STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

In Re. Prepaid Meters	DOCKET NO. NOI-2011-0001

COMES NOW, the Iowa Department of Human Rights, Bureau of Energy Assistance (BEA), Lucas Office Building, Des Moines, Iowa, 50319, and presents the comments set forth below to the Iowa Utilities Board (IUB) with respect to the proposed use of "prepayment meters" for utility bills:

The Interest of BEA in Prepayment Meters and Prepaid Utility Service

1. BEA administers the Low-Income Home Energy Assistance Program (LIHEAP). This federally-funded block grant is designed to aid qualifying households in the payment of a portion of their residential heating costs for the winter heating season. The program's energy crisis intervention components are designed to provide immediate response to alleviate potentially life-threatening situations, and the client education component of the program provides funds for activities that encourage regular utility payments, promote energy awareness and encourage reduction of energy use through energy efficiency, client education and weatherization.
2. BEA's administration of LIHEAP is geared toward ensuring the home energy security of low-income households, with priority on protecting uninterrupted access to affordable energy and utility service for the state's most vulnerable elderly and disabled low-income individuals. In fiscal year 2011,

- 95,018 Iowa households (229,738 individuals) received heating assistance benefits to assist with a portion of their heating costs
- The average statewide heating assistance benefit was approximately $560
- 28.2% of households assisted by LIHEAP have an elderly household member
- 93.3% of households assisted by the Low-Income Home Energy Assistance Program are NOT on welfare, Temporary Assistance for Needy Families (TANF)
- 45.9% of households assisted by LIHEAP have a disabled member
- 24.9% of households assisted by LIHEAP have a child less than 6 years of age
- 60.0% of LIHEAP households are below 100% of federal poverty guidelines
- 70.6% heat with natural gas; 10.2% heat with liquid propane gas; 17.8% heat with electricity; 0.7% heat with fuel oil: 0.3% heat with wood/coal/other
- 69.9% live in single family homes; 30.1% live in duplexes/apartments/mobile homes.

General Comments Regarding Prepayment Meters and Prepaid Utility Service

3. Natural gas and electric utilities in several states have sought to replace traditional credit-based service to some residential customers with prepaid service delivered through prepayment meters or digital meters with remote disconnection capabilities. Prepaid service, as the name implies, requires customers to pay in advance for their service, with prepaid account balances decreasing as service is delivered. In most

instances where prepaid service is delivered, service is automatically suspended when account balances are depleted and before the customer accrues any arrearage. As such, from the utility company perspective, prepayment may be viewed as the ultimate arrearage reduction and elimination tool.

4. In the U.S., implementation of prepaid utility service is concentrated in service territories served by publicly-owned utility systems that are not subject to full regulatory jurisdiction of state utility regulatory commissions. Salt River Project in Arizona and Oklahoma Electric Cooperative deliver large-scale prepayment programs. In Texas, prepaid service delivered through two-way communication, advanced meters is delivered by at least ten Retail Electric Providers in a largely deregulated retail electricity market.
5. New prepayment proposals by investor-owned or privately-held utilities have come in the states of Arizona, Oklahoma, Florida, Mississippi, Louisiana and Arkansas. It should be noted that most existing programs as well as proposed new programs are delivered or are being made in the context of a relatively weak regulatory consumer protection and oversight. Iowa's utility consumer protections, particularly those associated with delivery of deferred payment agreements, are stronger than those of states where prepayment is delivered or currently proposed.
6. Prepaid service proposals that are subject to jurisdictional authority of state utility regulators usually must include a petition for permission to bypass, modify, or eliminate consumer protections regarding service disconnection notifications and timelines. Protections that require companies to offer a reasonable payment agreement as an alternative to service disconnection must also be bypassed by

prepayment proponents. Such protections, adopted in various forms by regulators in every state in the U.S., reflect the fact that electric and natural gas services are uniquely necessary to the health and safety of consumers. Proponents of prepaid service in Iowa have sought legislation to work around these important consumer regulations by defining a remote disconnection of service as a 'voluntary termination'. Prepayment should never undermine the consumer protection framework that has developed over many decades.

7. Companies implementing prepaid service using advanced meters or prepayment meters have little or no incentive to negotiate effective, reasonable payment agreements and to implement programs to assist low income and moderate income consumers with costly utility bills. Such solutions help low- and moderate-income customers pay utility bills in a timely manner while staying connected to utilities that provide essential heat, air conditioning, refrigeration and lighting.
8. As described more fully below, experience in the United States and United Kingdom demonstrates that prepaid metering and billing is generally targeted toward low or moderate income customers that are facing service disconnections for nonpayment. Prepayment results in frequent service disconnections or interruptions, and it is often delivered at a higher rate than traditional credit-based service. In general, prepaid service is offered to customers on what is technically a voluntary basis. However, for a customer facing imminent loss of essential service – often with devastating consequences – there may be willingness to forego consumer protections and access to a reasonable payment agreement to retain service in the short term.

9. Increased remote service disconnections of gas and electric service that come with implementation of prepaid service threaten the health and safety of customers. Particularly vulnerable groups include the elderly, disabled, and low-income families with children. It is well-documented that unwelcome disconnection of natural gas or electricity service sometimes causes house fires or extreme temperatures, which can result in illness and death. Implementing prepaid utility service and the subsequent increased rates of remote service disconnection, increases the risk that such tragedies will occur.
10. Utility companies reap substantial benefits from placing lower-income customers on prepaid service, some coming with added health and safety risk to vulnerable customers and at the expense of the ideal of universal access to basic utility service. With prepayment, utilities may reduce or eliminate paper billing and notification of impending service loss. In addition, customer arrears are eliminated or dramatically reduced. Similarly, risk associated with the write-off of uncollectible accounts is eliminated. Prepayment allows companies to dramatically reduce short-term capital costs including those associated with carrying arrears, credit and collection costs associated with billing and notification of disconnection, and costs associated with customer service representatives and call centers. In short, with prepayment the costs and challenges associated with low-income payment difficulties are no longer the legal concern of the utility company; they rest solely with the low-income customer.

Prepayment Meter Experience in the U.S. – Salt River Project

11. Salt River Project (SRP), Arizona's second largest electric utility and the third largest municipally owned utility in the United States, operates the SRP M-Power

prepayment meter program, the largest program of its kind operating in the United States. The program included 100 customers in 1993 but had grown to 20,000 "budget challenged" participants by April 2002. Currently, over 100,000 customers are enrolled in the Salt River Project program.[1]

12. Lower-income households make up a vast majority of SRP prepayment program participants. In 2010 the median household income of M-Power customers was $17,900.[2] Eighty-two percent of program participants had household income of less than $30,000. SRP does not release data on rates of disconnection among its prepayment customers.[3]

13. Despite the high participation in the SRP program among low-income households, participants pay a rate that is higher than traditional, credit-based service. SRP prepayment customers pay a flat rate per kWh which varies seasonally plus a monthly service charge of $15, which is collected through periodic deductions from the account balance.[4] While summer prepayment and conventional rates and charges are comparable, SPR charges prepayment customers a higher rate during winter months. Thus, assuming consistent consumption levels, prepayment customers – predominantly of lower incomes – pay more than customers using traditional service.[5]

14. While there are no late payment fees, SRP prepayment customers must pay a variety of fees and deposits before obtaining service and after service is established. There is an initial $99 deposit for an in-home display box, as well as a $28 (plus tax) service

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[1] Electric Power Research Institute, "Paying Upfront: A Review of Salt River Project's M-Power Prepaid Program. (2010), p. 1-4.
[2] For a two-person household, $17,900 represents about 122% of the HHS Poverty Guideline.
[3] Electric Power Research Institute at p. 4-6.
[4] Id. at pp. 3-5 – 3-7.
[5] Id. at 3-6. Also see, Randazzo, "SRP's Prepaid Electricity Plan Found to Have Higher Rates," Arizona Republic, July 11, 2010.

establishment fee.[6] There are additional fees if the in-home display needs to be cleaned or replaced. If there is a credit balance remaining when a customer wishes to discontinue service, a $25 fee is charged to obtain a refund. In addition, there are fees charged to customers to use a remote pay center and for some telephone payment activities. NCLC was unable to obtain information detailing how much on average prepayment customers pay in fees on an annual basis.

15. SRP does not release information on the frequency that prepayment customers lose service because they do not have enough cash on hand to "top off" the meter, or because they were unable to get to a remote payment location.

16. In studies designed and conducted or commissioned by SRP, prepayment customers generally report a high satisfaction level with the program. However, the same studies show that customers continue to be dissatisfied with aspects of the program, particularly with payment methods. To re-load the meter, customers must travel to a location with a pay center self-service kiosk. Seventy-one percent of customers surveyed in 2006 said they experienced a problem with an inoperable pay center in the previous year.[7] The longer customers remain in the prepayment program, the more dissatisfied they are with the pay centers.[8] When looking at overall experience, Salt River Project's credit customers reported a better overall experience (50%) compared to prepayment customers (44%) in 2010.[9]

17. NCLC is aware of no SRP customer satisfaction survey that includes questions as to whether customers would prefer the option of paying arrearages through a reasonable payment agreement to taking a service option that entails automatic disconnection as billing credits expire.

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[6] Electric Power Research Institute at 3-5.
[7] Electric Power Research Institute, p. 4-5.
[8] Id.
[9] Id. at p. 4-3.

Prepayment and Texas Retail Electric Provider Fees

18. In the deregulated Texas retail electricity market, numerous Retail Electric Providers (REPs) offer prepaid electric service. The prices, terms and conditions of these products vary, but many involve the imposition of substantial fees on customers. For prepaid power service provided by Pocket Power, there is a one-time activation fee of $120, a $25 processing fee, a $100 fee if an account is terminated within 6 months of activation, a $6.95 monthly account management fee, a $50 - $100 change-of-plan fee, a $60 expedite fee, a $25 insufficient funds fee, a late payment fee equal to 5% of the outstanding balance, a $25 disconnection fee, and a $10 reconnection fee.[10] The REP, Smart Prepaid, charges a $4.95 payment processing fee each time a customer refills a prepaid account balance and a $10.00 disconnection fee.[11]

Prepayment Meter Experience in Great Britain

19. Prepayment meters have become commonplace in Great Britain, which began deregulation of its utility industries earlier than the beginning of experiments in the United States. The number of customers using the systems had nearly doubled between 1990 and 1997. Currently, about 6.2 million residential natural gas and electric utility customers in Great Britain use prepayment meters, representing about 13% of all installed residential meters.[12]

20. Prepayment meters in Great Britain are concentrated disproportionately in lower-income households. Sixty percent of electricity and natural gas customers with

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[10] Pocket Power Terms of Service Statement, p. 2.
[11] Smart Prepaid Electric Terms of Service Statement, p. 3.
[12] Office of Gas & Electricity Markets, "Domestic Suppliers' Social Obligations: 2010 annual Report,"pp. 21, 22 (June, 2011).

prepayment meters in 2010 had annual incomes below £17,500.[13] Further, over half of prepayment meter customers received a means-tested benefit, nearly half had an unemployed head of household, and more than a third had one or more household members with a long-term physical or mental illness or disability.[14]

21. Utilities in Great Britain do not report the number of times service disconnections experienced by customers using prepayment meters or service. However, disconnections for non-payment among credit-based customers are reported to the Office of Gas and Electricity Markets. Not surprisingly, many utility companies have reported a significant decline in the rate of traditional utility-initiated disconnections since the proliferation of prepayment meters in low-income households. However, one study showed that 34% of prepayment meter customers in Great Britain experienced service disconnection at least once during a 12-month period, usually because of a lack of funds.[15] More recently, research indicated that among prepayment customers, 16% had "self-disconnected" at least once over the previous year, 22% had sacrificed other necessities to remain connected to utility service, 45% had cut back on energy usage, and 54% had resorted to use of an "emergency credit" to remain connected to service.[16]

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[13] Mummery, Reilly, Cutting Back, Cutting Down, Cutting Off: Self-disconnection Among Prepayment Meter Users, Consumer Focus, p. 5 (July, 2010).
[14] Id.
[15] National Right to Fuel Campaign, Competitive Energy Markets and Low-Income Consumers 56, 57 (2001).
[16] Mummrey, Reilly, p. 17.

Reasonable Payment Agreements as an Alternative to Disconnection for Nonpayment

22. Iowa adopted a utility payment agreement protocol that serves as a national model. The Iowa protocol includes three essential components for success: a reasonableness standard that includes the consideration of household's income, ability to pay, and any hardship circumstances; a minimum initial repayment term of at least twelve months; and an opportunity for a customer who has made a good faith effort but has been unable to meet the terms of the initial agreement terms to have a second payment agreement with terms at least as favorable as those of the initial agreement.[17]
23. This rule is based on the assumption that most customers are interested in remaining current on their utility bills, but that difficult financial circumstances often lead to payment troubles. The approach allows a customer to retain access to essential utility service without relinquishing consumer protections or living with the fear that paying for other essentials, such as rent or medical care, will result in loss of home energy service.
24. The Iowa payment agreement rule reflects a reasonable alternative to disconnection of service. If implemented properly, customers' total payments for both current usage and arrearage payoff will be more affordable than an approach involving a more onerous arrearage payoff term. As such, it must be viewed as an effective arrearage reduction tool. The rule does not make current bills more affordable, but it creates a more tenable situation for customers who have fallen behind and can make a concerted effort to catch up.

[17] Iowa Admin. Code 199-19.4(10).

25. Unless it includes a substantially discounted rate and monthly bill, prepayment does nothing to make the cost of utility service more affordable for low-income customers. Rather, it is punitive in nature in that it requires low-income customers to make utility payments before other necessities or accept the health and safety risks attendant with loss of service.

26. BEA notes that there exists no public evidence that the Iowa payment agreement protocol is being implemented by all electric and natural gas utilities in the state. We therefore urge the Board to reject any proposal to implement prepaid utility service and order each jurisdictional utility to produce a full record of activities and experience with respect to payment agreements. At a minimum, this record should include the following data points reported monthly and separately for general residential and energy assistance customers:

    a. Number of new payment agreements offered
    b. Dollar value of initial agreements
    c. Number of initial agreements successfully completed
    d. Number of failed initial agreements
    e. Terms of new agreements
    f. Number of second payment agreements offered
    g. Dollar value of second agreements
    h. Terms of second agreement along with terms of initial agreement
    i. Number of second agreements successfully completed
    j. Number of failed second agreements

Summary and Recommendations

- In the U.S., prepaid utility service is concentrated in states and utility service territories with relatively weak consumer protections and payment assistance programming.
- New proposals by regulated utilities come with petitions to bypass existing consumer protections pertaining to service disconnections, disconnection timelines, and disconnection notification.
- Since prepaid service entails disconnection of service as soon as billing credits are exhausted, utilities lose the existing incentives to negotiate reasonable payment agreements.
- Low-income prepayment customers face continual threat of service disruption and health and safety consequences.
- Utility Companies stand to benefit through implementation of prepayment by reducing short term capital and credit and collection costs.
- Experience with prepayment in the U.S. and Great Britain demonstrates that the service is marketed to and concentrated among lower-income households, that prepayment rates are sometimes higher than those of traditional service, and that a range of fees and deposits accompany prepayment service offerings.
- Implementation of Iowa's reasonable payment agreement rules should be documented by the state's electric and natural gas utility companies.
- The entirety of Iowa's regulatory consumer protection structure should be preserved, and any calls to undermine or weaken that structure should be rejected.

- For the reasons set forth above, BEA respectfully urges that the Board reject any proposal to implement prepaid residential electricity or natural gas service in Iowa.

We thank the Board for the opportunity to comment on this critically important matter. Further, BEA respectfully requests the opportunity to appear and participate in the "workshop" in this docket currently scheduled for September 28, 2011. BEA reserves the right to further address the questions discussed above, or questions not discussed above, in its Reply Comments to be filed on or about August 26, 2011 in this docket.

Respectfully submitted:

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ON BEHALF OF:
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