

**TEXAS RATEPAYERS' ORGANIZATION TO SAVE ENERGY**

# **CONSUMERS BEWARE PREPAID ELECTRICITY PLANS AND FEES**

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The purpose of this report is to provide information for electricity consumers in Texas about prepaid electricity service and fees charged by retail electric providers (REPs) to consumers that take prepaid service.

# **CONSUMERS BEWARE PREPAID ELECTRICITY PLANS AND FEES**

**December 2, 2013**

## **I. INTRODUCTION**

Texas ROSE (Ratepayers' Organization to Save Energy) has been working as an advocate for residential and low income electricity consumers for the past 21 years. The electric industry has published favorable reviews of prepaid electricity plans. Much of the evidence including the marketing plans of retail electric providers (REPs) show that prepaid service is targeted to low-income consumers and consumers with credit issues. We have found no evidence to suggest that prepaid electricity is in the best interests of residential consumers, especially low-income consumers. Because of the structure of the plans a customer can be disconnected multiple times in the course of a month. The customer has to be prepared to pay more when the prepaid account runs low on money. A customer has to keep close watch that the money prepaid remains adequate even when the rate changes without any notice.<sup>1</sup> As shown in this report, fees charged by the REP can increase the cost of electricity above the advertised retail price.

The purpose of this study is to look at the prepaid electricity plans being marketed in deregulated areas of Texas in comparison to each other and traditional post paid electricity service. Based on the findings of this report we encourage consumers to consider post-paid instead of prepaid electric plans whenever possible. The data indicate there is no pre-paid price advantage. In comparison to standard post-paid electricity service there is little or no protection against disconnection.

This study presents facts about prepaid electricity plans posted on the Power to Choose website<sup>2</sup> on September 20, 2013. The information should be used by consumers to help in the process of choosing an electricity plan and a REP. The facts of the study support the conclusion that prepaid service is substandard and creates a new subclass of customers. The study also recommends reforms the Public Utility Commission (PUC) of Texas should implement to: 1) assure that all residential customers are treated equally, 2) eliminate REP fees for disconnection and reconnection, 3) provide better information to consumers, and 4) monitor disconnection and reconnection activity.

## **II. PREPAID ELECTRIC SERVICE**

This report provides information for consumers in Texas about prepaid electricity service and fees charged by retail electric providers (REPs) to consumers that take prepaid service.

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<sup>1</sup> PUC Substantive Rule 25.498 (i) provides for continuing service during extreme weather.

<sup>2</sup> Power to Choose is a website sponsored by the Public Utility Commission of Texas, the state agency that oversees the retail and wholesale electric markets in Texas.

Prepaid service is very different from standard electricity service used by most households. With standard service a customer receives a monthly bill to pay for the amount of electricity used over the previous month.

A prepaid consumer receives no bill. Instead the customer pays in advance to open an account with the REP. As the customer uses electricity the REP deducts what the customer owes from the account. The customer monitors and replenishes the account to make sure the money in the account does not run out as electricity is used.

In making payments on the account, a prepaid customer has to follow the rules set by the prepaid REP. These rules in comparison to standard rules can make it more difficult for a low-income customer to maintain a constant supply of electricity. Many prepaid electric customers have to pay on line. Some may be charged a fee to pay on line. In this sample of prepaid REPs, only Direct Energy permits a personal check to be used for payment at an authorized payment station. All the other prepaid REPs state clearly in the terms of service that they do not accept personal checks. Some accept cash, money orders and cashier's checks at authorized payment stations where fees are charged.

PUC rules require a REP to provide notices to the customer about the amount of electricity used, the amount of money spent, the remaining balance in the account and an estimate of how many days the customer is likely to have electricity before having to make another payment or be disconnected. The REP can provide the information continuously, via the internet, phone, or an in-home device or within two hours of the REP's receipt of a customer's balance request. All communication between the REP and the customer is electronic. When a customer's account is getting too low on funds a REP can provide as little as one day's notice before disconnecting the customer's service.

Prepaid service is offered to customers who have advanced meters where disconnections and reconnections can be carried out electronically with little time lapse. Under the PUC's rule governing prepaid service, the utilities that perform all disconnections and reconnections are not permitted to charge fees for disconnection and reconnection of prepaid electric customers. However, this rule for utilities does not apply to REPs. Many REPs charge fees related to disconnection and reconnection of prepaid service.

There is no limit to the number of times a consumer may have to pay for prepaid service over the course of a month. There is no limit to the number of times a consumer can be disconnected for running out of funds in a month. Under many plans, fees for making payments, receiving statements of usage and payment, and reconnection fees can become a substantial portion of the customer's cost for prepaid electric service.

**Before you choose a prepaid REP check the terms of service agreement. Compare the prepaid plan with standard electricity plans. Always check and compare, even if you are looking to switch to a REP based on the experience of a friend. The terms of service for new customers can change at any time. Because they are based on information available over a set period of time, the charts in this report should only be used for guidance, not to make a final decision about an electricity plan.**

### III. PREPAID SERVICE PLANS

The number of prepaid REPs posting electricity packages on the Power to Choose website varies from day to day. On September 20, 2013 there were seven REPs posting a total of ten prepaid electricity plans in the Oncor service area. This report is based solely on the content of documents related to the September 20 postings for the Oncor service area.

The posted plans are summarized in Table 1. Seven of the plans offer variable rates on a month-to-month basis. One offers an indexed rate on a month-to-month basis. Direct Energy combines its variable rate with a Free Power Sundays plan. TXU offers an indexed rate on a month-to-month basis. Direct Energy posts the only fixed rate plan for a six-month term. Reliant previously posted a 12-month fixed rate plan. A prepaid customer taking one of the fixed price plans must pay an early termination fee if the contract is ended before the agreed upon date.

#### A. Prices

The prepaid prices per kilowatthour (kWh) posted on Power to Choose range from 9.3¢ to 12.0¢. The lowest price is a variable rate and the highest price is an indexed rate. The variable and indexed rates are subject to changes even within the first month of taking service.

Prepaid service is risky. Prices can change frequently. Keeping a constant supply of electricity is a challenge. It can be complicated and confusing. It may even be impossible to know how much electricity you can use for the amount of money you prepay into your account. Following are some examples of pricing terms included in terms of service agreements.

#### Breeze Energy

This is a variable price product, the per kilowatt hour price is subject to change, at any time. The price will not exceed the price charged by the Provider of Last Resort (POLR) in the service area of your TDSP” (Transmission and Distribution Service Provider). The POLR rate has always been the highest of all prices charged to residential customers. Under state law, the POLR is the cap on prepaid prices.<sup>3</sup>

#### Constellation Energy

Variable price products have a term of thirty-one (31) days or less and a price that varies according to the method disclosed on your EFL (Electricity Facts label). The Price may change in subsequent months at the sole discretion of Constellation.

#### Direct Energy’s Power to Go

Under Direct Energy’s Power to Go plan, the Energy Charge and/or daily Base Charge may change up to once a month at Direct Energy’s discretion. For each such change during the

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<sup>3</sup> Public Utility Regulatory Act§39.107(g).

month, Direct Energy will limit each increase to the Energy Charge and/or the daily Base Charge to no more than 30% from the prior price. Consumers should note that the terms of service specifically state: “[a] change in Energy Charge and/or daily Base Charge does not constitute a material change of the delivery of electric service by Direct Energy. Your actual price for electric service and your actual electricity usage will be shown on your Account Update. This will be used to calculate your daily usage amount.” Under this clause Direct Energy is having the consumer agree that they can raise the price without providing prior notice.

### TXU Energy

TXU Energy’s indexed product can change 14 days after a price change notice is provided using a predefined pricing formula.

The variable and indexed priced products provide no guarantee that prices will remain the same from day to day. 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.

Prices per kWh range from 9.3¢ (the lowest prepaid price posted on Power to Choose as shown in Table 1) all the way up to 21.8¢<sup>4</sup>. At these two extremes a customer would be able to purchase from 530 to 229 kWh per month if the price did not change over the course of the month. The more times the price changes, the harder it is to track how much you need to pay. For many customers especially those on low and fixed incomes an unanticipated increase may leave them with insufficient funds in their account and with no resources to replenish it until payday or after a social security check is deposited.

### **B. Connection Balance**

Direct Energy, Reliant and TXU do not specify the amount of the connection balance (the amount needed to initiate service). It is assumed that the balance has to be greater than zero. At other REPs the minimum balance required to initiate service ranges from \$30.00 to \$75.00.

### **C. Disconnection and Reconnection Balance**

Prepaid REPs are required to inform the customer about the amount of money that must remain in the customer’s account to avoid disconnection and the amount required to have service reconnected. A customer disconnection is triggered by either a balance of \$0.0 or \$10.00. To be reconnected, Direct Energy and Reliant Energy require a positive balance while the other REPs require the customer to have a balance ranging from \$20 to \$75 to have their service reconnected after being disconnected.

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<sup>4</sup>The highest possible residential POLR rate posted for the Oncor service area on September 20, 2013 at [http://www.puc.texas.gov/consumer/electricity/polr/Oncor\\_Res.pdf](http://www.puc.texas.gov/consumer/electricity/polr/Oncor_Res.pdf).

## D. Utility Fees

The last column on the table indicates how the REP collects standard discretionary service fees charged by the transmission and distribution service provider (TDSP). The fees are separate from and in addition to the per kWh price the consumer is paying. These fees mostly include move-in and move-out, and out-of-cycle meter reads. The prepaid REPs immediately subtract these fees from your account as they are charged the fee by the TDSP. Subtracting the utility fees makes less of the account balance available to pay for electricity. To pay the fees money may have to be added to the account to maintain service.<sup>5</sup>

**Table 1**  
**SUMMARY OF PREPAID RESIDENTIAL ELECTRICITY PLANS**  
 (based on information posted on powertochoose.org on September 20, 2013)

<b>Retail Electric Provider</b>	<b>Pricing and Term</b>	<b>kWh Cost 500/1000/2000</b>	<b>Connection Balance</b>	<b>Disconnection/Reconnection Balance</b>	<b>Utility Fees</b>
Breeze Energy	Variable Month-to Month	10.9¢/9.9¢/9.4¢	\$30.00	\$10.00/\$20.00	Subtracted
Constellation Energy	Variable Month-to Month	9.4¢/9.4¢/9.4¢	\$50.00	\$10.00/\$65.00	Subtracted
Direct Energy	Variable Month-to Month	10.6¢/9.6¢/9.1¢	Not specified	\$0.00/positive balance	Subtracted
Direct Energy	Fixed 6 months	11.8¢/10.8¢/10.3¢	Not specified	\$0.00/positive balance	Subtracted
Hino Electric Power	Variable Month-to Month	9.3¢/9.3¢/9.3¢	\$40.00 non priority \$75.00 priority	\$50.00 non priority \$75.00 priority	Subtracted
Reliant Energy	Variable Month-to Month	10.9¢/10.9¢/10.9¢	Not specified	\$0.00/positive balance	Subtracted
Smart Prepaid Electric	Variable Month-to-Month	11.7¢/11.7¢/11.7¢	\$50.00	\$10.00/\$30.00	Subtracted
TXU Energy	Indexed Month-to-Month	12.0¢/11.3¢/10.9¢	\$50.00	\$0.00/\$50.00	Subtracted

<sup>5</sup>PUC rules require REPs to disclose these fees when signing a customer up for service.

## **IV. PREPAID REP FEES**

Table 2 which follows is a summary and comparison of fees charged by prepaid REPs in the Oncor service area. The information reviewed for this study is standardized for use throughout the state. The fees shown in the table are representative of fees being charged everywhere electricity is deregulated in Texas.

### **A. Daily Fee**

Three prepaid REPs: Breeze Energy, Direct Energy and TXU Energy collect a daily charge on a prepaid account. The terms of service indicate the fee is charged every day even if no electricity is used that day. The fee ranging from 25¢ to 33¢ per day adds from \$7.50 to \$9.90 per month to the prepaid customer's electricity costs.

### **B. Disconnect/Reconnect**

Most prepaid REPs charge fees related to disconnection and reconnection even though the utilities responsible for performing the services are not permitted to charge fees for prepaid customers. Every prepaid REP except for Direct Energy and Smart Prepaid posts a charge for disconnection and reconnection. The range of fees is \$15 to \$75.00.

### **C. Payment Processing**

All prepaid REPs charge fees for processing payments. Some REPs – Breeze Energy, Hino Electric, Reliant Energy and TXU Energy clearly state that the company provides at least one free method of payment. Two of these REPs, Breeze and Hino offer free on-line payment. TXU offers free payment on line and through the company's automated system. All of these free methods are out of reach to people without credit and debit cards. Because many low-income households have no established relationship with a bank and no Internet access these free payment methods are of limited value to the customers that make up the prepaid target market. Most of the REPs do not clearly state how a customer can pay without incurring a fee. Payment processing fees can cost from \$2.95 to \$5.00 which adds to the cost of electricity. The less a customer can afford to pay at one time the higher the cost of electricity because of payment processing fees. For example, a customer who pays \$25.00 one time will pay one fee of \$2.95. A customer who pays \$5.00 five times would pay \$14.75 in fees. Over half of the funds would go toward paying the payment processing fees instead of electricity.

### **D. SUP (Summary of Usage and Payment)**

The Summary of Usage and Payment (SUP) is an essential element of the prepaid service because it informs the consumer of how much electricity has been used and how much money is left in the customer's account. Reliant Energy and TXU Energy charge no fees for the SUP. Hino Power Co. charges no fee to send a notice once but charges \$2.95 for resending the SUP electronically and \$5.00 for a paper copy. The fees generally range from \$2.95 to \$5.00 for resending and for paper copies.

### **E. NSF (Not Sufficient Funds)**

The not sufficient funds (NSF) fee represents charges for returned checks, rejected debit and credit cards, and electronic payments. These REP fees range from \$25.00 to \$30.00. This is the same amount charged for post paid electricity service even though there is no risk for the REP. The payment is not being used to pay debt owed by the customer but to create a credit on the account. The prepaid REP has nothing to lose from an NSF because no electric service is received by the customer.

### **F. Miscellaneous Fees**

The last column on the fees table shows miscellaneous fees that range from 25¢ for each text and voice message in excess of 50 per month at Constellation Energy Power Choice to a \$350 reconnect after tampering fee at Breeze Energy. Other fees that should be noted include:

- At Breeze Energy a \$10.00 meter reread fee, a \$30.00 fee for expediting service and a \$5.00 credit card processing fee.
- Account balance refund fee: \$2.95 at Hino Electric, \$2.50 at Direct Energy.
- A \$4.95 micropayment convenience fee for payments less than \$25.00 made on line or over the phone to Direct Energy.

**Table 2**  
**ADDED FEES CHARGED BY PREPAID RETAIL ELECTRIC PROVIDERS**  
**TO RESIDENTIAL CONSUMERS**

(based on information posted on powertochoose.org on September 20, 2013)

Retail Electric Provider	Types of Fees					
	Daily Fee	Disconnect Reconnect	Payment Processing	SUP	NSF	Miscellaneous
Breeze Energy	33¢	\$30.00	Free online or in-person all others up to \$3.95	Up to \$5.00	\$30.00	Reconnect after tampering \$350, Expedite \$30, Meter reread \$10.00, credit card processing or agent assistance \$5.00
Direct Energy (Link to prepaid Disclosure Statement goes to Application Request for Electricity Service.)	33¢		\$2.95	\$2.95 resend or paper copy	\$25.00	Fixed price plan \$100 early termination fee, all plans, speak to customer care representative \$5.00; \$2.50 refund check fee; \$4.95 micropayment convenience fee for payments less than \$25 made online or over the telephone
Constellation Energy Power Choice, Inc.		\$15.00	Varies by pay station	\$2.95 paper copy	\$25.00	25¢ for each text and voice message in excess of 50 per month
Hino Electric Power Co		\$50.00 to \$75.00	Free online, \$5.00 through customer service	\$2.95 resend; \$5.00 paper copy	\$30.00	\$2.95 refund of account balance

Retail Electric Provider	Types of Fees					
	Daily Fee	Disconnect Reconnect	Payment Processing	SUP	NSF	Miscellaneous
Reliant Energy		\$25.00	Free through Reliant, up to \$5.95 at pay station		\$25.00	Early termination fee for Reliant SmartStart 12 plan \$150, service processing fee \$5.95
Smart Prepaid Electric			\$2.95	\$2.95	\$25.00	Enrollment processing fee \$4.95
TXU Energy	25¢	\$20.00	Free on-line and automated system, \$3.95 agent assist		\$25.00	Document processing \$2.00

### III. CONCLUSIONS

There is no evidence that any of the prepaid plans reviewed in this report would be less expensive than a standard post-paid plan. Because the actual price paid varies all the time it is difficult to compare the plans pricewise. The prices posted are not lower than prices for post-paid plans. Another price consideration is that all but one of the plans could increase (or decrease) the price of electricity in a single month. Price uncertainty is a possible liability for the customer because increasing prices are likely to cause customers to run out of money in their account earlier than expected and they may or may not have the money to add more funds to the account to avoid disconnection.

Another cost factor is the prevalence of fees for processing payments. These fees are unavoidable under some prepaid plans. Personal checks are not acceptable for most plans. Customers must incur fees for money orders or cashier's checks and then face a payment fee on top of the cost of purchasing the money order or cashier's checks. These are costs that increase the cost of the electricity that are not taken into account in calculating the price shown on the Electricity Facts Label.

Prepaid electric service is substandard and creates a new subclass of residential customers who are expected to pay up front and be subject to disconnection under very short timelines. In addition to price uncertainty and payment processing fees there is no limit to the number of times a prepaid customer can be disconnected.

Disconnection and reconnection is another source of cost increases for consumers who could be disconnected and reconnected more frequently than monthly. The TDSPs are not permitted to charge fees because the Public Utility Commission has found that the remote communication features of advanced meters makes the disconnection and reconnection process very inexpensive. Most prepaid REPs charge fees for disconnection and reconnection even though the TDSPs are prohibited from assessing charges.

The prepaid service plans have attributes that should make them unattractive to consumers. These unattractive attributes include, constantly changing rates, the need to monitor the account to know how long you will have electricity, the fees described in this report, having to pay by some means other than personal check, and short disconnection timelines. Standard post-paid service is a better product even though it requires a good credit rating or a security deposit to take the service. Many rates posted on Power to Choose for fixed and variable priced plans are lower than the rates for prepaid service. When the customer pays a standard electricity bill they know they will have electricity for 30 days or more. When a customer does not pay it takes two to three times longer to carry out a disconnection of service for a post-paid versus a pre-paid customer. Prepaid electricity plans take advantage of and profit from the poor by charging high electricity prices for low quality service. The PUC should demand more from companies selling essential electricity.

## **A. Needed Reforms**

Shopping for prepaid electricity is more complicated than shopping for postpaid electricity. The most basic element of choosing a plan, the price per kWh is almost never certain in a prepaid plan. The differences in prices and the fees profoundly affect the total cost of electricity to the consumer. The PUC needs to do more to ensure a competitive market where consumers can select electricity service that best meets their needs at the lowest available price.

In its current form prepaid service is substandard service and is a service that should be prohibited. The commission should take the following steps to reform prepaid service.

1. Treat all residential customers equally.
  - The customer should know the cost of providing electricity over the course of a month without being disconnected. Consumers should have price stability.
  - Apply the disconnection timelines for post-paid residential consumers to prepaid consumers.
  - Require all prepaid REPs to provide at least one payment alternative that is free to the customer (i.e., payment can be made with no payment processing charge) even for a customer paying in cash or by check.
2. Eliminate REP fees for discretionary services performed by the regulated utility.
  - Consistent with the rules in effect for the transmission and distribution providers prohibit REPs from charging fees for disconnection and reconnection.
3. Provide better information.
  - 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.
  - Educate prepaid and other residential customers on how to qualify and enroll in a post-paid plan.
4. Monitor prices and disconnection and reconnection activity.
  - Require prepaid REPs to report all electricity price changes to the PUC where they are accessible to the public.
  - Require REPs to report disconnection and reconnection data to the PUC on a monthly basis.
  - Have the PUC issue an annual report on prepaid prices, fees and disconnections and reconnection.