

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF SOUTH LOGAN WATER )  
ASSOCIATION TO ALLOW FOR THE ) CASE NO. 2011-00164  
ACCEPTANCE OF DEBIT AND CREDIT CARD )  
PAYMENT )

ORDER

South Logan Water Association ("South Logan") proposes to revise its filed rate schedule to permit the payment of customer bills by debit and credit card and to assess a charge of three percent per transaction when such cards are used. Finding that the proposed charge is reasonable, we authorize the proposed charge.

South Logan, a non-profit corporation organized pursuant to KRS Chapter 273, owns and operates facilities that furnish and distribute water for compensation to 1,660 customers in the southern portion of Logan County, Kentucky.<sup>1</sup> It is a utility subject to Commission jurisdiction.<sup>2</sup>

On March 28, 2011, South Logan filed a new tariff sheet with the Commission that permitted the payment of customer bills by debit and credit card and established a charge of three percent per transaction when such cards are used. Finding that additional review of the proposed charge was required, we established this proceeding and directed South Logan to file certain information with the

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<sup>1</sup> Report of South Logan Water Association to the Kentucky Public Service Commission for the Year Ended December 31, 2010 (hereinafter "Annual Report") at 5 and 27.

<sup>2</sup> KRS 278.010(3)(d); KRS 278.012.

Commission. South Logan filed this information with the Commission on May 31, 2011.

South Logan has executed a contract with Humboldt Merchant Services for merchant bankcard services. Under the terms of this contract, South Logan pays a monthly fee of \$22.95, a qualified discount rate of 2.2 percent, and a transaction fee of \$0.15 per transaction. Depending upon the type of bankcard presented, Humboldt Merchant Services may assess additional fees to the water utility. South Logan does not lease any equipment to accept credit or debit card payments, but licenses computer software to perform the transactions.

South Logan accepts bankcard payments by telephone or in person. It performs all transactions manually. Prior to completion of the payment transaction, a South Logan representative informs the customer of the transaction fee for making payment by bankcard.

South Logan began accepting payments by bankcard in November 2008. After initially imposing a transactional fee of \$1.50 per transaction, it modified the fee to three percent of the transaction in early 2009 after adverse customer comments. As shown in Table 1, the water utility has seen increasing customer demand for this service. It attributes this steady increase to a pricing scheme that allows minimum usage customers to pay a fee that is only slightly more than the cost of a postage stamp.<sup>3</sup>

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<sup>3</sup> South Logan's current rate schedule provides for a minimum monthly bill of \$21.92. The minimum bill allows for customer usage of 2,000 gallons of water. Applying the proposed transaction fee of three percent results in a charge of \$0.66, or \$0.22 more than the cost of a postage stamp.

<b>Time Period</b>	<b>Total Requests Credit/Debit Card Use</b>	<b>Average Requests Per Month</b>	<b>Revenue Collected By Credit or Debit Card</b>	<b>Average Monthly Revenues Collected By Credit or Debit Card</b>
11/01/2008 – 12/31/2008	32	16	\$ 1,909.38	\$954.69
2009	612	51	\$32,218.63	\$2,684.89
2010	1043	86.9	\$59,979.38	\$4,998.21
01/01/2011 – 04/30/2011	408	102	\$19,907.52	\$4,976.88

South Logan contends that the proposed fee does not produce revenues greater than the expense of providing the service. It notes that, since assessing the proposed transaction fee, it has yet to recover its costs for providing this service. Table 2 reflects the total cost of providing the service and the revenues resulting from the proposed fee. In no period during which South Logan has provided the service has it recovered revenues from the fee that exceeded the cost of the service.

<b>Time Period</b>	<b>Merchant Fee</b>	<b>Merchant Processing Fee</b>	<b>Total Cost of Service</b>	<b>Total Convenience Fee Revenues</b>
11/01/2008 – 12/31/2008	42.90	75.38	118.28	54.95
2009	275.40	1,017.54	1,292.94	948.73
2010	275.40	1,760.43	2,035.38	1,762.07
01/01/2011 – 04/30/2011	91.80	590.69	682.49	592.92
<b>TOTAL</b>	\$685.50	\$3,444.04	\$4,129.09	\$3,358.67

South Logan argues that the proposed service and fee meets a significant customer need. It contends that many of its customers lack checking accounts and use prepaid debit cards for their financial transactions. Acceptance of such cards, it argues, provides a valued convenience to these customers and results in fewer late payments and fewer assessed late payment fees.

Based upon our review of the evidence of record, we find that 807 KAR 5:006, Section 8(1),<sup>4</sup> permits the assessment of the proposed fee. Moreover as the proposed fee directly relates to the service performed and does not recover more revenue than the expenses incurred to provide the service, it complies with the requirements of 807 KAR 5:006, Section 8(2).<sup>5</sup> The Commission recognizes that the proposed fee may generate revenues in excess of costs should a customer make payment by credit card or debit card on a very large bill for water service. The likelihood of such occurrence, however, appears very small.<sup>6</sup>

The proposed fee is for a discretionary service. South Logan permits its customers to use other payment methods. Pursuant to the terms of the proposed service, South Logan's representatives must inform a customer of the proposed fee before any transaction using a credit card or debit card is used. This requirement is consistent with similar fees that the Commission has previously approved.<sup>7</sup>

While the Commission finds that the proposed fee is reasonable and that 807 KAR 5:011, Section 10, permits its assessment, we find the language of the proposed

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<sup>4</sup> A utility may make special nonrecurring charges to recover customer-specific costs incurred which would otherwise result in monetary loss to the utility or increased rates to other customers to whom no benefits accrue from the service provided or action taken.

<sup>5</sup> Special charges shall be included in the utility's tariff and applied uniformly throughout the area served by the utility. They shall relate directly to the service performed or action taken and shall yield only enough revenue to pay the expenses incurred in rendering the service.

<sup>6</sup> In such case, the size of the fee is likely to encourage the customer to use a different and less costly payment method, such as check or money order.

<sup>7</sup> See, e.g. Case No. 2008-00432, *Application of South Anderson Water District To Revise Certain Nonrecurring Charges* (Ky. PSC Mar. 18, 2009); Case No. 2007-00169, *The Application of Webster County Water District to Revise Certain Nonrecurring Charges* (Ky. PSC June 22, 2007).

regulation is contradictory. While referring to the assessment of a fee of three percent of the transaction, it also states that “a flat fee per transaction” may be assessed. To eliminate the contradiction, the Commission has revised the proposed regulation.

To ensure that the Commission can monitor the proposed fee, we shall direct South Logan to maintain its records in such a manner as to permit the Commission to ascertain the costs associated with this service and the revenues that the proposed fee produces.

IT IS THEREFORE ORDERED that:


1. The proposed credit/debit card fee of three percent is approved for service on and after the date of this Order.

2. South Logan’s proposed regulation regarding credit card and debit card payments, as revised and set forth in the Appendix to this Order, is approved for service rendered on and after the date of this Order.

3. Within 20 days of the date of this Order, South Logan shall file a tariff sheet that contains the approved regulation and fee and that contains the signature of a South Logan officer who is authorized to issue tariffs.

4. For as long as the credit/debit card fee remains in effect, South Logan shall retain its records in such manner as to permit the Commission to ascertain the costs associated with payments by credit card and debit card and the revenues that the credit/debit card fee produces.

By the Commission

ENTERED   
DEC 20 2011  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
\_\_\_\_\_  
Executive Director

Case No. 2011-00164

## APPENDIX

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2011-00164 DATED DEC 20 2011

#### Credit/Debit Cards

All customers may pay their bill by credit or debit card. Payment may be made in person at the utility office or by telephone.

If on the bill due date an attempt to pay is made using a credit card or debit card and the card is declined for any reason, payment is still due in full on that date and will be considered late after that date. All late charges and penalties will be applied. If a customer is paying on the utility's disconnect day and the card is denied, the same rules as above apply, in addition to service being disconnected.

When a customer makes a payment by credit or debit card, the utility will assess a fee equal to three percent of the total amount appearing on the utility bill.

Prior to processing the transaction, the customer will be informed of the fee amount and, upon request by the customer, the formula employed to arrive at this fee amount.

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