

MINUTES OF THE SENATE UTILITIES

The meeting was called to order by Chairman Pat Apple at 1:30 p.m. on January 20, 2009 in Room 446-N of the Capitol.

All members were present except:
Senator Bruce - excused

Committee staff present:
Ann McMorris, Administrative Assistant
Raney Gilliland, Kansas Legislative Research
Cindy Lash, Kansas Legislative Research
Mike Corrigan, Kansas Legislative Revisor
Melissa Doeblin, Kansas Legislative Revisor

Conferees appearing before the committee:
Tom Wright, Chairman, Kansas Corporation Commission
Marge Petty, KCC

Others attending:
See attached list.

Chairperson Apple called the meeting to order.

Overview of the Kansas Corporation Commission

KCC Chairman Tom Wright reviewed KCC responsibilities of ensuring that natural gas and electricity utilities provide safe, adequate and reliable services at reasonable rates. He mentioned the current issues KCC is dealing with and the proposed legislation for the 2009 session. (Attachment 1)

Third Party Pay Stations

Marge Petty of KCC, reported on the charge in **SR 1832** passed by the 2008 Legislature which urged KCC to examine third party pay stations for utility payments and provide a written report to the 2009 Legislature. The report contains the KCC recommendations, history of pay station locations in Kansas, research of KCC dockets, activity by other states and conclusions. (Attachment 2)

The meeting adjourned at 2:00 p.m.

Respectfully submitted,

Ann McMorris
Committee Assistant

Attachments - 2

GUEST LIST
SENATE UTILITIES COMMITTEE
JANUARY 20, 2009

NAME

COMPANY

Maui Harvest	CEP
- Sandy Braden	Gaches, Braden
- Scott Jones	KCP
LOW STANTON	NORTHERN NATURAL GAS
- Tom Day	KCC
- Mark Schreiber	Westar
- Mick Urban	Kansas Gas Service
Nelson Kraeger	Alltel
- DAN JACOBSEN	AT&T
Mari Tucker	Commerce
- Joe Duck	KCBPU
- Shirley Allen	KRITA
- Marge Petty	KCC
- Dorothy Myrick	KCC
- Kimberly Schaefer Svaty	GSPA
Whitty Janna	FSM Service
Dan Holman	
Clay Austin	SEPC

Kansas Corporation Commission

Thank you for the opportunity to appear before you today. My name is Tom Wright. I serve as Chairman of the Kansas Corporation Commission along with Commission members Mike Moffet and Joe Harkins. As you start your legislative year we would like to give you an overview of our agency.

The KCC regulates to a greater or lesser degree five Kansas industries. The Commission has the responsibility of ensuring that natural gas and electricity utilities provide safe, adequate and reliable services at reasonable rates. Our oversight over Telephone and Transportation doesn't include determination of economic rates in general. The Commission also has the mandate of assuring that oil and gas producers protect correlative rights of various parties along with the protection of environmental resources. In serving the public, the Commission must balance the interests of consumers, regulated entities, and others treating all with respect and dignity.

We have five divisions within the Kansas Corporation Commission.

- Utilities
- Energy Programs
- Conservation
- Transportation
- Administration

FY 2009 Revised Budget Request:

- Totally fee funded agency – also receives federal funding
- The KCC is funded by assessments on utilities, oil and gas, and the motor carrier industry totaling \$17 million.
- \$447,840 – Supplemental Request for 2010 Project – two year project
- 220.5 FTE and 12 Temporary Special Project Positions (limited term)

Current Issues: To mention a few issues we are dealing with:

- The Commission continues to actively participate in the Regional State Committee of the Southwest Power Pool (SPP) and has been working with KETA and with companies regarding the building of new transmission lines.

- Energy Efficiency Order provides a comprehensive energy efficiency framework. In general, costs will be recovered through a bill rider mechanism which should provide rapid and assured recovery of program costs.
- The Commission has held and will continue to hold roundtable discussions regarding nuclear power issues facing Kansas.
- The Commission has promulgated rules and regulations for Carbon Dioxide Storage (CO₂ Sequestration).
- The Commission continues to partner with the Farm Bureau for educating farmers on vehicle safety.
- Many issues are occurring regarding wind, renewable energy, conservation, solar, and education continues related to these issues.
- 2010 Business Process Innovation and Improvement (BPI²) technology project. The project incorporates a Case Management, Document Management, Work Flow Management and eFiling Systems. This project was approved by the KITO and the JCIT.

Proposed 2009 Legislation:

- The Commission is proposing legislation to correct a technical definition on One Call tolerance zones.
- The Commission is proposing legislation to revoke the tools of trade exemption, to increase vehicle safety to utility companies and contractors, which fall in this weight limit.
- The Commission is proposing legislation to require the tagging of oil, gas, and saltwater disposal wells.

Our priorities are to (1) work with utilities to increase energy efficiency (2) Make sure we have sufficient transmission facilities to allow the development of wind energy and (3) Reduce the number of unplugged abandoned wells and prevent the creation of more. Thank you for listening. If you have questions I will be happy to answer them to the extent that I can.

**A Report to the 2009 Legislature Concerning the
Pay Stations for Utility Payments in the State of Kansas**

Senate Utilities Committee
January 20, 2009
Attachment 2-1

PAY STATIONS FOR UTILITY PAYMENTS

During the 2008 Legislative Session, the Senate passed SR1832 urging the Kansas Corporation Commission to examine third party pay stations for utility payments as to appropriateness of locations, the quality of service provided, and open a docket if appropriate. The resolution stated that the Legislature recognized the value of third-party pay stations to consumers who need to make last minute payments to prevent disconnection or to negotiate payment plans. Additionally, changes in utilities and technology should result in improvements in consumer services provided by third party pay stations for utility payments.

The Commission is requested to prepare a written report for the legislature on or before the first day of the 2009 regular session of the legislature containing recommendations to improve service of third party pay stations for utility payments.

Summary

In preparation for this report, KCC staff reviewed the background of SR1832, the history of pay stations in Kansas, internal dockets and the reporting for in-person payment methods and pay day loan locations. Staff researched data from the KCC complaint system and other states' review of pay stations and pay day lender locations. In addition, information was gathered regarding pay day loan businesses and the regulation of that industry.

Recommendations

- KCC has determined not to open a docket at this time. There is sufficient data being requested of utilities regarding numbers of pay stations in a quarterly report submitted to the KCC and complaint data will continue to be collected.
- KCC will continue to track numbers of pay stations located in payday loan offices. The data was requested for the 2008 utility 2nd quarter report, will be updated for the January report to the 2009 Legislature, and requested annually thereafter for four years.
- Complaints on pay stations will continue to be monitored. Complaints have focused primarily on too few pay stations or their locations. KCC receives a report on the numbers of pay stations on a quarterly basis.

- Utilities will continue to be encouraged to educate customers on unauthorized pay stations. Utilities are currently required to advise customers of the concerns in using unauthorized pay centers and refer customers to a list of authorized centers.
- While there were no complaints filed regarding the use of pay day loan offices as utility pay stations, there will be an addition to the complaint codes for 'pay day loan pay stations' so the tracking of this issue can be specific and on going.

Background of Senate Resolution 1832

Legislators received a letter from a The East Central Kansas Economic Opportunity Corporation (ECKAN), a community action group, requesting consideration of legislation restricting payment centers from being located in payday loan centers. The basis of the request was a June 2007 study prepared by the National Consumer Law Center¹. The study reviewed the relationship between the customer, the utility, and pay day lenders in addressing customers' requests for centers where utility bills can be paid in person and in cash. The conclusion and recommendation of the report was that regulators should prohibit utilities from using payday loan stores as authorized payment centers, utilities should discourage customers from paying bills where high-cost loans are marketed and transacted, providing them with a safe alternative and financial regulators should ensure that payday and high-cost lenders don't use bill payment services to market loans.²

The report describes that the demand for pay stations comes from what Jean Ann Fox of the Consumer Federation of America calls "a two-tiered system with consumers segregated by income and financial sophistication".³ People with lower than average incomes, education and wealth, as well as minorities, are less likely to have bank accounts than other Americans. Similarly, the communities where they live may have limited banking services.⁴ There is evidence that the demand for walk-in pay stations is strongest among low-income, minorities and female customers⁵. In a study by Pacific Gas and Electric, the company's in-person bill

¹ Jurgens, Rick, "Utilities and Payday Lenders: Convenient Payments, Killer Loans", National Consumer Law Center, Boston, MA, June, 2007, www.consumerlaw.org.

² Jurgens, Ibid. p.4.

³ Fox, Jean Ann and Woodall, Patrick, "Cashed Out: Consumers Pay Steep Premium to 'Bank' at Check Cashing Outlets", Consumer Federation of America, November 2006, p.2.

⁴ Vermilyea, Todd and Wilcox, James A., "Who is Unbanked and Why?", May 2002, paper presented to the Federal Reserve Bank of Chicago Conference on Bank Structure and Competition posted at www.chicagofed.org/news_and_conferences/conferences_and_events/files/2002_bank_structure_who_is_unbanked_and_why.pdf

⁵ Jurgens. Ibid, p.18

payers were described as “lower income and credit averse individuals who have no other means of payment than cash.” Their customers also cited convenience, comfort, a reluctance to pay for a stamp or a need for assurance that a payment is posted quickly in order to avoid shut off.⁶

Across the country, utilities, in order to reduce costs and provide cost efficient payment options, have closed company pay stations and service centers. In the alternative, utilities use third party vendors as authorized pay agents to meet customer demand for pay centers more economically. The third party pay centers don’t provide the range of service options as do centers staffed by the utility, but the vendor provides a convenient venue for bill payment. Many utilities also provide customers with electronic billing payment and credit cards, in addition to the standard mail option.⁷

According to the report, the use of payday lenders as a third party vendor for utility pay stations can provide convenience for the customer. Pay day lenders benefit by the potential for expanding their customer base. Pay day loan offices offer small loans without the complications associated with a bank loan. They also charge fees equivalent to annual interest rates in a range from 390 percent to 780 percent and sometimes higher.⁸ Such loans are possible in many states only because payday lenders have secured exemption from usury laws that would limit the annual charges on a \$100 loan to \$36, in contrast to accumulating nearly \$400 in interest and charges over a year in the alternative scenario.⁹

History of Pay Station Locations in Kansas

Historically, Kansas utilities have provided walk-in offices as part of their customer service. Pay stations were not a requirement of the Commission, but were a choice by the utilities as a way of doing business which was supported by the Commission. The Commission expectation and the importance of walk-in service matched the companies’ ethic. The operational costs to maintain the company offices and costs for other methods of bill payment were recovered in rates.

In the mid 1990’s, as operational costs increased, with labor and benefits being the most expensive, utilities reduced costs by closing company offices and outsourcing the bill remittance portions of customer service to third party vendors. Utilities either contracted directly with pay station agents or with a vendor who secured a network of agents, resulting in retail outlets and other service providers who would accept payment on behalf of the utility.¹⁰

⁶ PG&E 2007 General Rate Case Phase 1, PG&E Exhibit 5, workpapers p 6AB-20, filed with California Public Utilities Commission.

⁷ Jurgen, Ibid. p.5.

⁸ Jurgen, Ibid, p.6.

⁹ Jurgen, Ibid, p.6.

¹⁰ Myrick, Dorothy, et al, Memorandum, Docket No. 04-GMIX-651-GIV, July 1, 2004, p.6.

Southwestern Bell was the first utility to eliminate company walk-in services. That action was followed by Westar's proposal to the Commission to systematically close company walk-in services. Westar presented economic data showing the percentage of customers using walk-ins and the costs of providing the services. There was ongoing discussion between the KCC and the company, with the primary focus being customer options for timely payment in order to avoid disconnections.

The Commission agreed to allow Westar to close the walk-in offices, but advised that there needed to be third party businesses available geographically. Westar completed closure of company walk-in centers by 2001, consolidated phone service, and selected Dillon's grocery stores statewide as the third party vendor for pay centers. The discussion, prior to implementation, emphasized 'real time' payment options, times for data loading and transfer to the utility, instructions for crediting the payments, need to call in the confirmation number to avoid disconnection. A toll-free phone for customers to make the call was also required. Communications emphasized the third party would be considered the company agent and expected to comply with the Commission Billing Standards on posting payments and other requirements.

Other utilities began to follow Westar's example.

Third party agents moved into a new era. Dillon's stores made a box available with payment envelopes, posting a sign that said, "Do not deposit if you are due to be disconnected in 24 hours." Dillon's then did not renew their third party contract with Westar explaining that the contract amount did not cover the costs of providing services as the pay agent.

In recent years, the number of walk-in payment centers has been decreasing. As electronic bill payment alternatives become more available and easier to access, the number of customers using walk-in pay stations may decline... This downward spiral may lead to the closing of additional pay stations as they become more costly for the companies to keep open. Commission approval may be necessary before existing walk-in pay stations are closed.¹¹

Research of KCC Dockets

On January 29, 2004, Docket 04-GIMX-651-GIV was opened to investigate the Commission's authority to review payment of customer accounts by means of fee based transactions, including third party services for the collection of customer payments. In its final Order, the Commission adopted Minimum Standards for

¹¹ Myrick, Ibid. p.7.

Payment Methods for Utility Bills and Allowing the Acceptance of Credit Cards by Kansas Jurisdictional electric, Natural Gas, and Water Utilities.

One of the normally accepted payment methods is that the customer pays in person at a company business office or walk-in pay station with cash, check or money order. Six investor owned utilities (Aquila, Atmos, Empire, Kansas Gas Service, Kansas City Power & Light, and Westar Energy) in addition to municipalities and cooperatives responded to data requests for calendar year 2003. Of the 15.9 million bills paid, the second most accepted method of payment was person-to-person at company business offices and walk-in pay stations, comprising 10% of total bills paid. The mail-in option was chosen most often, with 72% of the total bills paid in that manner.¹²

The findings of the Commission in Docket 04-GIMX-651-GIV included the “value in the provision of walk-in payment stations as a way of permitting customers to pay in order to prevent the utility from shutting off service. The Order also included that customers should have the opportunity to avail themselves of this payment method without having to incur additional costs.”¹³

The Commission Order, dated March 17, 2006, in Docket No. 06-GIMX-679-GIV to monitor compliance with the previous docket and establish tariff filings and quarterly utility reports. All jurisdictional utilities provided a complete list of authorized locations for in-person payments as of December 31, 2005. They also provided locations closed during the first quarter of 2006 by April 15, 2006, with reports to be filed quarterly. Utilities are also required to:

- provide an annual notice to inform customers of authorized bill payment options.
- describe options for in-person payments available to the customer.
- advise customers where they can find a list of authorized payment centers.
- advise customers of the potential impact of using unauthorized payment sources.

notify the Commission upon closing company business offices and walk-in payment locations.

The distinction between authorized and unauthorized pay locations is very important. An authorized pay station is a third party authorized by the utility to act on behalf of the utility for the purpose of fulfilling their obligation. An authorized entity often displays the utility name and logo. When the customer pays at an authorized pay station, it is identical to paying the utility directly. The utility is accountable and responsible for the quality of service provided by the authorized pay station, whether a third party vendor or a direct pay agent. The Commission assumes the vendor or pay agent is acting as an agent of the utility and expects that

¹² Myrick, Ibid, p.12.

¹³ Order on Reconsideration, November 22, 2005, as corrected, Order Nunc ProTunc, November 28, 2005 Docket No. 04-GIMX-651-GIV, p. 23.

remittance practices are consistent with the Commission Billing Standards. The Commission has no jurisdiction over an unauthorized pay station. There are no controls as to locations or the standards with which unauthorized entities operate. Unauthorized pay stations exist in a variety of businesses and have been a source of fifty percent of the thirty complaints received by the Commission in the last four and one-half years since Pay Station complaints have been tracked.

In 1999, there was an incident of bundled utility payments delivered from a payday loan/bonding office to a major utility. The office was lending money for the utility payment and charging to make the payment. This office was not an authorized pay station and there was communication between the utility and KCC staff on jurisdiction. It was reinforced that a third party could not charge a transaction fee. The company made an internal decision that pay day loan/bonding offices/pawn shops would not be authorized pay stations. However, the lender was an unauthorized pay station. This incident highlighted the significant difference between a payment station authorized by the company and an unauthorized pay station. The existence of unauthorized pay stations continues to be an issue for the customer and the company.

Commission Order No. 04-GIMX-651-GIV, required the utility to provide Notice to “inform customers of authorized bill payment options and where customers can find a list of authorized pay centers.” It was also ordered by the Commission that ‘the utility shall advise customers of the potential impact of using unauthorized payment sources.’¹⁴

Reporting for In-person Payment Methods and Payday Loan Locations

For the first reporting period on December 31, 2005, there were a total of 234 company business offices and pay stations open in Kansas. Companies reporting on authorized walk-in pay locations included: Aquila Inc., Atmos Energy, Empire District Electric, Kansas Gas Service, Kansas City Power & Light, Midwest Energy, Southwestern Public Service and Westar Energy. The number of such pay stations has grown since 2005 but remains fairly constant in the last few years. By December of 2007, utilities reported 272 Kansas walk-in payment locations and company business offices for in-person payments. As of September 30, 2008, there were 288 Kansas pay locations. Pay stations opened as of the second and first quarters of 2008 were 285 and 293, respectively.¹⁵ There is a chart attached showing the distribution of these pay stations as of September 2008.

The number of payment locations may change significantly during the year due to a number of situations. Modified business relationships between third-party agents and businesses where payments are accepted often result in closing existing

¹⁴ 04-GIMX-651-GIV, Minimum Standards, J(4), J(9), p.3.

¹⁵ Myrick, Dorothy et al, Memorandum, Docket No. 06-GIMX-679-GIV, January 9, 2009

pay locations and opening up new ones. A utility may contract with a new third-party agent which may involve a complete turnover of pay locations. This situation occurred when Kansas Gas Service (KGS) changed from CheckFree to Fidelity Express in September 2008. Additionally, the transfer of utility customers from one utility to another may result in pay location changes. For example, Aquila Networks-WPK customers were acquired by MKEC.¹⁶

In response to the Senate's resolution, KCC requested that the utilities provide additional information regarding authorized payday loan locations where customers may pay their utility bills. Utilities were also asked to provide information regarding the amount of utility bill revenue collected by payday type loan businesses for the nine months ending September 30, 2008. Fifty-two payday loan type pay locations collected revenues of \$11.5 million from utility customers. This data is comparable to the information provided to KCC for the 2007 calendar year. Last year, there were four utilities (Aquila-KGO, Atmos, Kansas Gas Service and Westar) that indicated forty-four pay stations locations were businesses that made payday loans to customers. This was approximately 15% of the total pay locations available. The payday loan businesses accounted for 11% of the total revenue collected or \$13.9 million out of \$126.7 reported in 2007 for all company authorized pay locations.¹⁷ Kansas Gas Service reported the most significant change of revenues collected from payday loan business locations. In 2007, the utility reported \$6.8 million compared to \$7.4 million for the first three quarters of 2008.¹⁸

It is assumed that some of the growth in pay station locations is in the form of kiosks, which are small computerized structures providing the opportunity for bill payments and other financial transactions. Kiosks are located in grocery stores and other convenient locales and some list all potential utility and bill payment entities in the area. Those utilities which use kiosks as authorized pay stations have a contract with the vender, recover their contract cost in a rate case, and the customer is not charged a fee. Some kiosks which receive utility payments are not authorized by the utilities (unauthorized) and charge a fee for the bill payment transaction. Some utilities, while not authorizing kiosks as their agents, have arranged that a message be displayed on the screen stating "If you are on a pay arrangement or near disconnection, call 1-800 xxx".

Complaints

¹⁶ Myrick, Ibid.

¹⁷ Myrick, Dorothy, and Cushinberry, Sonya, Memorandum, Compliance with Docket No.04-GIMX-651-GIV, May 29, 2008, p.2-3.

¹⁸ Myrick, Memorandum, Docket No. 06-GIMX-679-GIV, January 9, 2009.

From 2004 to the present , there have been thirty five complaints received by the Kansas Corporation Commission regarding pay stations. The complaint system at KCC helps identify problems in utility services. Some studies have indicated that the numbers of complaints usually represent 5% to 10% of the actual number of dissatisfied customers.¹⁹ Using that estimate, the thirty five complaints received regarding pay stations could indicate that there are approximately 300 to 600 customers dissatisfied with some aspect of pay stations. With about one million electric utility customers of regulated services, and ten percent using a pay station as the payment method, approximately 10,000 customer use pay stations.

Seventeen (48%) of the thirty five complaints collected in five years were confirmed to originate from unauthorized pay stations. Unauthorized locations have no affiliation with the utility and are not under KCC jurisdiction. The highest number of complaints occurred in 2005 and 2006 and most complaints related to posting problems at unauthorized pay stations (33%). Some unauthorized stations keep checks until they've accumulated a certain number and then send them to the utility. If the customer is paying to keep service from being disconnected and has already gotten a 24-hour disconnect notice, it is essential that the payment is received by the utility immediately. If posting doesn't occur within the 24 hour period the customer is disconnected. Unauthorized pay stations are unlikely to be familiar with the Billing Standards and, in any event, are not bound by them and the customer protection obligations they impose. Three of the complaints may have come from pay day lenders who appeared to have been unauthorized centers. Four complaints dealt with payment fees (in addition to the billed amount) at unauthorized pay stations.

Fourteen (40%) of the complaints were related to location of the pay centers. Complainants thought locations were bad or wanted more locations. Complainants were concerned about locations that had closed and that they were unable to find another location easily. The remaining complaints were related to payment problems and poor service.

Other States' Review of Pay Stations and Payday Lender Pay Stations

Utility Commission staff that direct consumer affairs divisions in other states and are members of the Consumer Affairs Committee were contacted and asked whether their state public utility commission had:

- examined locations and quality of service of utility payment centers.
- reviewed pay centers located in payday loan businesses

¹⁹ Tax, Steve S. and Stephen Brown, "Recovering and Learning from Service Failures," Sloan Management Review, Vol. 4 (1), 1998, pp. 75-88.

- prohibited the use of payday loan centers as authorized centers,
- considered legislative sanctions against entities offering 'unauthorized' payment centers

Thirteen states responded that their state had a payment center network, but of those responding, Washington, D.C. was the only entity that had reviewed locations. The consistent comment from public utility commissions was that it was 'up to the utilities to manage their agents' and that it was beyond their jurisdiction. In the discussion of unauthorized pay centers, educating and warning customers was mentioned as well as concern over breach of security information, such as Social Security numbers, at these locations.

The situation in Washington, D.C. related to Bell Atlantic (BADC) (Verizon) payment locations. The DCPSC issued Order No. 10811 on October 30, 2000 in Formal Case No. 950-T-206 directing BADC/Verizon to ensure that their authorized payment locations (APL) comply with specific provisions regarding:

- the number of APLS available
- payment standards
- no fee for payments
- foreign language requirements
- display of DCPSC notification and filing requirements
- restriction on using liquor stores as an APL

Since the issuance of the Order, OCS staff has conducted a yearly inspection of the APLs to ensure Verizon's compliance with the Commission's order.²⁰

Payday Lenders

Information on Payday Lenders was gathered in a June 16, 2008 interview with the Assistant Bank Commissioner who has served in that capacity for twenty five years. In Kansas, the 100 Payday Lenders are regulated by the Office of State Bank Commission (OSBC) under the Uniform Consumer Credit Code (UCCC). There are 353 branches, all of which are audited by a team of state examiners. Any person making a payday loan must be licensed as a supervised lender. Payday Lenders are reviewed by an examiner with the same process as a finance company and are required to be licensed, bonded, and undergo a background check which is devoid of any felonies or misdemeanors.

General guidelines for payday loans are established by K.S.A. 16a-2-404. The advance cannot exceed \$500 with a minimum term of seven days and a maximum of 30 days. A single payment repayment is anticipated. The lender is expected to give notice to the consumer and keep a journal of transactions.

²⁰ www.dcpsc.org, e-docketing, Case No. 950-T-206, Order 10811

The lender is restricted from collecting any other fees, for seeking civil penalties for worthless checks under K.S.A. 60-2610, and from selling any other product in connection with the loan. The loan document may not include a hold harmless clause, a confession of judgment clause, or a provision that the consumer will not assert a claim arising from the loan. There are additional restrictions on the lender making loans to or collecting from the military.

The borrower has the right to rescind the transaction no later than the next business day following the day of the loan. The borrower must inform the lender and return the cash. The lender must return any fees.

The Payday Loan industry has changed over the years from 'mom and pop' operations to national lenders as the profit level increased. In Kansas in the 1980's the interest was a stair step rate with the larger the loan, the lower the rate. Current guidelines restrict lenders to 15% per \$100, which is 391% annualized with no limit on renewals.

Prohibitions include restricting the lenders to no more than two loans to the same borrower at one time and no more than three loans to the same borrower in a 30-day period. However, Kansas does not have a database of borrowers, as does Florida and Oklahoma, and without that information, there is a barrier to accurate regulation and tracking.²¹ OSBC has requested database authority from the Kansas Legislature.

Kansas OSBC works with Housing and Credit Counseling and other consumer groups to educate consumers on borrowing practices.

Conclusions

While utilities are not required by KCC to provide pay stations, most utilities work with a third party vendor to provide a pay station network for the ten percent of the customers who use them. Utilities are required to provide at least one no fee payment method for the customer. Payment by mail is considered a no fee payment method.

Inherent in the request for recommendations to improve service of third party pay stations for utility payments is the assumption that there is a problem. The complaint system at KCC helps identify problems in utility services. The numbers of complaints may represent 5% to 10% of the actual number of dissatisfied customers.²² The thirty five complaints received regarding pay stations could indicate that there are approximately 300 to 600 customers dissatisfied with some aspect of pay stations out of approximately 10,000 electric customers who

²¹ Glendenning, Kevin. Assistant Banking Commissioner. Responsible for UCCC. Interview, June 16, 2008.

²² Tax, Steve S. and Stephen Brown, "Recovering and Learning from Service Failures," Sloan Management Review, Vol. 4 (1), 1998, pp. 75-88.

use them. Almost one half (48%) of the thirty five complaints were about unauthorized pay stations with which the utility has no affiliation and KCC has no jurisdiction. The remaining complaints on this issue referenced payment posting issues and services or the need for more or better locations. Complaints received in 2005 and 2006 were more than those received in 2007 and 2008.

The September 2008 report filed by utilities regarding numbers of pay stations indicated an increase of fifty four pay stations statewide over the December 2005 report. Authorized pay station vendors are agents of the utilities and should comply with the Billing Standards. If pay stations comply with KCC Billing Standards, posting payment problems would be unlikely to occur. However, the Commission does not regulate unauthorized pay stations, and therefore cannot require them to meet the standards.

There were fifty two pay stations reported by utilities in September 2008 which are located as authorized pay stations in payday loan offices. Under Kansas statutes, payday lenders are regulated by the Office of the State Bank Commission.

Only Washington DC and Florida have reviewed any pay station issues by a specific case or system wide. Most states responded that the selection and the activities of the pay stations are the responsibility of the utility in clarifying expectations with the vendor. There was interest expressed in getting the Kansas report and recommendations.

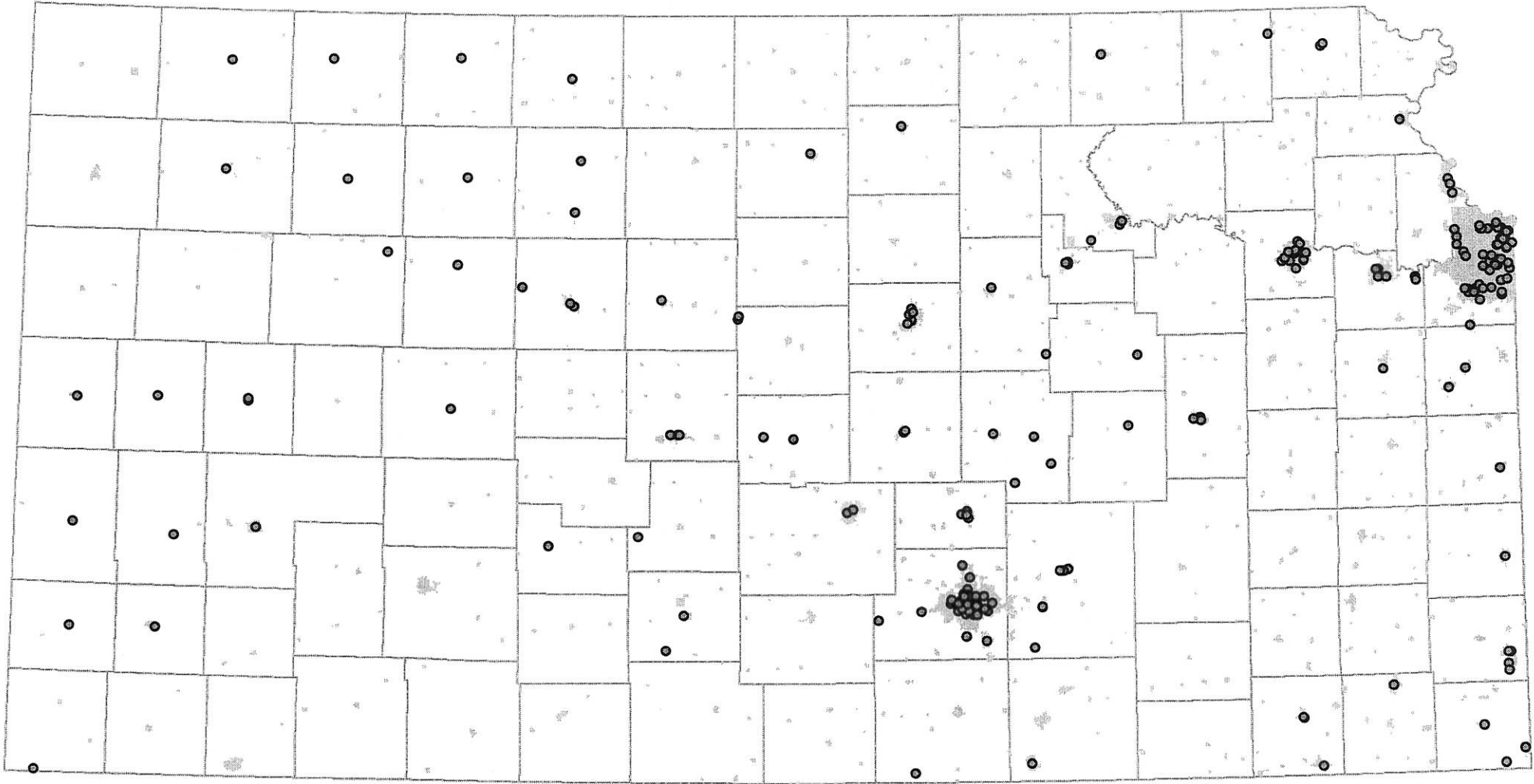
Recommendations

- KCC has determined not to open a docket at this time. There is sufficient data being requested of utilities regarding numbers of pay stations in a quarterly report submitted to the KCC and complaint data will continue to be collected.
- KCC will continue to track numbers of pay stations located in payday loan offices. The data was requested for the 2008 utility 2nd quarter report, will be updated for the January report to the 2009 Legislature, and requested annually thereafter for four years.
- Complaints on pay stations will continue to be monitored. Complaints have focused primarily on too few pay stations or their locations. KCC receives a report on the numbers of pay stations on a quarterly basis.
- Utilities will continue to be encouraged to educate customers on unauthorized pay stations. Utilities are currently required to advise customers of the concerns in using unauthorized pay centers and refer customers to a list of authorized centers.

- While there were no complaints filed regarding the use of pay day loan offices as utility pay stations, there will be an addition to the complaint codes for 'pay day loan pay stations' so the tracking of this issue can be specific and on going.

Pay Station Locations

2-14



288 Active Locations