

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 22, 2016**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: March 7, 2016

TO: Public Utility Commission

FROM: Marianne Gardner *MG*

THROUGH: *F* Jason Eisdorfer and *A* Marc Hellman

SUBJECT: AVISTA UTILITIES: (Docket No. UM 1759) Requests Authorization to Defer Expenses Associated with Residential Fee Free Bankcard Program.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Avista Utilities' (Avista or Company) request to defer 90 percent of the transactional fees, up to a cap of \$150,000, associated with Avista's planned debit and credit card fee free payment program for residential customers. For accounting purposes only, the deferral period will commence with Avista's implementation of the fee free payment program and will end 12 months later.

ISSUE:

Should the Commission approve Avista's application (Application) to defer transactional costs arising from residential customers' adoption of Avista's planned debit and credit card fee free payment program?

APPLICABLE LAW:

Under ORS 757.259, the Commission may authorize deferred accounting for later incorporation in rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include:

Identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers. See ORS 757.259(2)(e).

In OAR 860-027-0300(3), the Commission set forth the requirements for the contents of deferred accounting applications. These include:

- (a) A description of the utility expense or revenue for which deferred accounting is requested; (b) The reason(s) deferred accounting is being requested and a reference to the section(s) of ORS 757.259 or 759.200 under which deferral may be authorized;
- (b) The account proposed for recording of the amounts to be deferred and the account which would be used for recording the amounts in the absence of approval of deferred accounting;
- (c) An estimate of the amounts to be recorded in the deferred account for the 12-month period subsequent to the application; and,
- (e) A copy of the notice of application for deferred accounting and list of persons served with the notice.

Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Information Related to Future Amortization

- Earnings review – An earnings review is required prior to amortization, pursuant to ORS 757.259(5).
- Prudence Review – A prudence review is required prior to amortization and should include the verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Under ORS 757.539(8)(b), the Commission determines the method a utility should use to recover costs of programs approved under that statute at the time it approves the program.
- Rate Spread/Design – Under ORS 757.539(8)(a), the Commission determines which ratepayers should be charged for a program approved under that statute at the time it approves the program.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7), (8) and (10)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

DISCUSSION AND ANALYSIS:

Background

On January 12, 2016, Avista filed an Application for a Commission Order authorizing it to defer, for later recovery in rates, the transactional costs incurred related to offering a fee free bankcard payment program to its residential customers. The Company proposes to record the transactional costs, as a regulatory asset, and recover the costs later in rates.

The Company's Application requested a deferral period of up to 36 months. After discussion with Staff, the Company supplemented its original filing on February 4, 2016, and revised its request as follows:

- i. Limit the deferral period to 12 months from the time the fee free payment program is implemented and available to customers, or until the conclusion of its next general rate case and new rates go into effect.
- ii. Directly assign costs incurred by Oregon customers back to Oregon customers for recovery.
- iii. Defer 90% of the transaction fee-related costs incurred instead of 100% as originally requested.
- iv. Any twelve-month deferral period will accrue only fee free payment Oregon-transaction costs and total no more than \$150,000.
- v. In the Company's next general rate case it will propose an estimated level of expense to be included in rates on a prospective basis with cost recovery from residential customers on Rate Schedule 410.
- vi. The Company will propose to recover the deferred balance in a subsequent filing.
- vii. The deferral would be subject to an earnings test and the three percent of the utility's gross revenues for the preceding calendar year cap limitation.

Concurrent with its UM 1759 filing, the Company filed Advice No. 16-02-G, docketed as No. ADV 201, requesting a revision to Rule No. 9 Tariff to include language allowing a debit and credit card fee free payment option to all residential customers. This option would be effective once the program is activated. In its report presented at February 23, 2016 Public Meeting, Staff explained, "Put simply, the fee free program would change the current model of residential users of debit and credit cards paying the associated fees to a model where the customers pay no direct fees. Instead, the

Company will pay the fees, and eventually request recovery in rates such as through the UM 1759 deferral application and later perhaps through base rates.”¹

The Company hopes to begin the fee free program in either the second or third quarter of this year. The implementation of the program is contingent on the Washington Utilities & Transportation Commission (WUTC) and Idaho Public Utilities Commission (IPUC) approval of the program for both electric and gas residential customers in those jurisdictions.² As of the date of this memo, Avista’s applications filed with WUTC and IPUC are still in the review process.

Staff Review

Staff discussed Advice No. 16-02-G and the UM 1759 filings with Company management at the time of the initial filings. Based upon this conversation, the Company filed a revised request in the UM 1759 docket. The Company’s revisions to the filing are the points, i through vii, which Staff included above on page 3 of this memo. Additionally, Staff issued follow-up information requests (IRs) and engaged in conversations with Avista to clarify recovery of any other costs besides the transactional costs. The Company explained that it intends to recover costs related to the technology implementation and integration with its payment processing vendor in a future general rate case. These costs will be capitalized and, when the service is available to customers, transferred to FERC Account 101 – Plant in Service. Additionally, during the next rate case, the Company will demonstrate the prospective incremental costs estimated to be incurred as a consequence of the fee free program and request inclusion in future rates.

Staff brought to Avista’s attention that, under any circumstances, the deferral period is limited to 12 months, and then it would have to be renewed.³ Avista concurred to the following modification of item i. “Limit the deferral period to 12 months from the time the fee free payment program is implemented and available to customers, or until the conclusion of its next general rate case and new rates go into effect, *whichever occurs sooner*.” Since Avista plans on filing a rate case this year, this statement matches its intent.

Under Docket ADV 201, Staff’s report outlines the benefits of a fee free program as put forth by Avista in its filings for a tariff change and Application.⁴ As noted in Staff’s report, Staff will conduct further discovery of the program in the next rate case.⁵

¹ Docket No. ADV 201/Advice No. 16-02-G, Staff Report, Item No. CA2, Public Meeting Date, February 23, 2016, page 2.

² Ibid.

³ ORS 759.259(4)

⁴ Ibid, page 3.

According to Avista's Application, customers currently pay a \$3.50 convenience fee to use a debit or credit card. This convenience fee is revenue to the third-party bank card processing vendor. Avista does not receive any share of the convenience fee. Under the proposed fee free program, payments made by Avista's residential customers will be eligible for the major card networks Utility Pay Programs, which will reduce interchange processing rates and make the transactional cost approximately \$1.50 per debit or credit card payment. However, Avista will pay the transactional fees.

Description of Amounts

The Company revised its initial Application and agreed to limit the deferral to \$1.35, (\$1.50 X .90), for each bankcard transaction initiated by an Oregon residential customer with the total deferral amount capped at \$150,000.

Staff proposed limiting the transactional cost recovery to 90 percent of the fee because Staff believes that the Company benefits from the program too. As the Company points out in its Application, "Customers that self-serve, pay on time, and are satisfied with the options they have are the least expensive to serve, which is a benefit to all customers."⁶ However, the Company fails to note that current rates include costs associated with customer service, the call center, mail handling, uncollectibles, collection costs, etc. Therefore, Staff believes it is more equitable to reflect these savings by reducing the Company's initial per transaction request.

Also, the Company estimated Oregon's annual costs of the program to be about \$150,000 based on a 15 percent customer adoption rate. Staff proposed to cap the amount since the Company expects adoption rates will gradually increase to 15 percent over a two year period based on other utilities' experience with a fee free payment model.⁷ Staff believes limiting the Company's deferral to \$150,000 is more than reasonable.

Reason for Deferral

The Company believes the fee free program has multiple benefits for customers and wants to initiate the program prior to a rate case. Absent a Commission order authorizing the deferral, the Company would not offer the program at this time, since the Company and shareholders would bear the program costs.

Proposed Accounting

Avista proposes to account for the transaction costs associated with the fee free debit and credit payment program by recording the deferrals in Account 182.3 – Other

⁵ Ibid, page 4.

⁶ UM 1759, Application for Authorization, page 9 at 224-227.

⁷ Ibid, page 3 at 82-88.

Regulatory Assets. Any fees in excess of the \$1.35 per transaction or that exceed the cap of \$150,000 in total, will be recorded in non-utility accounts. Therefore, the disallowed costs will not be included in the Company's Results of Operations (ROO) and will be excluded from the test period for a rate case.

Estimated Deferrals in Authorization Period

The deferral will not exceed \$150,000 for the 12-month deferral period. The Company will amortize the deferral over a two-year period, beginning on the effective date of new rates from the rate case. The Company does not seek to accrue interest on the deferral.

Staff Analysis

Avista has met the requirements of ORS 757.259 and OAR 860-027-0300 and should be allowed to defer the agreed upon program costs. The Commission has found that "encourage[ing] utility or customer behavior consistent with regulatory policy" is appropriate for deferred accounting. (See Docket UM 1147, Order No. 05-1070 at 2). Staff believes that a fee free bankcard program benefits customers and the Company. Authorization of Avista's deferral permits implementation prior to a rate case. Having a history of actual performance will better inform staff and the Company regarding changes to prospective rates in the next rate case.

PROPOSED COMMISSION MOTION:

Approve Avista's request to defer 90 percent of the transactional fees, up to a cap of \$150,000, associated with Avista's planned debit and credit card fee free payment program for residential customers. For accounting purposes only, the deferral period will commence with Avista's implementation of the fee free payment program and will end either upon 12 months or, after the conclusion of its next general rate case and new rates go into effect, whichever occurs sooner.