### **Benefits of Eliminating Convenience Fees**

Removing the \$3.50 convenience fee will bring the Company's payment practices in line with those of other businesses, and will improve customer satisfaction and increase timely payments. Eliminating the convenience fee will add payment choices for customers. According to the Company, most customers choose not to pay with a credit or debit card due to the convenience fee. Though the Company does not specifically track the number of complaints about the fee requirement, customers frequently complain about the convenience fee when they call the Company's Customer Service Call Center. The Commission's Consumer Assistance Staff has received similar complaints from customers. In addition, most customers who consider paying by phone elect not to when they hear an additional fee will be assessed. Eliminating the fee will provide customers with more fee-free options and will help lessen the financial burden on customers who are struggling to meet financial obligations.

Currently, only customers with a checking or saving account can participate in automatic bill payment.<sup>3</sup> With approval of the free-payment program, customers will be able to sign-up for automatic bill payment using a credit or debit card.

With more customers paying by credit or debit card, it is probable that more customers will choose electronic monthly billing (paperless billing). This, in turn, will reduce the

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<sup>1</sup> <https://www.fdic.gov/householdsurvey/2013report.pdf>

<sup>2</sup> Ibid

<sup>3</sup> No fee is charged for processing a payment.

Company's printing and mailing costs. For every bill the Company sends electronically, the Company saves \$0.58.

The number of customers who do not pay their bills on time will probably decrease. Residential customers who avoid paying by credit or debit card due to the convenience fee may elect to do so if the fee is eliminated. The customer will benefit by avoiding a late fee. Avista will benefit from reduced costs associated with collection activity. Customers who wait until the last minute to pay a bill risk having the payment not posted by the due date, incurring a late payment fee and possible disconnection of service. If a payment is made at a pay station, the payment can take up to one to two days to process and post. Delayed posting of payment to a customer account has resulted in customer disconnections even though the payment was made before the scheduled date of disconnection. Elimination of the convenience fee may increase the number of customers who pay their bills on time, thereby reducing the number of incurred late payment fees and the number of disconnections.

Staff believes that any deferral of transaction costs should be offset by the potential savings related to the program. However, many of the benefits are not readily quantifiable, as it would be difficult to directly correlate cost savings for the items mentioned with the proposed fee-free program. Improved customer satisfaction potentially reduces the number of phone calls made to Avista's Customer Service Call Center, which would save approximately \$6 per call in labor costs. Because the Company has not tracked the number of calls, inquiries, or complaints regarding the convenience fee, the benefits from reduced calls cannot be adequately quantified.

The increase in customers who reduce Company cost by receiving electronic (paperless) billing can potentially be tracked. Staff realizes that the tracking of these customers could be a laborious task for quantifying this potential benefit. Staff notes that in Oregon ADV 201, the Company agreed to defer 90% of the transaction costs associated with the fee-free program instead of the requested 100%. If the Company believes that the tracking of new electronic billings would be arduous and complicated, Staff would accept the deferral of 90% of the transaction costs as a proxy amount for the benefits to offset the requested deferral.

Staff notes that all financial mediums for payment of utility services have transaction costs. These costs have always been a prudent cost of doing business. Staff believes it is inappropriate to charge some individuals for their method of payment, while embedding the costs associated with other methods into rates. Provided that the Company is prudent in its selection

criteria of a third party vendor and minimizes its costs, the transaction costs associated with receiving payment for services should be included in base rates.

### **Amortization Period**

The Company seeks to defer for up to 36 months without a carrying charge all transaction fees it incurs to offer a fee-free payment program in Idaho. The Company does not seek to defer any developmental or implementation costs. The Company proposes to recover the deferred costs over a 24-month period. Staff believes it would be inappropriate for the Company to amortize the regulatory asset over a 24-month period if the deferral period were to exceed 24 months. Because the length of the deferral period will be unknown until the Company files for recovery in a rate case, Staff recommends that the Commission not explicitly approve an amortization period at this time. Staff believes that the appropriate time to determine the amortization period is when the Company files to recover the deferred expenses.

### **Jurisdictional Allocation**

The Company's Application does not describe how the Company will allocate the transaction fees to the jurisdictions it serves. Through discovery, the Company confirmed that it will directly assign the transaction fees incurred by Idaho residential customers to the Idaho jurisdiction. Staff agrees that direct assignment of the transaction fees is the best approach.

### **Customer Communication Plan**

During the fall of 2016, the Company intends to implement the fee-free program in conjunction with the scheduled rollout of the Company's new website and mobile application ("App"). The advantage of starting a fee-free program simultaneously with the website and App release is the elimination of duplicated efforts.

If the fee-free payment program is approved, the Company does not intend to use a stand-alone communication plan to notify customers. Instead, information about the new fee-free program would be included in the list of self-service options when notifying residential customers of the new website and App. Residential customers who are on or opt for paperless billing will be notified via email about the different payment options. Additionally, Customer Service Representatives will inform customers at the time the customer is making a payment

over the phone that a convenience fee is not required for processing the payment, and the Company's website will provide information.

Using this approach, the Company expects number of customers using cards will gradually increase over time. Staff supports the Company's proposed communication plan.

### **Customer Relations**

Customers were given until March 14, 2016, to file comments. As of March 10, 2016, one customer submitted written comments to the Commission in favor of the Company's fee-free payment program. The customer stated that 95% of his bills are paid electronically using a credit card. He favors automatic bill payment through his credit card, and feels the Company should offer a discount for those customers who receive and pay their bills electronically.

### **STAFF RECOMMENDATIONS**

Staff believes that Avista's proposal for a fee-free program is necessary given the increased reliance on the use of credit, debit cards, and prepaid cards to pay bills. Elimination of the convenience fee will increase customer satisfaction, remove the financial disincentive to using cards, and decrease the financial burden on low income, unbanked, and underbanked customers. Therefore Staff recommends that the Commission:

- 1) Approve the Company's request for an accounting order allowing deferral and recording of all transaction fees paid by the Company related to offering a fee-free program for payment of bills by its Idaho residential customers until those costs can be recovered through future rates.
- 2) Defer deciding on an amortization period until the Company asks to recover the regulatory asset created by the deferral of transaction fees.
- 3) Order the Company to directly assign the transaction costs of the fee-free program to each jurisdiction, with fees attributed to Idaho customers being charged to Idaho.
- 4) Require the Company to file a report with the Commission every six months detailing fees incurred and participation rates, as proposed by the Company in its Application.

Respectfully submitted this 14<sup>th</sup> day of March 2016.



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Deputy Attorney General

Technical Staff: Donn English  
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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14<sup>TH</sup> DAY OF MARCH 2016, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NOS. AVU-E-16-01/ AVU-G-16-01, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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