

Chugach Electric Association, Inc.

**Impacts of Chugach
No Longer Absorbing
Credit Card Costs**

Finance Committee

February 27, 2007

Financial Impacts

Savings: **Credit card commission and
BillMatrix expense**

New Costs: **Alternate payment processing costs**
Bad debt expense
Customer service and credit expense

Reduced Payment Processing Expenses

Credit card commissions	\$ 720,000
BillMatrix expense	<u>100,000</u>
Total reduced expenses	\$ 820,000

New Payment Processing Expenses (300,000 Payments)

New Payment Method	Number Per Year	Cost Per Payment	Total Cost
Manual	90,000	\$ 0.75	\$ 67,500
Bank draft autopay	54,000	\$ 0.38	\$ 20,520
FNBA Lockbox	81,000	\$ 0.18	\$ 14,580
BillMatrix (cust pay)	75,000	\$ 0.00	0
New Payments Costs			\$ 93,480

Additional Bad Debt Expense

Annual retail revenue	\$ 157,239,259
Estimated increase in write-off rate (0.16% to 0.25%)	<u>0.09</u>
Increase in bad-debt expense	\$ 141,515

Customer Service & Credit Labor Expense

Additional work for:

- **Complaints**
- **Late fees/payment timeliness disputes**
- **Credit arrangements & follow-up**

Estimate one FTE CSR

\$ 68,000/year

Net Financial Savings

Credit card commissions	\$ 720,000
Bill Matrix expense	<u>100,000</u>
Total expenses avoided	820,000
New remittance processing	102,600
Bad debts (0.16% to 0.25%)	141,515
Credit/Customer Service Rep	<u>68,000</u>
Total expenses added	<u>312,115</u>
Net savings	\$ 507,885

Non-Financial Impacts

Negative impacts to customer service and satisfaction:

- **Loss of preferred payment method**
- **Additional cost to the member**
- **Loss of payment flexibility**
- **Late fee and payment timeliness issues**

Conclusions

While some costs will increase, no longer absorbing credit card costs will clearly reduce overall expense.

The loss of customer convenience and satisfaction will affect one-third of our membership.

Recommendation

Continue accepting and paying the cost of credit cards. \$500,000 per year is a relatively small expense for the level of member satisfaction that it provides.