

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the Application of Southern )  
Pioneer Electric Company Seeking Waiver of )  
Minimums Standards for Payment Methods for ) Docket No. 18-SPEE-241-TAR  
Utility Bills and Allowing the Acceptance of )  
Credit Cards and the Approval of Revision to their  
Schedule of Fee Related to the Assessment of  
Credit Card Convenience Fees

**NOTICE OF FILING OF STAFF REPORT AND RECOMMENDATION**

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and for its Notice of Filing of Staff Report and Recommendation states as follows:

1. Staff hereby files the attached Report and Recommendation dated July 3, 2018, recommending Southern Pioneer be allowed to incorporate the cost of processing credit card transaction into its cost of service and request that those costs be recovered through base rates from all customers in its next general rate case after historical credit card transaction data is available. Until such rate case, Staff recommends Southern Pioneer be allowed to establish a regulatory asset to record its credit card processing transaction costs. Further, Staff recommends the Commission grant Southern Pioneer a waiver from Section D(2) of the Payment Standards and from the portion of Section I(2) that states, "Customers not paying with credit cards shall not be burdened with the truncation costs of customers utilizing these payment methods." Such waiver is necessary for Southern Pioneer to eliminate its credit card convenience fee and recover credit card transaction costs through base rates from all customers and still follow the Commission's rules and regulations.

WHEREFORE, Staff requests the Commission consider its Report and Recommendation, and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "P. Anshutz", is written over a horizontal line.

Phoenix Anshutz, #27617  
Litigation Counsel  
Kansas Corporation Commission  
1500 SW Arrowhead Road  
Topeka, Kansas 66604  
(785) 271-3312 (Telephone)  
E-mail: [p.anshutz@kcc.ks.gov](mailto:p.anshutz@kcc.ks.gov)  
For Commission Staff

# STATE OF KANSAS



CORPORATION COMMISSION  
UTILITIES DIVISION  
1500 SW ARROWHEAD ROAD  
TOPEKA, KS 66604-4027

PHONE: 785-271-3220  
FAX: 785-271-3357  
<http://kcc.ks.gov/>

GOVERNOR JEFF COLYER, M.D.

SHARI FEIST ALBRECHT, CHAIR | JAY SCOTT EMLER, COMMISSIONER | DWIGHT D. KEEN, COMMISSIONER

## REPORT AND RECOMMENDATION UTILITIES DIVISION

**TO:** Shari Feist Albrecht, Chair  
Jay Scott Emler, Commissioner  
Dwight D. Keen, Commissioner

**FROM:** Josh Frantz, Senior Research Economist  
Lana Ellis, Deputy Chief of Economics and Rates  
Bob Glass, Chief of Economics and Rates  
Jeff McClanahan, Director, Utilities Division

**DATE:** July 3, 2018

**SUBJECT:** Docket No. 18-SPEE-241-TAR: In the Matter of the Application of Southern Pioneer Electric Company Seeking Waiver of Minimum Standards for Payment Methods for Utility Bills and Allowing the Acceptance of Credit Cards and the Approval of Revisions to Their Schedule of Fees Related to the Assessment of Credit Card Convenience Fees

### **EXECUTIVE SUMMARY:**

Southern Pioneer Electric Company (Southern Pioneer) is requesting approval from the Kansas Corporation Commission (Commission) to make changes to its policies regarding bill payment via credit and debit card (collectively referred to as "credit cards") and is requesting a waiver from the Commission's Minimum Standards for Payment Methods for Utility Bills and Allowing the Acceptance of Credit Cards by Kansas Jurisdictional Electric, Natural Gas, and Water Utilities (Payment Standards) so that it may implement its proposal.

Southern Pioneer's proposal eliminates the \$3.95 convenience fee per transaction that customers are currently charged when using a credit card for bill payment and eliminates the \$500 limit applied to credit card transactions. Southern Pioneer's proposal includes revisions to its Schedule of Fees to reflect the removal of the convenience fee. To continue to recover its costs incurred from the processing of credit card transactions, Southern Pioneer is requesting approval to incorporate the transaction cost of credit cards into its cost of service. Because of its concerns over potentially high credit card transaction costs from non-residential customers, Southern

Pioneer has proposed to limit eligibility for bill payment via credit card to only residential customers.

In support of its proposal, Southern Pioneer cites to increased usage of credit cards as a method of payment and to its own customer satisfaction surveys, through which Southern Pioneer has received negative criticisms regarding its electronic payment convenience fee. Southern Pioneer also notes that Westar Energy (Westar) and Kansas City Power & Light Company (KCP&L) have Commission-approved policies that are similar to its proposal.

Commission Staff (Staff) has reviewed Southern Pioneer's proposal and recommends that Southern Pioneer be allowed to eliminate its credit card convenience fee and revise its Schedule of Fees accordingly because, under the proposal, most credit card transactions will cost less than the current convenience fee to process. However, Staff does not recommend exclusion of any customer class from bill payment via credit card, as Staff's analysis shows limiting eligibility to only residential customers would be unreasonably discriminatory.

So that Southern Pioneer may recover the costs of processing credit card transactions, Staff recommends Southern Pioneer be allowed to incorporate those costs into its cost of service and request that those costs be recovered through base rates from all customers in its next general rate case after historical credit card transaction cost data is available. Staff recommends Southern Pioneer be allowed to establish a regulatory asset to record its transaction costs for credit card processing until such a rate case.

Because credit card transactions have increased in popularity and most other types of businesses and service providers (including KCP&L and Westar) offer customers a credit card payment option without charging a fee, Staff recommends the Commission grant Southern Pioneer a waiver from certain parts of the Payment Standards: specifically, Section D(2) and a portion of Section I(2), which require that transaction costs associated with "nonzero fee payment alternatives"<sup>1</sup> should be exclusively borne by the users of such payment methods and that customers who do not pay by credit card should not be burdened by the transaction costs of customers who do. Such a waiver is necessary for Southern Pioneer to compliantly eliminate its credit card convenience fee and recover credit card transaction costs through base rates from all customers.

### **BACKGROUND:**

Currently, Southern Pioneer accepts credit cards as a method of payment for service from all retail customers. When a Southern Pioneer retail customer uses a credit card to pay for electric service, the customer is charged a convenience fee of \$3.95 per transaction. There is a dollar limit of \$500 per credit card transaction, but there is no limit to the number of transactions per billing cycle.

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<sup>1</sup> Section (B) of the Payment Standards defines a "nonzero fee" payment method as "any payment method for which the utility or its authorized agent proposes to charge a fee above the actual amount of the utility bill being paid."

## **Application**

On December 8, 2017, Southern Pioneer filed an Application for the purpose of seeking: (i) approval to make certain revisions to its Schedule of Fees related to the assessment of credit card convenience fees as contained in its Commission-approved rules and regulations; and (ii) a waiver of Sections (D) and (I)(2) of the Commission's Payment Standards, which require that transaction costs associated with "nonzero fee payment alternatives" should be exclusively borne by the users of such payment methods and that customers who do not pay by credit card should not be burdened by the transaction costs of customers who do.

## **Southern Pioneer's Proposal**

### ***Elimination of the Convenience Fee and Transaction Limit***

Southern Pioneer's proposal eliminates the \$3.95 convenience fee and \$500 transaction limit for credit card transactions. Southern Pioneer is eliminating the convenience fee and transaction limit because it wishes to bring its billing practices into line with the practices of other industries, as well as the practices of KCP&L and Westar. Southern Pioneer cites to increased usage of credit cards as a method of payment and to its own customer satisfaction surveys, through which Southern Pioneer has received negative criticisms regarding its e-payment convenience fee.

### ***Change to Schedule of Fees***

Southern Pioneer is proposing to completely remove the "Bill Payment" section from its Schedule of Fees as, if its proposal is approved, there would be no direct fees associated with bill payment.

### ***Eligibility Restricted to Residential Customers***

Even though Southern Pioneer's proposal eliminates the convenience fee directly charged to customers, there are still fees incurred for accepting credit cards. By removing the \$3.95 convenience fee, Southern Pioneer would switch from a Fixed Fee module to a Standard Fee module (which includes Interchange, Assessment, Transaction, and Other Fee charges). The amount of the Standard Fee is calculated via a complex process and may vary between different forms of payment and among different credit card companies (the primary two being Visa and Mastercard).<sup>2</sup> Because of software limitations on the part of the National Information Solutions Cooperative (NISC), Southern Pioneer's payment processor, Southern Pioneer is unable to implement the Standard Fee module for one subset of customers and continue the Fixed Fee (i.e., convenience fee) module for others.<sup>3</sup> This is why Southern Pioneer has concerns about potentially large transaction fees from non-residential customers (large commercial, in particular) under the

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<sup>2</sup> "NISC has advised that 75% of the credit card transactions processed by First Data for NISC members is some form of VISA with the balance MasterCard and very few Discover, and Pioneer/Southern's would be consistent with that split." (Response to Staff data request 3.)

<sup>3</sup> Magnison Direct, p. 7.

Standard Fee module<sup>4</sup> and has, therefore, proposed to limit acceptance of credit cards to residential customers only.

### ***Cost Recovery through Base Rates***

Under Southern Pioneer's proposal, Southern Pioneer would pay the transaction cost to accept credit cards from residential customers and incorporate that cost into its cost of service. That transaction cost would then be recovered through base rates from *all* residential customers, not just those utilizing credit cards, either in Southern Pioneer's next general rate case and/or in the annual updates to its Commission-approved formula-based rate (FBR) program.<sup>5</sup>

### ***Payment Standards Waiver***

In order to eliminate the convenience fee for credit card transactions and incorporate the associated transaction costs into its cost of service, Southern Pioneer is requesting a waiver of Sections (D) and (I)(2) of the Payment Standards, which require that transaction costs associated with "nonzero fee payment alternatives" should be exclusively borne by the users of such payment methods and that customers who do not pay by credit card should not be burdened by the transaction costs of customers who do.

## **ANALYSIS:**

### **Introduction**

Southern Pioneer is asking for Commission approval to change how it handles customers paying their electric bills using credit cards. Southern Pioneer wants to eliminate the fixed fee that customers currently pay when using a credit card to pay their bill and, instead, incorporate the transaction cost of credit cards into its cost of service. Southern Pioneer also wants to eliminate the option of credit card payment of bills by non-residential customers because of its fear that non-residential customers will incur high dollar transaction costs. To implement these proposed changes in bill payment, Southern Pioneer requires the Commission grant Southern Pioneer a waiver from relevant parts of the Payment Standards and approve revisions to Southern Pioneer's Schedule of Fees.

### **Jurisdiction**

The Commission derives its authority to review applications modifying tariffs from K.S.A. 66-117(d), which states, in part, "[N]o change shall be made in any rate, toll, charge, classification or schedule of charges or joint rates, or in any rule or regulation or practice pertaining to the service or rates of any such public utility or common carrier, without the consent of the Commission."

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<sup>4</sup> See Magnison Direct, p. 7.

<sup>5</sup> Magnison Direct, p. 8.

## **Standard of Review**

K.S.A. 66-101b requires every electric public utility to make just and reasonable rules, classifications, and regulations. “Just and reasonable” can be seen as a compromise or balance between the Commission, the Utility, customers, and the public generally. Commission Staff evaluates any proposed tariff revisions made by electric public utilities to determine the justness and reasonableness of the proposed change.

## **Policies of Other Jurisdictional Utilities**

As part of Staff’s review of Southern Pioneer’s proposal, Staff reviewed the credit card policies of other Jurisdictional Utilities for comparison. Staff took the Commission’s previous Orders regarding the acceptance of credit cards into consideration when developing its recommendations in this Docket. Of note, both Westar and KCP&L accept payment via credit card from residential customers without adding a convenience fee to the transaction and incorporate the transaction costs into their class cost of service studies.

### ***Westar’s Credit Card Policy***

Prior to Docket No. 14-WSEE-589-TAR (Docket 14-589), all Westar customers who paid their electric bill using a credit card were charged a fixed convenience fee of \$2.95 with a limit of \$1,000 per transaction. As approved by the Commission in Docket 14-589, Westar received a waiver from section (D) and (I)(2) of the Payment Standards, eliminated the \$1,000 credit card transaction limit, and eliminated its credit card convenience fee model in lieu of an “interchange-plus” credit card fee model (similar to NISC’s Standard Fee model) for its residential customers.

Residential customers incur no convenience fee for credit card transactions; Westar pays the associated costs for credit card processing and incorporates that cost into its cost of service to be recovered through base rates from all residential customers, not just those utilizing credit cards, during a general rate case. Westar also changed the fee paid by its Commercial and Industrial (C&I) customers from \$2.95 per transaction to 3.25% of the transaction amount. However, unlike Westar, Southern Pioneer is unable to offer different fee modules to different rate classes.

### ***KCP&L’s Credit Card Policy***

In Docket No. 06-KCPE-828-RTS (Docket 06-828), the Commission approved KCP&L’s proposal to create a credit card payment option wherein customers could make payments using credit cards without incurring a transaction fee. KCP&L later proposed that the cost associated with those transactions be recovered through its cost of service. The Commission approved KCP&L’s creation of a credit card program with no transaction fee in Docket 06-828 and approved incorporation of the associated costs into KCPL’s cost of service in Docket No. 12-KCPE-764-RTS.

KCP&L only accepts credit card payments from residential customers; however, prior to Docket 06-828, KCP&L did not accept credit card as a method of payment. Whereas, in the instant

Docket, Southern Pioneer is proposing to eliminate the option to pay by credit card for customers who are currently allowed to do so.

### **Benefit-Cost Analysis**

In its review of Southern Pioneer's request to eliminate the credit card convenience fee, Staff weighed the benefits against the costs to determine justness and reasonableness. Staff's benefit-cost analysis is focused on the difference in transaction costs between the proposed Standard Fee and current Fixed Fee modules and the effect of the proposal on different customer classes.

A major component of the Standard Fee is the interchange fee. Although Southern Pioneer witness Magnison states "the greater the rewards or perks, the higher the interchange fee,"<sup>6</sup> in actuality, "Rewards and Signature Cards" are listed among several acceptable card types for the fixed-fee utility interchange level,<sup>7</sup> which is applicable to utility merchants.

Applying the proposed fee module to a sample of 815 December 2017 residential customer credit card transactions,<sup>8</sup> Staff calculated that only 1.9% of those transactions would have resulted in a transaction cost of greater than \$3.95 (the current convenience fee). Under the proposed fee module, the average cost of the sample transactions would have been \$1.14 with a standard deviation of \$0.90. Staff's benefit-cost analysis is broken down further into debit card and credit cards below:

#### ***Debit Cards***

For regulated debit cards,<sup>9</sup> interchange fees are capped at 21 cents per transaction plus 5% of the transaction amount. For unregulated debit transactions, there is a utility debit interchange rate which consists of a fixed amount of \$0.65 for Visa and \$0.45 for Mastercard.<sup>10</sup>

Staff applied the utility debit interchange rates to the average Residential Service General Use monthly bill of \$107.56.<sup>11</sup> This resulted in fees lower than \$3.95:

- \$0.61 for Visa or \$0.62 for Mastercard under the Regulated Debit rate; and
- \$1.00 for Visa or \$0.80 for Mastercard under the Utility Debit rate.

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<sup>6</sup> Magnison Direct, p. 9.

<sup>7</sup> IQM, p. 4.

<sup>8</sup> Data provided in response to Staff data request 2.

<sup>9</sup> The Durbin Amendment (a part of the Dodd Frank Wall Street Reform and Consumer Protection Act) limits transaction fees imposed upon merchants by debit issuers with \$10 billion or more in assets. (Retrieved from <https://www.investopedia.com/terms/d/durbin-amendment.asp> Apr. 5, 2018.)

<sup>10</sup> NISC (2017). *NISC Payment Services Program through First Data & Profit Stars [PowerPoint slides]*. (Provided in response to Staff data request 1.)

<sup>11</sup> Rate-adjusted average bill per customer from Southern Pioneer's 2017 annual FBR filing (Docket No. 17-SPEE-476-TAR).



## ***Credit Cards (Non-debit)***

### ***Residential Customers***

For credit cards (non-debit), there are also interchange levels applicable to utility merchants. For both Visa and Mastercard, the interchange fee at the utility credit level is fixed at \$0.65.

Staff applied the utility credit interchange rate to the average Residential Service General Use monthly bill of \$107.56.<sup>12</sup> This resulted in transaction fees lower than \$3.95: \$1.10 for Visa or \$1.00 for Mastercard.

### ***Non-Residential Customer Classes***

Even if a non-residential customer would not qualify for the fixed-rate utility credit or debit interchange levels, there are also fixed-rate utility business interchange levels.<sup>13</sup> The utility business interchange rate is \$1.50 per transaction. Staff applied the utility business interchange rate to the average General Service Small monthly bill of \$57.66 which resulted in fees less than \$3.95: \$1.80 for Visa or \$1.79 for Mastercard.

Staff also applied the utility business interchange rate to the average General Service Large monthly bill of \$1,003.98.<sup>14</sup> This resulted in a fee of \$2.84 for Visa and Mastercard. Due to the \$500 transaction limit, the General Service Large total convenience fee would be \$11.85,<sup>15</sup> as opposed to a transaction cost of \$2.84 under the proposal.

Because Staff finds the Standard Fee module would lower the cost of most credit card transactions, Staff recommends the Commission allow Southern Pioneer to eliminate the credit card convenience fee.

Furthermore, because of the numerous possible card options and interchange levels, Southern Pioneer has not provided compelling evidence that allowing non-residential customers to pay by credit card under the proposed Standard Fee module would expose Southern Pioneer to unreasonably high transaction costs. Therefore, Staff believes it would be discriminatory for Southern Pioneer to disallow non-residential customers from paying via credit card. Therefore, Staff recommends that Southern Pioneer continue to accept credit card payment from all customer classes.

If, after switching to the Standard Fee module, Southern Pioneer discovers a particular customer class (or classes) is incurring unreasonably high transaction costs, Staff would be willing to expedite the review of such claims when actual transaction data is available.

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<sup>12</sup> Rate-adjusted average bill per customer from Southern Pioneer's 2017 annual FBR filing (Docket No. 17-SPEE-476-TAR).

<sup>13</sup> Applicable to U.S.-issued business, signature business, and business enhanced credit cards as well as U.S.-issued business debit and prepaid cards.

<sup>14</sup> Rate-adjusted average bill per customer from Southern Pioneer's 2017 annual FBR filing (Docket No. 17-SPEE-476-TAR).

<sup>15</sup> \$3.95 per transaction for three transactions.

### **Change to Schedule of Fees**

Because Staff recommends eliminating Southern Pioneer's credit card convenience fee, Southern Pioneer would no longer charge fees directly associated with bill payment. Staff, therefore, recommends approval of Southern Pioneer's proposed changes to its Schedule of Fees which removes the "Bill Payment" section.

### **Recovery of Costs**

In its Application, Southern Pioneer states, "Southern Pioneer will pay the associated costs for credit card processing and incorporate that cost into its cost of service. Southern Pioneer intends to request that this cost be recovered through base rates from all residential customers, not just those utilizing credit cards, in its next general rate case or annual formula-based rate filings, whichever is applicable."<sup>16</sup>

Staff recommends that Southern Pioneer pay the associated costs for credit card processing, then incorporate that cost into its cost of service and request that those costs be recovered through base rates from all customers in its next general rate case. If, however, Southern Pioneer has no historical credit card usage data by the time of its next general rate case application, Staff recommends Southern Pioneer wait until the following general rate case, when historical data is available, to request cost recovery for credit card transaction fees. Staff recommends transaction costs for credit card processing be recorded in a regulatory asset until such rate case.

As stated above, Staff recommends the costs associated with credit card transaction fees be recovered through base rates from all customers in its next general rate case because Staff does not recommend Southern Pioneer be allowed to exclude any customer classes from eligibility. If, however, the Commission finds exclusion of some or all non-residential customer classes to be just, reasonable, and non-discriminatory, Staff recommends that credit card transaction fees be allocated by class on the principal of cost causation.

### **Waiver of Payment Standards**

In order for Southern Pioneer to enact Staff's proposal and be in compliance with the Commission's rules and regulations, Southern Pioneer would need to be granted waivers from sections Section D and I(2) of the Payment Standards.

Although Southern Pioneer has requested a waiver from the entirety of Section (D), Staff believes only a waiver of section D(2), which states that "the costs to the utility associated with accepting nonzero fee payment alternatives should be exclusively borne by the users of such payment methods," would be necessary for Southern Pioneer to enact its proposal. And although Southern Pioneer has requested a waiver of the entirety of Section (I)(2), Staff believes a waiver of only one sentence in Section (I)(2)—"Customers not paying with credit cards shall not be burdened with

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<sup>16</sup> Application, ¶11.

the transaction costs of customers utilizing these payment methods.”—would be necessary for Southern Pioneer to enact its proposal.

Staff agrees that credit card transactions have increased in popularity as a form of payment and acknowledges customers’ concerns over a convenience fee of \$3.95. Most other types of businesses and service providers offer customers a credit card payment option without charging a fee. Additionally, similar waivers have been granted allowing other Kansas utilities to incorporate the cost of credit card transactions into a cost of service rather than directly charge the card-holding customer a convenience fee. For these reasons, Staff recommends the Commission grant Southern Pioneer a waiver of Section D(2) and the portion of Section I(2) of the Payment Standards specified above, so that it may eliminate its credit card convenience fee and recover the costs associated with credit card transactions through base rates from all customers.

### **RECOMMENDATION:**

Because credit card transactions have increased in popularity and most other types of businesses and service providers (including KCP&L and Westar) offer customers a credit card payment option without charging a fee, Staff recommends Southern Pioneer be allowed to eliminate its credit card convenience fee and revise its Schedule of Fees accordingly. Under the proposal, most credit card transactions will cost less than the current convenience fee to process. However, Staff does not recommend Southern Pioneer be allowed to exclude any customer class from bill payment via credit card, as Staff’s analysis shows limiting eligibility to only residential customers would be unreasonably discriminatory.

Staff recommends Southern Pioneer be allowed to incorporate the cost of processing credit card transactions into its cost of service and request that those costs be recovered through base rates from all customers in its next general rate case after historical credit card transaction cost data is available. Until such rate case, Staff recommends Southern Pioneer be allowed to establish a regulatory asset to record its credit card processing transaction costs.

Further, Staff recommends the Commission grant Southern Pioneer a waiver from Section D(2) of the Payment Standards and from the portion of Section I(2) that states “Customers not paying with credit cards shall not be burdened with the transaction costs of customers utilizing these payment methods.” Such a waiver is necessary for Southern Pioneer to eliminate its credit card convenience fee and recover credit card transaction costs through base rates from all customers and still follow the Commission’s rules and regulations.

## CERTIFICATE OF SERVICE

18-SPEE-241-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff Report and Recommendation was served via electronic service this 3rd day of July, 2018, to the following:

THOMAS J. CONNORS, ATTORNEY AT LAW  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
Fax: 785-271-3116  
tj.connors@curb.kansas.gov

TODD E. LOVE, ATTORNEY  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
Fax: 785-271-3116  
t.love@curb.kansas.gov

DAVID W. NICKEL, CONSUMER COUNSEL  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
Fax: 785-271-3116  
d.nickel@curb.kansas.gov

SHONDA RABB  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
Fax: 785-271-3116  
s.rabb@curb.kansas.gov

DELLA SMITH  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
Fax: 785-271-3116  
d.smith@curb.kansas.gov

AMBER SMITH, CHIEF LITIGATION COUNSEL  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604  
Fax: 785-271-3167  
a.smith@kcc.ks.gov

LINDSAY CAMPBELL, EXECUTIVE VP - GENERAL  
COUNSEL  
SOUTHERN PIONEER ELECTRIC COMPANY  
1850 W OKLAHOMA  
PO BOX 403  
ULYSSES, KS 67880-0430  
Fax: 620-356-4306  
lcampbell@pioneerelectric.coop

RANDY MAGNISON, EXEC VP & ASST CEO  
SOUTHERN PIONEER ELECTRIC COMPANY  
1850 W OKLAHOMA  
PO BOX 403  
ULYSSES, KS 67880-0430  
Fax: 620-356-4306  
rmagnison@pioneerelectric.coop

  
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Vicki Jacobsen