

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the Application of Southern )  
Pioneer Electric Company Seeking Waiver )  
of Minimum Standards for Payment )  
Methods for Utility Bills and Allowing the ) Docket No. 18-SPEE-241-TAR  
Acceptance of Credit Cards and the )  
Approval of Revisions to Their Schedule of )  
Fees Related to the Assessment of Credit )  
Card Convenience Fees. )

**STAFF'S REPLY TO SOUTHERN PIONEER'S RESPONSE TO STAFF AND CURB'S  
RECOMMENDATIONS**

The Staff of the Kansas Corporation Commission (Staff and Commission, respectively) hereby files its reply to Southern Pioneer Electric Company's (Southern Pioneer) response to Staff and the Citizens' Utility Ratepayer Board's (CURB) recommendations filed July 16, 2018:

**Background**

1. On December 8, 2017, Southern Pioneer filed an application with the Commission for the purpose of seeking (i) a waiver of certain minimum standards for payment methods for utility bills and allowing the acceptance of credit cards; and (ii) approval to make certain revisions to Southern Pioneer's Schedule of Fees related to the assessment of credit card convenience fees as contained in its Rules and Regulations.<sup>1</sup>

2. Southern Pioneer's proposal eliminates the \$3.95 convenience fee per transaction that customers are currently charged when using a credit card for bill payment and eliminates the \$500 limit applied to credit card transactions. Southern Pioneer's proposal also includes revisions

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<sup>1</sup> See Application for Pioneer Electric Cooperative, Inc. for Payment Methods for Utility Bills, p.1 (Dec. 8, 2017) (Application).

to its Schedule of Fees to reflect the removal of the convenience fee. To continue to recover the costs incurred from the processing of credit card transactions, Southern Pioneer is requesting approval to incorporate these costs into its cost of service. Because of its concerns over potentially high credit card transaction costs from non-residential customers, Southern Pioneer has proposed to limit eligibility for bill payment via credit card to only residential customers.

3. On December 15, 2017, CURB filed its Petition to Intervene and the Commission granted CURB's Petition on December 21, 2017.

4. On July 3, 2018, Staff filed its Report and Recommendation (R&R). In it, Staff recommended that waivers to Section D(2) and a portion of Section I(2) of the Payment Standards be granted to Southern Pioneer so that it may be allowed to eliminate its credit card convenience fee and revise its Schedule of Fees accordingly.<sup>2</sup> However, Staff believes limiting the eligibility for bill payment via credit card to only residential customers is unreasonably discriminatory and recommends that if the Commission approves the waiver, all classes be allowed bill payment via credit card.<sup>3</sup>

5. Staff's R&R also recommends Southern Pioneer be allowed to incorporate the cost of processing credit cards transactions into its cost of service and request that those costs be recovered through base rates from all customers in its next general rate case after historical credit card transaction cost data is available.<sup>4</sup> Until that time, Staff recommends that Southern Pioneer be allowed to establish a regulatory asset to record its credit card processing transaction costs.<sup>5</sup>

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<sup>2</sup> Staff Report and Recommendation, p. 9 (July 3, 2018) (Staff R&R).

<sup>3</sup> Staff R&R p. 9.

<sup>4</sup> Staff R&R p. 9.

<sup>5</sup> Staff R&R p. 9.

6. On July 13, 2018, CURB filed its response to Staff's R&R. CURB believes Staff's R&R is reasonable and in the best interest of Southern Pioneer's residential and small commercial ratepayers and, therefore, requests the Commission adopt Staff's R&R and grant such other relief as the Commission deems just and proper.<sup>6</sup>

7. On July 16, 2018, Southern Pioneer filed its response to Staff and CURB. Southern Pioneer disagrees with Staff's recommendation that limiting the credit card payment to residential customers would be unreasonably discriminatory because, under the Payment Standards, offering payment via credit card is optional, not mandatory.<sup>7</sup> Southern Pioneer also points to Kansas City Power & Light's policy which only offers bill payment via credit card to residential customers.<sup>8</sup>

8. Southern Pioneer believes that allowing its commercial and industrial customers to pay by credit card would subject Southern Pioneer to "an unknown cost ultimately paid by rate payers" which would result in unreasonable cost-shifting and subsidization.<sup>9</sup>

9. If the Commission does determine that Southern Pioneer should accept credit cards from all customer rate classes, Southern Pioneer presents an alternative in which Southern Pioneer would be allowed to place a \$1,000 cap on each credit card transaction in order to better manage the risks.<sup>10</sup>

10. Because of the timing of Southern Pioneer's upcoming general rate case, Southern Pioneer will lack historical credit card transaction cost data. According to Southern Pioneer, the next rate case with historical data available could be three to five years away. From Southern

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<sup>6</sup> CURB's Response to Staff's Report and Recommendation, p. 3 (July 13, 2018).

<sup>7</sup> Response of Southern Pioneer Electric Company to Notice of Filing of Staff Report and Recommendation and CURB'S Response to Staff's Report and Recommendation, ¶6 (July 16, 2018) (Southern Pioneer's Response).

<sup>8</sup> Southern Pioneer's Response, ¶6.

<sup>9</sup> Southern Pioneer's Response, ¶7.

<sup>10</sup> Southern Pioneer's Response, ¶8.

Pioneer's perspective, creating a regulatory asset to record credit card transaction fees is not ideal in that it will carry those cost for three to five years before receiving any recovery.<sup>11</sup> Southern Pioneer suggests Staff, CURB, and Southern Pioneer work together to identify a methodology to fairly recover these costs.<sup>12</sup>

### **Staff's Reply to Southern Pioneer**

#### ***Bill Payment via Credit Card Should Be Available to All Southern Pioneer Customers***

11. Staff maintains that allowing Southern Pioneer to limit the availability of bill payment via credit card to Residential customers would be unreasonably discriminatory based on the data presented in this case.

12. Southern Pioneer's primary rationale for limiting eligibility for payment via credit card is that extending eligibility to non-residential customer classes would subject rate payers to "unknown cost."<sup>13</sup> However, Southern Pioneer has not provided sufficient evidence in this case to support its concern that the unknown costs would be unreasonably high. Based on Staff's estimations, even for most large commercial customers, the proposal would result in transaction fees lower than the existing convenience fees under interchange rates specifically designed for utility vendors.<sup>14</sup> For payments that qualify for the utility-specific interchange rates, the major driver of the transaction fee is fixed, so the amount due has a minimal effect on the value of the transaction fee. As Staff's analysis showed, under the utility business interchange rate, the average General Service Large monthly bill of \$1,003.98 would only incur a transaction fee of \$2.84,<sup>15</sup> which is actually less than the current convenience fee. It is true that under some other interchange

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<sup>11</sup> Southern Pioneer's Response, ¶9.

<sup>12</sup> Southern Pioneer's Response, ¶9.

<sup>13</sup> Southern Pioneer's Response, ¶9.

<sup>14</sup> See Staff's R&R p. 7.

<sup>15</sup> Staff's R&R p. 7

levels, the amount due has more of an impact on the value of the transaction fee, but based on the data available in this case, Southern Pioneer has not provided evidence that those costs would be unreasonable. Therefore, Southern Pioneer has not provided sufficient evidence to support excluding non-residential customers from eligibility for credit card payment.

13. Because there is a chance that some customers will not qualify for the utility-specific interchange levels and, therefore, may incur higher transaction fees, Staff reiterates its willingness to expedite another review of transaction costs when *actual* cost data is available.

***Staff Does Not Support Southern Pioneer's Alternative Proposal (\$1,000 Transaction Cap)***

14. If the Commission does determine Southern Pioneer should accept credit card payment from all classes of customers, Southern Pioneer presents an alternate proposal which would “place a \$1,000 cap on each credit card transaction in order to better manage risks.”<sup>16</sup>

15. Staff has concerns with placing a cap based on a seemingly arbitrary amount of \$1,000, when the average General Service Large monthly bill is \$1,003.98.

16. As discussed above, for payments that qualify for the utility-specific interchange rates, the major driver of the transaction fee is fixed, so the amount due has a minimal effect on the value of the transaction fee and, under the utility business interchange rate, the average General Service Large monthly bill of \$1,003.98 would only incur a transaction fee of \$2.84. While, under some other interchange levels, the amount due has more of an impact on the value of the transaction fee, based on the data available in this case, Southern Pioneer has not provided evidence that not having a cap would result in unreasonable transaction costs. Therefore, Staff does not support Southern Pioneer's alternative proposal.

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<sup>16</sup> Southern Pioneer's Response, ¶8.

***Class-Based Assignment of Transaction Costs Could Prevent Subsidization between Classes***

17. Southern Pioneer believes that Staff's recommendation to offer bill payment via credit card to all customer classes would cause one set of customers to pay costs caused by another set of customers, constituting unreasonable cost-shifting and subsidization.<sup>17</sup>

18. Staff's initial recommendation was that Southern Pioneer be allowed to incorporate the cost of processing credit card transactions into its cost of service and request those costs be recovered through base rates from *all* customers.<sup>18</sup> However, if the Commission has concerns about potential cost-shifting and subsidization between classes, Staff would recommend splitting credit card transaction costs by class when the data is incorporated into a cost of service study and assigning the cost of credit card transactions on a class-basis.

***Establishing a Regulatory Asset Is the Most Appropriate Method for Dealing with Regulatory Lag in this Case***

19. Although Staff recommends Southern Pioneer be allowed to establish a regulatory asset to record the costs of credit card transactions until the next rate case after which historical data is available,<sup>19</sup> Southern Pioneer does not believe Staff's recommendation would provide recovery in a timely manner. Southern Pioneer expects to file its next rate case in the third quarter of 2018, before historical credit card transaction cost data is available, and another rate case is not likely to occur for another three to five years from the conclusion of the upcoming rate case. Therefore, Southern Pioneer will likely carry the costs of credit card transactions for three to five years before receiving recovery.<sup>20</sup>

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<sup>17</sup> Southern Pioneer's Response, ¶7.

<sup>18</sup> Staff R&R p. 9.

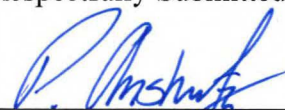
<sup>19</sup> Staff R&R p. 9.

<sup>20</sup> See Southern Pioneer's Response, ¶9.

20. Staff believes a regulatory asset is the most appropriate method of dealing with the issue of regulatory lag in this case and, therefore, recommends the Commission reject Southern Pioneer's recommendation that the stakeholders develop an alternative methodology so that Southern Pioneer may recover its costs of credit card transactions sooner.

WHEREFORE, Staff respectfully requests the Commission accept Staff's recommendations made in its Report and Recommendation filed July 3, 2018. If the Commission is concerned about potential cost-shifting and subsidization between classes, when the credit card transaction fee data is incorporated into a cost of service, Staff would recommend splitting the transaction costs by class and assigning the cost of credit card transactions on a class-basis.

Respectfully Submitted,



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For Commission Staff

## CERTIFICATE OF SERVICE

18-SPEE-241-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Staff's Reply to Southern Pioneer's Response to Staff and CURB's Recommendations was served by electronic service on this 25th day of July, 2018, to the following:

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