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RECORDS AND REPORTING

-M-E-M-O-R-A-N-D-U-M-

DATE: March 4, 1999

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF ELECTRIC AND GAS (DRAPER) ESD
DIVISION OF LEGAL SERVICES (COLLINS) RVE

RE: DOCKET NO. 981972-EI - PETITION BY FLORIDA POWER CORPORATION TO REVISE RATE SCHEDULE SC-1, SERVICES CHARGES OF ITS TARIFF FOR RETAIL ELECTRIC SERVICE, BY CREATING A SUBSECTION ENTITLED PAYMENT THROUGH A THIRD PARTY VENDOR.

AGENDA: 3/16/99 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE (60-DAY SUSPENSION DATE WAIVED BY COMPANY)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\981972.RCM

CASE BACKGROUND

This item was deferred from the February 2, 1999, Agenda Conference after discussion on Florida Power Corporation's (FPC) proposal to allow a third party vendor called Telepay to process credit card transactions and charge customers a $4.95 processing fee. Telepay's total transaction fee is $5.95, however, FPC proposed to subsidize every transaction with $1. During the Agenda Conference the Commission raised two specific concerns.

First, the Commission questioned the reasonableness of Telepay's $5.95 transaction fee. FPC explains that the $5.95 includes three components. All credit card companies charge a 2 percent fee which Telepay would be responsible for. FPC expects the average bill amount to be approximately $200. The 2 percent fee to the credit card company would therefore be $4. Second, Telepay will incur long distance charges. Telepay's estimates that

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every transaction will require on average five minutes to process. At 12 cents per minute this equates to an additional cost of $0.60 per transaction. Finally, unlike FPC, Telepay's fee does include profit or overhead.

As a result of the Commission's concerns, FPC revised its original proposal to subsidize every credit card transaction with $1 to subsidize every credit card transaction with $1.50. This brings the cost per transaction for a customer using the Telepay system down to $4.45 per transaction.

The second concern the Commission raised was whether FPC has researched all its options with respect to credit cards. The Commission discussed as an example Flint River Electric Cooperative which offers a co-branded credit card with Visa that provides the customer with a rebate for use of the card. The program was established by the National Rural Electric Cooperative Association and is targeted to smaller utilities that do not accept any credit cards.

The co-branded credit card can be debited automatically every month for the amount of the electric bill and the customer receives a 3 percent rebate. For occasional, non-automated use of the credit card the customer receives a 2 percent rebate. For other retail purchases using the co-branded credit card, the customer is given a 1 percent rebate. There is no fee charged to the utility by Visa when a customer makes a payment using the co-branded credit card. However, as a condition to participating in this program, the utility is required to accept payments by all Visa credit cards, not just the co-branded card. Payments made by other credit cards require the utility to pay the normal 2 percent processing fee. FPC states that it does not believe that a significant number of its customers would participate in a co-branded credit card program and that customers would continue to pay with their existing credit card.

In summary, FPC continues to propose its original petition with the modification to pay a higher portion of the Telepay processing fee for credit card transactions. FPC adds that it has approached Visa on several occasions to reduce or waive the processing fee, however, Visa declined.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Florida Power Corporation's (FPC) proposal to allow payment through third party vendors?

RECOMMENDATION: Yes, the revised tariff should be approved for the two proposed applications discussed below.

STAFF ANALYSIS: FPC proposes two new payment options through third party vendors. Each option is discussed below separately. FPC filed the following tariff incorporating the new optional bill payment arrangements:

> Payment through a Third Party Vendor. The customer may elect to make payment through a third party vendor contracted by the Company. The customer shall be responsible for any vendor charges associated with this type of payment. These payment methods may include but not be limited to the following: credit card, debit card, and check-by-phone or other similar types of payment.

Credit card, debit card, and check-by-phone payment through Telepay. FPC and a third party vendor, Telepay, entered into a contract by which Telepay would process all credit card payments. Customers choosing to pay their electric bill with a credit card will have to make arrangements with Telepay which will bill the customer the bill amount and a fee and remit the bill amount to the utility. Telepay will also offer two new payment options. Customers will be able to use a debit card or phone in their checking account number to pay the electric bill. Telepay will charge the customer a processing fee for each of those transactions.

To support its petition, FPC states that in 1992 FPC began accepting credit card payments from its customers. In that year, FPC processed 7,193 credit card transactions. Since 1992 the number of credit card payments has increased to 95,381 in 1997 and has exceeded 180,000 by the end of 1998. While the number of transactions has been increasing steadily since 1992, the percentage of FPC's customers that make credit card payments is still relatively small. Between August 1997 and July 1998, 51,505 accounts, or 3.9 percent of FPC's total accounts, paid by credit card. Sixty-four percent of these accounts made only one credit card transaction, the remaining 36 percent show multiple credit card transactions. Of these 51,505 accounts, 32 percent of the transactions were for accounts with collection arrangements or eligible for cut, 22 percent for deposit payments, and 46 percent for regular monthly bill payment.

FPC currently offers its customers five payment options. These include business offices, automated agents, mail-in payments, electronic funds transfer, and credit card payments by telephone. The following table shows for 1998 the number of transactions and the cost to FPC per transaction for each payment option.

Payment Option	Transactions	Cost per Transaction
Business Office	4,045,766	$1.91
Automated Agents	234,381	$1.42
Mail-In Payments	10,203,432	$0.08
Electronic Funds Transfer	936,026	$0.12
Credit Card by Telephone	180,746	$3.91

The most costly option is the credit card by telephone option, costing $3.91 per transaction. Two reasons contribute to the high transactions costs. First, credit card companies charge a 2 percent processing fee, which FPC is responsible for. Second, FPC states that it takes its customer service employees about twice as much time to handle a credit card call than to handle any other calls. The total cost to process credit card transactions for 1998 was $706,665. FPC has been absorbing these costs since 1992 as an above-the-line expense. These costs are not in base rates, since FPC did not start accepting credit card payments until after its last rate case.

Due to the high cost, employee time, and the increasing number of transactions, FPC considered three other options for accepting credit card payments: (1) purchase a computer program for faster in-house processing; (2) discontinue offering the credit card payment; or (3) use an outside third party vendor. FPC concluded that the most cost effective option would be the use of an outside third party vendor. FPC determined that the purchase of an in-house computer system would not be cost-effective. In addition to the programming costs, FPC customer service employees would still have to handle the credit card calls. FPC does also not wish to discontinue accepting credit card payments stating that this payment option provides customer satisfaction and convenience. For example, some customers pay by credit card when their account is eligible to be cut off for non-payment. This ensures that the customer does not get disconnected and ensures payment to the utility.

FPC therefore contracted with Telepay, a third party vendor, to process all credit card payments. Telepay's transaction fee for each bill payment will be $5.95. The customer will be charged $4.45 and FPC will subsidize the remaining $1.50 as an above-the-line expense. The fee will appear as a separate line item on the customer's credit card statement. Telepay will accept all major credit cards. Customers will also be able to use a debit card for a fee or transfer funds from their checking accounts to pay the electric bill by calling Telepay and providing their checking account number. The fee for this transaction will be $1.95.

A customer wishing to make a credit card or check-by-phone payment calls Telepay's toll-free number and provides his FPC account number, the amount of the bill, and the credit card or checking account number. Telepay's system will be available 24 hours every day. Telepay handles the customer call, processes the payment, and collects the transaction fee from the customer. Telepay will electronically transfer to FPC a list of all payments received four times daily. FPC does <u>not</u> receive any revenue from the transaction fee.

As a transition plan to promote customer acceptance FPC proposes to pay the full cost of the Telepay transaction fee for the first 60 days and subsidize each payment with $1.95 toward customers credit cards during the next 30 days. After the 90-transition period customers choosing to pay their electric bill by credit card will be billed by Telepay $4.45 and FPC will pay the remaining $1.50.

Staff notes that Florida Power & Light Company and Gulf Power Company currently do not provide the option of credit card payment. Tampa Electric Company allows customers to use the Discover credit card to pay their bill without an additional fee, however, Discover does not charge Tampa Electric a processing fee. The City of Tallahassee allows customers to pay the electric bill by credit card and charges a fee. In addition, City of Tallahassee customers can only pay by credit card in person at City Hall and not over the phone as FPC proposes.

A proposal by Florida Power & Light (FPL) for a third party vendor was considered in Docket No. 931034-EI. However, the circumstances were substantially different. FPL was in the process of closing all its payment sections of its local offices and entered into a contract with Jack Eckerds Corporation (Eckerds) to act as an agent to collect bill payments. Customers wishing to pay in person were required to utilize the Eckerds option and were charged a $0.35 fee for each transaction. FPL did not request Commission approval of the contract; nor did it file a tariff incorporating the new bill payment arrang ment. In addition, the cost of operating the closed local offices were still in FPL's base rates, and customers paying in person were paying twice for the same service. As a result of Commission action, FPL rescinded the $0.35 charge and refunded all previous charges.

Payment at an alternative pay location. FPC currently offers 42 automated agents throughout its service territory. Automated agents are various retail stores and commercial locations that contracted with FPC to act as an agent to collect bill payments from FPC customers. Currently, customers are not charged a fee, since FPC has been paying the fee to the retail store. FPC wishes now to increase the number of its payment locations and is currently negotiating with a pay agent with multiple locations to allow payment of electric bills. FPC's initial plan is to establish this program at two new payment locations for approximately 90 days. The pilot's success will determine whether FPC will implement this plan with more payment locations throughout its entire service territory. The success of the pilot will be determined by the customer's acceptance of this additional service and the lack of consumer complaints.

Customers would have the ability to make a cash or check payment at the new payment locations and would be charged a fee. FPC and the third party vendor are currently negotiating the fee, but FPC states that it will not be more than 75 cents per transaction. The third party vendor would electronically update the customer's record on the date of the payment.

Conclusion. Since the new payment arrangements FPC proposes are optional services, staff recommends approval of this petition. It appears that although it is convenient for a customer to pay by credit card for example, there are higher than average costs associated with this payment option, which FPC has been absorbing. FPC anticipates that customers will use their credit cards to make payments only when special needs arise such as avoiding disconnections for non-payment or making deposit payments. In this context, the proposed fee is less costly to the customer than spending time to drive across town to pay a bill at the last minute, or the $27 fee to have power reconnected after it is turned off for non-payment.

Telepay will provide the additional convenience of being available 24 hours 7 days a week. In addition, since credit card calls require twice as much time as other calls, transferring credit card payments to a third party vendor will free up FPC customer service employees to handle more calls. To keep rates low to all its customers, staff believes that customers wishing to use an optional service the utility provides, should be responsible for the costs associated with this service.

Section 501.0117, Florida Statutes, prohibits a seller or lessor from imposing a surcharge on the buyer or lessor for choosing to use a credit card in lieu of payment by cash, check, or similar means if the seller or lessor accepts credit card payments. This statute provides an exception if charges are imposed pursuant to an approved state or federal tariff. Charges made in accordance with an approved tariff do not fall within the ambit of section 501.0117, Florida Statutes.

Upon review, staff believes that FPC's proposed payment plan does not violate this statute and should be approved.

ISSUE 2: What is the appropriate effective date for the revised tariff?

RECOMMENDATION: The appropriate effective date for the revised tariff is March 16, 1999.

STAFF ANALYSIS: If the Commission approves the approved tariff revision at the March 16, 1999, Agenda Conference, it should become effective on that date.

ISSUE 3: How should additional payment options through a third party vendor under this tariff be approved?

RECOMMENDATION: Issue 1 discusses two specific proposals. FPC should file any new third-party vendor options with the Commission 45 days prior to implementation. Staff should be granted the authority to approve administratively new proposals which are substantially similar to the two programs discussed above.

STAFF ANALYSIS: Although the proposed tariff language is broad, staff is concerned about a carte blanc approval of any new proposals for payment options through a third party vendor. Staff recognizes that these are optional payment methods, but still believes that some oversight is prudent. Therefore, staff recommends that FPC be required to file any additional third party vendor payment plans it wishes to offer under the proposed tariff language no less than 45 days prior to implementation for staff review. If the plan(s) appears to be reasonable and in accord with the discussion in Issue 1, staff should be granted authority to approve the new proposals administratively. If staff has concerns about any such new payment options, they will be brought before the Commission for review.

Section 2.07 of the Administrative Procedures Manual (APM), clarifies which investor-owned utility filing can be approved administratively. Specifically, Section 2.07(c)(15)(e), allows staff to administratively approve any new services which are not presently available to existing customers as long as that proposal does not contain new pricing concepts and does not limit service. The APM also states that if any proposal appears to the staff to be controversial, it shall be brought to the Commission for consideration.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes, if no protest is filed within 21 days of the issuance of the order.

STAFF ANALYSIS: If a protest is filed within 21 days of the Commission order approving this tariff, the tariff should remain in effect pending resolution of the protest, with any increase in revenue held subject to refund. If no protest is filed, this docket may be closed.