

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

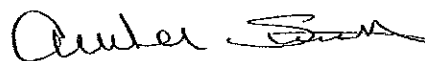
In the Matter of the Application of Westar)
Energy, Inc. and Kansas Gas and Electric)
Company for Approval of Revisions to Their) Docket No. 14-WSEE-589-TAR
General Terms and Conditions Related to the)
Credit Card Convenience Fee.)

NOTICE OF FILING STAFF'S REPORT AND RECOMMENDATION

The Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively) files its Report and Recommendation on Westar Energy, Inc. and Kansas Gas and Electric Company (collectively referred to as "Westar") Application for approval of revisions to their General Terms and Conditions related to the credit card convenience fee. Staff recommends the Commission grant Westar's Application with a limitation on the amount of transaction costs Westar is allowed to recover.

WHEREFORE Staff requests the Commission consider its Report and Recommendation and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,



Amber Smith, #23911
Litigation Counsel
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, Kansas 66604
(785) 271-3301 (Telephone)
(785) 271-3167 (Facsimile)
a.smith@kcc.ks.gov (E-mail)

For Commission Staff

**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chair Shari Feist Albrecht
Commissioner Jay Scott Emler
Commissioner Pat Apple

FROM: Tyler Page, Research Economist
Luis Solorio, Senior Research Economist
Lana Ellis, Deputy Chief of Economics and Rates
Bob Glass, Chief of Economics and Rates
Jeff McClanahan, Director of Utilities

DATE: November 13, 2014

SUBJECT: Docket No. 14-WSEE-589-TAR: In the Matter of the Application of Westar Energy, Inc. and Kansas Gas and Electric Company for Approval of Revisions to their General Terms and Conditions Related to the Credit Card Convenience Fee.

EXECUTIVE SUMMARY:

On June 18, 2014, Westar Energy, Inc. and Kansas Gas and Electric Company filed an Application requesting to revise the General Terms and Conditions of its Tariff and to request a waiver from Sections (D) and (I)(2) of the Payment Standards in order to implement a new credit card program.

Staff analyzed Westar's Application and found that Westar's proposal reduces the associated cost of using a credit card to an amount that is more in line with its other payment methods, is similar to other Commission approved credit card programs, and eliminates the residential class' subsidization of the industrial and commercial classes. For these reasons Staff recommends granting Westar's request.

BACKGROUND:

On June 18, 2014, Westar Energy, Inc. and Kansas Gas and Electric Company (collectively referred to as "Westar") filed an Application requesting approval to revise the General Terms and Conditions of its Tariff and to request a waiver from Sections (D) and (I)(2) of the Payment Standards¹ in order to implement a new credit card program. Specifically, Westar is proposing

¹ Direct Testimony of Jeffrey Beasley.

to eliminate the convenience fee for residential customers that use credit or debit cards (“credit cards”) to make payments and to incorporate the cost of those transactions into Westar’s cost of service. Westar is also proposing to change the amount of the convenience fee paid by commercial and industrial customers. Westar wishes to increase the convenience fee for these customers to 3.5% of the transaction amount. Currently, all Westar customers that pay their electric bills using a credit card are charged a convenience fee of \$2.95 with a \$1,000 per transaction limit.

ANALYSIS:

A convenience fee is required by the Commission’s Minimum Standards for Payment Methods for Utility Bills and Allowing the Acceptance of Credit Cards by Kansas Jurisdictional Electric, Natural Gas, and Water Utilities (“Payment Standards”). The specific amount of the convenience fee is established in the General Terms and Conditions of Westar’s Tariff.² The General Terms and Conditions of Westar’s Tariff state that customers paying a bill with a credit card shall be assessed a convenience fee of \$2.95. Along with that statement, the Commission’s Payment Standards provides that “customers not paying with credit cards shall not be burdened with the transaction costs of customers utilizing these payment methods.”

The rationale for the Credit Card Payment Standards was the relatively high costs associated with credit card transactions. As discussed below, circumstances have changed in recent years and credit cards have become an increasingly popular method of payment in general. As the number of people utilizing their credit cards to pay for services has increased, the costs associated with these type of payment transactions have decreased to levels more in line with other payment methods. Other jurisdictional utilities have eliminated the convenience charge. The proposed changes would eliminate the interclass subsidization and expand walk-in payment options available to customers. For these reasons, Staff recommends granting Westar’s request.

External Considerations

Customer Credit Card Payment Expectations Have Evolved

The National Association of State Utility Consumer Advocates (NASUCA) advocates elimination of the convenience fees because, in part, customers now expect that they will not be charged for the use of credit cards when they pay for goods and services. NASUCA also notes that their utilities pay transaction costs for any form of payment, and the cost of credit card payment is not the highest cost means of payment. Finally, NASUCA notes that a number of utilities are now accepting credit card payment without requiring a convenience fee.

Other Jurisdictional Utilities Have Eliminated the Convenience Charge

Westar’s proposal to eliminate the \$2.95 fee for residential customers using credit cards and incorporating the associated fees into base rates brings it in line with other utilities. For example, Kansas City Power and Light (KCPL) eliminated its convenience fee for Residential customers. In Docket No. 06-KCPE-828-RTS, KCPL requested creating a credit card payment option where customers could make payments using credit cards without incurring a transaction fee. In addition, KCPL also suggested the cost associated with those transactions be recovered through its cost of service in Docket No. 12-KCPE-764-RTS. The Commission approved KCPL’s proposed credit card program with no transaction fee and agreed the associated costs should be put into KCPL’s cost of service.

² Application, ¶4.

Westar Specific Reasons for Program Modification

The Proposed Program Reduces Cost

At this time, Westar utilizes a third-party that functions as an agent for Westar and accepts customer payments made via credit card on Westar's behalf. The convenience fee is added to the amount customers pay toward their electric bills. The third-party provider pays a percentage-based interchange fee for each transaction, which is a percentage of the dollar amount of the transaction. The third-party then charges Westar's customers a fixed convenience fee based on their expectation of the average interchange fee³ it incurs.

Westar's current vendor processes all credit card payments at no cost to Westar, meaning the customer pays the convenience fee each time they pay their bill using a credit card. With this current structure, Westar cannot apply for the utility rate and therefore must pay the standard interchange rates for credit cards, which can be much higher. By absorbing the cost and providing a zero cost option for the customer where Westar pays the convenience fee for credit card transactions, Westar is able to apply for the utility rate which caps the interchange rate at a lower amount for qualifying cards.⁴ In addition, there are smaller assessment and card association fees and lower merchant processor costs which will reduce the overall cost further.⁵

Another factor affecting per-transaction cost is the mix of card payments made by residential customers. Debit card transactions costs are typically less than credit card transactions because the Durbin amendment⁶ has limited the cost of qualifying debit card transactions.⁷ Thus, for the residential customer class, separating the programs and eliminating the convenience fee reduces the costs associated with credit card transactions. The limits on debit card transactions combined with the benefits of being eligible for the utility rate are the driving forces behind lowering the costs associated with paying with a credit card from the \$2.95 fee paid by customers today to approximately \$1.40.

Card Costs will be More In Line With Cost of Other Payment Methods Already Socialized

The estimated \$1.40 amount for credit card transactions is more in line with the costs associated with Westar's other payment methods. This is further illustrated in Table 1 below. This Table shows all of Westar's other payment options, which are already socialized. Under Westar's proposal, CSR TEL Checks will become the most expensive payment method at \$1.83. Again, the associated fees for this payment method have already been socialized and only 1.6% of Westar's customers utilize this payment method.

Currently 5.1% of Westar's customers utilize the Credit/Debit Card method and, under Westar's proposal, this method is expected to cost \$1.40, which is \$0.43 cheaper than the CSR TEL Check payment method. Additionally, if the zero fee payment method is approved, Westar anticipates

³ These are fees that are collected and provided to the bank that issues the credit card.

⁴ Qualifying cards are those that qualify for the utility rate. The type of card determines whether the transaction qualifies for that rate. Because the rules are set by the card issuers and the card associations, Westar will have no control as to which card types are qualifying cards. As a condition of accepting any particular brand of card, the card association rules require Westar to accept all card types. Westar DR Response 3.

⁵ Westar DR Response 4.

⁶ The Durbin amendment limits the cost of qualifying debit card transactions to 22 cents plus 0.05% of the transaction amount.

⁷ Qualifying debit transactions are debit cards issued from banks with more than \$10 billion in assets. Westar DR Response 1.4a.

that credit transactions will increase to approximately 20 % of all payment transactions after two years.⁸

Table 1: Payment Method Comparison under Proposal⁹

Payment Method	2013 Volume	2013 Percentage*	Associated Fee
CSR TEL Checks	119,930	1.60%	\$ 1.83
Credit/Debit Card	382,582	5.10%	\$ 1.40
Walk-In (Fidelity Express)	527,397	7.10%	\$ 0.72
Remittance Payments	2,838,247	38.00%	\$ 0.14
EDI Payments	1,002,644	13.40%	\$ 0.03
Web/IVR Checks	1,997,884	26.80%	\$ 0.02

In estimating the \$1.40, Westar assumed an average payment amount of \$145, an average processing and interchange cost of \$0.98 and a transaction cost of \$0.42.¹⁰ However, the actual amount could be higher or lower depending on the actual costs Westar incurs. Staff has some concerns about potential forecast error and recommends the Commission approve Westar's Application subject to the condition that Westar's recovery of its credit card transaction costs be limited to costs that are shown to be in line with other payment method costs and other utilities credit card program costs.

Program Eliminates Interclass Subsidization

Industrial and commercial customers currently pay the same convenience fee amount as residential customers. However, the cost of credit card transactions for these customers is actually higher than the cost for residential customers because the average interchange rate for commercial and industrial customers is higher due to the types of credit cards they use. Consequently, residential customers subsidize industrial and commercial customers under the current credit card program and have been doing so for quite some time.

The average interchange rate is designed to be set at a rate that ensures recovery of the provider's costs and interchange fees. So, when the credit card provider charges a single rate for all customer classes, the rate is higher than it would be for residential customers alone and lower than it would be for industrial and commercial customers alone. Separating the credit card program for residential and commercial and industrial customers, such that the convenience fees can be eliminated for residential customers, allows the rate for commercial and industrial customers to transition more towards a cost based method of 3.5% per transaction, which more accurately reflects the true cost of credit card transactions for commercial and industrial customers.

⁸ Direct Testimony of Jeffrey Beasley.

⁹ Westar DR Responses 1.3 and 2.1.

¹⁰ Westar DR Response 4.

Program Expected to Provide Additional Benefits

Westar's chosen vendor for this proposal offers both card processing and walk-in payment services. Because Westar has agreed to use both services, the vendor agreed to reduce the card processing fee by 5 cents per transaction. Also, the walk-in payment service will include locations in Wal-Mart and Dillon stores in Westar's service territory.¹¹

RECOMMENDATION:

Westar's proposal reduces the associated cost of using a credit card to an amount that is more in line with its other payment methods, is similar to other Commission approved credit card programs, and eliminates the residential class' subsidization of the industrial and commercial classes. Therefore, Staff recommends the Commission approve Westar's Application but recommends this approval be subject to the condition that Westar's recovery of its credit card transaction costs be limited to costs that are shown to be in line with other payment method costs and other utilities credit card programs.

¹¹ Westar DR Response 5.

CERTIFICATE OF SERVICE

14-WSEE-589-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served by electronic service on this 17th day of November, 2014, to the following:

NIKI CHRISTOPHER, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
n.christopher@curb.kansas.gov

ANASTACIA HARDEN
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
s.harden@curb.kansas.gov

DELLA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.smith@curb.kansas.gov

SHONDA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
sd.smith@curb.kansas.gov

DAVID SPRINGE, CONSUMER COUNSEL
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.springe@curb.kansas.gov

AMBER SMITH, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
Fax: 785-271-3167
a.smith@kcc.ks.gov

CATHRYN J. DINGES, CORPORATE COUNSEL
WESTAR ENERGY, INC.
818 S KANSAS AVE
PO BOX 889
TOPEKA, KS 66601-0889
Fax: 785-575-8136
cathy.dinges@westarenergy.com


Pamela Griffeth
Administrative Specialist