



Report

Prepaid Utility Service, Low-Income Customers and LIHEAP

MARCH 2014
Report #1

The ability to make electronic payments for services before using them—by swiping a card or hitting “enter” online—is increasingly common for phones, subway rides and other services.

It is also becoming more common to swipe a card to pay for utility service in advance of consuming it. Prepaid utility service is a new and growing trend, especially among electric cooperatives in the southern United States.

It is not without controversy, as it has both avid supporters and opponents. This report is an overview of prepaid utility service, detailing its history and current status, along with providing perspectives from those who favor it and those who oppose it. It will also look at prepaid utility service in the context of LIHEAP. The report will address the following issues:

1. [What is prepaid utility service?](#)
2. [Pros and cons of prepaid utility service](#)
 - [Benefits to utilities](#)
 - [Benefits to customers](#)
 - [Disadvantages to customers](#)
3. [Prepaid utility service in the United States](#)
4. [Prepaid utility service and LIHEAP](#)
5. [Recommendations to lessen prepaid service's impacts on the low income](#)
6. [Attachment 1: Recommendations to Lessen Prepaid Impacts on the Low Income](#)

1) What is prepaid utility service?

Under prepaid service, customers pay for electricity, and, less commonly, natural gas, in advance,

and their meter tracks the amount they've consumed and how much money they have left in their account.

Prepaid Resources

- [Rethinking Prepaid Utility Service, Customers at Risk](#), National Consumer Law Center, 2012
- [Paying Upfront: A Review of Salt River Project's M-Power Prepaid Program](#), Electric Power Research Institute, 2010
- [Prepaid Energy and Low Income Assistance Programs](#), DFG Prepay Energy Working Group, 2012.
- [Prepaid Energy: A Regulatory Path Forward](#), DFG Prepay Energy Working Group, 2012
- [A Review of Pre-Pay Programs for Electricity Service](#), Policy and Planning Division of California Public Utilities Commission, 2012
- [Texas Electricity Consumers, Beware of REP Fees](#), Texas ROSE, 2013
- [Prepaid Electric Service FAQ](#), Public Utility Commission of Texas
- [The Need for Essential Consumer Protections: Smart Metering Proposals and the Move to Time-Based Pricing](#), AARP, National Consumer Law Center, National Association of State Utility Consumer Advocates, Consumers Union, Public Citizen, 2010
- [Texas LIHEAP Prepayment Policy](#)

Prepaid service was made possible through innovations in metering technology, including replacement of analog meters with digital meters, culminating in what are called Advanced Metering Infrastructure (AMI) meters, or smart meters. AMI is part of an ongoing national “smart grid” movement that seeks to integrate modern technology into the existing electric power grid to improve its reliability, quality and efficiency. A significant part of this is enhancing the ability of various components of the electric grid to communicate wirelessly to the utility and/or to the customer.

Depending on a utility’s level of technological sophistication, upgraded meters can wirelessly transmit electronic meter readings to a utility, thus eliminating the need for on-site reading. They may also have remote disconnection and reconnection capabilities, and they can also allow two-way communication between the utility and the customer.

Most utilities around the country have upgraded to digital meters over the last two decades and some have converted to AMI. Some state regulatory commissions have embraced the smart grid movement; others are still studying its ramifications.

In addition to providing more information to the utility, advanced meters can provide more information to customers about their energy costs and consumption. Through either special in-home devices, the phone or the Internet, customers can access their daily, hourly, or real-time electricity consumption, which provides them more opportunity to analyze and change their energy use.

For example, under one cooperative’s program, meters are read every day at midnight; the utility is told how much electricity was used in the previous 24 hours and the customer’s “bill,” or the amount remaining on his or her prepaid account, is calculated accordingly. The bill includes: electricity used for that day; a day’s worth of the cooperative’s service charge; any program fees; and any other credits or charges on the account. Customers have the option to use the cooperative’s online billing and usage analysis tool (available to all customers), which allows them to monitor and man-

age their energy use through monthly, daily or hourly energy usage reports.

In addition, some utilities operate programs that will send customers a low-balance notice when their account reaches a pre-determined amount. Customers may also choose how the notice is sent (email, text message, phone call and/or all three). Once the customer has depleted the prepaid balance and has not made another payment or made arrangements with the utility to do so, the utility can remotely disconnect the account. Upon payment, the account can be remotely reconnected.

Regardless of meter upgrades, the vast majority of electricity customers in the U.S. are still postpaid, rather than prepaid. That means they typically receive a bill by mail or electronically after a month’s worth of consumption. They then have a certain time period, usually several weeks to a month, to pay the bill. If they haven’t paid the bill within the allotted time, they may be sent one or more notices warning of potential disconnection if the bill isn’t paid within a certain time. In many states, one such notice of disconnection must be delivered to a customer’s home by utility staff.

As an alternative to disconnecting service or in order to restore it, utilities may also be required to enroll payment-troubled customers in affordable payment plans where they agree to pay off their past due balance over time. The disconnection, notification and payment plan rules usually are much stricter for regulated investor-owned utilities (IOUs) than for unregulated cooperatives and municipal utilities.

Prepaid utility service is less common among IOUs, because they, unlike electric cooperatives and municipals, are regulated in most states by public utility commissions and, therefore, program design and implementation must receive commission approval.

2) Pros and cons of prepaid utility service

Supporters of prepaid service say it is a voluntary opportunity that allows consumers to control when and how much they pay for energy, and thus, to use it more efficiently. As one proponent put it:

(Prepaid meters) provide customers with more control over their energy usage, more convenient and flexible ways to pay their bills as well as the opportunity to spend less on energy. This is a positive for the customer, the utility and the smart meter industry – a true win/win/win. Prepay is just one of the overall payment choices available to the customer today and it is purely "opt-in." 23% of cell phones are prepaid – and customers "opt-in." Why don't we give the utility customer the right to choose how they pay their bills?

Benefits to utilities

- Improves cash flow
- Reduces costs associated with billing, notification of disconnection, disconnection and reconnection, customer service staff and call centers
- Improves detection and management of outages
- Reduces bad debt and write-offs because arrearages don't build up

Benefits to customers

- **No deposits, late fees or disconnect/reconnect fees.** Most prepaid programs waive any deposit for new customers, and there is no charge to disconnect or reconnect a customer.
- **Participants control the amount and time of their payment.** The Midwest Electric Cooperative in Michigan explains this benefit on its [web-site](#):

For many, it's easier to make four \$25 weekly payments than it is to make one \$100 monthly payment. That's the beauty of this program: you simply fund your ac-

count and your consumption is billed and deducted daily, based on a breakdown of current rates and fees, plus a \$3 program fee. Your service is remotely disconnected if the account balance is depleted and reconnected when a payment is received. No more deposits, late charges or collection/reconnection fees!

- **Participants don't have to pay off prior arrearages in order to enroll.** Instead arrearages can be included in their prepayment amount. For example, one utility takes 50 percent of a customer's prepayment and applies it to any arrearages a customer might have.
- **Participants save energy.** A [2010 study](#) by the Electric Power Research Institute (EPRI) of M-Power, a prepayment program operated by the Salt River Project (SRP) in Arizona, reported that prepaid customers had a 12 percent reduction in energy usage. M-Power is the largest and one of the oldest prepayment programs in the nation. In 2013, out of its 877,000 residential customers, 141,800 were on M-Power.
- **Participants report satisfaction with the program.** Oklahoma Electric Cooperative, which has been offering prepaid service since early 2006, reported that over 85 percent of participants are satisfied with the service, and 88 percent said they would recommend prepaid service to others.

The SRP study cited customer surveys (several phone surveys and focus groups) showing the percent of customers who are satisfied or very satisfied with M-Power ranged from 83 to 96 percent. Respondents cited enhanced awareness of their energy consumption, increased control over their usage and payment schedules, and a perception that the pro-

gram saves them money. For example:

Because I live paycheck to paycheck, it makes me more conscious of how much I'm using. I don't let my daughters open the refrigerator because I know it's using more electricity. It makes me more aware of what I'm using and where it's being wasted.

Actually for me it's a lot better than getting a bill at the end of the month especially in summer. It's a lot easier to pay \$40 a week because the end of the month is when all the rest of my bills are due so I'm flat broke.

Cynthia Zwick, executive director of the Arizona Community Action Agency (ACAA), has participated in SRP's focus groups and her network of community action agencies administers LIHEAP locally in Arizona. She said members haven't heard complaints from low-income clients about SRP's M-Power program. She attributes that to SRP doing a great job of reaching out to and serving low-income customers.

However, her agency has opposed prepay meters, in particular, a two-year pilot now underway by Arizona Public Service Company (APS), the state's largest electric IOU. (See more on this under Section 3, Prepaid utility service in the United States.)

EcoAlign, a company that favors prepaid service, surveyed customers in areas with and without such service. In Arizona and Texas, which have the most prepay programs, respondents said that prepaid service was easy and convenient. In areas where prepay does not exist, respondents had concerns about higher prices, although 38 percent said they were interested in trying it.

Disadvantages to customers

According to opponents of prepaid service, the very ease of signing onto prepaid service means that low-income consumers may unwittingly end up with "second class" utility service. They see the benefits that are extensively targeted to low-income and pay-

ment-troubled customers as a trap for those who can least afford frequent shutoffs. The National Consumer Law Center (NCLC), which opposes prepaid service, concluded in a [2012 paper](#):

*"With prepaid utility service as it currently operates, low-income customers who struggle the most to pay bills often end up paying the most while receiving second-class utility service. Access to essential life-supporting service, delivered by regulated, franchised monopoly utility companies, should **not** be compromised by a service model that allows companies to sidestep important consumer protections that were implemented for health and safety reasons."*

NCLC and others oppose prepaid service on the following grounds:

- **Pre-payment programs are largely targeted at low- and moderate-income households who can least afford to get shut off from service, and it is those customers that overwhelmingly sign up.** As of 2010, the average annual income of an M-Power customer was \$24,400, and appeared to be declining, according to the EPRI study. It also found over 80 percent had incomes under \$30,000. SRP has released its own numbers for 2013, showing that, of its 141,800 M-Power customers, 20,000 meet its definition of low income. SRP defines low income as households having income at or below 150 percent of federal poverty guidelines, which translates to \$22,695 for a two-person family and \$34,575 for a family of four.
- **Prepaid service often costs customers more.** A [2010 study](#) of SRP's M-Power by *The Arizona Republic* showed that participants could pay \$74.50 more per year on M-Power than on the basic rate plan. SRP responded that M-Power customers are charged slightly higher rates to reflect the higher cost to serve them. These services include the availability of payment kiosks

located around its service territory and the provision of in-home display units that allow customers to monitor their energy costs. SRP also noted that because most M-Power participants cut their power usage, they end up paying less to SRP than they would on SRP's basic plan, even if their rates are higher.

- **Fees add to the cost of prepaid service.** A 2013 study of prepaid service in Texas by Carol Biedrzycki, of the advocacy group Texas Ratepayers' Organization to Save Energy (ROSE), reviewed the rates and fees of a number of retail electric providers (REPs) that serve the state's deregulated electricity market. The report found that some utilities charge fees that can add significantly to the customer's prepaid account. The fees are separate from and in addition to the customer's per kWh rate. They include, but aren't limited to:
 - Daily charges ranging from 24 to 33 cents per day, (\$7.50 to \$9.90 per month).
 - Disconnect/reconnect fees ranging from \$15 to \$75 per event. Biedrzycki noted that there is no limit to the number of times a consumer can be disconnected for running out of funds in a month; thus, disconnect/reconnect fees can become a substantial portion of a prepay customer's costs.
 - Payment processing fees. There are no fees for those paying online by credit or debit cards; however, fees range from \$2.95 to \$5 for those paying by other methods.
 - Summary of Usage and Payment fees ranged from \$2.95 to \$5 and Not Sufficient Funds fees ranged from \$25 to \$30 for returned checks, rejected debit and credit cards, and electronic payments.

Biedrzycki also noted that prepaid plan participants may choose plans with variable or indexed rates that can change from day to day based on the current cost of electricity or on market conditions. She wrote:

A customer who pays \$50.00 into a prepaid electric account has no guarantee of purchasing a specific number of kilowatt hours (kWh). This is like buying a telephone card without knowing how many minutes you get for your \$50.00.

- **Claims of energy efficiency savings are suspect and need further study:** The NCLC wrote this in a brief opposing a proposed prepay pilot in California:

These studies do not calculate the extent to which this "conservation effect" is attributable to forced usage reduction to avoid complete loss of light, cooling and heat, or even from reduced usage because of service disconnections. There is currently no conclusive evidence demonstrating the source of any usage reductions associated with prepayment.

- **Claims of added control are misleading.** Opponents concede that prepayment customers have access to energy consumption and billing information on a real-time basis, and, thus, may be more likely to reduce consumption. However, they say that such information is available from many utilities regardless of whether a customer is on a prepaid program.
- **Benefits to utilities are available through other means less detrimental to customers.** For example, flexible payment programs and comprehensive energy efficiency programs can help customer stay current with their bills, thus reducing disconnections and their associated costs to utilities. Furthermore, prepaid opponents say arrearage management/forgiveness programs are a better way for utilities and low-income customers

to handle arrearages. Under these programs, the customer goes on an arrearage payment plan and, if he/she adheres to it for a year, a portion of the arrears are forgiven.

- **Customers, especially low income, forfeit important consumer protections like notification requirements and protections from service disconnection.** According to NCLC:

While provisions vary from state to state, virtually every state has adopted laws that require regulated monopoly utility companies to notify consumers by mail of impending service disconnection, to allow a specified number of days after a bill becomes due before disconnection occurs, and to offer payment plans to customers as an alternative to disconnection. However, consumers who enroll in prepaid electric or natural gas service must surrender these basic consumer protections. When prepaid billing credits are exhausted, service is disconnected remotely and automatically without the benefit of the mailed notifications or the offer of a deferred payment agreement that apply to traditional, credit-based customers.

3) Prepaid utility service in the United States

Prepaid utility service is common in countries such as England, where 13 percent of customers are on prepaid service, and in New Zealand and Australia. It is less common in the United States.

According to the NCLC's 2012 report on prepaid service, at least 53 utilities in 19 states were operating prepayment electric programs in the United States at that time, with electric cooperatives comprising the majority. The number has increased since NCLC's report. For example, the report listed only one utility with prepaid service in Arkansas, while currently six out of the state's 17 cooperatives have prepayment programs.

Prepaid programs by natural gas utilities exist as well, including two in Georgia, where natural gas service is deregulated and customers can purchase

their gas from a number of competitive providers.

Among programs by unregulated utilities, SRP's M-Power program in Arizona is one of the longest running programs, beginning in 1993.

In the deregulated electricity market of Texas, customers can choose from dozens of REPs, many of which offer prepaid service, that compete for their business in the service areas of several transmission and distribution utilities. Despite deregulation, the REPs are bound by [consumer protection and service rules](#) finalized by Public Utility Commission of Texas in 2011, including specific rules pertaining to [prepaid service](#).

REPs must notify prepaid customers one to seven days before their account balance is expected to fall below their disconnection balance. Disconnection is prohibited on weekends or during extreme weather events. REPs also must send notices such as current balance notifications, disconnection warnings and payment confirmations by phone or electronic means. Service must be reconnected within one hour of a customer's payment.

Programs by regulated utilities are few; among them is a two-year pilot in Arizona through [Arizona Public Service](#) and a two-year pilot in Michigan through [Detroit Edison](#) that was recently expanded from 200 to 1,500 households. There is also a pilot by Georgia Power for employees only.

APS's two-year pilot began in July 2012. It was scheduled to enroll 2,000 households with up to 300 of those customers selected to participate in an assessment of pre-pay consumer behavior as it relates to energy efficiency. The pilot was opposed by AARP of Arizona, the ACAA, and the Arizona Commerce Commission (ACC) staff. (The ACC is the entity in the state that regulates utilities.)

Opposition was based in part on APS's inclusion of the pilot in its Demand Side Management portfolio, and the claim that it was an energy efficiency program.

Zwick, ACAA executive director, and a member of APS's stakeholder group that provided input to the ACC, rejects claims that prepaid customers are

motivated to save energy. Such claims are misleading, she said, because “people can’t afford to use any more energy; it’s financial savings rather than energy savings.”

She also opposes the APS pilot because, unlike SRP’s M-Power program, it does not provide in-home display units. Also, unlike SRP, it does not have convenient payment locations around the Phoenix metropolitan area. Instead, it accepts payments by credit cards, direct deposits or checks, which can result in additional charges for customers. Zwick is also concerned about high disconnect rates for low-income people participating in prepay programs.

In some states, regulated utilities have had difficulties getting prepay programs approved.

In 2009, the Massachusetts Department of Public Utilities dismissed a prepay program proposed by Western Massachusetts Electric Co., saying the program would have unfairly targeted low-income customers and circumvented Massachusetts consumer protection laws regulating disconnection. The plan was opposed by consumer advocates and state officials, including the Massachusetts Attorney General. Since then, no utilities have proposed prepaid service in Massachusetts.

Opposition by consumer advocates in Iowa helped quash legislation that would have allowed automated, remote disconnection of service if a prepaid account balance ran out by defining it as a voluntary termination. Advocates also temporarily stopped a smart grid upgrade by Maryland’s largest utility, BG&E, in part because the utility proposed that its costs be borne mostly by ratepayers.

More recently, the California Public Utilities Commission (CPUC) rejected a proposed prepay pilot from San Diego Gas and Electric (SDG&E). The NCLC, The Utility Reform Network, the Greenlining Institute and others opposed the proposal.

If it had been approved, customers enrolling in SDG&E’s optional prepay program would have been exempt from paying a two-month deposit in order to

establish service and from paying off prior arrearages prior to enrollment. Enrollees could have been disconnected if their prepay account balance dropped below zero and if at least one of the following conditions were met: 1) the customer’s balance had been below zero for four consecutive days; or 2) the customer’s balance was at or below \$20. If at least one of the above conditions were met, a remote disconnection would be scheduled for the next business day during normal business hours.

The NCLC and other opponents wrote that prepay participants would forgo the state’s statutory customer protections that include a 15-day advance notice of a pending disconnection, and outreach by mail, phone or a visit from a utility representative no more than 48 hours before the scheduled shut-off.

Opponents also pointed out that the company’s proposed notification methods, whether text message, automated phone message or email, were problematic because customers behind on their electric bills could also be behind on their internet or phone bills.

“SDG&E has not met its burden to show that the program provides meaningful benefits and will not harm consumers,” the opponents wrote.

The NCLC also argued the pilot would undercut the CPUC’s efforts in recent years to reduce disconnections. The CPUC had opened a proceeding in February 2010 (Rulemaking 10-02-005) to reduce the number of residential gas and electric service disconnections due to nonpayment by customers. Its goal was to reexamine utility disconnection rules and practices to identify more effective ways for utilities to work with their customers. That initiative has continued, including a [key decision](#) in January 2012 that approved a number of measures to reduce disconnections.

On January 23, 2014, the CPUC rejected the utility’s prepay proposal, saying:

“We do not find SDG&E’s proposed Prepay Program, in its current form, to be in the public interest. Testimony shows that SDG&E has not consulted with likely af-

affected customers as it developed its proposal, so its representations that these customers would welcome such a program are unconvincing, especially in light of the detailed testimony to the contrary from intervenors representing these affected customers.

... We also take note of Consumer Groups' logical inference that, 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.

In conclusion, the CPUC said it wasn't closing the door on future prepay proposals. However, it cautioned, "any future proposals must take into account the need to ensure that there is an adequate means to provide notice to customers before their electric service is disconnected."

4) Prepaid utility service and LIHEAP

As mentioned above, prepaid utility service has been concentrated in southern states and among unregulated utilities such as municipals and rural electric cooperatives. Because these are usually smaller utilities, the number of customers receiving LIHEAP is likely to be insignificant compared the larger, regulated IOUs that serve the majority of such customers in most states.

Apart from the SRP data mentioned in Section 2 of this report, there appear to be no statistics on the number of low-income customers enrolled in prepaid programs in the United States. The Texas PUC told Texas ROSE that it did not collect such information from Texas REPs. In Michigan, DTE must report to the regulatory commission on the number of senior and low-income households in the prepay pilot, but the information is not publicly

available.

At this point, SRP may be the only utility tracking LIHEAP customers on prepaid service. In 2013 it had 10,166 customers receiving regular LIHEAP assistance; of these 6,042 were on its M-Power prepay program. SRP also had 2,014 customers in receipt of LIHEAP crisis assistance, and, of these, 1,132 were M-Power customers. In Arizona, as in many states, a LIHEAP client can receive both regular LIHEAP assistance and crisis assistance.

LIHEAP directors in the following states with prepay programs were interviewed for this paper: Arizona, Arkansas, Georgia, Michigan, Missouri, and Texas. None has tracked the number of LIHEAP households on prepaid service. Some are unable to because they lack adequate data collection tools; others haven't because the programs are relatively new and the utilities are small.

However, all directors reported they've seen an increase in prepaid accounts. While some expressed concern about fees and other disadvantages to their low-income clients, they also pointed out that clients have chosen prepaid service and, therefore, state LIHEAPs are obligated to serve them.

Most of these states have recently implemented policy changes to better accommodate prepay clients, especially those who have run out of electricity or gas service and are subject to disconnection or have already been disconnected.

The policy changes mostly pertain to crisis assistance, especially if the state's crisis policy requires a disconnection or a pending disconnection as a criterion for crisis assistance—as many states' policies do.

Missouri recently added to its crisis definitions the following: "prepaid electric customer indicates their prepaid usage is about to run out." Missouri also had problems with some utilities' refusal to accept the local administering agency's (LAA) pledge of payment in crisis situations. Some utilities wanted a payment upfront. To remedy this situation, the state now allows LAAs to make payments with credit or debit cards for prepay customers.

Texas initially considered denying benefits to

prepaid customers because often they had no bill to document their service history and payments. However, over the past several years, the state and its local agencies have worked with electric providers to get them to provide billing records for prepaid customers.

The state has also worked out a method to determine consumption averages for those who have inadequate billing history to determine a benefit amount. Agencies may use alternative methods to document consumption through a sampling of like households in order to come up with an average cost. This is used for both regular assistance and crisis payments.

The state of Georgia considers all prepaid customers to be crisis cases, because they are all prone to disconnection if they don't receive assistance. The largest gas marketer, Gas South, markets to those who have been declined service by other providers or who are facing large deposits. It bills customers for the gas they are forecast to use for the next 30 days. It provides customers the option of having a disconnect notice in the mail or via email. The state requires a disconnect notice before providing crisis assistance.

Arkansas has recently begun to address prepaids and for Fiscal Year 2014 it clarified its policies regarding regular and crisis payments for prepaid clients. As mentioned above, the number of Arkansas utilities with prepay service increased considerably over the past couple years. Under the regular program policy, prepay customers are covered like any other LIHEAP utility payment based on the state's payment guidelines.

For crisis cases, the state and local agencies have worked with the electric cooperatives to require them to notify the customer when a balance is within seven days of depletion, i.e., "The household uses electrical service that is measured with prepaid meter and the balance on the current account will be exhausted within seven days. The balance, average usage and the intent to disconnect will be verified by the supplier and documented in the case file."

In determining the crisis benefit amount, the

state defined the payment as follows for prepaid customers: "If the crisis situation involves a depleted supply of heating fuel... and the supplier has no minimum delivery policy or the minimum delivery amount is less than \$225, the CIP (Crisis Intervention Program) benefit will be \$225.00." The \$225 is less than the \$500 available to those with a traditional shutoff (e.g., from a regulated utility with a disconnect notice). According to the state, this is similar to the Arkansas' delivered fuels policy.

Arizona has developed policy language to address LIHEAP prepay applicants for next year; the policy clarifies how prepayments are made for regular as well as crisis assistance. Currently, local agencies work with vendors and applicants to obtain billing history documentation in order to pay regular and crisis benefits. An applicant can receive up to \$500 in crisis assistance, but it is limited to \$200 if no usage history is available.

5) Recommendations to lessen prepaid service's impacts on the low income

Groups with concerns about the negative impacts of prepaid service on the low income have published recommendations that could lessen these impacts. Recommendations have been made by the NCLC, the National Association of State Utility Consumer Advocates (NASUCA), Texas ROSE, and the DEFG Prepay Energy Working Group. (DEFG favors prepaid service, but sponsored a working group.)

Many of these recommendations are addressed in [Resolution 2011-3](#), adopted by NASUCA in 2011, which urges states to require specific consumer protections as a condition for approval of prepaid gas and electric programs. Overall, it resolves that:

".. proposals by utility companies that seek to replace traditional credit-based service to some residential customers with prepaid service delivered through prepayment meters or digital meters with remote connection and disconnection capabilities should not be

approved unless they guarantee that current consumer protections are not bypassed or eliminated and that adequate and comparable consumer protections are developed and in place.”

The NCLC’s 2012 paper outlines 11 provisions that utility commissions should follow, including, but not limited to:

- Regulatory consumer protections and programs should be maintained or enhanced. Vulnerable populations must be protected.
- Marketing of service should be voluntary.
- Payment assistance and arrearage management programs must be adopted or maintained.
- Rates for prepaid service should be lower than rates for comparable credit-based service.
- Costs should be transparent.
- Transaction and other junk fees should be eliminated.

A 2012 paper by DEFG, a proponent of prepaid service, recommended:

”... to at least maintain the status quo, pre-

paid customers should experience involuntary disconnection at a rate no higher than post-paid customers. In order to achieve this—or better—low income assistance programs must be available to prepaid customers in a manner comparable to their availability to post-paid customers.”

The paper includes a list of recommended best practices to maximize access to assistance for low-income prepayment customers.

Texas ROSE, in its critique of prepaid service in Texas, supplied a list of reforms with a goal that all residential customers be treated equally. It recommended elimination of discretionary fees, price stability, better education and information for consumers considering enrolling in prepayment, and an annual report by the Texas Public Utilities Commission on prepaid prices, disconnections and reconNECTIONS.

The recommendations are included in Attachment 1 to this paper.

This is the first of four reports that the LIHEAP Clearinghouse will prepare under its contract with the U.S. Department of Health and Human Services, Division of Energy Assistance. The content of this publication does not necessarily reflect the views or policies of the Department of Health and Human Services, nor does mention of trade names, commercial products, organizations or program activities imply endorsement by the U.S. Government or compliance with HHS regulations.

Attachment 1:

Recommendations to Lessen Prepaid Impacts on the Low Income

Recommendations from National Consumer Law Center

1. Regulatory consumer protections and programs should be maintained or enhanced. These include existing limitations or prohibitions on disconnection of service, advance notice of disconnection, availability of payment plans, availability of bill payment assistance or arrearage forgiveness, and the right to dispute bills.

2. Health and safety risks must be reduced. When the billing credits of a customer receiving prepaid residential electric or natural gas service are exhausted, the customer must be given a five-day disconnection grace period, after which the customer must be restored to traditional, credit-based service, subject to all rules and customer protections applicable to such service. Prepayment customers should be allowed to return to credit-based service at no higher cost than the cost at which new customers can obtain service.

3. Vulnerable populations must be protected. Prepayment service should not be offered to low-income households or households that include any person who is elderly, disabled, or who has a serious illness. Households with young children should also not be eligible to enroll in prepayment service.

4. Marketing of service should be voluntary. Prepaid service should only be marketed as a voluntary service and should not be marketed to customers facing disconnection for non-payment. Conditioning service on the method of payment is not marketing—it's coercion.

5. Payment assistance and arrearage management programs must be adopted or maintained. Utilities offering prepaid service to low-income customers must also offer effective bill payment assistance and arrearage management programs to those customers.

6. Rates for prepaid service should be lower than rates for comparable credit-based service. This lower rate reflects the lower costs associated with reduced carrying costs, collection costs, uncollectible accounts, and shareholder risk.

7. Costs should be transparent. Prior to implementation, utilities should demonstrate the cost effectiveness of any proposed prepaid service program and reveal how costs will be allocated among various classes of customers.

8. Transaction and other junk fees should be eliminated. Prepayment customers should not pay security deposits or additional fees that traditional customers are not required to pay. Examples of such fees include initiation fees, equipment charges, or transaction fees to purchase billing credits, or frequent payment fees.

9. Initiate “on demand” service. Utilities must ensure there are readily available means for prepayment customers to purchase service credits on a 24-hour a day, seven-day a week basis to prevent potential health and safety risks.

10. Tracking and reporting should be monitored and disclosed. Prepaid service programs should be monitored to ensure there is not an increased rate of service disconnections for non-payment. Utilities

implementing prepaid service programs should track and report to the state regulatory commission on a monthly basis the following data *separately for credit-based and prepayment residential customers*:

- Number of customers
- Number of customers with arrears of 30 days or more
- Dollar value of arrears
- Number of disconnection notices sent
- Number of service disconnections for non-payment
- Number of service reconnections after disconnection for non-payment
- Number of new payment agreements entered
- Number of payment agreements successfully completed
- Number of failed payment agreements

11. States should proactively plan for customer protections in case of company default. States must have adequate financial mechanisms to guarantee that funds prepaid by customers are returned to customers if a company becomes insolvent, goes out of business, or is otherwise unable to provide the services for which the funds were prepaid.

Recommendations from Texas ROSE

To enable consumers to more thoroughly review offers by Retail Electric Providers (REPs) the following changes should be made in the pricing and disclosure of information to residential consumers.

1. Maintain a comparative chart of prices and fees and other terms of service, much like the tables in this report, on the Power to Choose website.
2. Prohibit the charging of minimum usage fees to encourage consumers to save electricity and benefit from lower electricity bills.

3. Prohibit a REP from charging fees for customer services required by the rules of the PUC.

4. Require each REP to provide a standard offer product presented in a standard format for easy comparison by the consumer.

5. Require all REPs to post a product plan on the Power to Choose website.

6. Require REPs to publicly disclose and the PUC to report total revenue from 1 residential electricity sales, late fees and other fees.

Recommendations from DEFG Prepay Energy Working Group Paper: *Prepaid Energy and Low Income Assistance Programs*

Cost of Service

Keep the cost of service no higher than it needs to be, and ideally no higher than the cost of postpaid service.

Payment Plans

Offer a negotiable payment plan to amortize existing debt carried by new prepaid customers.

Offer a negotiable extension of credit to customers who are unable to replenish their account for a certain minimum amount of time or more, i.e. for disconnections that will last longer than 12 or 24 hours.

Ongoing Discounts and Credits

Provide percentage discounts or credit amounts to prepaid customers that are comparable to those available to qualified postpaid customers.

Emergency Cash Assistance

The assistance program must consider a pending prepayment disconnection, when the customer is unable to replenish his account, as a crisis rendering

the customer eligible for assistance. To facilitate timely receipt of assistance funds, the program may find it reasonable to consider a disconnection to be “pending” a day or two before a zero balance is reached, if the customer knows assistance will be needed.

Once the utility knows an assistance payment is forthcoming, it must allow sufficient time for the payment to be received before terminating service. This may require a short term extension of credit if the customer’s balance falls below zero during this time.

Both utility and assistance provider should strive to use communications technology to ease the administrative burden on customers, i.e. by sharing eligibility data, electronic transfer of non-mailed disconnection notice or account status, etc.

Assistance amounts can be calculated in a variety of ways, either incrementally as needed or as a lump

annual total award. In choosing between models, the assistance provider must prioritize the principle of universal access, and determine which model best helps the customer avoid disconnection and keep his account current.

All stakeholders should avoid considering prepaid service as a tool for decreasing pressure on low income assistance funds. Prepayment may be a convenient transaction method for both customer and utility, but it does not significantly affect affordability, which is the primary factor driving demand for low income assistance.

Ideally, if prepaid service offerings continue to proliferate, so too will new ways of assisting struggling low income customers, that are tailored to the needs of prepaid customers specifically.