BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Office of the Public Counsel's Petition for	)	
Promulgation of Rules Relating to	)	
Billing and Payment	)	Case No.
Standards for Residential Customers	)	

PETITION FOR PROMULGATION OF CONSUMER PROTECTION RULES
<u>RELATING TO BILLING AND PAYMENT</u>

The Office of the Public Counsel, under its statutory authority and pursuant to Section 386.125, RSMo 2000, and Section 386.250 (5), (6) and (7) relating to the Public Service Commission's jurisdiction and rule making authority, the Administrative Procedure Act, Sections 536.010 through 536.053, RSMo. 2000, relating to agency rulemaking, and Missouri Public Service Commission Rule 4 CSR 240-2.180, concerning rule making procedures, respectfully requests the Commission to promulgate rules that establishes standards to protect Missouri utility customers and ratepayers related to separate fees for bills and payment of bills, restrictions on the use of pay stations and the availability of company customer service centers and other billing and payment practices for residential customers.

<u>STATEMENT OF PUBLIC COUNSEL'S INTEREST</u>

Public Counsel, as the statutory representative of the public with emphasis on residential and small business utility customers, has an interest in the promulgation of rules that protect utility consumers and promote the public interest. Sections 386.700 and Section 386.710, RSMo 2000.

JURISDICTION AND RULE MAKING AUTHORITY

Public Counsel suggests that the proposed rules are within the Commission's jurisdiction and authority, are not in conflict with any statute, are just and reasonable and are necessary and proper to protect utility customers regarding utility bills and payments, and to protect and promote the public interest. Public Counsel submits that the facts set forth in the petition constitutes substantial evidence and that this evidence and similar substantial evidence adduced at hearing provide a record upon which the Commission can make a finding that the proposed rules are necessary to carry out the purposes of the Public Service Commission Law, Chapter 386, RSMo 2000, as amended.

INTRODUCTION TO PETITION FOR RULEMAKING

An accurate bill is a basic and essential right of a utility customer. The bill must identify the services purchased and the price for those services in sufficient detail and in plain language so it is informative and meaningful. The bill must advise the customer of the amount due, when it is due, and the consequences of late or nonpayment. It must provide the customer with the ability to verify the identity of the service, the number or amount purchased and the unit and total price. It must be rendered in sufficient time so the customer can conveniently pay it and avoid late charges, interest and penalties.

These proposed rules address significant issues concerning consumers and their utility bills. The proposed rules establish or strengthen the ratepayer's rights.

PAYDAY LOAN STORES AS PAY STATIONS

Utilities have outsourced some of its bill payment functions with outside bill pay stations. The concern is that the utilities contract for pay stations with payday loan companies, currency exchanges, check cashing stores and other small dollar lenders that used a post-dated check as security for the loan. Often these businesses are referred to as predatory lenders. A utility bill payment at these stores becomes an opportunity to solicit the utility customer to borrow a few hundred dollars with a post-dated check at an extremely high interest rate. Often the payday loan customers are low-income customers with large unpaid utility bills who can be targeted for a "on-the -spot loan" to pay the utility bills.

SPECIAL FEES FOR NORMAL SERVICES

The customer should be able to receive a paper bill or an e-mail or electronic bill in any available form without paying a fee or separate charge for the type of bill. It is unreasonable and unfair for a utility to increase its rates for service by slicing up traditional, customary and usual services and then demand new and separate charges. The obvious purpose is to generate new revenue from the same service by indirect means to avoid a rate case. Customers do not benefit from this separation of functions from the unified service.

In addition to carving service functions into fee opportunities, utilities have outsourced to contract vendors the ability to accept bill payments. The utilities cite customer convenience to justify contracting for pay stations. However, those who use these pay stations must pay a fee to make payments at the vendor's business. The store charges a transaction fee that it retains as its fee for providing the service.

CONSIDERATION OF ALL RELEVANT FACTORS

The Commission's legal duty is to consider all relevant factors in the rate making process. *In the Matter of the Application of Laclede Gas Company to Put into Effect a Purchased Gas Adjustment Clause*, 10 MO P.S.C. (N.S.) 442 (1962). The Commission sets the general rates needed to produce revenues to fund the reasonable cost of service, including the return on investment. Setting separate charges for unreasonably segmented parts evades the general rate process. This technique also establishes a new fee outside of the required consideration of all relevant factors. Savings in one part of an integrated process can offset costs in other segments that are part of the same process. An unreasonable division of that process into parts to gain revenues can prevent or inhibit this cost savings analysis.

It is unreasonable for customers to pay a fee or special charge to navigate the utilities system to obtain, review, contest, correct, replace or pay their utility bill or make arrangements for payment. These new charges "added on" are not accompanied by a reduction in the rate for the service. Through special surcharges and fees, the utilities run a "shell game" hiding the rate increase under some "user fee" or surcharge that inflates the overall bill.

I

PROPOSED RULES AND SUGGESTIONS RELATING TO SURCHARGES AND USER FEES FOR BILLING AND COLLECTION ITEMS

Introduction

Separate charges for transactions with the utility concerning issuance, review, and payment of the monthly utility bill are unfair and unreasonable. It creates separate special fees, charges, surcharges and other so called "user fees" and then adds them to consumer bills as a separate fee item. The service related to these new charges is part of the traditional utility service. Customers consider the receipt and payment of a "utility bill" for gas service, electric service, etc. as part of customary and usual service. While the customer expects to pay for enhanced features and the "bells and whistles," the customer does not expect to pay separate charges and fees for standard items, such as a copy of the bill or any information on the customer's account or to make a timely payment or to have a printed bill mailed to the residence.

Charges for Printed Bills or Copies

The utility should render to the customer a paper bill at no charge as the standard method of billing. A paper bill mailed to the customer's home or billing address gives the customer a personal, tangible record of the utility's claim for payment and the customer's payment obligation. It allows for review and study at the customer's convenience and the ability to have billing details when seeking assistance to correct, contest or pay the bill. It does not discriminate against customers who prefer "hard copy" bills and documents rather than electronic ones or customers without the technology equipment or knowledge to use an Internet website or e-mail, A utility may encourage the customers to use e-bills and on line payments and can even offer promotional discounts or incentives. However, it should not coerce the customer with a fee for a paper bill. AT&T Missouri added a monthly fee of $2.49 if the customer wants monthly paper bills rather than electronic bills (e-bill). This punishes the customer who prefers or requires a paper bill or document rather than an e-bill or e-mail attachment.

The customer is expected to pay the bill for services. Therefore, the customer should receive a bill without change and be afforded a free, convenient, and reasonable method to pay the bill. A customer should not pay fees for copies of bills that the company claims are due or past due and any documents that purport to justify the charges. The free, convenient, and reasonable payment is defeated if there is a fee to pay the bill by check, or by phone or by cash or by credit or debit card or at a pay station or payment center.

The bill is the official notice from the utility of the amount due for service and the prices for that service. Paying for the bill and then charging the customer for that notice goes far beyond reasonable and just charges. The specific identification of the services and charges should be a mandatory disclosure and an essential part of the utility service. The customer cannot be deprived of the right to know what was bought and the price paid, therefore, any bills and documents concerning those charges should be provided to the customer without charge For these reasons, Public Counsel requests the Commission to promulgate new rules to address the public interest and consumer protection issues identified in this petition. The full text of the proposed rule is attached as Exhibit 1 to this Petition.

II
PROPOSED RULES AND SUGGESTIONS IN SUPPORT OF THE RESTRICTION OF PAYDAY LOAN AND SIMILAR LENDERS AS UTILITY PAYSTATIONS

Public Counsel requests that the Commission protect the utility consumer by restricting or prohibiting the use payday loan stores and similar alternative lending enterprises that offer short term retail loans with post-dated checks as the loan security. Public Counsel asks the Commission to declare that these restrictions are in the public interest and are reasonable, necessary and proper to further the protection of the utility consumer from regular and frequent solicitation by payday loan stores, check cashing stores, currency exchanges and other alternative lenders that engage in predatory lending practices at the time the customer pays its utility bill. It is not in the interests of consumers to have utility companies steer customers to these predatory lenders by authorizing and contracting with these lenders as pay stations for utility bills.

The St. Louis Post-Dispatch (August 16, 2006) ran a front page story on payday loan companies and included how the problems with these type of loans adversely affect utility customers and payments:

> "People on both sides of the payday loan debate understanding why a person, threatened with a utility cutoff, would agree to 15 or 20 percent interest on a single, two-week loan.

> Some customers have nowhere else to turn. Banks generally won't make such small-dollar loans, although a few St. Louis credit unions are now tiptoeing into the business. Low-income borrowers generally don't qualify for credit cards."
>
> *(See, Attachment A for the complete article)*

The Payday Loan

Payday loans are short-term cash advances usually secured by the borrower's post-dated personal check with the loan repaid plus a fee --$20 or less per $100 lent in Missouri --after the next payday. "Instant loans" up to $500 are available as long as the borrower has a checking account and a steady job. The industry claims 90% repay within 2 weeks.

But critics point to the remaining 10 % that fall into a deep debt trap, with multiple loan renewals and extensions and multiplying new loan fees that can have a person borrow up to 6 times as allowed by Missouri law and with costs and effective interest rates reaching as high as 1,950 APR. A Missouri Division of Finance study in 2006 found that Missouri payday loan customers paid an average APR of 422%.

The influx of payday loan stores and like establishments known as predatory lenders has raised legislative concerns about lending practices detrimental to the consumer. **In *"Poverty, Race, and the Two-Tiered Financial Services System," Poverty & Race*** (July/August 1999), Robert D. Manning (Visiting Professor of Sociology and Latin American Studies, Georgetown University and 1999-2000 Distinguished Research Fellow, Center for Immigration Studies, Washington, D.C. and author of Credit Card Nation and credit card education/financial literacy modules and research reports) identified a second tier financial services system that serves the working poor, the very poor, minorities, and immigrants. This second tier of "fringe banks" includes check cashing outlets, currency exchanges, pawnshops, rent-to-own stores, car title pawns and "cash leasing operations," all of which charge usurious, but largely hidden, interest rates with a high cost for consumer credit. He reports that these corporate loan sharks "feed on their hapless victims with virtual impunity"

Legislation was introduced in the Missouri General Assembly to regulate payday loans, but was not enacted. Other states have enacted laws with strong consumer protections. (For news articles regarding legislation about payday loans, see the cited website sources: Springfield News-Leader, December 1, 2008 (http://www.news-leader.com/article/20081201/NEWS01/812010368/1007); (http://www.news-leader.com/article/20081202/OPINIONS01/812020332/1006/OPINIONS) ; Columbia ***Tribune, December 1, 2008*** http://www.columbiatribune.com/2008/Dec/20081201News007.asp)

Payday Loans In Missouri

The St. Louis Post-Dispatch (August 10, 2009) reported on the payday loan business and the burden it places on the consumer. The extreme interest charges "worry consumer advocates, who denounce payday lending as a means to exploit people who are down on their luck by trapping them in a perpetual cycle of debt. "

> "The industry flourishes in Missouri, where about 2.8 million payday loans, which include renewals, were extended last year. The Center for Responsible Lending, an anti-payday-loan group based in North Carolina, ranks Missouri fifth in the nation in total fees collected by payday shops."
>
> "We found Missouri to be one of the worst in the country, because of the

extremely high interest rate and the number of (loan) renewals," said Michelle Corey, president of the Better Business Bureau of St. Louis."

Consumer groups say loose lending standards make Missouri a haven for the business. The state limits payday loans to $500 or less. Loans typically last two weeks and can be renewed six times, or 84 days. Charges on a single loan can never total more than 75 percent of the principal."

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"Today, Missouri has tripled the number of payday loan shops as Illinois, although the neighboring state has doubled the population. Missouri has 1,275 such shops, compared with 422 in Illinois. "

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(St. Louis Post-Dispatch, August 10, 2009, p. A1.A copy of the article is attached to this petition as Attachment A.)

Payday Loans and Utility Customers

As discussed above, the concern about payday loans and the need for some consumer protection spills over into utility regulation and the protection of the utility consumer. Some utilities have contracted with payday loan stores, currency exchanges, and similar stores as pay stations for the utility. Like a company run service center, the customer is able to walk into the payday loan store and pay the utility bill in person and in cash. However, the convenience of a walk-in payment station in this type of loan operation is outweighed by the "partnering" of a public utility with a high cost lender.

National Consumer Law Center Study: Utilities and Payday Lenders

A National Consumer Law Center study focused on the public interest and consumer protection rationale for restricting or banning payday loan stores as utility payment stations. In support of its request for rulemaking, Public Counsel submits ***Utilities And Payday Lenders: Convenient Payments, Killer Loans,*** A Report by the National Consumer Law Center written and researched by Rick Jurgens, Consumer Advocate (June 2007) . (A copy of the report is also available at this website: http://www.nclc.org/reports/content/payday_utility.pdf)

The study report urges regulators to "break[ing] the chain of transactions that link utilities to payday lenders." (***Utilities and Payday Lenders,*** page 4) "Utility regulators should ensure that customers are not directed to high-cost lenders to pay bills for heat, light or telephone service." This positioning of pay stations in these businesses gives these lenders a steady flow of customer foot traffic and targets for the solicitation of predatory loans. "Each transaction that occurs in a payday lending store has the potential to bring an unwary or vulnerable utility customer with an urgent need for money face-to-face with a "sympathetic" agent—an agent paid a commission to sell an ultra-high-cost loan. A payment choice made for convenience could be the first step on a path to crippling debt." (***Utilities and Payday Lenders,*** p. 4)

The Wall Street Journal also reported on the adverse consumer impact of the alternative lenders in, ***Alternative Way to Pay Utility Bills Draws Fire, Use of Check-Cashing Shops, Critics Say, Exposes Customers To Lure of High-Interest Loans,*** *Wall Street Journal*, August 30, 2007. (A copy of the article is attached to this petition as Attachment C,)

TURN, a Utility Consumer Advocate organization in California, has also identified the public interest and consumer protection implications of having utilities use payday loan stores as pay stations. See, TURN, ***Beware Of Payday Lenders (***http://www.turn.org/article.php?id=623)

The California General Assembly considered a bill (AB 2511) to have utilities seek alternatives to the payday loan pay stations and to prohibit pay station contracts with those lenders.

PSC Rulings on Payday Loan Stores as Pay Stations

. Two other state utility regulatory agencies have considered the use of payday loan company stores as utility pay stations. In those cases, the commissions also discussed their concern about the closing of company customer service centers and the use of vendor pay stations as a cost savings tactic. The commissions noted that the public interest of the full array of services provided at the company centers outweigh the cost savings.

Arizona

IN THE MATTER OF THE APPLICATION OF UNS GAS, DOCKET NOs. G-04204A-06-0463; G-04204A-06-0013; G-04204A-05-0831; DECISION NO. 70011 (Arizona Corporation Commission November 27, 2007) Ariz. PUC LEXIS 241

. . . "ACAA witness Scheier expressed concern that cash paying customers, especially low-income customers, could be vulnerable to predatory lending practices at the payday loan stores. She testified that ACAA objects to the use of such stores because "it places already vulnerable customers in a more vulnerable situation." …some low-income clients had been encouraged to take out loans when they made payments at the payday loan stores"

"Although we encourage UNS to seek out cost-cutting opportunities, we are concerned when those efforts result in the diminution of service to customers. We understand the Company's call center consolidation decision was intended to provide consistency between the UniSource affiliates and to reduce costs in the long-term. On cross-examination, the Company's witness sought to justify the office closings on the basis that not enough people used the local offices to justify their continuation, and that more customers use the payday loan stores due to their convenience …. However, the closing of a number of local offices, especially in northern Arizona, represents not just the elimination of a nearby location for making payments, but also the loss of an office where customers could talk to a representative of the Company face-to-face to work out payment arrangements or receive assistance in signing up for available programs."

"We believe that additional efforts should be undertaken by UNS to explore fully all available alternatives for the provision of service to customers. We therefore direct the Company to make every reasonable effort to determine whether other payment locations may be utilized either in addition to, or in lieu of, the payday loan stores currently used by UNS. These efforts should include, but not be limited to, joining with other utilities to enlist alternative agents, such as banks or grocery stores, to accept cash payments and to explore of opening joint local offices to offset costs and any other alternatives that may enhance customer service without exposing customers to the potential of being solicited by predatory lenders in the course of making a utility payment.

. . .

"Ordered:

"35.With respect to the use of payday loan stores for acceptance of customer payments, the Company should make every reasonable effort to determine whether other payment locations may be utilized either in addition to, or in lieu of, the payday loan stores currently used by UNS, and the Company should file a copy of its recommendations consistent with this directive within 90 days of the effective date of this Decision." (Emphasis added)

Kansas

*2005 Kan. PUC LEXIS 1502, *; 247 P.U.R.4th 118 In the Matter of the Generic Investigation to Investigate Payment of Customer Accounts by means of Fee-based Transactions, Including Third Party Services Utilized in the Collection of Customer Payments Docket No. 04-GIMX-651-GIV (Kansas Corporation Commission November 28, 2005) 247 P.U.R.4th 118*
2005 Kan. PUC LEXIS 1502

. . .

'Just as the Commission declines to authorize a surcharge for a mailed payment in light of the lower cost alternative of recurring debit, the Commission declines to authorize a surcharge for the use of a walk-in payment."

"First, the Commission finds that practical considerations weigh against permitting the $ 1.00 fee. For example, the Commission declines in this instance to head down a path ultimately requiring, for example, hearings each time a utility or its authorized agents consider making an increase from $ 1.00 per walk-in transaction to $ 1.25. Second, the Commission sees 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. Further the Commission finds that customers should have the opportunity to avail themselves of this payment method without having to incur additional costs.

Simply put, while the Commission recognizes that the costs associated with walk-in pay stations are higher than those costs associated with a utility processing a mailed payment, the additional cost is not sufficiently great to mandate a difference of treatment.

Essentially, the Commission recognizes this case as one of those cases where the fundamental principle of cost causer/cost payer must yield to practical considerations." (*Emphasis added)*

For these reasons, Public Counsel requests the Commission to promulgate new rules to address the public interest and consumer protection issues identified in this petition. The full text of the proposed rule is attached as Exhibit 2 to this Petition.

III

CUSTOMER SERVICE CENTERS AND FEES TO MAKE PAYMENTS

Introduction

Public Counsel requests that the Commission require utilities to designate a reasonable number of locations within the service area where customers can pay bills in person, in cash as well as by money order, check, and by credit or debit card, if customers can use technology to pay by phone, mail or electronic payments system. At a a customer service center, the customer should be able to obtain information about service or their account-- a function not usually unavailable at the contract pay stations.

Fees To Pay Bills

Public Counsel suggests that is just and reasonable for customers to pay their utility bills, obtain records of payment or claims for service charges, and receive other notices from the utility without a separate charge. Therefore, Public Counsel proposes a rule that provides that a utility may not charge a customer a fee for transactions such as payment of bills, preference for written paper bills, or a request to receive rate and service notices in writing rather than by website, requests for copies of accurate or revised bills, estimated bills and timely adjustments of estimated bills, for any payment extensions and arrangements, and for any service or function that gives the customer a fair and reasonable opportunity to pay bills before suspension or termination of service, or to file any document or form with the utility to redress any complaint or problem.

A study conducted in Ohio on fees paid by customers revealed the considerable expense imposed on customers just to pay their bills. Even payments made via credit card or debit card or by "check by phone" directly to the utility or in person at vendor pay station saddle customers with an extra fee. The study reported fees over a million dollars in these "surcharges for payment," money that could have gone to the utilities as additional payments toward the reduction of the customer's account balance. As reported on

MSM Money Central, ***And Now a Fee To Pay Your Bill (A copy is attached as Attachment B):***

> "Though the practice may sound absurd, it's hardly a surprise given today's blossoming market for creative fee finding. As companies strive to keep listed prices low and earnings high, fees have become a quick and handy back-end way to raise revenue."
>
> "Across the country, nearly 25% of utility customers pay their bills in person. But utilities are closing payment offices to save money, urging customers to pay online and sending cash customers to third-party check-cashing centers that tack on extra fees. In states that don't regulate these centers, the fees can be as high as $12.95 to process a single bill. And even in states that cap the fees, the payment centers are eager to lend money, at high interest rates, to people who don't have enough to pay their bills."
>
> "Florida's third-largest public power utility recently decided to shutter its downtown payment center, where a quarter of its 100,000 customers pay their bill each month. Customers paying by check or cash at the last minute will have to go to one of 41 payment centers and pay an additional fee of at least $1 for same-day credit at the utility company." ***And Now, a Fee To Pay Your Bill,*** http://articles.moneycentral.msn.com/SmartSpending/ConsumerActionGuide/AndNowAFeeToPayYourBill.aspx?page=all (***Published Aug. 5, 2008)***
>
> "Fees have a bad habit of breeding. Just look at the airlines today. Or the banks. Fees began as a method to nudge customers into less costly behavior, said Matt Fellowes, he project director at *The Pew Charitable Trusts*. But along the way, "these institutions discovered that there's actually opportunity to build revenue off those consumers that won't be nudged," Fellowes said. "So the fees became not just punitive for these

individuals, they became kind of profit drivers for these institutions." ***And Now, A Fee To Pay Your Bill*** http://articles.moneycentral.msn.com/SmartSpending/ConsumerActionGuide/AndNowAFeeToPayYourBill.aspx?page=all (***Published Aug. 5, 2008)***

"Rick Jurgens of the National Consumer Law Center: "We all have a common interest in demanding and hoping that there will be a minimum standard set for customer service. . . . Instead, we have this death-race spiral to the bottom." ***And Now, A Fee To Pay Your Bill*** http://articles.moneycentral.msn.com/SmartSpending/ConsumerActionGuide/AndNowAFeeToPayYourBill.aspx?page=all (***Published Aug. 5, 2008)***

Customer Service Centers

To reduce operating expenses, utilities have closed walk-in company customer service centers and offices. Utilities often use contract pay stations to offer more outlets for the convenience of the customers to pay bills. The usual service offered for utilities at pay stations is limited to bill payment. Questions about the bill or arrangements to prevent disconnection, for reconnection, deposits, payment agreements, low income program applications as well as assistance with service problems is not available. These outsourced pay stations leave customers without a reasonable and convenient location staffed by company employees to seek an explanation of the bill charges and to resolve billing and service problems.

Public Counsel submits that utilities should maintain at least one customer service center that provides company personnel to take payments, answer billing and service questions, and record and process complaints or problems. Because of the importance of the service centers, the utilities should obtain the Commission's approval before closing a center. As noted in the *KCC Investigation Into Fees case, supra:*

> ” . . . the Commission sees 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. Further the Commission finds that customers should have the opportunity to pay a bill in person to prevent the utility from shutting off service. <u>Further the Commission finds that customers should have the opportunity to avail themselves of this payment method without having to incur additional costs.” *(Emphasis added)*</u>

For these reasons, Public Counsel requests that the Commission promulgate new rules to address the public interest and consumer protection issues identified in this petition. The full text of the proposed rule is attached as Exhibit 3 to this Petition.

<u>EFFECT OF RULEMAKING</u>

At this time, an estimate of the amount of expenditures or reduction in income for private persons or entities would be mere speculation. Consumers would expect to receive documents from utilities at no charge, thus resulting in a slight savings for the individual, but could be a significant savings for the class of residential customers. Consumer expenditures at payday loan stores may be reduced if those stores are no longer pay stations.

However, the rules may result in loss of income from the banning of certain fees and the requirement of free copies of bills and other documents. Payday loan companies and similar alternative lenders addressed in the petition may lose income if they no longer are allowed to act as pay stations.

However, as the Kansas Corporation Commission noted, protecting the consumer by limiting payday stores as utility pay stations and by preserving full service customer service centers are areas “where the <u>fundamental principle of cost causer/cost payer must yield to practical considerations</u>.” *KCC Investigation, supra*.

CONCLUSION AND REQUEST FOR RULEMAKING

For the reasons set forth in the petition and based upon the substantial evidence submitted in support of the petition, Public Counsel respectfully asks the Commission to adopt the rules in the attached Exhibits 1, 2 and 3. Public Counsel asks the Commission to declare that (1) Public Counsel's request is reasonable and is justified as indicated in the facts set out in the petition; (2) the proposed rules govern billing and payment standards and rights and obligations is supported by substantial evidence (3) the proposed rules are consistent with the public policy of the State of Missouri and promote and protect the interest of consumers and the public interest. .

WHEREFORE, Public Counsel has attached hereto and incorporated herein by reference as Exhibit 1, 2 and 3 to this Petition, the full text of the rules which Public Counsel asks the Missouri Public Service Commission to promulgate. Public Counsel has also submitted Attachments A, B, C, and in support of the petition.

Public Counsel respectfully requests that the Commission promulgate rules governing and related to billing and payment standards as set out in the proposed rules in the attached Exhibits to the Petition.

Respectfully submitted,
OFFICE OF THE PUBLIC COUNSEL

BY: __________________________________

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CERTIFICATION OF VERIFICATION

COMES NOW Michael F. Dandino, Deputy Public Counsel, and being of lawful age and first having been duly sworn states that the facts set forth in this Petition for Rulemaking are true and correct to the best of his information, knowledge, and belief

Michael F. Dandino

Sworn to and subscribed by me a notary public this 20th day of August, 2009.

NOTARY PUBLIC
NOTARY SEAL
STATE OF MISSOURI

SHYLAH C. BROSSIER
My Commission Expires
June 8, 2013
Cole County
Commission #09812742

Shylah C. Brossier
Shylah C. Brossier
Notary Public

My Commission expires June 8, 2013.

EXHIBITS TO PETITION

EXHIBIT 1

Utility Bill Payment
CSR-240-XXXX

1. No utility shall charge any customer of that utility a fee for a bill or a replacement bill or other statement of account or of amount due in a printed form or, if available and at the customer's preference, in an electronic form. If no customer preference is made, the utility shall provide a printed copy without charge. If alternate bill forms are available, the customer has a right to choose or change the method of billing without additional charge.

2. A. All essential and basic notices affecting billing or service shall be free of charge to the customer.

   B. No fees or charges shall be charged the customer for filing or processing or receiving of customer complaints or requests for correction or redress of problems.

   C. No fees shall be charged any customer of the utility to obtain any of the following:

   a. bill detail or explanations

   b. individual rate and service notices in writing rather than notice by website

   c. copies of estimated bills

   d. adjustments of estimated bills

   e. request any payment extensions and arrangements or

   for any service or function that provides a fair and reasonable opportunity to pay bills before suspension or termination of service, obtain accurate or corrected bills or file any complaint with the utility to redress any complaint or problem.

EXHIBIT 2
Restrictions on Eligible Pay Stations and Agents

CSR-- Bill Payment – Restrictions on Eligible Pay Stations

1. No utility or its agents shall use for bill collection services or as a bill payment agent any financial service companies, currency exchanges, check cashing outlets or stores, pawnshops, auto title loans or pawn, payday loan companies or stores or other lenders that lend money where repayment is secured by the customer's postdated check or charges and fees or interest rates that are unreasonable or in excess of the state usury rate.
2. Utilities may enter into arrangements for bill payment services at locations that enhance convenience for customers but only with supermarkets, drug stores, convenience stores, banks, and other retail outlets not excluded in this section, but not check cashing outlets and stores, currency exchanges, pawnshops, auto title loans or pawn or a payday loan company or store or as prohibited by this rule.

EXHIBIT 3
CUSTOMER SERVICE CENTERS

1. All utilities shall have locations convenient for customers throughout the service territory where a customer can make in-person cash bill payments, ask questions about bills or service, seek information or assistance for service problems or to make a complaint.
2. Utilities shall take all reasonable efforts to provide and maintain company service centers, including counters for in-person bill payments using cash, at locations convenient for customers throughout service territory. No utility may close any customer service center without the commission's prior approval.
3. Utilities shall consider and shall include in the application for the commission's approval an analysis of the company's cost of operation, and other factors, including but not limited to, the costs and convenience to the customer when deciding to close company

customer service centers, or to restrict the number of these centers or reduce times of operation or use alternative payment centers instead of company service centers.

FEES FOR PAYMENT OF BILLS PROHIBITED

1. No utility shall charge any fee to a customer of the utility or add any additional or separate fee, charge, surcharge or payment or convenience charge to any customer account for payment of the utility's bill or for any other charge demanded by the utility or for any transaction to pay for that utility's service.
2. No utility shall charge any fee to a customer of the utility or add any additional or separate fee, charge, surcharge or payment or convenience charge to any customer account based on the method or place of payment so that payments by cash, money order, check, electronic payment or transfer, credit or debit card shall be acceptable for payment by the company or any of its bill pay stations.

ATTACHMENT A

ST LOUIS POST-DISPATCH SUNDAY AUGUST 16, 2009 P.A1

Payday loan dispute does not slow use

By Jim Gallagher jgallagher@post-dispatch.com 314-340-8390
Sunday, Aug. 16 2009

Harried and teary-eyed, the woman stood at the counter at the Quik Cash payday loan shop in Arnold, filling out forms. A teller behind the thick security glass passed a lollipop through a slot to the woman's restless little boy.

She wrote a postdated check for $480 and slid it under the glass. The teller passed her $400 in cash.

She just paid 20 percent interest on a two-week loan. If she can't cover the check by the deadline, she will pay another big fee for a two-week extension. She can do this until she reaches the state-allowed maximum of 75 percent interest. Over the next three months, she could pay as much as $299 in interest on a $400 loan.

Such interest charges worry consumer advocates, who denounce payday lending as a means to exploit people who are down on their luck by trapping them in a perpetual cycle of debt.

The industry flourishes in Missouri, where about 2.8 million payday loans, which include renewals, were extended last year. The Center for Responsible Lending, an anti-payday-loan group based in North Carolina, ranks Missouri fifth in the nation in total fees collected by payday shops.

"We found Missouri to be one of the worst in the country, because of the extremely high interest rate and the number of (loan) renewals," said Michelle Corey, president of the Better Business Bureau of St. Louis.

Elsewhere, payday lending is falling under increased scrutiny. Last year, caps to lower interest rates went into effect in New Hampshire, while Virginia imposed tougher regulations on lending. Other states, such as Wisconsin, are considering such measures.

Meanwhile, the administration of President Barack Obama wants payday lenders to be regulated by its proposed Consumer Financial Protection Agency. Two bills that would limit interest rates and charges by payday lenders are pending in Congress.

Despite the skyrocketing interest costs and negative publicity, many people still turn to payday loans. Some say they have no choice.

"I got home and there was a note on the door that said that if I don't pay by tomorrow they're going to turn off the electricity. That's why I'm crying and upset," said the woman, stuffing the $400 in her purse. She asked not to be identified.

Payday lenders say such tales demonstrate their value by providing a lifeline for people facing financial emergencies.

"Our customers love us," said Tom Linafelt, spokesman for QC Holdings, the Kansas City-area company that owns the Quik Cash chain, the largest operator of payday loan shops in Missouri. "We're helping people out of a jam."

Borrowers had other reasons for needing the loans, as a reporter heard recently at the Arnold payday loan shop.

"I went to the boats," said another woman, who borrowed $300 from the Quik Cash to cover her gambling loss.

"I'm a single guy, and I spend too much money," said one young man, smiling as he headed out the door.

LAX RULES

Consumer groups say loose lending standards make Missouri a haven for the business.

The state limits payday loans to $500 or less. Loans typically last two weeks and can be renewed six times, or 84 days. Charges on a single loan can never total more than 75 percent of the principal.

The rules are tougher in Illinois, which tightened its hold on the industry four years ago. There, a payday loan can't be renewed; a borrower who can't repay is entitled to a 56-day interest-free grace period. The fee also is limited to $15.50 per $100.

Missouri does forbid a borrower from having more than one loan at a single shop, but the customer can go to other shops and borrow more. Illinois, by contrast, allows only two loans at a time anywhere in the state, and it uses a statewide database of loans to enforce the rule.

Today, Missouri has triple the number of payday loan shops as Illinois, although the neighboring state has double the population. Missouri has 1,275 such shops, compared with 422 in Illinois.

People on both sides of the payday loan debate understand why a person, threatened with a utility cutoff, would agree to 15 or 20 percent interest on a single, two-week loan.

Some customers have nowhere else to turn. Banks generally won't make such small-dollar loans, although a few St. Louis credit unions are now tiptoeing into the business. Low-income borrowers generally don't qualify for credit cards.

"Financially strained" appears to be an apt description of the typical user. The average payday borrower earns a bit under $25,000 per year, according to a 2007 survey by the Missouri Division of Finance, which licenses the industry.

As payday lenders point out, the loan shop's fee can be lower than the $30-plus charge for bouncing a check at a bank. Banks charge such fees for each bounced check, no matter how small, so the charges can add up fast.

The real problem, say consumer advocates, is that most borrowers can't pay off the loan in two weeks. They end up renewing and renewing — paying 15 to 20 percent each time.

"Desperate, unknowing people can get caught up in a downward financial spiral and end up in a worse condition," says the BBB's Corey.

But payday industry officials say stories of consumers forced into a cycle of indebtedness are the exception. "Ninety percent of our customers use the product as intended and for them; we're a godsend because we helped them out of a jam," Linafelt says.

For much of the decade, payday lending has been growing. It's now a $40 billion industry made up of roughly 23,000 lenders, according to researchers at Stephens Inc., a brokerage in Little Rock, Ark.

But the recession has proved difficult even for payday lenders. High unemployment means fewer people with jobs who can take out a payday loan, while the downturn continues to spur consumers to save and reduce their debt.

Loan volume is down this year, both at Quik Cash shops and throughout the industry, says QC spokesman Linafelt.

TRAPPED

Community activist group ACORN says payday loans are a form of predatory lending. But even one of its members found himself visiting the payday shop.

James Houston, 33, lives with two of his children in St. Louis' Carondelet neighborhood. He's employed as a full-time organizer for ACORN and works odd jobs as a janitor on the side.

Houston's loan trouble began when he needed money for groceries. "I took out a loan for that, and that was $300." He couldn't pay on the due date, so he rolled it over, paying another large fee.

Later, he took out other payday loans to cover other expenses. With charges constantly rising, he now owes about $1,450 on multiple loans.

"It was like I was paying half my paycheck to the payday loan," says Houston, who earns $25,000 to $30,000 a year. "I've stopped paying them because I've not been able to. I have not had the money."

In Missouri, the average loan, which was $290, rolled over 1.7 times last year. Many borrowers come back several times a year. After paying off a loan, some can't make it to the next payday without borrowing again.

Studies in Florida and Oklahoma show that more than 80 percent of borrowers take out more than one loan a year. Of those repeat borrowers, nearly nine in 10 will pay off the first loan and then take out the second loan before their next paycheck, according to Center for Responsible Lending.

In fact, the payday industry is betting on that. The center estimates 90 percent of payday lenders' revenue comes from loans that are rolled over or reissued shortly after they are paid off. The typical borrower pays back $793 for every $325 borrowed, the report said.

For those that constantly rollover, the price is high. Interest rates are usually compared by "annual percentage rate" — the percent a borrower would pay in interest if the loan was kept an entire year. In Missouri, the average payday APR rate is 431 percent. Consumer advocates have been pushing for a 36 percent APR cap on such loans.

"That would in effect ban payday lending," said QC's Linafelt.

So far, tighter loan rules haven't emerged as a major priority among Missouri lawmakers. A pair of Senate and House bills this year would have allowed a 15 percent charge for a 30-day loan, then only 3 percent per month thereafter.

Neither bill made it out of committee.

Firms active in nursing homes

By Jim Gallagher
ST. LOUIS POST-DISPATCH
Sunday, Aug. 16 2009

In 2006, Missouri health and senior service inspectors noticed payday lending being offered in some nursing homes. The customers? Nursing home employees.

Missouri only allows health-related businesses to operate in nursing homes, a rule designed to focus employees on patient care. Then-Gov. Matt Blunt said payday lending should be purged from such facilities.

Today, the payday operations are still there.

The arrangement seems to be unique to Missouri. Officials at the national trade association for payday lenders, as well as advocacy groups who oppose them, say they are unaware of payday shops in nursing homes elsewhere. The payday lenders
in the Missouri homes do not lend to the nursing home residents.

Unlike other payday loan operations, the lender can deduct borrowed money directly from the paychecks of nursing home workers, according to a report by the Better Business Bureau of St. Louis.

"They're really enslaving employees this way. It's possible that an employee doesn't get a paycheck" because they owe too much in loans, said BBB spokesman Chris Thetford.

The bulk of payday lending in nursing homes are done by two lenders, N&R and Rapid Payday Loans. The lenders, both based in Sikeston, Mo., have ties to nursing home operators.

In September 2006, the Blunt administration said the shops would have to go. What followed, apparently, was a lot of conversation.

"The discussion has been going on for some time," said Kit Wagar, spokesman for the health department. "Everyone involved was trying to avoid a drawn-out lawsuit."

The talks apparently produced a deal in which nursing home owners will continue
making high-interest payday loans to their employees — but via computer rather than face-to-face.

"If they want to allow their employees to go online, we don't have any regulatory authority to stop them," said Margaret Donnelly, director of the Department of Health and Senior Services and a former Democratic state representative from Richmond Heights.

The arrangement was negotiated directly with Sikeston-based nursing home operator Health Systems in December, Donnelly said. Jane Drummond, health director under Gov. Blunt, did not return phone calls.

Still, does the department feel that payday lending is a good idea in nursing homes? "We can't really enforce regulations based on a philosophy like that," said Wagar. "We're not making a judgment about the industry. We're making a judgment about patient protection."

Gov. Jay Nixon has been critical of the payday loan industry, calling it "legal loan sharking." But he also received at least $46,500 in campaign contributions from nursing homes operated by Health Systems. Donnelly said the contributions had nothing to do with the nursing home matter because the agreement had been reached when Nixon took office.

James Lincoln, the president of Health Systems, also is president of N&R, the payday loan operator in 39 of Health Systems' nursing homes. Lincoln did not return phone calls.

Donald Bradley Bedell, chief executive of the nursing home operator Health Facilities Management, also did not return phone calls. Bedell is listed as president of Rapid Payday Loans, which has licenses for payday lending inside 35 homes, including at least some operated by Health Facilities Management.

Most of the homes offering payday lending are in rural Missouri. St. Louis-area homes with payday licenses include Bellefontaine Garden in north St. Louis County, Warrenton Manor in Warrenton and Abbey Care Center in Normandy.

The BBB and the Missouri Division of Finance, which licenses payday lenders, say they have received no formal complaints from nursing home employees.

ATTACHMENT B

MSN.COM
And now, a fee to pay your bill

Even if you settle that phone or cable bill on time, you might be dinged for doing so. Here are some companies' nickel-and-dime strategies -- and how to beat them.

By Karen Aho

Add another to the list of far-out fees: one for paying your bill. On time.

Say you like to give your financial details to a real person rather than a machine. That'll be $5. Or maybe you prefer, or need, to hand your money to someone at the phone or cable company at the last minute to avoid having service cut off. That'll be $5.

Though the practice may sound absurd, it's hardly a surprise given today's blossoming market for creative fee finding. As companies strive to keep listed prices low and earnings high, fees have become a quick and handy back-end way to raise revenue. (See "The 12 most outrageous fees.")

The latest: charges for simply paying your bill.

- **Talk back:** What ridiculous fees have you seen?

Increasing numbers of public utilities have outsourced their customer service, removing the option of paying a bill in person on its due date for free. Now, third-party payment centers may charge more than $10 in some states. The majority of cell phone and cable companies now charge for any contact with a customer-service agent.Whether it's too late to mail a check, you can't bank online or you just don't trust your account numbers to a machine, no matter. Fees are your future.

"They're billing you for the luxury of paying them," said Harvey Rosenfield, the founder of Consumer Watchdog, a nonprofit advocacy group. "It's increasingly prevalent."

Just passing along the cost of service

Telecommunications companies provide little explanation for these charges, if any. T-Mobile USA, a cellular carrier with 30 million customers and profits of $1.57 billion in 2007, would not give any reason for its $5 charge. When the companies do explain, it's like this: It costs us money to provide this payment option, so we pass the cost along to users to keep our prices competitively low.

In a typically worded answer, Patrick MacElroy, a spokesman for Cablevision Systems, said, "If a customer elects to use the assistance of a customer-service representative on the phone, there is a $5 fee."

Video on MSN Money

Automatic bill pay: A good idea?

Paying your bills online not only saves money, but trees, water and all kinds of other resources. But making electronic payments, especially automatically, carries some unique problems, too.

Not every company charges, at least not now. Sprint Nextel, trying to overcome a reputation for poor customer service (it ranked poorly in MSN Money's Customer Service Hall of Shame), says it won't penalize customers this way. "We certainly want to make it easier for our customers to pay in the payment method that's easiest for them," spokeswoman Roni Singleton said.

Even inside their own stores, companies are now sending customers to self-serve kiosks to pay bills with a machine. At least one company, AT&T Wireless, says outright that it will charge $5 to customers who insist on using a store clerk's time to process a bill when a kiosk is available.

Nationally, here's what the large telecommunications companies are charging customers to pay bills.

Television, Internet and digital phones:

- Comcast: $4 (average; cost may vary by market) to pay by phone with a live agent. Its automated system is free.
- Time Warner Cable: $5 in a very few markets to pay by phone with a live agent; free in most locations. Its automated system everywhere is free.
- Cox Communications: $5 (average; cost may vary by market) by phone with a live agent. Its automated system is free.
- Cablevision Systems: $5 by phone with live agent. Its automated system is free.
- Charter: $1.99 by phone with live agent. Its automated system is free.
- Verizon Telecom: $3.50 to pay by phone with an automated system. Single bill payments are processed by a third-party vendor that does not use live agents.
- Qwest: no charge.

Cell phones:

- Verizon Wireless: $3 to pay in person at an authorized payment center. There's no charge at self-serve kiosks in Verizon stores.
- AT&T Wireless: $5 to pay by phone with a live agent. Its automated system is free. There's a $5 fee to pay through a clerk at a store; payments are free at self-serve kiosks.
- T-Mobile: $5 by phone with a live agent.
- U.S. Cellular, Sprint Nextel, Alltell, Qwest and Vonage: no charges.

Power for the powerless

Across the country, nearly 25% of utility customers pay their bills in person. But utilities are closing payment offices to save money, urging customers to pay online and sending cash customers to third-party check-cashing centers that tack on extra fees. In states that don't regulate these centers, the fees can be as high as $12.95 to process a single bill.

And even in states that cap the fees, the payment centers are eager to lend money, at high interest rates, to people who don't have enough to pay their bills.

Florida's third-largest public power utility recently decided to shutter its downtown payment center, where a quarter of its 100,000 customers pay their bill each month. Customers paying by check or cash at the last minute will have to go to one of 41 payment centers and pay an additional fee of at least $1 for same-day credit at the utility company.

Continued: Customer-service jobs cut

The move will let the utility cut nine customer-service positions and save $363,000 a year. Officials told The Ledger, a Lakeland, Fla., newspaper, that it costs $2.74 to process a payment in person, 74 cents by mail and 22 cents online.

"If a low-income family is paying their utility bill on time, why should we penalize them extra if they're paying on time?" asked Roberto G. Quercia, the director of the Center for Community Capital at the University of North Carolina at Chapel Hill. "It just happened that they don't have the services you and I have, so they are forced to talk to a live person."

How to avoid fees for paying your bills

- Try to pay online. If you're worried about identify theft, know that today online financial transactions are considered more secure than those by mail. If you don't have a computer, use one at a library, community center or senior center. There's a good chance you can even find someone there to help you. If you need to pay your bill at the last minute, ask your utility company or bank to help you set up automatic bill pay, which lets you choose the day the money is drawn from your account. Or find a computer to jump on at the last minute. (For more tips, see "Streamline your finances in 8 steps.")
- If you encounter trouble using an automated phone system, hang up, redial a customer-service agent and explain the problem. Remember, companies want to retain customers and are interested in improving their automated systems. If you still can't use it, explain that you tried and that because the automated service is essentially unavailable to you, you require another free alternative
- Avoid excess third-party fees. If you must pay in person, ask the utility company for the location of an authorized payment center. Often companies have arranged for a limit on the fee its authorized payment centers can charge customers -- for instance, $1 for a cable payment or $2 for a cell phone payment. Steer clear of others.

Though you may depend on your cell phone and say you couldn't live without cable, these are not true public utilities. Cell phone companies are subject to regulation in only 19 states, and it is generally only the basic service rates of cable companies that are overseen by government. In both cases, fees are left to the market alone.

So what can you do? You've got two options, neither especially satisfying:

- Complain. That seems to be the general wisdom. "I'm a proponent of calling the corporate CEO/president's office and leaving him or her a message if switching isn't an option," Rosenfield said. "They should not be making profit on fees. They should be making profit on the sale of phone services. That's what they do for a living."
- Switch to a company that doesn't play the fee game. U.S. Cellular President and CEO Jack Rooney, when asked whether his company charges for bill payments, said: "Absolutely not. We think it is absurd that someone should pay extra just for paying their bill."

Why it matters

Fees have a bad habit of breeding. Just look at the airlines today. Or the banks.

Fees began as a method to nudge customers into less costly behavior, said Matt Fellowes, the project director at The Pew Charitable Trusts. (It costs a company $5 to $7, on average, for an agent to process a bill payment over the phone versus $1 to $2 for an automated system, according to Jupiter Research.)

Video on MSN Money

Automatic bill pay: A good idea?

Paying your bills online not only saves money, but trees, water and all kinds of other resources. But making electronic payments, especially automatically, carries some unique problems, too.

But along the way, "these institutions discovered that there's actually opportunity to build revenue off those consumers that won't be nudged," Fellowes said. "So the fees became not just punitive for these individuals, they became kind of profit drivers for these institutions." (Banks raked in nearly $40 billion in fees in the States last year; credit card fees accounted for $18.1 billion.)

Look at Verizon Wireless. In 2007, it contracted with CheckFreePay to process in-person bill payments outside Verizon stores. Customers pay for the service through a $3 fee. But at times the company receiving the bill also takes a cut of that processing fee, something Verizon Wireless says it is now doing. Verizon spokesman Tom Pica said he didn't know how much of the $3 fee Verizon was pocketing, only that it was "a small portion."

"Turning your back on the person who's in a bind because they forgot to mail their check in or they're nervous about using the phone system -- it's not very socially conscious. And it's also setting the stage for then when you need access to that service, it will be gone," said Rick Jurgens of the National Consumer Law Center. "We all have a common interest in demanding and hoping that there will be a minimum standard set for customer service. . . . Instead, we have this death-race spiral to the bottom."

Published Aug. 5, 2008

http://articles.moneycentral.msn.com/SmartSpending/ConsumerActionGuide/AndNowAFeeToPayYourBill.aspx?page=all

ATTACHMENT C

WALL STREET JOURNAL AUGUST 30, 2007

Alternative Way to Pay Utility Bills Draws Fire
Use of Check-Cashing Shops, Critics Say, Exposes Customers To Lure of High-Interest Loans

Retired high-school math teacher Cynthia Elgar often pays her bills online, but when she got a disconnection notice from her Phoenix electric utility, Arizona Public Service, she realized a payment had gone awry somehow. In the past, she would have scooted over to a nearby utility office to make the late payment.

But the utility has shut down most of its neighborhood offices and relies on a network of retail stores and check-cashing facilities to receive in-person payments. APS directed Ms. Elgar to a Cash & More storefront in Phoenix. There, she waited along with fellow customers engaged in transactions such as cashing checks and getting short-term, high-interest "payday loans" -- a business that consumer advocates say often preys on low-income people in dire financial straits.

"Why APS needs to use this sort of place to accept payments, I don't know," she says.

It is an experience that is increasingly common for utility customers. Across the U.S., utilities have shut down scores of customer-service centers in recent years and turned to retail outlets to take payments, in order to save money. Many of these locations are check-cashing centers, which cater to mainly low-income customers who don't use traditional banks, providing services such as loans and wire transfers on a fee basis.

The trend has sparked criticism from utility customers, regulators and consumer advocates. Customers say they miss the local centers where they were able to get personal service, such as arranging special payment plans. And some are simply uncomfortable going to check-cashing facilities.

But perhaps of greatest concern is that check-cashing facilities may be using utilities to build foot traffic, so they can steer consumers into expensive and addictive loan products that can carry annual interest rates in excess of 400%. At least one operator of check-cashing centers says that a number of customers who come in to pay utility bills also wind up taking out a payday loan, which is a short-term loan tied to the borrower's next paycheck.

Some regulators and utilities are starting to hear consumers' concerns. Arizona's utility commissioner, Kristen Mayes, says that "at a time when utilities are raising rates, it seems inappropriate to encourage people to use payday loan centers" to pay their bills.

Arizona Public Service, a unit of Pinnacle West Capital Corp., has severed its arrangement with check-cashing facilities and no longer tells customers to make payments at them. Tucson Electric Power says it can't go that far yet, because it would leave customers no in-person payment points. Instead, it's looking to broaden its network of payment locations. "We have a pretty close relationship with low-income advocates, and we've heard their concerns loud and clear," says Joe Salkowski, spokesman for Tucson Electric Power, a unit of Unisource Energy Corp.

That leaves many other utilities still relying on check-cashing centers.

Widespread use of check-cashing facilities didn't attract much attention until lately, mostly because only recently have these businesses branched into high-interest payday loans, which are legal in 38 states. In California, about 2,500 retail locations are licensed to make payday loans. Last year, 952,000 payday loans were made in the state, with a value believed to be about $2.5 billion, according to the California Department of Corporations, which licenses payday lenders. Most people who took out a loan wound up taking out multiple loans.

In a report issued in June, the National Consumer Law Center, a nonprofit research organization, said it identified 650 payday-loan companies that take payments for 21 large utilities. It accused them of using the utility customers to push other products. It said the characteristics of those who pay bills in person -- "low-income, minority, female, elderly" -- make them "prime targets for payday lenders," and it urged utilities to sever those arrangements.

Pacific Gas & Electric Co., the big San Francisco utility unit of PG&E Corp., uses 430 "authorized neighborhood payment centers" that take payments for PG&E, including several dozen that also make payday loans.

PG&E didn't recruit the retailers. It contracted with CheckFree Corp., Norcross, Ga., to put together the retail network. CheckFree has 11,000 agent locations in the U.S. that accept walk-in payments for utilities, auto lenders, credit-card companies and insurance firms. It also operates an electronic billing and payment-processing network that serves banks and other big institutions. Earlier this month, CheckFree agreed to be acquired by Fiserv Inc., Brookfield, Wis.

Like many utilities, PG&E makes the transactions free to its consumers. It pays CheckFree about 60 cents for each transaction and prohibits CheckFree or its affiliates from charging utility customers directly. CheckFree's network of retailers in Northern California handled 4.47 million payments for PG&E last year valued at about $648 million, according to the utility, or 7.4% of all PG&E bills paid.

But increasingly, the cost for transactions is being shifted onto consumers. CheckFree says it collects fees from consumers on 47% of the bill payments it forwards to various clients -- and it thinks the trend is for consumers to pay fees, more and more.

ACE Check Cashing, which operates check-cashing centers in all 38 states in which payday loans are legal, is a payment point for CheckFree. At a kiosk located in a Pak 'n Save store in Oakland, Calif., one of ACE's 1,700 retail locations, it offers payday loans costing $15.50 for each $100 borrowed for a 14-day term -- equating to annual interest of 404%, according to a sign that is posted there.

Eric Norrington, senior vice president of government relations for ACE, which is closely held, says a recent analysis conducted for the company of 602,524 payments collected for utilities showed that 5,823 of those payments were made by people who also took out payday loans the same day.

Mr. Norrington says his firm offers convenience to consumers, to make payments or take out loans. "A story we often hear," he says, "is 'I need to get my car out of the shop today so I can get to work tomorrow or I'll lose my job.' "

Indeed, some customers combine bill paying with the opportunity to take out a loan. School-bus driver Cynthia Veatch went to a Phoenix payday-loan center last spring. She borrowed $450, after she paid $75 in fees. But when the loan came due two weeks later, she didn't have enough money in her bank account.

She took out a new loan, again paying the $75 fee. Eventually, Ms. Veatch got it paid off and said in early August she was "relieved" not to owe money anymore. She used part of the initial loan to pay her utility bill.

Southern California Edison, a unit of Edison International in Rosemead, Calif., says it closed most of its utility offices in 1996 and now relies on 380 alternative payment points to take in more than 600,000 customer payments each month, about 15.5% of Edison's total. It says it surveys consumers and has found that 88% say they are happy with the arrangement.

Neither PG&E nor Edison has looked to see if there is a connection between utility payments and payday loans. "What we're trying to do is offer convenient locations where people can make payments," says Jon Tremayne, a PG&E spokesman. He says it is better for people to use a local neighborhood payment center, where PG&E picks up transaction costs, than to rely on unauthorized payment points, such as liquor stores, that forward payments in exchange for fees that sometimes run several dollars. "We don't have any control of those transactions," he says.

Write to Rebecca Smith at rebecca.smith@wsj.com

Corrections & Amplifications:

ACE Cash Express Inc., of Irving, Texas, operates in 38 states, some of which don't permit payday loans. This article incorrectly identified the company as ACE Check Cashing and said it operates stores in the 38 states that permit payday loans.