

Item 3

MEMORANDUM

January 15, 1999

TO: DEPUTY EXECUTIVE DIRECTOR/TECHNICAL (BANE)

FROM: DIVISION OF ELECTRIC AND GAS (DRAPER) *EJD*
 DIVISION OF LEGAL SERVICES (COLLINS) *RVE JDS*

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.

SPECIAL INSTRUCTIONS: PLEASE PROVIDE COPIES OF THIS MEMORANDUM AND ATTACHMENTS TO THE PARTIES OF RECORD

Attached hereto are revised pages 2, 3 and 5 for insertion into the Recommendation filed on January 7, 1999, in Docket No. 981972-EI. The revisions on pages 2 and 5 consist of minor typographical errors. The revision on page 3 consists of additional language. The revisions have been highlighted for ease of identification.

EJD
 Attachment
 I:981972a.rcm

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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 these 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 and will continue to offer 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	\$0.00 \$0.08

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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 2-3 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 approximately ~~\$5~~ \$5.95. The customer will be charged \$4.95 and FPC will subsidize the remaining \$1 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

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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. In addition, the number of customers using credit card payments has been increasing. 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 buyer ~~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.