STATE OF NEW YORK PUBLIC SERVICE COMMISSION

Case 17-E-0238 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric Service

Case 17-G-0239 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Gas Service

Report of Niagara Mohawk Power Corporation d/b/a National Grid Concerning Credit/Debit Card Transaction Fees

Introduction

Niagara Mohawk Power Corporation d/b/a National Grid ("NMPC" or the "Company") submits this report pursuant to Section 13.5.2 of the Joint Proposal adopted by the New York Public Service Commission ("Commission") in its *Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans* (issued and effective March 15, 2018) in Cases 17-E-0238 and 17-G-0239 (the "Order"). Section 13.5.2 states:

> Niagara Mohawk will review options to attempt to lower the transaction fee customers are charged for using their credit or debit cards to pay their utility bill. Within 90 days of the Effective Date, the Company will file a report with the Secretary that includes an estimate of the costs to socialize the transaction fee, along with a proposal for cost recovery should the Commission determine that the transaction fee should be socialized. There is no presumption that such transaction fees should or should not be socialized, and parties may take any position concerning any proposal filed by the Company.

Accordingly, the report provides an overview of the Company's current credit card/debit card payment services and the associated fees, the Company's ongoing efforts to improve its payment service options and to lower fees, an estimate of the costs to socialize the transaction fee, and a proposal for the recovery of such costs should the Commission determine that the fees should be socialized among all customers.

Overview of Current Credit Card/Debit Card Payment Services

Currently, NMPC utilizes Speedpay, a payment service provided by third-party vendor Western Union, for all customers who pay their bills via credit/debit card. Customers can pay their bills via credit/debit card in several ways. First, the customer can pay online on the Company's website or through the Company's mobile app, both of which direct the customer to Western Union's Speedpay website. Second, customers enrolled in electronic billing receive an email with a link to the same Speedpay website. Finally, customers can pay by phone, using either the Company's automated telephone system (IVR) or with the assistance of a Company representative.

The use of a third-party vendor for credit card/debit card payment processing allows NMPC to minimize the overall cost of such transactions by avoiding costs that the Company would otherwise incur if it worked directly with financial services institutions such as Visa and MasterCard. Such costs include Payment Card Industry Data Security Standard (PCI DSS) compliance and managing other data-related security risks. Also, without a third-party payment processing vendor, the Company would need to build and maintain the necessary platform to process credit/debit card transactions, further adding to the overall cost of the service.

Current Convenience Fee Structure

The cost of each credit/debit card transaction is borne by the customer utilizing the payment service. The fees cover various costs including:

- Cost of using the Western Union Speedpay Service
- ATM card processing fees (STAR, NYCE, PULSE and ACCEL)
- Merchant processing fees (Visa, MasterCard, Discover, American Express)

- Originating Depository Financial Institution (ODFI) fees
- Telephone toll charges
- Application hosting
- 24x7x365 technical support

Residential customers who make a credit or debit card payment using Western Union Speedpay incur a transaction fee of $2.25 for payment amounts up to $600.00, and a fee of $4.50 for payment amounts greater than $600.00, up to $1200.00. Non-residential customers utilizing Western Union Speedpay incur a transaction fee of $6.95 for payment amounts up to $1000.00, with increasing fees for payment amounts greater than $1000.00, up to $20,000.00.

Historic Costs

As mentioned above, currently, each customer who elects to pay via credit/debit card pays the convenience fee associated with the payment. Below are the total number of bill payments made using credit/debit cards and the total amount paid in fees for such payments for the last five calendar years.

	Total Number of Credit/Debit Card Payments	**Total Amount in Transaction Fees**
CY 2013	747,728	$1,775,927
CY 2014	757,476	$1,799,056
CY 2015	816,232	$1,938,605
CY 2016	860,728	$2,044,286
CY 2017	957,070	$2,273,105

Efforts to Reduce Transaction Fees

In the fall of 2017, NMPC began working on a Request for Information (RFI) for credit/debit card services to ensure the services provided by the current vendor (Western Union) best serves the Company's future customer needs and that the Company provides its customers the best quality service in the most efficient and cost effective way possible. RFIs were issued to 24 vendors that offer card services, including Western Union, and requested the below information:

- Company overview
- Company financials
- Environmental policy and accreditations
- Data protection policies
- References
- Compliance around contractual matters/conflicts of interest
- Operational capacity
- Provided services
- Research tools/reporting
- Fee structures

The Company has been working on evaluating the RFI responses and developing a strategy to issue a Request for Proposal (RFP) to a selected group from the original 24 vendors by the end of this summer. The RFP will seek more in-depth information on technical/architectural capabilities, case studies, and pricing. At the same time, NMPC will provide the vendors more information to help them understand the Company's system and business capabilities to ensure that they provide quality information. This process will allow the Company to potentially reach new agreements and better pricing to gain the best quality service and cost to its customers.

Forecast Costs

Based on historical data, the Company expects the number of credit/debit card payments to continue to increase annually, regardless of whether the transaction fees are socialized among all customers. However, if the Company were to offer no-fee credit/debit card payment services to customers, the number of customer bills paid via credit/debit card will likely increase dramatically. In recent years, an increasing number of customers have been paying their bills via credit/debit card transactions. In 2012, approximately 3.5 percent of all payments were made using credit/debit cards. In 2016, that percentage rose to 4.7 percent. Based on NMPC's historical experience and discussions with other utilities, the Company expects the number of credit/debit card payments to increase as much as 50 to 60 percent from CY 2017 levels if a no-fee option were provided to customers. Consequently, the Company projects an approximate total of $3.5 million in transaction fees in a given year if the Company began offering no-fee credit/debit card payment services.

Proposed Recovery of Socialized Fees

The costs of debit/credit card transaction fees are currently not included in the Company's base rates. As rates were recently reset on April 1, 2018, the Company is concerned about adding further pressure on customer bills by attempting to include a rate recovery mechanism to socialize these costs at this time. Therefore, the Company proposes that, in its next base rate filing, it will evaluate credit/debit card transaction fees and include a proposal. This approach has several benefits. First, the Company will have more certainty surrounding the level of costs in light of the upcoming RFPs. In addition, by proposing to evaluate as part of the next rate filing, the Company will have an opportunity through its outreach efforts to hear from stakeholders and evaluate their concerns. Parties will then be provided the opportunity to review the costs and evaluate the proposals in light of the overall rate impact to customers. The Company believes this approach appropriately considers the concerns of all parties and will allow time for the Company to continue its RFP efforts to attempt to lower transaction fee costs to customers. Nevertheless, if the Commission desires that the credit/debit card payment fees be socialized prior to the Company's next rate case, the appropriate recovery mechanism would be a fully reconcilable surcharge.

Conclusion

In accordance with the requirements of the Order, the Company developed the above forecast for the number of credit card transactions and projected annual cost to provide no-fee credit/debit card payment services. However, the Company believes that the currently ongoing efforts to secure more refined estimates of costs via RFPs issued to a select group of vendors could yield more detailed and current estimates of projected transaction fees. Given the Company's ongoing efforts to develop more refined estimates, the Company intends to provide an update to this report once RFPs are issued and the Company has had an opportunity to analyze the options further.