

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

FINANCE COMMITTEE MEETING
AGENDA ITEM SUMMARY

August 22, 2007

ACTION REQUIRED

AGENDA ITEM NO. VII.

- Information Only
- Motion
- Resolution
- Executive Session
- Other

TOPIC

Transition Plan for Credit Card Payments

DISCUSSION

Credit card fees and expenses total about \$820,000 per year. Chugach currently absorbs this expense as a cost of doing business. To reduce the expense of processing credit card payments, the Board Finance Committee instructed the Chief Executive Officer to prepare a plan to transition to a payment system whereby the members who use credit cards pay the costs associated with processing their payments.

MOTION

Move that the Finance Committee recommends approval of the proposed credit card transition plan to the full Board.

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

August 14, 2007

To: Bill Stewart – Chief Executive Officer
Through: Mike Cunningham – Sr. Vice President & Chief Financial Officer
From: Ron Vecera – Director of Member Services
Subject: Transition Plan for Credit Card Payments



RV

Options

Chugach has options to consider when deciding how much and for how long to pay the costs associated with credit card payments. These include:

1. Status Quo: Chugach absorbs all costs and there is no cost to members.
2. Convenience Fee: Chugach no longer takes credit cards but members can directly pay a 3rd party processor who takes their credit card payment, collects a convenience fee from the member, and remits the electric bill portion of the funds received to Chugach.
3. Subsidized Convenience Fee: Same as above except the member pays a reduced convenience fee and Chugach pays the balance of the fee. The subsidy can go on indefinitely or be phased out over time with the convenience fee to the member increasing as the subsidy is reduced.

Since Chugach no longer wants to absorb all credit card costs, options 2 and 3 are the ones to consider.

Option 2 – Convenience Fee

With this option Chugach will provide notice to members that as of a specified future date Chugach will no longer accept credit card payments and that a convenience fee arrangement will be implemented. After providing the required notice and implementing the system Chugach's credit card processing costs and associated fees will decrease by about \$820,000 per year. However, other costs are estimated to increase by over

\$300,000 per year and the negative impact to member cost, convenience and satisfaction will be significant.

Option 3 – Subsidized Convenience Fee

This option is identical to Option 2 for internet and phone payments made through BillMatrix with the exception that the fee to the member is reduced and the difference is paid by Chugach. For example, if the convenience fee for residential payments is \$3.50 (similar to Enstar's), the member could pay \$2.50 and Chugach could pay \$1.00 to equal the total of \$3.50. The convenience fee will likely be higher for commercial accounts and a subsidy of similar proportion will need to be determined.

While this arrangement will work for internet and phone payments, which are made directly to BillMatrix, it will not work for lobby and autopay payments. These transactions are processed by First National Bank Alaska and there are two issues that prevent or at least exacerbate a subsidy arrangement.

First, the credit card commission rate First National charges will increase dramatically. Chugach's commission rate was reduced from 1.75% to 1.42% (approx. 20%) after VISA and Mastercard implemented utility bill incentive rates. However, the reduced rate is only available to utilities that pay 100% of the cost of a credit card transaction. If the utility's customer is required to pay a fee the incentive rate no longer applies and Chugach's costs, absent the incentive, will increase by about 20%, or \$150,000 per year.

The second issue is the inability of Chugach or First National to collect money from members to help pay the cost. Unlike BillMatrix, First National does not have a direct relationship with our members such that a fee can be collected at the time a transaction is processed. Further, for Chugach to collect the money on First National's behalf would require a surcharge on the customer's bill. This would require regulatory approval which will likely be very difficult to get since it is singling out a specific group of customers for a surcharge while customers paying with other means are not charged.

The way to make the convenience fee model work is to end the relationship with First National and have all payments go through BillMatrix. BillMatrix currently processes Chugach's internet and phone payments and they also have an autopay option.

Conclusion and Recommendation

Chugach should implement Option 3, subsidizing credit card payments, with a two year transition, after which members who pay by credit card pay the full cost.

A detailed plan to implement this payment system by January 1, 2008 is attached. During 2008, the first year of the transition, Chugach will contribute \$1.00 toward each residential credit card or other transaction processed by BillMatrix. A higher amount will be contributed for each commercial payment. The estimated cost to Chugach is about \$150,000. During 2009, the second year of the transition, the subsidy will be reduced to

\$.50 per transaction for residential payments, also cut in half for commercial accounts, and the estimated cost to Chugach is \$75,000. Beginning in 2010, members using the BillMatrix site to pay by credit card or other means pay the full cost.

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

August 14, 2007

Transition Plan for Credit Card Payments

Objective

The purpose of this plan is to outline the process for Chugach to discontinue paying the total cost of taking credit cards and to transition members to other payment methods or to an arrangement in which the member who uses their credit card pays a "convenience fee" directly to the contractor (BillMatrix) taking their payment.

There will also be a convenience fee for other types of payments (i.e., debit card, ACH) made through the BillMatrix system. Due to VISA and Mastercard restrictions, this fee will be the same as the credit card convenience fee.

While the process to implement the convenience fee for credit card and other internet and phone payments will be accomplished by January 2, 2008, Chugach will assist members by subsidizing the cost of each transaction for a period of two years. For example, Chugach might pay \$1.00 of the cost of each residential transaction during 2008 and \$.50 of the cost of each transaction during 2009. Beginning in 2010, members using the BillMatrix system for credit card or other payments will pay the full convenience fee and Chugach will no longer provide any subsidy.

To implement this plan, the following specific actions will take place:

Notification

1. General publicity via lobby signs, web-site information, articles, bill messages, on-hold messages and public advertising will begin immediately and continue throughout this period.
2. Letters will be sent to specifically notify members who are enrolled in Chugach's monthly credit card autopay program. The first letter will be approximately 90 days before conversion with subsequent letters at 60 and 30 days to members who had not yet converted to an alternate payment method. Each letter will provide information on the ability to use a credit card through the contractor arrangement and other payment options, including the enrollment form for autopay by bank draft.

3. Service reps will verbally advise members making payments over the phone or in the lobby that a convenience fee for credit card and other internet or phone payments will become effective on 1/2/08. Also, a message will be appear whenever someone is making an internet payment or heard when making a phone payment advising them of the pending change.
4. First National Bank of Alaska will be given written notice of Chugach's termination of the current merchant agreement at least 90 days prior to the effective date. FNBA's remittance processing department will be given notice of a likely large increase in mailed in payments.
5. BillMatrix will immediately be given notice of the desire to convert the current internet and telephone payment systems to one where the member pays a convenience fee. Separate convenience fees are needed for residential and commercial accounts. The convenience fee to the member will be reduced by the amount of the subsidy provided by Chugach. This transition should be fairly smooth as the BillMatrix system was implemented with the expectation that it might eventually shift to a convenience fee arrangement.

Implementation

1. Provide notices as specified above.
2. Brief staff on the issue, reasons for termination and the new member fee option so that they can respond to members.
3. Convert accounts to bank draft autopay as forms are received.
4. Negotiate the convenience fees (residential and commercial) to be paid by members and assign staff, including Information Services personnel, to work with BillMatrix to convert the on-line and telephone payment systems to implement the convenience fee arrangement.
5. Prepare staff to handle a much larger volume of manual payments, payment processing timeliness/late fee issues, complaints and credit arrangements as the process takes place.
6. On December 28, 2007 cancel any credit card autopay accounts that are still in effect and send a letter to the affected members letting them know of this action.
7. Install a computer/payment station in the Member Services lobby so that consumers who visit Chugach and wish to pay by credit card after the convenience fee becomes effective have a means to do so.

8. Effective 1/2/08 cease internally processing any form of credit card payment and implement the convenience fee arrangement for internet, phone and autopay payments made through BillMatrix.