


CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

November 2, 2007

TO: Bill Stewart, Chief Executive Officer

FROM: Dave Smith, Vice President, Administration 

SUBJECT: Credit Card Payments and associated expense

This issue was first discussed with the BOD in January 2006 and subsequently discussed or presented numerous times. It started as an issue regarding the high cost of credit card transactions and has evolved into one that includes minimizing "customer inconvenience." Our challenge today remains to be "how do we eliminate the high costs of each transaction and still deliver a high level of service to our members?"

The goal is to continue to provide a popular service at a reduced cost. In our business, every day we provide services that some members use but all members pay for – such as calling the center, free locates or requesting an energy audit.

In this section of the memo, I am trying to articulate all relevant information that needs to be considered:

- Our cost for Credit Card commissions totals in excess of \$700,000 per year and along with transaction fees to 3rd party Bill Processor total \$820,000. However, we avoid an estimated \$312,000 of additional costs. Therefore, the net cost is approximately \$510,000.
- Our MasterCard and Visa agreement is with First National Bank. Two years ago, both credit card companies initiated an "incentive" rate to encourage Utilities to keep taking credit cards and to continue to absorb the costs. Our rate is currently 1.42% versus the 1.75% we had previously.
- Initially, we were processing our Internet payments ourselves. A threatened patent infringement violation from Emergis Corporation in 2006 caused us to change our electronic credit card processing. Emergis claims to have patent covering "direct" company/customer processing of payments. Two state courts have decided that using a 3rd party Bill Processor does not violate the patent. The New Mexico case is being appealed by Emergis.
- As a result, we contracted with Bill Matrix to process our Internet credit card payments. We were already using Bill Matrix for telephone Interactive Voice Response (IVR) payments. Currently we absorb a processing fee of \$1.00 per Internet transaction and \$1.25 per IVR transaction. This will cost us approximately \$100,000 this year.
- ML&P, MEA, HEA, Seward, ACS, GCI and AWWU all take credit cards and absorb the costs.
- Enstar and Alaska Electric Light & Power (Juneau) use 3rd Party Bill Processors that charge a convenience fees.

- Our customer survey done in April 2007 asked two questions relative to credit card payments:
 1. Do you favor or oppose taking credit cards? 82% said “yes”
 2. Would you still favor taking credit cards if the cost is about \$500,000 per year? 58.1% said “yes”
- In May 2005, Enstar announced they were going to start outsourcing their credit card payment process to a firm that would charge a \$3.50 convenience fee. It caused a public relations issue that Phil still sees today when he is at meetings where Enstar is also present. One letter to the editor summarized the public perception of this issue; “Forcing payment by check with all of its expensive paper-and-people handling, Enstar and the municipality are retreating to banking’s early check-centered years. “You guys should really think about joining today’s modern checkless world without gouging us otherwise.”
- Convenience fee is determined by the 3rd party who will set them based on credit card rate and a transaction limit. It is our understanding that a 3rd party will not get the “incentive” rate Electric Utilities receive.
- Adding to the public perception is the fact that Food, Retail, Automobile Rentals, the Airlines industries are just a few that don’t charge the public a convenience fee for using their credit cards. Presumably, their cost of goods and service absorb the credit card cost
- Currently, over 17,000 of the 24,600 members who pay by credit card are “Automatic” monthly payments. These along with the 5,500 Automatic Bank Draft customers represent our least credit/collection problems. The question is, “Why would we make our best paying customers mad?”
- As presented in the September 26th Finance Committee meeting, our Bad Debt write-off percentage is increasing and will continue upwards in 2008. Two current reasons were given for this trend; a) material increase in risky accounts and b) local economic conditions.
- In a recent survey of Electric Utilities done by Chartwell, the utilities that absorb fees versus those having the customer pay a convenience fee is split. One thing that does seem to be a relevant trend is that if a customer signs up for monthly Automatic Credit Card payment, they correspondingly agree to “bill suppression.” In other words, we would not prepare and send them a monthly paper bill. In lieu of the paper bill, AutoPay customers receive an email notification. This could save us more than excess of \$.50 per account per month.

The Board could decide to eliminate absorbing all credit card fees and direct those members to a Bill Processor or one of several Bill Consolidators. There will most certainly be a backlash of negative publicity from our members. The largest of these groups is the 17,000 credit card AutoPay members (our least credit/collection problems.) All of this leads us to the following two-part recommendation:

1. Quit taking payment over the Internet and Phone IVR (7,250 each month who use a credit card, debit card or bank draft.)
2. Require “bill suppression” for the credit card Autopay members. Members would receive an email notification that their bill has been paid and they can view it on our web site.

If we did this, the per-transaction cost table would be as follows:

Type	Cost Per Transaction	Monthly Transactions
Credit Card (Lobby)	\$2.25	1,000
Credit Card Auto Pay w/\$.50 reduction	1.22	17,000
Bill Pay Service	1.08	600
Debit Card (Lobby)	1.06	200
Cash (Lobby)	.66	3,500
Check (Lobby/Night Drop/Mail)	.60	11,500
Bank Draft (AutoPay)	.38	5,500
Check (FNBA Lockbox)	.18	25,000

For the two groups of Credit Card customers remaining, Chugach would absorb the 1.42% credit card cost. Here is how the savings and 2008 Budget reductions would look:

- No 3rd party fees, a savings of \$100,000 per year.
- “Bill suppression” would also save us \$100,000 per year.
- As an estimate, half of the credit card transactions that occurred via internet or IVR would now take place by credit card Autopay. The other half, however, would no longer occur as many members are not financially able to be on an Autopay arrangement. A reduction of 3,000 credit card transactions per month would save an additional \$50,000 per year.
- We would not add one FTE that is in the 2008 budget, eliminating \$65,000
- We would eliminate the \$150,000 in the 2008 budget for paying Bill Matrix.

These reductions total \$465,000. The Internet and telephone IVR transactions could be eliminated by January 1, 2008 if we act this month.

The above recommendation would allow Chugach to balance customer service and convenience against cost. We could continue to provide a service popular with many of our best members while significantly reducing the overall cost of the program.