

Application of SAN DIEGO GAS & ELECTRIC  
COMPANY (U 902 E) For Authority To  
Update Marginal Costs, Cost Allocation,  
And Electric Rate Design.

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Application 11-10-002  
Exhibit No.: (SDG&E-109)

**REVISED PREPARED DIRECT TESTIMONY OF**  
**DAVID W. CHENG**  
**CHAPTER 9**  
**ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

**BEFORE THE PUBLIC UTILITIES COMMISSION**  
**OF THE STATE OF CALIFORNIA**

**FEBRUARY 2012**



## TABLE OF CONTENTS

I.	OVERVIEW AND PURPOSE.....	1
II.	BACKGROUND FOR THE PREPAY PROGRAM.....	1
III.	BENEFITS FOR THE CUSTOMER.....	2
	A.    Deposits .....	2
	B.    Bad Debt .....	2
	C.    Flexibility.....	3
	D.    Potential for Energy Savings .....	3
IV.	CUSTOMER ELIGIBILITY .....	3
V.	PROGRAM POLICIES .....	4
	A.    75/25 Bad Debt Feature .....	4
	B.    Account Management and Notifications .....	4
	C.    Disconnection Policy .....	5
	D.    Reconnection Policy .....	5
	E.    Reduced Fees .....	6
	F.    Adoption Rate Limits.....	6
VI.	SUMMARY AND CONCLUSION .....	6
VI.	STATEMENT OF QUALIFICATIONS .....	7



1 in a voluntary prepay option offered by their utility that was free of charge with no additional  
2 fees.<sup>1</sup>

3 Furthermore, other electric utilities that have adopted prepay programs have reported  
4 high levels of customer satisfaction. Arizona's Salt River Project (SRP) reported that 84% of the  
5 participating customers were either very satisfied or satisfied with the prepay option. North  
6 Carolina's Brunswick Electric Membership Corporation (BEMC) reported that 83% of  
7 participating customers were either completely satisfied or very satisfied with the prepay option.  
8 Oklahoma Electric Cooperative (OEC) reported that 85% of participating customers were either  
9 very satisfied or satisfied with their prepay program.<sup>2</sup> In addition, utilities have also reported a  
10 significant savings in energy consumption for customers after switching to a prepaid solution.  
11 SRP reported a 12.8% reduction in energy consumption after customers switched from  
12 traditional post-pay billing to a prepay program,<sup>3</sup> and OEC reported a 13% consumption  
13 reduction after customers switched to prepay.<sup>4</sup>

14 As a result of these positive findings, SDG&E is now proposing a voluntary prepay  
15 program for customers who would like to use the service. SDG&E's Prepay Program will be  
16 strictly optional.

### 17 **III. BENEFITS FOR THE CUSTOMER**

18 Below is an overview of benefits for customers under the Prepay Program:

#### 19 **A. Deposits**

20 Prepay customers will not be required to provide a deposit when establishing  
21 service. SDG&E's current residential deposit requirement is two times a customer's  
22 average monthly bill.

#### 23 **B. Bad Debt**

24 SDG&E's current credit policy requires customers with prior bad debt to pay off  
25 the bad debt prior to establishing service. But customers who elect the Prepay Program  
26 and have a prior bad debt will not be required to pay off the entire bad debt prior to

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<sup>1</sup> Wimberly, Jamie, "Is Prepay the Way? Consumer Perceptions of Prepay in the Utility Sector," EcoPinion Issue 9 (Jan. 2011).

<sup>2</sup> R.W. Beck, Inc., "Prepaid Electric Service," (March 2009).

<sup>3</sup> King, Jennie, "M-Power: A Better Way to Keep Customers in Power," *Metering, AMR, and Data Management*, Ene rgy Central (Jan. 18, 2007).

<sup>4</sup> Chartwell, Jonna Buck, Oklahoma Electric Cooperative, "Prepaid Experience," Webinar, July 2008.

1 establishing service. The Prepay Program allows customers with a prior bad debt to  
2 establish service immediately by using the 75/25 Bad Debt Feature (see section V.A for  
3 more details).

#### 4 **C. Flexibility**

5 Prepay customers will be able to choose when to make a payment and how much  
6 to pay based on their specific needs. Customers will be able to pay using one of several  
7 options – online by linking a bank account using MyAccount, online by credit/debit card  
8 using BillMatrix, by phone using the Interactive Voice Response (IVR), or by cash/check  
9 at a branch office or Authorized Payment Location.

#### 10 **D. Potential for Energy Savings**

11 Prepay customers generally consume less energy and have lower monthly bills,  
12 according to studies by other utilities. Salt River Project (SRP) reported a 12.8%  
13 reduction in energy consumption after customers switched from traditional post-pay  
14 billing to prepay.<sup>5</sup> Similarly, Oklahoma Electric Cooperative (OEC) reported a 13%  
15 reduction after customers switched to prepay.<sup>6</sup>

### 16 **IV. CUSTOMER ELIGIBILITY**

17 All residential customers are eligible for the Prepay Program with the exception of  
18 customers who are particularly vulnerable to the health and safety risks associated with the loss  
19 of utility service,<sup>7</sup> i.e. self-identified seniors (age 62 or older), self-identified disabled customers,  
20 Medical Baseline customers, Life Support customers or other customers who self-certify that  
21 they have a serious illness or condition that could become life threatening if service is  
22 disconnected. Existing customers who wish to switch to the Prepay Program must have a current  
23 balance (no arrears). New SDG&E customers would be eligible for the Prepay Program  
24 regardless of whether or not they have a prior bad debt.

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<sup>5</sup> King, Jennie, “M-Power: A Better Way to Keep Customers in Power,” *Metering, AMR, and Data Management*, Energy Central (Jan. 18, 2007).

<sup>6</sup> Chartwell, Jonna Buck, Oklahoma Electric Cooperative, “Prepaid Experience,” Webinar (July 2008).

<sup>7</sup> As defined in the Disconnection Settlement Agreement adopted in D.10-12-051.

1 **V. PROGRAM POLICIES**

2 **A. 75/25 Bad Debt Feature**

3 SDG&E's current credit policy requires customers with a prior bad debt to pay off  
4 the entire bad debt prior to establishing service. Customers with a prior bad debt who  
5 elect the Prepay Program will be able to establish service without first paying off the bad  
6 debt if they agree to the 75/25 Bad Debt Feature. The 75/25 Bad Debt Feature provides  
7 customers the ability to slowly pay off their bad debt over time and improve their credit  
8 profiles, while still being able to receive utility service. Once the customer elects to  
9 participate in the feature, 75% of future payments will be applied to the customer's new  
10 Prepay account, and 25% of the payments will be applied to prior bad debt until it is paid  
11 off. For example, if a customer makes a \$20 payment, \$15 will be credited toward the  
12 Prepay account, and \$5 will be applied toward the bad debt. Once the bad debt has been  
13 paid off, the feature will be deactivated.

14 **B. Account Management and Notifications**

15 Prepay account balances will be updated daily. Customers will be able to view  
16 their daily balance by logging into their account online using MyAccount, or by dialing  
17 into the IVR. Customers will also be able to customize the channel on which they wish  
18 to receive notifications of account balances. The options include text message, email,  
19 and automated phone call. Customers will be able to set different amount thresholds for  
20 notification. For example, the customer could choose to be notified via text message  
21 when the balance reaches \$20. A customer will also receive notification when his or her  
22 account balance reaches zero or below.

23 Prepay customers will be able to make payments using one of several options: 1)  
24 online by linking a bank account and making payments from the bank account using  
25 MyAccount, 2) online by using a credit or debit card via SDGE's payment processing  
26 vendor BillMatrix,<sup>8</sup> 3) by phone using the automated IVR system, or 4) by cash or check  
27 at one of SDG&E's branch offices or Authorized Payment Locations.

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<sup>8</sup> BillMatrix charges a \$1.50 fee for each payment.

1           **C.     Disconnection Policy**

2           If a customer's Prepay account balance drops below zero, the customer will be  
3           disconnected, if at least one of the following conditions are met: 1) the customer's  
4           balance has been below zero for four consecutive days; or 2) the customer's balance is at  
5           or below -\$20.00. If at least one of the above conditions is met, a remote disconnection  
6           will be scheduled for the next business day during normal business hours. While  
7           customers will have the option to make payments afterhours by using MyAccount or  
8           BillMatrix, disconnections will only be scheduled during normal business hours. Prepay  
9           customers will not receive a field visit prior to the remote disconnection. No  
10          disconnections shall occur if the National Weather Service forecasts, for the customer's  
11          climate zone, a temperature at or below 32 degrees Fahrenheit or at or above 100 degrees  
12          Fahrenheit within a 24-hour period beginning at 8 a.m.<sup>9</sup>

13          SDG&E acknowledges that the four-day period for disconnection is much shorter  
14          than the disconnection period for traditional post-pay customers, but the shorter  
15          disconnection period is a necessary trade-off for not requiring a two-month deposit from  
16          Prepay customers. This trade-off will be communicated to customers who wish to  
17          participate in the Prepay program. The Prepay Program is designed to provide an  
18          additional option to any customer who finds the program valuable in light of their own  
19          personal circumstances.

20          **D.     Reconnection Policy**

21          If a Prepay customer has been disconnected for non-payment, the customer will  
22          need to bring the balance to \$10.00 or above in order to be reconnected. If the Prepay  
23          customer has a previous bad debt and is participating in the 75/25 Bad Debt Feature, the  
24          customer will also need to bring the Prepay balance to \$10.00 or above in order to be  
25          reconnected. For participants of the 75/25 Bad Debt feature, this would require a  
26          payment greater than the amount currently owed on the Prepay account. For example, if  
27          a customer with prior bad debt has been disconnected and has a Prepay balance of  
28          -\$20.00, the customer would need to make a payment of \$40 in order to be reconnected,  
29          since 25% of the payment (\$10.00) will be applied to the prior bad debt, and 75% of the

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<sup>9</sup> This provision is consistent with Section II.D.1 of the Disconnection OIR Settlement Agreement adopted in D.10-12-051.

1 payment (\$30.00) will be applied to the Prepay account, bringing the Prepay balance to  
2 \$10.00. Once the customer makes a payment that brings the Prepay balance to \$10.00 or  
3 above, the customer will be remotely reconnected, usually within three hours.

4 **E. Reduced Fees**

5 The Prepay program is designed to minimize fees and thus is potentially more  
6 affordable than the traditional post-pay billing option. In addition to receiving the same  
7 pricing as traditional post-pay customers, Prepay customers will not be charged  
8 disconnection or reconnection fees. Furthermore, since Prepay customers will not  
9 receive a live field visit when their Prepay balance meets the disconnection criteria, they  
10 will also not be subject to a field visit fee.

11 **F. Adoption Rate Limits**

12 For the initial period of three years of Prepay Program availability ending  
13 December 31, 2016, SDG&E will limit Prepay participation to no more than 1% of the  
14 total residential customers per year. Thus, the maximum adoption rate will be set at 1%  
15 for 2014, 2% for 2015, and 3% for 2016. SDG&E will conduct a comprehensive study of  
16 the program as part of the next GRC Phase 2 proceeding. If the program is well received  
17 by customers, SDG&E will propose in its next GRC Phase 2 proceeding to remove the  
18 adoption rate limit, effective January 1, 2017.

19 **VI. SUMMARY AND CONCLUSION**

20 SDG&E is requesting approval of its proposed Prepay Program, a voluntary payment  
21 option for customers, beginning January 1, 2014. This testimony has described customer  
22 benefits and details of the Prepay Program, including eligibility, the 75/25 Bad Debt Feature,  
23 account management, disconnection and reconnection policy, fees, and adoption rate limits.

24 This concludes my revised prepared direct testimony.

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1 **VII. STATEMENT OF QUALIFICATIONS**

2 My name is David Cheng. I am employed by San Diego Gas & Electric (“SDG&E”) as  
3 the Team Lead of Customer Operations. My business address is 8306 Century Park Court, San  
4 Diego, California 92123-1530. I am responsible for analysis and reporting for Credit and  
5 Collections for SDG&E’s customers. I assumed my current position in January 2011. Prior to  
6 moving into this role, I was a Sr. Business Advisor in the Credit and Collections department. I  
7 received a Bachelor of Science degree in Computer Science from University of California Irvine  
8 in 2001 and a Masters of Business Administration degree from Yale University in 2003. I joined  
9 the Company in 2003 as a Business Advisor in Credit and Collections. In 2004 I joined HSBC  
10 as a Sr. Pricing Analyst in the Pricing department. Later that year I joined Visa USA as a  
11 Strategic Sourcing Specialist and was promoted to Director of Strategic Sourcing. In 2009 I re-  
12 joined SDG&E as a Sr. Business Advisor in the Credit and Collections department.