

Prepaid Electric Utility Service:

The Need for Essential Consumer Protections

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Presentation Outline

- 1) Opening premises and assumptions
- 2) Explore prepaid service structure and technology
- 3) Review experience from the U.S. and abroad
- 4) Discuss the policy objectives and benefits that have been associated with prepaid service
- 5) Identify consumer protections needed to ensure that the integrity of participants' home energy security is retained
- 6) Review the menu of program and policy options available to achieve objectives identified by prepaid service proponents



PAYMENT KIOSK

Opening Premises

- ▶ Prepaid utility service proposals require careful review of both technology and policy issues
- ▶ Affordable, reliable utility services are basic necessities for U.S. households
- ▶ Implementation of new utility programs, policies and technologies should enhance home energy security for low-income households
 - ▶ Access to and retention of uninterrupted electricity, heating and water services
 - ▶ Narrowing of the “home energy burden gap” for low-income households

Prepaid Electricity Service Defined

- ▶ Electricity service delivered through a
 - ▶ prepayment meter (becoming obsolete)
 - ▶ digital, “advanced” meter (“smart meter”)
 - ▶ remote disconnection/reconnection capabilities
 - ▶ two-way communication
 - ▶ compatibility with modular software to enable electronic communication of disconnection, consumption, expenditure and account balance information via mobile broadband devices
- ▶ Customer pays for service (and all or a portion of pre-program arrears) in advance of receiving service
- ▶ Customer is remotely disconnected soon upon depletion of account balance
 - ▶ Extreme weather or other conditions may temporarily delay zero-balance disconnection

Evolution of Technology

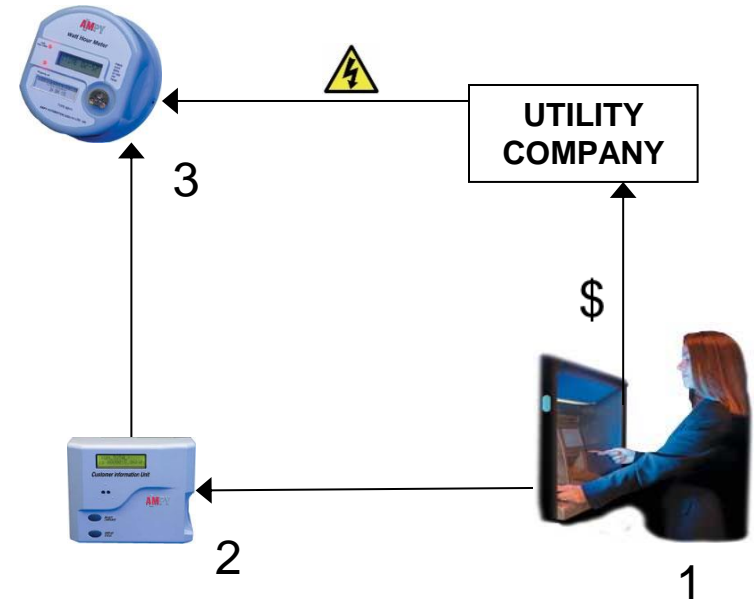
▶ Early technologies

- ▶ Meter engaged by inserting coins or tokens directly into the meter
- ▶ Widespread use in the UK



▶ Intermediate technology

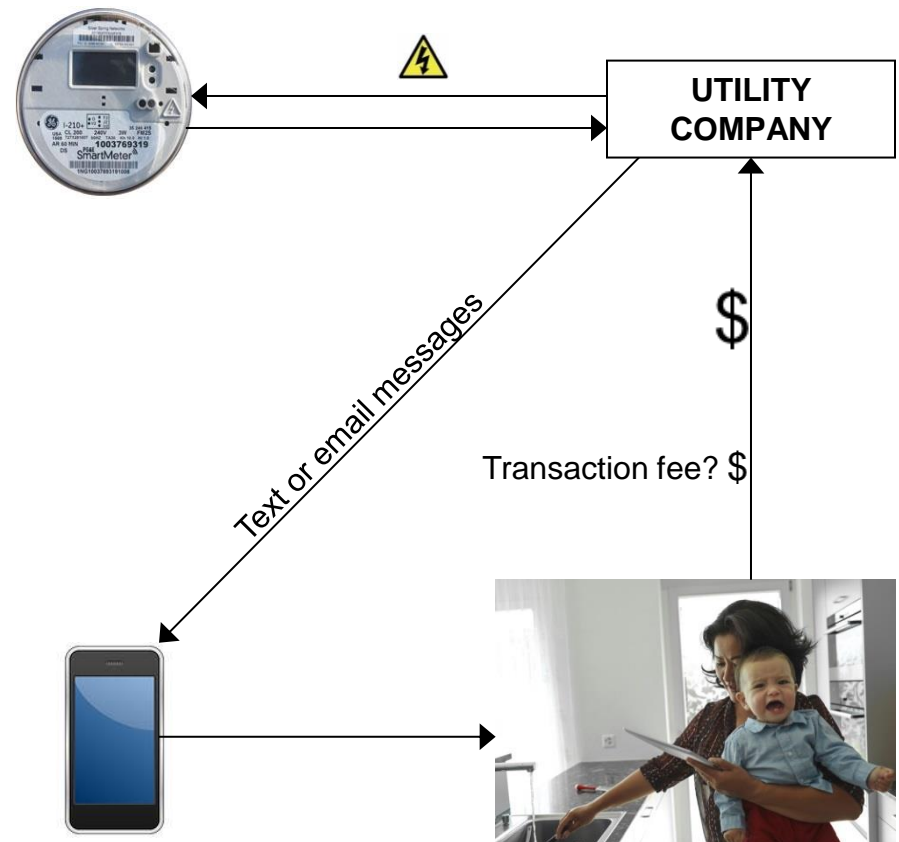
- ▶ Meter engaged using “smartcard”
- ▶ Early Salt River Project
- ▶ Payment kiosks
- ▶ In-home display/activation



Technology (cont.)

- ▶ Current technology
 - ▶ Advanced metering infrastructure + broadband communication module
 - ▶ 2-way communication enables utility tracking of usage in real time
 - ▶ Remote disconnection and reconnection
 - ▶ Modular software enabling account balance and disconnection notifications via customers' broadband devices

*Prepayments made online, by phone or at kiosk
Often with 3rd party transaction fee*



Prepaid Electric Service in the U.S.

- ▶ At least 55 utilities in 20 states operate prepaid service programs
- ▶ Heavily concentrated among
 - ▶ Electric co-ops
 - ▶ Municipal utilities
 - ▶ Retail electric providers (Texas)
 - ▶ Public utility districts
- ▶ Vast majority of U.S. prepaid service programs not subject to state regulatory oversight
 - ▶ Bill payment timeframes
 - ▶ Notification of disconnection by mail
 - ▶ Establishment of payment plans

U.S. Experience (cont.)

- ▶ Mature programs
 - ▶ Arizona
 - ▶ Salt River Project
 - ▶ Texas
 - ▶ Retail Electric Providers
 - ▶ Oklahoma
 - ▶ Oklahoma Electric Cooperative
 - ▶ Small- and medium-sized co-ops, mostly in the southeast and southwest

Salt River Project

- ▶ Largest prepaid service program in the U.S.
- ▶ First initiated in 1993
- ▶ Over 100,000 customers currently enrolled in prepaid service program
- ▶ Participation heavily concentrated among lower-income customers
- ▶ Average disconnection rate of once/month
- ▶ Average payment frequency of 7 payments/mo in peak, summer months
- ▶ Utility and industry studies indicate high customer satisfaction

Great Britain Experience

- ▶ Long-standing prepaid service history
- ▶ Currently 13 percent of customers use prepaid electric or gas service
- ▶ Heavy concentration among low-income households
- ▶ Disconnection rate nearly 10 times higher than post-paying customers
- ▶ History of rates exceeding post-paid rates

Stated Objectives and Benefits of Prepaid Service

▶ Customer

- ▶ No deposit
- ▶ No late payment fees
- ▶ Informational benefits
- ▶ Energy conservation/efficiency

▶ Utility Benefits

- ▶ Reduced arrearages
- ▶ Reduced uncollectible account write-offs
- ▶ Reduced short-term capital requirements
- ▶ Customer service rep savings
- ▶ Disconnection is an effective collection tool

Consumer Advocate Concerns

- ▶ Punitive approach to addressing utility affordability problems
- ▶ Degradation of consumer protection structure for low-income utility customers
- ▶ Hobson's choice for low-income households
- ▶ Very high rates of service disconnection
- ▶ Health and safety threat from insecure, electronic notification of service disconnection
- ▶ Expense of frequent payment transaction fees
- ▶ Inconvenience of frequent payments
- ▶ Reduction or elimination of utility incentives to negotiate effective, reasonable payment agreements
- ▶ Reduction or elimination of utility incentives to implement effective bill payment assistance and arrearage management programs

Energy Efficiency Benefit?

National Geographic:

Ralph Cavanagh, co-director of the Natural Resources Defense Council's energy program, pointed to criteria developed by the National Association of State Utility Consumer Advocates (NASUCA) that he believes can help prevent prepaid service from becoming a “backstop for bill collection.”

“This is an issue of economic justice,” said Jennifer Miller, the Sierra Club's senior campaign representative for energy efficiency. “When they end up saving energy, it's because of how difficult it is to pay. It's deprivation, not conservation. ... Utilities are trying to justify easier billing arrangements for themselves under the guise of energy efficiency and conservation.”

Electricity Policy:

Cavanagh stated, “...prepaid service is inappropriate for low-income and other vulnerable households, even though consumption reduction has been observed in prepaid service customers.”

Cavanagh said, “We do not want what is at least being presented as an energy efficiency approach to be hijacked for that purpose.”

Essential Consumer Protections

- ▶ Secure notification of disconnection by mail
 - ▶ **ELECTRONIC NOTIFICATION OF DISCONNECTION MAY SUPPLEMENT – BUT NEVER SUPPLANT – NOTIFICATION BY MAIL**
 - ▶ **CUSTOMERS HAVING TROUBLE AFFORDING ELECTRIC SERVICE MAY ALSO BE STRUGGLING TO MAINTAIN CELL PHONE OR INTERNET SERVICE**
- ▶ Combined rates and fees should result in total cost that is no higher than that borne by post-paying customers
- ▶ No third-party transaction fees
- ▶ Reasonable, affordable payment agreements should be available to all customers
- ▶ Prepaid rates should be lower than post-paid
 - ▶ Short term capital requirements
 - ▶ Cell phone experience
- ▶ Limitations on marketing to customers facing disconnection for non-payment
- ▶ Limit participation to customers who
 - ▶ Do not participate in LIHEAP or other means-tested energy assistance program
 - ▶ Are not protected from disconnection for reasons of age, health, or disability status

National Association of State Utility Consumer Advocates 2011 Resolution Urging States to Require Consumer Protections as a Condition for Approval of Prepaid Service

“Experience in the United States and United Kingdom demonstrates that prepaid metering and prepaid billing (1) is targeted toward and concentrated among customers with low or moderate incomes that are facing service disconnections for nonpayment, (2) results in more frequent service disconnections or interruptions, and (3) is delivered at a higher rate than traditional credit-based service.”

“Increased service disconnections of vital gas and electric service that come with implementation of prepaid service and prepaid metering threaten the health and safety of customers, particularly those who are most vulnerable to the effects of a loss of service, including the elderly, disabled and low-income families, as detailed in a companion resolution encouraging state legislatures and state public utility commissions to institute programs to reduce the incidence of disconnection of residential gas and electric service based on nonpayment.”

California Public Utilities Commission Rejection of SDG&E Prepaid Service Proposal

“...depending on the communications means chosen (e.g., text message, automated phone message, or e-mail), customers on the proposed Prepay Program might receive no advance notice of termination at all since customers who are behind on their electric bills may also (be) behind on their internet or phone bills. We find that such an outcome is unacceptable.” (Decision 14-01-002)

New York Public Service Commission Affirmation of the State's "Last Knock Rule."

"... we remind the companies that termination of service for nonpayment is subject to Home Energy Fair Practices Act (HEFPA) regardless of whether that disconnection is performed by physical (on site) or electronic (remote) service shut off. No utility may utilize AML for remote disconnection of service for nonpayment unless it has taken all of the prerequisite steps required by HEFPA, including the requirement of 16 NYCRR §11.4(a)(7) that customers must be afforded the opportunity to make payment to utility personnel at the time of termination. This process requires a site visit, even where a remote device is utilized." (Order in Cases 94-E-0952, et al.)

Iowa Utilities Board, In re Prepaid Meters

“The winter moratorium and temperature protections were enacted to promote the public health and welfare. The physical impact on a customer of disconnection is the same regardless of whether energy is paid for in advance or the bill is in arrears. There is nothing about prepaid metering technology that mitigates the physical impact of a disconnection and no reason to exempt prepaid metering from the statutory winter moratorium.”
(Docket No. NOI-2011-0001 (Jan. 19, 2012))

Alternatives and Program Options that More Effectively Meet Policy Objectives

- ▶ Arrearage management programs
- ▶ Reasonable, affordable payment agreements
- ▶ Deposit assistance or regulation
- ▶ Informational benefits of AMI to all customers (not just prepaid service customers) on an opt-in basis
- ▶ Low-income bill payment assistance programs

DISCUSSION



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