

Date of Hearing: April 7, 2021

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY  
Chris Holden, Chair  
AB 1058 (Cristina Garcia) – As Introduced February 18, 2021

**SUBJECT:** Water corporations: bill payment pilot program

**SUMMARY:** Extends an existing pilot program overseen by the California Public Utilities Commission (CPUC) to assess water customer interest and use of bill payment options, including credit card, debit card, and prepaid card. Specifically, **this bill:**

- 1) Extends the program termination date from January 1, 2022 to January 1, 2027.
- 2) Extends the CPUC's report to the legislature on the program's impact on low-income customers to July 1, 2025.

**EXISTING LAW:**

- 1) Authorizes an electrical, gas or water corporation to offer credit or debit card bill payment options and recover reasonable transaction costs only from those customers that choose to pay by those payment options. (Public Utilities Code § 755)
- 2) Requires the CPUC to determine through existing regulatory mechanisms the reasonableness of transaction costs charged to customers that choose to pay an electrical, gas, or water corporation by a credit or debit card bill payment option. (Public Utilities Code § 755)
- 3) Requires the CPUC to determine how any associated costs or potential savings as a result of customers paying by credit or debit card payment option shall be passed on to electrical, gas, or water corporation customers.
  - a. The transaction costs that are passed on to customers shall be offset by any savings in transaction costs an electrical, gas, or water corporation derives as a result of those customers paying by credit card and debit card.
  - b. If the CPUC determines that credit or debit card use results in no net cost to the electrical, gas, or water corporation, there shall be no individual customer transaction fee.
  - c. Any net savings resulting from credit or debit card use shall be passed on to electrical, gas, or water corporation customers. (Public Utilities Code § 755)
- 4) Authorizes a water corporation with more than 10,000 service connections to operate a pilot program in order to evaluate customer utilization of card payment options and assess the cost-effectiveness of allowing greater access to those payment options, until January 1, 2022. In doing so, the law:
  - a. Removes the requirement that water corporations impose a transaction fee on their customers;

- b. Prohibits the water corporation from recovering costs from California Alternate Rates for Energy (CARE) program customers; and
  - c. Ensures that accepting bill payment options neither increases or decreases the rate of return of the water corporation. (Public Utilities Code § 755.5)
- 5) Requires the CPUC, in consultation with the Low-Income Oversight Board, to submit a report to the Legislature on the pilot program's impact on low-income customers, including changes in payment preference, use of credit cards to avoid disconnection, debt burden as a result of credit card usage for water bills, and cost-effectiveness of bill payment options. (Public Utilities Code § 915)
- 6) Requires the CPUC to oversee and implement the CARE program, which provides assistance to low-income gas and electric utility customers with annual household incomes less than 200% of the federal poverty guideline levels. (Public Utilities Code § 739.1)
- 7) Allows the CPUC to consider and implement programs to provide water rate relief for low-income ratepayers. (Public Utilities Code § 739.8)

**FISCAL EFFECT:** This bill is keyed fiscal and will be referred to the Appropriations Committee for its review of the fiscal effect of this bill.

**BACKGROUND:**

*CPUC's Regulation of Water Utilities* – The CPUC's Water Division regulates over 100 investor-owned water and sewer utilities providing water service to about 16 percent of California's residents. Approximately 95 percent of that total is served by 9 large water utilities each serving more than 10,000 connections. The CPUC regulates all aspects of the investor-owned utilities' service provision, including assessing their rates to ensure they are reasonable, while providing a reasonable rate of return to continue to provide customers' service and satisfy shareholders.

*CPUC Regulation of Transaction Costs* – Retail and service establishments generally recover the transaction costs from card payment options by increasing the prices of goods or services or using company revenue. Because investor-owned utilities (IOUs) must get approval from the CPUC before recovering costs in rates, they are prohibited from using the various cost-recovery methods available to unregulated retailers and service providers. Currently, IOUs may recover credit and debit card transaction costs only from customers that choose to pay by those options. According to the CPUC, in the case of water corporations, the transaction fee for card payments generally ranges between \$1 and \$3. For all other payment options, like mail-in checks or in-person payment, transaction costs are socialized across ratepayers.

*Popularity of Debit and Credit Card Usage* – Debit and credit card usage have steadily increased in recent years. According to the Federal Reserve System, the debit card has become the most frequent (30%) payment instrument as of 2019.<sup>1</sup> Though cash remains the second-most used

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<sup>1</sup> 2020 *Findings from the Diary of Consumer Payment Choice*. Cash Product Office, Federal Reserve System. This report does not include data from the COVID-19 pandemic.

payment form (26%), credit card usage is nearly as common (24%). Altogether, debit, credit, and electronic payments that include payment services like PayPal or online banking bill pay account for approximately 65% of payment instrument usage. This use of electronic payment has increased significantly over the last decade. In 2012, the Federal Reserve System reported only 24% for debit and 17% of debit card use.<sup>2</sup>

*Credit Card Pilot Program* – The credit card pilot program for water utilities was established by AB 1180 (Garcia, 2016) to address potential benefits and cost-effectiveness of socializing card transactions across all ratepayers. The pilot required participating water utilities to: (1) waive the transaction fee for customers paying by credit card, debit card, and prepaid card; (2) recover the costs of operating the pilot program from customers other than low-income customers; (3) notify customers of the temporary nature of the pilot program; and (4) collect information on the various forms of payment, including, but not limited to, costs, customer utilization, and customer expectations and satisfaction. AB 1180 also required the CPUC to report on the program’s impact on low-income customers, including potential increases in household debt burden due to card usage for utility bills.

The three participating water utilities, California American Water Company (“Cal Am”), Golden State Water Company (“Golden State”), and Great Oaks Water Company (“Great Oaks”) waived transaction fees between January and July of 2019. The CPUC released their report<sup>3</sup> on the pilot’s impact on low-income customers in January 2021 and omitted data collected during the months impacted by the COVID-19 pandemic. 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 provided data.

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. Historically it has been understood that only middle or upper income customers utilize card payments for their water bills. However, data collected from low-income customers show that while in-person payment is the most popular form of payment, low-income customers used credit and debit cards about as frequently as other payment forms like mail or ACH transactions (Table 1).

As shown in Table 1, every form of payment option bears a transaction cost. However, only debit and credit card costs are borne solely by customers directly choosing those options.

Table 1. Customer payment utilization (% low-income customers)<sup>4</sup>

	Month/Year	Card	Mail	In-Person	ACH	Electronic Check	Other Online Payment	% Total Low-Income Customers
Cal Am	May-17 to April-18	15%	14%	29%	5%	6%	-	10%

<sup>2</sup> *The 2012 Diary of Consumer Payment Choice*, Consumer Payments Research Center, Federal Reserve Bank of Boston.

<sup>3</sup> *Report to the Legislature on Credit Card Pilot Program*, January 2021, CPUC.

<sup>4</sup> Socialization cost data from *Report to the Legislature on Credit Card Pilot Program*, Tables 6 and 8. Data on low-income percentages were shared with the committee from a CPUC data request.

	May-18 to April-19	13%	14%	36%	6%	5%	-	10%
	May-19 to Feb-20	12%	13%	32%	6%	6%	-	9%
Costs Associated with Payments	-	\$1.50	\$0.17	\$5.17	\$0.04	\$0.46	-	-
Golden State	Jan-17 to Dec-17	9%	11%	20%	7%	9%	10%	11%
	Jan-18 to Dec-18	8%	12%	22%	8%	9%	10%	12%
	Jan-19 to Dec-19	8%	12%	23%	10%	9%	12%	12%
Costs Associated with Payments	-	\$1.45	\$0.29	\$5.26	\$0.15	\$0.15	\$0.025	-

**COMMENTS:**

- 1) *Author’s statement.* “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.

AB 1058 is an extension of an existing pilot program established to gather information about consumer habits. Given the pandemic and rapidly changing behavior of consumers, this extension will allow utility companies and the California Public Utilities Commission to continue collecting data to better reflect our current and future reality since it is not clear how the pandemic is permanently changing consumer behavior.

Data collected will also allow us to better understand the use of electronic payments across demographics, and evaluate whether or not it is a good idea to spread out the cost of these transaction fees, much like how other forms of payment, such as writing a check, are spread across the entire customer base and recovered through rates.”

- 2) *Is the pilot program still necessary?* The report on the pilot’s impacts on low-income customers was intended to determine whether socializing the transaction costs of card usage across all ratepayers would disproportionately or negatively impact low-income customers. In doing so, the report also addresses the assumption that only the wealthy would utilize credit or debit cards to pay their water bills. This assumption could have been valid in 2005 when transaction fees were first established by AB 746 (Blakeslee, 2005). However, as outlined above, debit and credit cards are now the most commonly utilized payment tools in the country. Payment utilization data from Cal Am and Golden State 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.

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 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.

Instead of extending the pilot program, it may better serve ratepayer interests to align card fees with all other forms of payment and waive the direct transaction fee for card payments altogether. *As such, the committee may wish to consider amendments that allow utilities to recover in rates the transaction costs relating to all payment options, including credit, debit, and prepaid cards.*

- 3) *Should costs be recovered in rates from low-income customers?* The exact benefits afforded to low-income customers by waiving the transaction fee are not yet quantified. If fully socialized across all customers, the cost of debit and credit card payment would be approximately \$0.20 per household.<sup>5</sup> Without more robust data, it is difficult to determine the extent to which savings associated with card usage might outweigh potential rate increases as a result of socialized cost recovery by utilities. *The committee may also wish to consider amendments that restrict utilities from recovering costs associated with card transactions from low-income customer rates.*

4) *Prior Legislation.*

AB 746 (Blakeslee) 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. Status: Chapter 746, Statutes of 2005.

AB 1180 (Garcia) allowed, until January 1, 2022, specified water corporations to establish pilot programs through a general rate case application 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. Status: Chapter 254, Statutes of 2016.

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<sup>5</sup> Data shared with committee from a CPUC data request.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

California American Water  
California Water Association  
California Water Service  
Great Oaks Water Company

**Opposition**

None on file.

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