
**SENATE COMMITTEE ON ENERGY, UTILITIES AND
COMMUNICATIONS**
Senator Ben Hueso, Chair
2021 - 2022 Regular

Bill No: AB 1058 **Hearing Date:** 6/14/2021
Author: Cristina Garcia
Version: 4/12/2021 Amended
Urgency: No **Fiscal:** Yes
Consultant: Nidia Bautista

SUBJECT: Water corporations: bill payment options

DIGEST: This bill deletes a pilot program to authorize water corporations to allow customers to pay their utility bill with a credit card while waiving a transaction fee and other requirements that apply to electrical and gas corporations. This bill would recast these provisions to authorize water corporations, exclusively, to permanently allow customers to pay their utility bills with a credit card, debit card, or prepaid card and not apply a separate transaction fee on the use of the cards, but instead recover those costs in rates.

ANALYSIS:

Existing law:

- 1) Establishes the California Public Utilities Commission (CPUC) has regulatory authority over public utilities, including electrical, gas, and water corporations. (California Constitution Article XII)
- 2) Authorizes the CPUC to fix the rates and charges for every public utility, and requires that those rates and charges be just and reasonable. (Public Utilities Code §451)
- 3) Authorizes an electrical, gas, or water corporation to offer credit card and debit card bill payment options, if approved by the CPUC, and, upon approval, authorizes an electrical, gas, or water corporation to recover, through an individual customer transaction fee, reasonable transaction costs incurred by the electrical, gas, or water corporation from those customers that choose those methods of payment. Makes statements of legislative intent relative to electrical, gas, and water corporations offering customers the option to pay by credit card or debit card. (Public Utilities Code §755)
- 4) Authorizes, until January 1, 2022, a water corporation with more than 10,000 service connections to seek CPUC approval, through its general rate case

application, to operate a pilot program designed to evaluate customer interest in, and utilization of, bill payment options, including, but not limited to, credit card, debit card, and prepaid card bill payment options, and to assess the cost-effectiveness of, and customer interests served by, customer access to those bill payment options. Establishes the duration of a pilot program to the duration of the water corporation's rate case cycle. Requires the CPUC to allow a water corporation to recover the reasonable expenses incurred by the water corporation in providing its customers with these bill payment options, but allows water corporations to not impose a transaction fee on its customers for using these bill payment options. Prohibits the costs of a pilot program from being collected from customers who participate in the California Alternate Rates for Energy (CARE) program or the Customer Assistance Program (CAP) for low-income water ratepayers. (Public Utilities Code §755.5)

- 5) Establishes the CARE program to provide assistance to eligible electric and gas customers with annual household incomes that are no greater than 200 percent of federal poverty guideline levels. (Public Utilities Code §739.1)
- 6) Authorizes the CPUC to consider and implement programs to provide rate relief for low-income water ratepayers. The CPUC has directed large water corporations to implement a low-income rate relief program, known as the Customer Assistance Program. (Public Utilities Code §739.8)
- 7) Exempts from requirements that prohibit retailers in any sales, service, or lease transaction with a consumer to impose a surcharge on a cardholder who elects to use a credit card in lieu of payment by cash, check, or similar means charges for payment by credit card or debit card that are made by an electrical, gas, or water corporation and approved by the CPUC, pursuant to Section 755 of the Public Utilities Code. (Civil Code §1748.1)

This bill:

- 1) Deletes water corporations from the existing authorization applied to electrical, gas, and water corporations to offer credit card and debit card bill payment options, the associated cost recovery provisions, and the related statements of legislative intent, thereby limiting those provisions to electrical and gas corporations.
- 2) Deletes the time-limited pilot program provisions.
- 3) Requires the CPUC to authorize a water corporation, without limitation as to the number of customers it serves and unrelated to its rate case cycle, to recover

the reasonable expenses incurred by the water corporation in providing bill payment options to its customers, and not require the water corporation to impose a transaction fee on its customers.

- 4) Prohibits a water corporation from recovering the costs of offering the bill payment options to its customers from participants in the low-income water rate relief CAP program.

Background

CPUC-regulated water utilities. The CPUC has jurisdiction over water companies that provide water service to about 16 percent of California's residents with annual water and wastewater revenues totaling about \$1.4 billion. Approximately 95 percent of those residents are served by nine large water utilities, each serving more than 10,000 service connections. Combined, the nine largest utilities serve approximately 1.175 million customers. However, the majority of the CPUC-regulated water utilities (92) have service connections of 2,000 or less, and 87 of those have service connections of 500 or less. As with other investor-owned utilities (IOUs), the CPUC regulates rates of the water utilities under its jurisdiction to ensure they are providing service at just and reasonable rates.

CAP - low-income rate assistance programs. The CPUC has authorized the largest nine water utilities, which combined serve 1.175 million customers, to offer low-income rate assistance programs similar in concept to those provided to electricity customers through CARE. As with CARE, the CAP is available to customers whose income falls at or below 200 percent of the federal poverty line. However, each water utilities' program varies in terms of the amount of the assistance provided to low-income customers and the collection of the surcharge from non-participating ratepayers to cover the cost of the program. All nine Class A water utilities, one Class B in a few districts, and one Class C water utility offer discounts on their monthly bills for qualifying low-income customers. Water utilities will be slowly transitioning the unique names of their low-income assistance programs to the uniform name CAP, pursuant to CPUC Decision (D.) 20-08-047. In CPUC Decision D.11-05-020, the CPUC ordered large water and energy utilities to exchange information about their low-income customers to cross-promote the goal of increasing participation in both programs. Reports from the CPUC indicate the effort has yielded a substantial increase in participation.

Credit cards and utilities. As more and more customers turn to credit or debit cards as their primary payment method, companies must determine how to pay for the transaction cost of each payment. For the most part, retail and service providers recover the transaction cost from various methods such as increasing the

price of the good or service sold or using company revenue. Pursuant to Civil Code §1748.1, most retailers and private entities are prohibited from imposing a surcharge on sales related to the use of credit cards. In the case of a CPUC-regulated utility, current law exempts electrical, gas, and water corporations from the prohibition on a surcharge. Instead, these utilities are allowed to recover reasonable transactions cost, but only from those customers that choose to pay by those payment options. Currently, the CPUC requires electric, natural gas, and water companies it regulates to get approval from the CPUC to offer a credit/debit card bill payment option. As a result, some utilities assess a separate fee on top of the monthly bill, when a credit card is used to pay the bill. In the case of water utilities, the fee generally ranges between \$1 to \$ 3. According to the sponsor, this transaction fee frustrates customers. While other forms of payment such as check processing or cash payments also generate some cost for the utility to process the payments, those transactions are not assessed an individual fee to the user. Unlike credit or debit card fees, all the other payment transaction costs are spread across the entire customer-base and recovered in the utility's rates.

AB 1180 (C. Garcia, Chapter 254, Statutes of 2016). AB 1180 authorized the creation of a pilot program that authorizes Class A water utilities, those with over 10,000 service connections, to waive transaction fees for customers paying by credit card, debit card, and prepaid card. The bill requires water utilities who wish to participate in the pilot program to submit a request and secure CPUC approval through their general rate case applications, which occur about every three years, and allows them to recover the costs of operating the pilot program from customers, other than low-income customers. Three Class A water utilities requested authorization, and received approval, to participate in the credit card pilot program: California American Water Company (starting June 2017), Golden State Water Company (starting May 2019) , and Great Oaks Water Company (starting September 2019).

AB 1180 also requires a report of the CPUC to the Legislature to include specified assessments, including: (1) an assessment on the use of credit cards by low-income customers to avoid service disconnections; (2) an assessment of impact of the use of credit cards for customer bills on household debt burden; and (3) an assessment of data, considered on an aggregated basis, regarding customer utilization and the cost-effectiveness of the bill payment options. Statute also requires the CPUC to include in the report an assessment on the usefulness of transaction fees for credit card, and a recommendation regarding individual customer transaction fees for credit card, debit card, and prepaid card payments.

CPUC report and recommendation. In January 2021, the CPUC released their report, *Report to the Legislature on Credit Card Pilot Program*, on the pilot

program's impact on low-income customers and excluded data collected during the months impacted by the COVID-19 pandemic (roughly March 2020 through January 2021). The CPUC compared data from two years prior to the transaction fee waivers to determine whether more customers preferred card payments. There was mixed or incomplete reporting on customer utilization of credit cards and the use of credit cards to avoid disconnections in low-income households, for which only Golden State Water Company provided data. Based on the data, the CPUC noted that California American Water Company shows a statistically significant increase in low-income customers using card payments after transaction fee waivers. The other two utilities did not show a statistically significant increase in use of card payments by low-income customers until the onset of the COVID-19 pandemic. The recent increase reflects the government orders to shelter-at-home, efforts by individuals to reduce exposure and transmission of the COVID-19 virus, and the temporary closure of utility offices. The second finding is that household debt burden and cost of water service increases when customers choose to pay their water bills using credit card payments and pay the minimum amount on a monthly credit card bill. The third finding is that more customers are using card payments and the cost-effectiveness is dependent on the type of payment from which a customer is transitions. The CPUC found that the transition of customers from in-person to card transactions is cost-effective while the transition from other forms of payments (mail, electronic transfer funds, and electronic check) to card transactions is not cost-effective. As part of the report, the CPUC recommended that, should transaction fees continue to be waived, the waiver should only apply to low-income customers.

AB 1058. This bill would permanently apply a waiver of transaction fees for water utility customer payments involving the use of credit, debit, and prepaid cards across all customers. This bill would delete the provisions of the pilot program and instead allow water utilities, exclusively of those regulated by the CPUC, to recover from customers the transaction costs of these payment options, except low-income customers who participate in the CAP program would be exempted.

Impact on ratepayers. By allowing water corporations to forgo the individual transaction fee in lieu of recovering the reasonable expenses in the general rate case, ratepayers may likely see an increase in rates to cover the costs. However, it's possible the increased costs would be fairly minimal and possibly consistent with costs associated with processing other payments. Debit and credit cards are now the most commonly utilized payment tools in the country. Payment utilization data from California American Water Company and Golden State Water Company between 2017 and 2020 also show that low-income customers utilize credit or debit cards as much as any other payment forms, after in-person payment. Therefore, any benefits associated with card payments would presumably apply to

all customers, including low-income customers. Meanwhile, transaction costs from all other payment tools are recovered in rates across all customers. Additionally, the COVID-19 pandemic has increased the use of electronic payments, including the use of card payments, to pay utility bills across all customers. Electronic payment options became a necessity during the COVID-19 pandemic when in-person options were unavailable. Card payment options became especially important as the Employment Development Department (EDD) of California paid unemployment through prepaid cards during the pandemic. Supporters of this bill state that exponentially more customers sought to pay their bills electronically during the pandemic, but became distressed over the additional fee required for electronic transactions. As a result, more water utilities seek to take part in the pilot to make bill payment cost-effective and easier for their customers, which will be critical as electronic payment practices will likely remain permanent.

What about protections for low-income customers of Class B, C, and D water utilities? Currently, CAP are operated by the Class A and one Class B and Class C water utility. By exempting CAP-eligible customers from the individual transaction fee, Class B, C, and D water utilities will need to identify these customers, or have these customers forgo this protection.

Prior/Related Legislation

AB 1180 (C. Garcia, Chapter 254, Statutes of 2016) allows, until January 1, 2022, water corporations with over 10,000 service connections to establish pilot programs through a general rate case application, once approved by the CPUC, that evaluate customer interest in utilization of credit cards, debit cards and prepaid cards without requiring an individual payment transaction fee and allow a water corporation to recover the reasonable expenses incurred in providing its customers with these bill payment options.

AB 746 (Blakeslee, Chapter 746, Statutes of 2005) permitted an electrical, gas or water corporation to charge a reasonable transaction fee when customers pay their utility bills by credit card and debit card and exempts these fees from an existing exemption on retailers to impose a surcharge for using a credit card for payment.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

SUPPORT:

California Water Association, Sponsor

ARGUMENTS IN SUPPORT: According to the author:

Current law is impeding the payment of utility bills by electronic payment, at a time when more consumers are utilizing electronic payments as their primary method of paying recurring bills. Paying recurring bills online by electronic payment has become a matter of convenience for customers throughout California, especially during the COVID-19 pandemic.

We also recognized that in some cases, before the pandemic, consumers become confused, disgruntled, and discouraged from paying their bill by electronic payment when they are required to pay an additional fee to complete a transaction.

To avoid consumers being discouraged from paying by electronic payment and to make it more convenient to pay by electronic payment, AB 1058 authorizes a water corporation with more than 10,000 service connections to recover in rates the transaction costs relating to all payment options, including credit cards, debit cards and prepaid cards, and prohibits such a water corporation from recovering such transaction costs from customers participating in a water rate relief program for low-income ratepayers authorized by the California Public Utilities Commission (CPUC).

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