UTILITY BILL PAYMENT BY CREDIT OR DEBIT CARD REPORT

PURSUANT TO ACT 47 OF THE 2011-2012 LEGISLATIVE SESSION

Department of Public Service

February 21, 2012

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Executive Summary

In response to a directive from the Vermont General Assembly in Act 47 of the 2011-12 Legislative Session, The Department of Public Service ("Department") prepared the following report and analysis regarding consumer use of credit/debit cards for payment of utility bills. As part of this report, the Department has provided a brief history of the Public Service Board ("Board") treatment of credit card payments to Vermont utility companies. While the report references primarily credit cards, in most instances if debit card payments are accepted, those payments are treated in the same manner as credit card payments. As with credit cards, the utility company presently may elect to accept debit card payments, although such payments may also be subject to processing in a manner that requires the consumer to incur additional charges associated with payment of a utility bill.

The issue of direct credit card payments first arose at the Public Service Board ("PSB" or "Board") during the Vermont Electric Cooperative, Inc. ("VEC") acquisition of Citizens Communications Company d/b/a Citizens Energy Services and was addressed in Docket Nos. 6850 and 6853. During the course of VEC's acquisition of Citizens, VEC entered into a Memorandum of Understanding (MOU) with the Department of Public Service. One of the provisions of the MOU stated:

> "If VEC wishes to continue offering credit card payment in a manner that causes all ratepayers to pay the associated charges and bank fees, VEC shall, no later than 45 days after Board approval of this MOU, file a tariff amendment seeking approval of the practice. VEC shall not offer electronic billing or payment options to customers that cause all ratepayers to pay charges or bank fees greater than those customarily associated with payment by check without first obtaining tariff approval to do so."[1]

Following acquisition and pursuant to this MOU provision, VEC filed a petition in 2004 (Docket 6950) with the Board requesting approval for VEC to accept credit card payments directly from its customers. However, before the docket had concluded, VEC informed the PSB that it was no

[1] Docket Nos. 6850 and 6853, Order of 3/1/04 as reissued on 3/29/04, at 10 and 28.

longer seeking approval to accept direct credit card payments because of VEC's decision to discontinue the availability of the payment option to customers. The Board then closed the docket and declined the Department's request that the Board rule on the issue.[2]

No other utility company has sought PSB approval of a tariff with respect to fees associated with credit/debt card payments and therefore the matter has remained unaddressed. Several utility companies have elected to incorporate the option of paying by credit cards, but primarily with an additional charge, often referred to as a convenience charge, incurred directly by the customer selecting to pay by means of credit card. Generally, this option is set as a single pay option, which requires action by the customer for each individual payment, whether they elect to pay by credit card each month or only on an occasional basis, rather than an automated process.

When utility companies contract through a financial institution, such as a local bank, the cost of processing payments by this method is greatly reduced. The bank may charge a fee per transaction that may amount to $0.75 or may elect to charge a percentage, usually 1% to 2%, of the total amount paid by the customer. By utilizing a bank for the processing of credit card payments, the cost can be reduced to have very little impact when the cost is shared among all ratepayers.

While some costs for the processing of credit card payments through a bank would be shared among all ratepayers, the same can be said with other forms of payments. At least one utility reports that the cost of a customer paying their bill by walk-in may be substantially higher than other forms of payment,[3] but is a cost that is shared by all ratepayers, regardless of whether they avail themselves of the option of in-person payment or not.

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[2] The Department filed testimony in the VEC proceeding indicating its opposition to sharing of costs associated with credit card payments among all customers.

[3] Vermont Gas Systems (VGS) rotates a customer service representative into a receptionist position, where one of the primary responsibilities is to handle the walk-in payments made primarily by cash or by check. VGS calculates the full amount of personnel time required to staff the reception desks as the cost of accepting walk-in payments. VGS reports that time involved in the acceptance of walk-in payments also often includes the time to discuss and set up a payment arrangement on arrearages, but this is a cost

Burlington Electric Department (BED) and VEC are two other companies that elect to have full-time dedicated receptionists on staff and each approaches the acceptance of walk-in payments in a different manner. BED's receptionist does not accept payments from customers but rather the utility has a staff person dedicated to accepting walk-in payments and those made through a drive-up window. VEC's receptionist accepts walk-in payments and processes payments made at area drop boxes, but also performs a variety of other responsibilities. Neither of these companies have calculated the breakdown in costs for the acceptance of walk-in or drop-box payments specific to other manners of payment, but both share the cost of these staff positions across all ratepayers through addition to rate base.

Currently, the Department estimates the average bill processing costs for payment methods including cash, check, money orders, electronic funds transfer (EFT), and electronic data interchange (EDI) is $1.55 per customer per month.[4] The Department has further estimated the expected cost to process credit/debit card payments through banks, without the additional third party vendor charges, would require an approximate increase in revenue of $300,000 to $700,000 a year for the state as a whole. This amounts to $.04 to $.14 increase per bill or $.50 to $1.75 per year per customer, and is based upon the expected customer uptake of credit/debt card and paperless bills as estimated from data provided by Vermont utilities in response to the survey sent out for this Report.

While the Board has not considered this matter since Docket No. 6950, the Department recommends a proceeding in which the matter of credit card payments and the fees associated with all aspects of this payment method, both when processed through a bank or a third party vendor, would be reviewed by the Board.[5]

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that the company would incur whether an arrangement is discussed by telephone or by walk-in. Drop-box payments made at VGS are also processed by the receptionist.

[4] This amount represents the estimated cost per customer, across all ratepayers, associated with bill processing; it is not the actual cost for any single bill processing.

[5] Senator Vince Illuzzi has introduced a Bill, S.229, which would require the Board to open an investigation on this subject and the Department supports the legislation.

Introduction

The Vermont Department of Public Service is tasked to serve all citizens of Vermont through public advocacy, planning, programs, and other actions that meet the public's need for the least cost, environmentally sound, efficient, reliable, secure, sustainable, and safe energy, telecommunications, and regulated utility systems in the state for the short and long term.

As technology advances and internet access expands, many consumers are requesting alternative methods for the management of their utility accounts, including electronic bills and convenient payment methods. For some consumers it may be through automatic monthly payments or the additional convenience of payment by phone or online with check or credit card.

This report was drafted at the direction of Act 47 of the 2011-2012 Legislative Session, which stated as follows:

> Sec. 20. UTILITY BILL PAYMENT; CREDIT OR DEBIT CARD; REPORT
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> On or before January 15, 2012, the commissioner of public service shall submit to the general assembly a report on whether, in the commissioner's opinion, it is in the public interest for the cost of service of a company subject to jurisdiction under 30 V.S.A. § 203 to include fees and expenses incurred by the company in accepting payments from customers of retail charges by credit or debit card. In the report, the commissioner shall consider and discuss the advantages and disadvantages of including these fees and expenses in a company's cost of service, including the extent to which allowing inclusions of such fees and expenses may avoid or reduce costs that would otherwise be incurred by the company; shall quantify on a statewide basis the expected cost impacts of requiring all ratepayers to bear the cost of these fees and expenses, including the amount, if any, of cross-subsidy that would occur from customers who do not pay utility bills by credit or debit card to customers who do pay utility bills by credit or debit card; and shall propose a draft statute or a statutory amendment to effect the commissioner's recommendation.

To complete this report, the Department surveyed Vermont utilities and state public utilities commissions. The survey distributed to Vermont utilities focused on whether or not utilities accepted credit or debit card payments, if there were fees associated with the payment of credit or debit cards, and if fees were associated, who was responsible for the payment of the fees – the consumer or the utility.[6] Similar questions were presented to the state public utility commissions, with the additional request of information pertaining to any regulation, law, or rule that allowed or prohibited payment of utility bills by credit or debit card.[7] The Department also examined the costs associated with all payment methods, including payments made by check, electronic fund transfers, and automatic payment methods.[8]

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[6] Responses on file at Department of Public Service.

[7] Responses on file at Department of Public Service. State public utility commissions responding to a questionnaire on the NARUC Staff Sub-committee on Consumer Affairs listserv include Pennsylvania Public Utility Commission, North Dakota Public Service Commission, Missouri Public Service Commission, Montana Public Service Commission, Delaware Public Service Commission, District of Columbia Public Service Commission, South Dakota Public Utilities Commission, Oregon Public Utilities Commission, Colorado Public Utilities Commission, Alabama Public Service Commission, Maine Public Utilities Commission, Georgia Public Service Commission, Public Service Commission of West Virginia, Minnesota Public Utilities Commission, Indiana Utility Regulatory Commission, and the New Hampshire Public Utilities Commission.

[8] Automatic payment may involve the pre-authorization by the customer of transfer of funds from a checking or savings account and, in some instances, may also include payment by credit/debit card.

Vermont Utilities and Credit Card Payments

Within Vermont, the Department has long encouraged utility companies to seek practices that encourage a consistent revenue stream through the timely payments of bills while providing service at the least cost to ratepayers. Utility companies have adopted practices from establishing authorized payment agents throughout their service territory where customers can pay their bills without incurring additional fees, to the installation of 'payment drop boxes' which may be located at the utilities office and available for after-hours payments or at locations throughout the service territory (banks are often used by the smaller utilities). Larger companies have set up the option for their customers to pay their bills online or by telephone.

FairPoint allows consumers to set up automatic regular payments (often referred to as "autopay") through credit cards without any additional fees by third party vendors or additional charge to the individual customer. In this instance, a bill is generated to the customer, and through previously granted authorization by the customer, FairPoint automatically assesses the appropriate charges against the customer's credit card. FairPoint is able to eliminate the third party vendor charge through a merchant agreement with the bank, in which the bank may charge either a flat fee or percentage on the transaction. Whether the bank assesses a flat fee or a percentage on the transaction, the charge is considerably lower than the convenience fees charged by third party vendors. For FairPoint, the approximate cost for processing a credit card transaction without the third party vendor involved can be calculated to be higher than processing payments by other means, but still within a range that would provide relatively little impact on other ratepayers and may be offset by the benefit of other factors.

While a FairPoint customer electing to pay a bill online with a credit card may do so without incurring any additional direct fees, should a customer elect to pay a single bill by telephone, either by check or by credit card, these transactions are handled through a third party vendor, which charges a transaction fee of $3.50. This fee is borne by the customer.

Third party vendors, such as Western Union and Paymentus Corporation, agree to process payments for companies for a fee above and beyond what is normally charged by the credit card companies. These fees can range from $3.95 for residential customers to $28.95 for commercial customers. These fees, often referred to as a convenience or transaction fee, are fees paid directly to the third party vendors.

In addition to FairPoint, Central Vermont Public Service (CVPS), Green Mountain Power (GMP), Burlington Electric Department (BED), and VEC allow a customer to pay a bill by credit card, but require the customer to pay any convenience fee associated with this form of payment rather than sharing such cost among all ratepayers.

Allowing customers the additional convenience of paying by credit card may not substantially reduce the direct shared costs incurred as a result of delinquent payments because many of the utilities have taken steps to ensure that costs associated with providing or disconnecting service are borne directly by the customer causing those costs. However, the benefit of payment by credit card may include more immediate access and assurance to a revenue stream for the utilities. With systems currently in place, a utility may wait several days for the availability of funds when payment is made by check. Additionally, there can be a substantial delay in notification by a bank that payment by check is invalid due to insufficient funds, account closure, or a variety of other reasons.

As stated previously, the Department undertook the process of gathering cost estimates and breakdowns from the utilities in an effort to better determine the estimated costs to each ratepayer for the additional convenience of paying a bill by credit card. While each method of payment results in some level of cost shifting of expense, the Department was able to determine that the impact to ratepayers for the cost of processing payments by credit cards would have minimal effect if the additional costs incurred with payments processed through a third party vendor is avoided.

Below are two studies conducted by the Department to demonstrate and support the projections of the increased cost to ratepayers if utilities incorporate and share the credit card payment fees through banks to all customers, without the use of a third party vendor.[9]

Study A demonstrates the potential maximum total costs, $747,334, that the Department projects would need to be shared among all ratepayers, based upon the cost data provided by utilities and an estimated uptake of 20% of customers choosing credit/debt card payments. This amount would translate to a per customer cost increase of $0.14 per bill.

Study B demonstrates the potential total costs, $207,030, that the Department projects would need to be shared among all ratepayers should the percentage of customers electing to pay by credit card (without the additional burden of the convenience fee charged by a third party vendor) increase and should some of those customers also then elect to receive paperless billing. In essence, the range between Study A and Study B appears to present a reasonable estimate of the potential costs of sharing credit/debt card payments to all customers without the use of third party vendors.

[9] The Department did not calculate the cost per bill if the third party vendor charges were to be shared, given the higher charge, likelihood that such higher charges would not be allowed to be added to rate base and shared by all customers by the PSB, and the variability of these charges.

Vermont DPS Expected Cost Impacts for Utility Bill Payment; Credit Or Debit Card; Report			
Study A			
	Increase in Billing Cost for Taking Credit or Debit Cards		
		Electric	$620,164
		Gas	$73,452
		Tel	$53,718
	Additional Cost		**$747,334**
	Total Bills		
		Electric	$4,289,844
		Gas	$507,552
		Tel	$391,319
			$5,188,715
	Increase per bill		**$0.14**
Study B			
	Billing cost for Payment Type		
		Current payment options	**Credit or Debit Card**
		Average cost per customer/per month $1.55	Average cost per customer/per month $1.76
		$0.00	$0.00
		Current Cost	Expected Cost
	Annual # of Bills	5,188,715	5,188,715
	Payment % by Check	60%	41%
	Payment % by Other	40%	59%
	Total Bill Cost	$8,478,360	$8,685,390
	Additional Cost		**207,030**
	Increase per bill		**$0.04**

National Trends

Expanding payment options for ratepayers while mindful of the least cost in the delivery of utility service is not unique to Vermont. Several Public Utility Commissions have reported that while there are no laws or regulations specifically to address the question of the fees associated with payment of utility bills by credit card, each state responding to the survey reported the convenience fees charged by third party vendors are paid by the customer selecting to pay by credit card. Pennsylvania has one of the few laws or rules specific to the fees associated with varying payment options:

> "Fees or charges assessed and collected by the public utility for utilizing a payment option must be included in the public utility's tariff on file at the Commission."[10]

The Missouri PUC reports that while most utilities elect to inform customers of the convenience fee and hold the customer responsible for the charge, one utility has elected to cover the convenience fee for those customers electing to pay by credit card. The Missouri PUC, however, has not allowed the utility to recover the convenience fees in its rate base.[11] The Montana PSC[12] and Oregon PUC[13] reported that they also had no rules or laws that prohibited customer payment by credit card, but that customers are required to pay the convenience fee and should any utility decide to cover the cost of the fee on behalf of customers, that fee would not be recoverable in rates. The remaining PUCs report no rules or laws prohibiting payment by credit card, but all reported that any convenience or transaction fee associated with such payment and charged by a third party vendor is borne by the customer electing to use that particular payment method.

What does vary by state are the charges incurred by the third party vendors who process the payments on behalf of the utility companies. In North Dakota, the convenience fee charged by third party vendors range from $2.00 to $4.00.[14] In Missouri[15] and Montana,[16] the

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[10] 52 PA Code § 56.21(5)
[11] Gay Fred, Missouri, email to author, December 27, 2011
[12] Phil Cooke, Montana, email to author, December 27, 2011
[13] Phil Boyle, Oregon, email to author, December 28, 2011
[14] Scott Sheldon, North Dakota, email to author, December 27, 2011

third party charges range from $3.00 to $5.55. In Colorado, customers of Citibank are able to go online to the Citibank website and make an online payment through his or her Citibank card to Xcel Energy without incurring the $4.85 convenience fee charged by a third party vendor.[17]

[15] Fred email, December 27, 2011
[16] Cooke, Missouri, email to author, December 27, 2011
[17] April Woods, Montana, email to author, December 28, 2011

Conclusion

Inherent in the cost of doing business for utility companies is the cost to process payments from customers. While the general cost of processing payments can and does vary by payment method and even by company, establishing the level of fees that should be allowed to be recovered by utility companies within the base rates requires considerable review and analysis.

The Department has determined that the cost of processing credit card payments without the additional cost of a third party vendor convenience charge may have minimal impact on ratepayers, particularly if other savings indirectly associated with this form of payment also were realized by a utility company. Reducing the cost of billing by increasing the number of paperless bills and having more immediate access to revenue would be two examples of the possible benefits associated with credit card payments. The Department therefore would support and recommends a proceeding before the Board, with participation from Vermont utility companies and consumer advocates, to examine the advantages and disadvantages of including the fees and costs of credit card payments in a company's cost of service and issue an order regarding when such costs appropriately may be shared by all ratepayers.