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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION G-3419**
September 18, 2008

R E S O L U T I O N

Resolution G-3419. Pacific Gas & Electric Company's (PG&E's) request for authority to terminate its pilot credit card program is approved.

By Advice Letter 2927-G/3275-E filed on May 29, 2008.

SUMMARY

This Resolution approves PG&E's request to close its credit card pilot program. The pilot program demonstrated that the cost of the credit card option is significantly higher than the average cost of all other payment options.

VISA Inc. (VISA) protested PG&E's request on the basis that PG&E had not shown that the savings of the pilot program were less than costs. VISA's protest is denied.

The protests of customers Roger Minassian and Julie England and Carl Funk are also denied. Minassian questioned whether the cost of the credit card option was more than payment by check. England and Funk objected to the termination of the program because the credit card option allowed them to manage their bill payments effectively.

BACKGROUND

Public Utilities Code Section 755(a)(2) permits recovery of credit card transaction costs incurred for utility bill payments from customers not using the credit card option only if the Commission determines that savings from this option exceed the costs of this option. Specifically, this PU Code Section states:

> "Only the customers that choose to use these payment options incur the additional charge and that no portion of the expense is shifted to customers that do not choose to pay a bill by credit card or debit card, unless and until the commission determines that the savings to ratepayers exceeds the net costs of accepting those cards."

In order to determine the effectiveness of this payment option, Resolution G-3390 authorized PG&E to implement a 12-month pilot program that allowed residential customers to pay their bills by credit card without being charged a transaction fee. That authorization was granted with the qualification that PG&E must seek Commission approval to recover any program costs from ratepayers after the 12-month pilot program. The resolution also authorized a memorandum account to track the associated costs and savings relating to PG&E's pilot credit card program.

With Advice Letter 2927-G/3275-E PG&E indicates that it has determined that the savings of the program do not equal or exceed the costs of the program, and PG&E proposes to terminate the program. PG&E finds that:

- Customers largely transitioned from lower cost payment options to the higher cost Visa option.
- The expected number of avoided costs for shut-off for non-payment was significantly less than initially expected.
- The overall costs associated with the Visa pilot program exceeded PG&E's initial expectations.

PG&E began informing its customers of the closure of the credit card payment option beginning early June to ensure that customers comfortably transition to alternate payment options. PG&E said it will ensure that additional steps are taken to minimize adverse effects to residential customers transitioning to alternate payment channels.

PG&E proposes to reinstate a fee based credit card program in the near future and will provide a separate filing to the Commission to implement such a program.

PG&E proposes to revise its electric and gas Rule 9 - Rendering and Payment of bills, in order to remove the credit card option from the list of acceptable payment options.

PG&E also proposes to close the Credit Card Pilot Program Memorandum Account in both gas and electric tariffs as a result of the conclusion of the pilot program.

NOTICE

Notice of AL 2927-G/3275-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

Three parties protested the closure of the Credit Card Pilot Program.

Customer Protests

Roger Minassian protested the ending of the Visa Card payment of his utility bill. He doubted that paying by check costs less per transaction than a credit card payment.

Julie England and Carl Funk protested because they are able to manage their bills while on a limited income; while traveling in other states they do not need to worry about paying their utility bill; and the credit card did not have enough time to work. England and Funk said that credit card payment is the easiest and safest way to stay current on their bills.

VISA's Protest

A. According to VISA, PG&E failed to accurately account for the total program costs and savings.

1. VISA asserts that PG&E failed to consider multiple criteria provided for in the Resolution when analyzing the economic impact of the program and that PG&E prematurely concluded that the Program's costs and savings weigh in favor of termination.

VISA asserts that PG&E failed to account for the following expected cost savings that were identified in Res G-3390.

- Migration of payments from some higher cost payment channels to lower cost payment channels.
- Avoidance of check processing fees for customers who previously paid by check, but prefer to pay by credit card.
- Cessation of paper billing and elimination of postage fees for customers who receive e-bills and regularly pay online via credit card.
- Avoidance of postage costs and/or mileage costs to a payment center.

VISA then lists additional customer benefits, such as the availability of another payment option to credit card holders, and the ability for credit card holders to assist in budgeting dollars and timing of payments, yet PG&E did not address these benefits in its request to terminate the Program.

VISA lists other cost savings and benefits not identified in Res G-3390 such as:

- Avoidance of Shut off for Non-Payment (SONP) and ancillary transaction costs, including costs incurred by generating and mailing SONP notices, and costs of terminating and resuming services
- Avoidance of customer service calls and other transaction costs resulting from delinquent accounts, shut-offs, and lost payments
- Higher customer satisfaction ratings as a result of the Program
- Increased revenue generated from faster receipt of payments through the Program
- Savings on lockbox[1] fees.

VISA also asserts that PG&E failed to directly address the following costs anticipated by Resolution G-3390:

- The potential for payments to migrate from lower cost options
- Transaction fees charged by the credit card company and the third-party processor

[1] Lockbox fees are bank charges for managing checks received for payment.

- Potential charges associated with investigation and reversal of credit card payments
- Systems related costs associated with the installation and maintenance of any necessary infrastructure and training to support credit card payments

2. VISA argues that the criteria applied by PG&E in its advice letter alone cannot justify termination of the Program.

VISA recites PG&E's assertion that the Program should be cancelled because : many of its customers transitioned from other methods of payment to the higher cost VISA payment option, the expected number of avoided costs for shut-off non payment was less than expected, and the overall costs of the Program exceeded PG&E's initial expectations. VISA's response is: even if the costs of the Program turned out to be greater than PG&E initially predicted, and even if the savings were lower than PG&E had expected, this does not mean that the total costs of the Program actually exceeded the total savings. Thus, the Program may still have operated at a net savings for PG&E when only these three factors are considered. VISA states: "Since the Program may still be operating at a net savings even if the claims made by PG&E are accurate, termination of the Program is not justified at this time."

VISA states that because Resolution G-3390 only anticipates termination of the program if costs exceed savings, the reasons set forth by PG&E to terminate the Program are plainly inadequate.

3. VISA maintains that Resolution G-3390 required PG&E to report the results of the Program to the Commission after 12 months.

VISA contends that PG&E has not provided the required report to the Commission detailing the costs and savings related to the Program and recommends that PG&E provide the required information so that the Commission can make an accurate determination of the overall costs and savings related to the Program.

VISA requests that the Commission require PG&E to provide all financial data to the Commission and VISA so that the Commission may consider all of cost savings identified in Res G-3390. VISA also requests that the Commission require PG&E not to terminate the Program until it has had opportunity to thoroughly review PG&E's financial data.

B. VISA argues that PG&E should not have informed its customers that the Pilot Program was going to end without a final decision from the Commission authorizing the Program's termination.

1. According to VISA, the determination of the net savings and costs and the decision whether to continue or sunset the Program is in the hands of the Commission, per Resolution G-3390. VISA emphasizes that even if the Program is not as profitable as the parties originally anticipated, this fact alone does not provide a basis for the Commission to terminate the Program; only the Commission can decide whether the Program is operating at a net loss and to cancel the Program.

2. **VISA objects that PG&E has already begun informing its customers that the Program has concluded, even though the Commission requires that PG&E maintain the Program until the Commission determines whether continuation or cancellation is justified.**

PG&E began informing its customers in early June of the closure of the credit payment option. VISA interprets Resolution G-3390 to say that only the Commission can determine whether the Program will be closed and only after review of a cost-savings analysis. VISA urges the Commission to prevent PG&E from unilaterally terminating the Program before the Commission has had opportunity to fairly and adequately determine whether it should end based on the criteria provided in the Resolution G-3390.

C. VISA contends that the current Program is operating at a net saving s for PG&E and requests that the Commission not terminate the Program until it has had thorough opportunity to review the relevant financial data and made a final determination on the issues presented in VISA's protest.

<u>**PG&E's Response to Protests from Individuals**</u>

In response to protests from Minassian, England and Funk PG&E reiterated that cost proved to be greater than anticipated and savings did not materialize as expected. Also the Pilot had been in effect for one and one-half years and provided PG&E sufficient opportunity to determine whether use of credit cards is cost neutral.

Responding to the customer convenience issue, PG&E listed other methods of payment such as automatic payments from bank accounts through PG&E's online e-Bills program and Automatic Payment Service program. PG&E also recommended use of a third party provider such as a bank to make a one-time payment using an ATM debit card to assist customers in paying their bills while traveling.

In response to VISA's protest that PG&E acted prematurely in notifying its customers of the program closure PG&E said it took prudent steps to notify its customers of its request to the CPUC regarding program closure, and to advise them of the need to begin the process of selecting other payment options. All of PG&E's communications with its customers stated that the program closure was subject to regulatory approval. Failing to provide this advance notice based on PG&E's advice letter filing would leave PG&E's customers in a difficult position since recurring payment customers would be expecting that future payments would be automatically applied to their accounts.

In response to VISA's contention that PG&E submit a cost benefit analysis required by Resolution G-3390 PG&E listed three reasons for assessing the Program as not cost neutral:

First, customers largely transitioned from lower cost payment options to the higher cost VISA option. Customers that utilize the credit card option typically use other payment options such as mailed check, electronic fund transfers, e-check, debit cards, and online electronic payment options. Many of these customers were already on electronic billing and those paper bills were not being suppressed for those customer transactions. PG&E's analysis found that that for customers that used a credit card more than 5 times during the pilot period, over 30% of them moved from a lower cost payment method like a mailed check.

Second, the number of shut-off for non-payments was significantly less than initially expected. PG&E expected that customers would use the credit card option to pay their bills to avoid shut off. However, when reviewing "shut-off for non pay" statistics PG&E found during October 2007 that only 1.15% of customers with this situation contacting PG&E paid their bill by using a credit card. In May 2008 that percentage dropped to 0.2%. Such ratios lead PG&E to believe that the credit card option is not a significant help to customers who struggle to pay their bills.

Third, the overall costs associated with the VISA pilot program exceeded PG&E's initial expectations and is not cost neutral. PG&E explained that one of the key elements to make the Program viable was dependent on the extent to which customers would migrate from higher cost options to the credit card option. **The average cost to PG&E to accept payments from all payment options is approximately $0.41 per transaction. The total cost of accepting a VISA credit card payment to PG&E is about $1.01 and that total cost is scheduled to increase dramatically due to the increases in the VISA fee structure that have recently been formally communicated by VISA to PG&E.** Since customers were mainly migrating from lower cost payment methods to the credit card payment method, costs were exceeding savings**.** With the new VISA fee, program costs would be even higher.

PG&E contended that it had not failed to consider other savings that must be considered to determine the cost-effectiveness of the Program and to comply with the language of Res G-3390. PG&E said it did consider the weighted average cost of capital - pretax, which did not generate a significant level of savings. For factors such as "days sale outstanding", the disparity between the average cost per payment, all payment channels PG&E provides customers, and the cost of accepting a VISA payment has been about $0.60 per transaction; PG&E therefore believes a precise calculation is not necessary to demonstrate the Program is not cost neutral. PG&E also said that it does not have the right to arbitrarily change the time its customers have to pay their bill, which is what VISA's suggestion of shortening days sale outstanding would effectively achieve.

DISCUSSION

Resolution G-3390 required PG&E to submit an application to recover costs in the Credit Card Pilot Program Memorandum Account. Since PG&E is not requesting compensation for costs incurred in the pilot Program, and, as we discuss below, savings neither equaled nor exceeded the cost of the Program we will accept PG&E's advice letter to close the Program.

The Commission finds that PG&E has adequately demonstrated that the costs of the credit card payment program are significantly greater than savings from it thus resulting in a net cost.

PG&E voluntarily undertook this credit card pilot program, and has been subject to the risk for recovery of the costs if it could not demonstrate that savings outweighed costs. PG&E now reports that in its estimation the costs outweigh the savings under the program, and it is not requesting recovery of the costs. PG&E explained in its advice letter that the economics did not prove out due to three factors:

- Customers largely transitioned from lower cost payment options to the higher cost VISA option.
- The expected number of avoided costs for shut-off for non payment was significantly less than initially expected.
- The overall costs associated with the VISA pilot program exceeded PG&E's initial expectations.

In addition, PG&E submitted data in its response to VISA's protest that shows that the average transaction cost for the credit card payment option is not only well above the average payment transaction cost, it is higher than the transaction costs for all of the other most frequent payment types other than payment at a local PG&E office. PG&E reports that transaction costs will further increase due to the removal of an incentive by VISA. VISA terminated the Incentive Payment Refund effective June 1, 2008.

In a response to an Energy Division data request, PG&E provided additional data showing that the cost of the credit card payment program far exceeded the savings that resulted. PG&E provided actual data concerning the costs and savings of the pilot program for the period of February 2007 through January 2008. PG&E's data demonstrated that the pilot program cost $982,450, and that savings amounted to $376,335. Savings included migration of payments from a higher cost payment method to the credit card method, savings on check processing costs, savings due to the elimination of paper billing, even customer savings on postage costs. Costs included payments that migrated from lower cost payment methods to the credit card payment, research costs for investigations and reversals, and system costs associated with installation and maintenance of any necessary infrastructure and training.

Migration from lower cost payment options to the credit card option: PG&E found that customers largely transitioned from lower cost options to the higher cost payment options. PG&E analysis of the pilot results found that out of the customers using a credit card more than 5 times during the pilot period, over 30% of them moved from a lower cost channel such as a payment through a mailed check. Further, in a response to an Energy Division request PG&E

reported that credit card users primarily migrated from US Mail, e-Bills, Home Banking, and Pay Stations, which all cost well below the VISA card payment option.

Avoided check processing fees for customers who previously paid by check, but switched to paying by credit card were considered: In a response to an Energy Division data request PG&E explained that savings from such avoidance were considered in its review of its pilot program. Customers who sign up for recurring credit payments are also required to sign up for e-Bills thereby eliminating the cost for printing and mailing bills and payment processing costs for those who pay by check.

Savings due to postage and mileage costs to a payment center: Res G-3390 p.3 states: "PG&E also expects indirect savings to customers, such as postage costs, and/or mileage costs to a payment center which PG&E will attempt to quantify." In response to an ED request PG&E explained that it does not pick up payments from pay stations. These are transmitted to the bank and the cost for this service is an embedded transaction fee that PG&E pays its vendors.

Avoidance of shut off for non-payment (SONP) and ancillary transaction costs: PG&E said the number of SONP's were significantly less than expected, citing only a small percentage of such customers using a credit card payment in order to avoid shut-off**.** From its analysis of SONPs, PG&E assumes that the credit card option is not a significant help to customers who struggle to pay their bills.

Increased revenue generated from faster receipt of payments through the program: In a response to an Energy Division data request, PG&E explained that this is a financial concept indicating that for every day a company can collect payments sooner in its cycle, the more money it can save in interest costs due to a reduction in its short term borrowing requirements. PG&E said the costs of running the VISA credit card pilot program could not be cost neutral even if PG&E could collect money earlier from customers. PG&E said it would have numerous problems if it requested that customers paying by credit cards pay PG&E perpetually 10 days earlier in hopes of approaching cost neutrality. PG&E reasons that not only would this fail to achieve the cost neutrality objective, but since PG&E's tariffs allow customers 19 days to pay their bills, requiring credit card payments 10 days earlier would disadvantage credit card customers economically.

PG&E was not unreasonable in notifying customers about the possibility that the credit card pilot program might end. VISA contends that PG&E violated Resolution G-3390 by unilaterally notifying customers of termination of its credit card program before the Commission ordered PG&E to do so. PG&E said it took prudent steps to notify its customers of its request to the CPUC regarding program closure, and to advise them of the need to begin the process of selecting other payment options. All of PG&E's communications with its customers stated that the program closure was subject to regulatory approval. Failing to provide this advance notice based on PG&E's advice letter filing would leave PG&E's customers in a difficult position since recurring payment customers would be expecting that future payments would be automatically applied to their accounts.

Customers Minassian, England and Funk provided no information about the costs and savings, but recommended that the credit card payment option be continued.

PG&E has adequately demonstrated that the costs of the credit card payment option outweigh the savings. In the absence of a finding by this Commission that the savings clearly outweigh the costs of the credit card payment option, the option must be terminated except as a fee-based option.

While approving the closure of the pilot program, we strongly encourage PG&E to establish a fee-based credit card payment option as soon as possible. SoCalGas and SDG&E offer a fee-based credit card payment option, and we believe this option can be of some value to some customers, even if they must pay an extra fee for the option.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. This draft resolution was mailed on August 19, 2008 to parties for comments, and no comments were received. Accordingly, this draft resolution will be placed on the Commission's September 18, 2008 agenda .

FINDINGS

1. PG&E filed Advice Letter 2927-G/3275-E to close its current Pilot Credit Card Program.
2. Resolution G-3390 ordered PG&E to track the costs and savings of its credit card payment option to determine if it was cost neutral.
3. PG&E determined that the savings of the program do not equal or exceed the costs of the program; therefore PG&E proposes to terminate the program.
4. To allow customers to comfortably transition to alternate payment options PG&E began informing customers in early June that the pilot credit card program will be closed.
5. The Advice Letter proposes to revise Rule 9 to omit the credit card option.
6. Minassian, England and Funk submitted two protests citing cost, convenience, and safety in paying utility bills.
7. VISA protested the advice letter generally on basis of failure to comply with Resolution G-3390.
8. PG&E responded to Minassian, England, Funk, and VISA's protests with financial data to support its position.
9. PG&E was prudent in notifying participants in its pilot of PG&E's intent to close the program.
10. The average cost of all pay channels to PG&E is about $0.41 per transaction. The total cost to accept a VISA credit card payment is in excess of $1.00 per transaction and that cost is scheduled to increase.
11. PG&E has demonstrated that the cost of the credit card pilot program substantially outweighs the savings.

THEREFORE IT IS ORDERED THAT:

1. Advice Letter 2927-G/3275-E is approved. PG&E shall close its credit card pilot program and revise its Electric and Gas Rule 9 – Rendering and Payment of Bills to remove the credit card option from the list of acceptable payment options.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on September 18, 2008; the following Commissioners voting favorably thereon:

/s/ Paul Clanon
Paul Clanon
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners