BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

In the Matter of the Application of Westar Energy, Inc. and Kansas Gas and Electric Company for Approval of Revisions to Their General Terms and Conditions to Implement an Optional Prepay Service Pilot Program.	))))))	Docket No. 14-WSEE-148-TAR

DIRECT TESTIMONY OF

STACEY HARDEN

ON BEHALF OF

CITIZENS' UTILITY RATEPAYER BOARD

MARCH 26, 2014

TABLE OF CONTENTS

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Stacey Harden. My business address is 1500 SW Arrowhead Road, Topeka, Kansas 66604.

Q. By whom are you employed and in what capacity?

A. I am employed by the Citizen's Utility Ratepayer Board ("CURB") as a Regulatory Analyst.

Q. Please describe your educational background.

A. I earned a Bachelor of Business Administration degree from Baker University in 2001. I earned a Master of Business Administration degree from Baker University in 2004.

Q. Please summarize your professional experience.

A. I joined the Citizens' Utility Ratepayer Board as a Regulatory Analyst in February 2008. Prior to joining CURB, I was the manager of a rural water district in Shawnee County, Kansas for five years. I am currently an adjunct faculty member at Friends University, Baker University and Haskell Indian Nations University, where I instruct business and accounting courses for undergraduate and graduate students.

Q. Have you previously testified before the Commission?

A. Yes. I previously offered testimony in KCC Docket Nos. 08-WSEE-1041-RTS, 10-KGSG-421-TAR, 10-EPDE-497-TAR, 10-BHCG-639-TAR, 10-SUBW-602-TAR, 10-

WSEE-775-TAR, 10-KCPE-795-TAR, 10-KCPE-415-RTS, 11-SUBW-448-RTS, 12-SUBW-359-RTS, 12-MKEE-410-RTS, 12-MKEE-491-RTS, and 13-HHIW-570-RTS.

II. SUMMARY OF RECOMMENDATIONS

Q. What is your recommendation to the Commission regarding Westar's application to implement a prepay pilot program?

A. I recommend the Commission deny Westar's application at this time and suggest that Westar re-file its application with supporting evidence, an explanation of the program, and a more reasonable procedural schedule. Westar's application failed to provide substantial, competent evidence demonstrating that its proposed pilot program is reasonable and in the public interest. Further, Westar has failed to seek appropriate waivers of the Commission's Billing Standards that would be required for implementation of this program. At this time, Westar's application is unsupported and should be denied.

III. BACKGROUND

Q. Please provide a brief background of Westar's application for a prepay pilot program.

A. On October 1, 2013, Westar filed an application requesting Commission approval for a pilot program that would allow certain customers the option to prepay for their electricity. Customers eligible for this program would need to be currently taking service under Standard Residential Service, have an advanced meter, and have outstanding debt with Westar of no more than $1,000. Westar's pilot program would be available for up to

1,000 residential customers. Customers enrolling in the prepay program would be charged a $4 per month service fee, but would not be required to pay a security deposit like some traditional residential customers.

Q. Does Westar's application include enough evidence or information to support the approval of this prepay program?

A. No it does not. Westar's two-page application fails to give even a general overview of the program. The application provides no information about how the program will be marketed, administered, or results measured. There is no evidence or data that support the implementation of this program included in the application.

Q. Did CURB and Staff request Westar file testimony that included evidence and information to support its application?

A. Yes. I attended three meetings with parties from Staff, Westar and CURB after Westar's application was filed on October 1, 2013. At each of these meetings, CURB requested information and evidence supporting the program and suggested that Westar should file testimony in support of its application. During a meeting with Westar, Staff and CURB on December 11, 2013, Westar was given a list of questions that Staff and CURB had prepared based upon the application. At that time, Westar agreed to file testimony addressing the issues on January 9, 2014, and a full procedural schedule was agreed to by the parties. However, on December 23, 2013, Westar withdrew its agreement to the procedural schedule and informed Staff and CURB that it did not intend to file testimony to support its application.

Q. What were the issues prepared by Staff and CURB that were presented to Westar at the meeting on December 11, 2013?

A. Staff and CURB requested Westar provide the following information in support of its application, in testimony:

1. A detailed accounting of pilot program costs, including cost of program development.

2. A discussion of program benefits and quantification of benefits where possible.

3. A description of business processes necessary for program implementation, especially as they relate to customer service.

4. A specific request for waiver of the Billing Standards, including references to all Sections that would need to be waived for program implementation.

5. Justification for reduced notification time for disconnection, especially during the Cold Weather Rule.

6. Justification for notice of disconnection by email, text message, or phone and not by first class mail or hangtag on customer's door.

7. A detailed explanation of how load limiting will be calculated and applied, i.e., whether it will be applied to all customers in arrears, or if not, which customers would be subject to load limiting. Also, how customers will be educated about possible load limiting.

8. Specific plans for data collection, tracking, and reporting information useful for program development.

9. Identification of standards for determining program success or failure.

Q. Have you been able to obtain some of the requested information, despite the requested information not being placed in the record by Westar?

A. Yes. Even though Westar has not placed any of the requested information into the

record, I was able to obtain some information from data request responses. I my testimony, I will summarize the issues originally presented to Westar and provide as much information as possible to assist the Commission's decision in this proceeding.

IV. GENERAL CONCERNS

Q. Before beginning a discussion of the specific issues relating to Westar's application, do you have any general concerns regarding the application to implement a prepay pilot program?

A. Yes. First and foremost I am concerned with the small amount of evidence or explanation placed on the record in this proceeding. Westar's proposed prepay pilot constitutes not only a new program, but an important shift in the Commission's billing standards. However, Westar's application was not supported by any testimony or any level of explanation of the proposed pilot program, how customers would participate in the program, or how the program is in the public interest. Without substantial evidence or explanation being supplied by the Company, Staff and CURB are essentially presenting Westar's case to the Commission.

Q. Will Westar provide direct testimony in order to provide evidence and an explanation of its proposed prepay program?

A. I am unsure whether Westar will file testimony in order to provide evidence and an explanation of its proposed prepay program. Westar filed its application on October 1, 2013 with no testimony to support its application. As I previously mentioned, Westar later agreed to file direct testimony, only to withdraw its agreement. The procedural

scheduled approved by the prehearing officer on March 13, 2014 – over five months after the application was filed – requires testimony to be filed by all parties simultaneously. Considering Westar's previous unwillingness to file testimony, I am unsure of what evidence or explanation will be included in that testimony. The recommendations I am making in my testimony today are those suggested solely by Westar's application and Westar's responses to data requests.

Q. Do you have other concerns regarding Westar's application?

A. Yes. Westar has contracted with a third-party contractor – Exceleron – to provide the customer interface for this program. Based upon informal conversations with Westar representatives, I am uncertain how Exceleron's interface will communicate and interact with Westar's existing website. It is my understanding from these discussions that customers will have to access a website other than Westar's in order to view balances on prepay accounts, to gain an estimate of future payments to sustain service, and to make payments to avoid disconnection of service. It is also my understanding that all communications regarding low balances, pending disconnection of service, or payment notifications will be delivered to the customer by Exceleron, not Westar. Because businesses processes and other customer service applications were not addressed in Westar's testimony, it is difficult to determine whether using a third party provider for the proposed prepay program is in the public interest.

Additionally, I am very concerned with how this program will be marketed and to which customers it will be targeted. Specifically, it is unclear whether this program will be used to create a new market place scenario where forward-thinking consumers can

prepay for electricity in the same way they might prepay for cell phone minutes, or whether this program will become a last option -- with additional costs – for consumers who are struggling financially to meet more stringent security deposit requirements, in addition to the rising cost of monthly utility bills.

Q. What are implications of this program on the Commission's established Billing Standards regarding security deposits?

A. This program allows eligible customers to avoid security deposit requirements. The Billing Standards were updated in June 2011, to allow utilities to request, reassess, or modify a security deposit from existing customers for a variety of reasons. The changes in security deposit requirements has created a hardship upon some customers who have been in good standing for many years, and due to a temporary financial hardship, are now being asked to provide a security deposit equal to two months of their monthly Westar bill.

Q. Is allowing customers to avoid paying a security deposit a benefit of this program?

A. Not necessarily. While this program allows eligible customers to avoid paying a security deposit, it also requires the customer to pay a monthly service fee. Additionally, customers enrolled in this program are subject to faster disconnections of service and may incur additional costs to process payments. While this prepay program may present an additional option for the customers at the greatest risk of having service disconnected, it comes with additional costs and waivers. In my opinion, the Commission should not view this program – which ultimately costs the customer more per month – as a

beneficial way to address a financial hardship that was created when the Billing Standards were modified.

Q. Who will participate in Westar's proposed prepay program?

A. In my opinion, this program won't make sense for current Westar customers that are not facing an additional security deposit requirement. It is unlikely that these customers will voluntarily choose to participate in a program that has additional monthly service fees, has shorter notice for disconnections, and could result in more fees – all for the pleasure of prepaying their electric utility bill. It is more likely, in my opinion, that this program will become the only option for the subset of customers who are struggling to pay their utility bills in a timely fashion, and who are now being required to pay higher deposits. These vulnerable customers will be charged extra and will be eligible for quicker loss of service, with no other real options.

Q. Is there evidence available that supports your concerns?

A. Yes. In June 2012, the National Consumer Law Center published an article entitled *Rethinking Prepaid Utility Service: Consumers at Risk.* As a courtesy to the Commission, I have attached a full text copy of this article to my testimony as Exhibit SMH-1. Among other things, the article elaborates on several concerns surrounding prepaid programs, from a consumer perspective. In addition to describing examples from around the country regarding the rates, charges, and fees of prepaid programs, it states that "(e)xperience in the United Kingdom and the United States demonstrates that prepaid metering and billing is targeted toward and concentrated among low-or-moderate consumers, particularly

those who are facing unaffordable security deposit requirements or disconnection for nonpayment under traditional service."[1]

V. COSTS & BENEFITS

Q. If a customer elects to participate in the prepay program, what costs will the customer incur?

A. The monthly service charge to participate in this program is $4 per month. This $4 is intended to recover a portion of Westar's monthly service contract with third-party provider, Exceleron, and a portion of estimated notification fees. Additionally, while it is technically not an additional cost, all customers electing to participate in the prepay pilot program will need to purchase a minimum of $35 of electricity in advance in order to establish their prepay account.

Q. What other costs will be charged to customers who elect to participate in the prepay program?

A. There are three additional opportunities for customers enrolled in the prepay program to be charged other fees. First, all new customers enrolling in the proposed prepay program will be charged a one-time $5.00 connection charge. Alternatively, customers signing up for traditional residential service are not charged a one-time connection charge. Second, Westar customers who use debit or credit cards to make utility payments are charged a $2.95 fee per payment. I think it is reasonable to conclude that customers enrolled in a prepay program will make more than one payment each month, and therefore may be

[1] *Rethinking Prepaid Utility Service: Consumers at Risk*, June 2012, at page 2 http://www.nclc.org/images/pdf/energy_utility_telecom/consumer_protection_and_regulatory_issues/report_prepaid_utility.pdf

charged a $2.95 fee each time they add funds to their prepay account. Finally, if a customer in the prepay program is disconnected due to a negative balance, that customer will be charged a $10 reconnection fee. The proposed $10 reconnection fee is less than the disconnection and reconnection fees charged to customers taking Westar's traditional residential service. However, customers enrolled in the prepay program may be made subject to disconnection of service on more than one occasion. Westar's proposal to remotely disconnect and reconnect service, with less notification of pending disconnection, will likely result in increased service disconnections and subsequent reconnections. In my opinion, it is reasonable to conclude that even though the individual reconnection fee in the prepay program is less than the individual disconnection and reconnection fees for traditional customers, customers may be disconnected more frequently in the prepay program and therefore may be subject to increased reconnection fees.

Q. Did Westar provide any explanation as to why these additional fees are appropriate and in the public's best interest?

A. No.

Q. Were you able to determine Westar's total costs of the pilot program, including program cost development?

A. Yes. Westar has contracted with a third-party provider – Exceleron – to provide services that support the prepay program. Exceleron will charge a minimum monthly fee to Westar of $5,000. In addition, a onetime fee of $50,000 will be paid to Exceleron to

provide required system integration, training and system set-up. Based upon this information, if Westar were to offer this pilot program for two years, the total costs would equal $170,000.[2]

Q. Will Westar be able to recover the $170,000 in program costs through the $4 per customer per month service charge?

A. No. Even if Westar were to achieve its participation goal of 1,000 customers in the very first month the pilot program were offered, and maintain that level of participation in the program for two years, Westar would only recover $96,000 from participants during the pilot program.[3]

Q. How did Westar determine that the appropriate customer charge is $4 per month?

A. It is not clear how Westar determined the appropriate customer charge is $4 per month. Westar did not provide information indicating why a $4 per customer, per month service fee is appropriate, even though it will not collect the total costs of the program. While I am not a marketing expert, it is my opinion that if Westar priced this program to participants based upon full recovery of costs – which would be just over $7 per month[4] – the program costs would outweigh any benefit that might make the program an attractive option for customers.

[2] Westar Response to KCC Staff Data Request No. 1
[3] 1,000 customers * $4 per month * 24 months = $96,000
[4] Total two year costs of $170,000 divided by 24 month pilot period, divided by 1,000 customers equals a customer charge of $7.083 per month

Q. If Westar is not collecting all incremental costs of the prepay program from the $4 per month service charge, who will pay the remaining costs?

A. Any costs of operating and managing the prepay program that are not recovered from the $4 per customer per month service charge will be treated as general operating expenses, which may be recovered from all residential customers in an upcoming rate case proceeding.

Q. Did Westar's application include an estimate of the benefits that would be gained by offering the prepay program?

A. No.

Q. Were you able to determine an estimate of the benefits that would be gained by offering the pre-pay program?

A. No. In CURB Data Request 2, I asked Westar to provide an estimate of the economic and societal benefits to be gained from the prepay program. Westar's response indicated that the "purpose of the pilot prepay program offer is to better understand the customer interest, demographics and ultimately the level of customer satisfaction with the option." Westar also elaborated that the goal of the program is to offer more choices, not to reduce bad debt expense, although there may be some societal benefits for customers who are in arrears. Based upon the lack of information in its application and the lack of information in data request responses, I cannot determine that there is any economic or societal benefit to be gained from the proposed prepay pilot program.

Q. Did Westar provide any type of cost-benefit analysis for this program?

A. No. And based upon the information provided in data request responses, I am not able to provide a cost-benefit analysis. A cost-benefit analysis would estimate the total benefits of a program, as compared to the total costs of the program, and would aid in the Commission's decision in this proceeding. However, because no benefits have been identified or estimated by Westar, it is impossible to perform a cost-benefit analysis.

VI. BILLING STANDARDS

Q. Did Westar's application include a request for waiver of the Commission's Billing Standards for its prepay pilot program?

A. No, Westar's application did not include a request for waiver of the Commission's Billing Standards. However, it appears as though waivers of certain Billing Standards would be implicit with the approval of the application.

Q. Would such waivers be necessary before implementing this program?

A. Yes, I believe they would.

Q. Should the Commission approve the prepay pilot program without a formal request to waive certain Billing Standards?

A. No.

Q. Which Billing Standards do you think the prepay program may violate?

A. First, it is my opinion that Westar's prepay pilot program would violate three standards

that relate to personal contact prior to disconnection: Section IV, Item C (2) – which relates to the requirement that a utility employee must go to a customer's premises to disconnect service and must accept payment when personal contact is made with the customer prior to disconnection; Section IV, Item G – which relates to the requirement that the utility attempt to make personal contact with the customer before disconnection at any time and accept payment when the personal contact is made with the customer prior to disconnection; and Section V, Item D (2) – which relates to the requirements during the Cold Weather Rule period including the requirement to send written notice by first-class mail at least ten days prior to termination of service, and that the utility attempt to make an additional personal contact the day before disconnection if the utility is unable to reach the customer by phone that day.

Q. Why would Westar's prepay program violate these three billing standards?

A. Westar's prepay program allows for remote disconnection of meters because the digital meters enable Westar to disconnect service without going to the customer's residence. The Electric Service Agreement that is attached to Westar's application states that if service is disconnected because of non-payment that the "Company may make the disconnection wirelessly. Company will notify Customer at least 24 hours in advance of the pending loss of service, using the Customer's chosen communication method." Additionally, the Electric Service Agreement states that "if Customer's service is to be disconnected during the Cold Weather Rule period … (d)isconnection or limitation of service, if required, will be accomplished wirelessly." While Westar did not specifically request a waiver of the Commission's Billing Standards regarding personal service prior

to disconnection, it is implicit in the Electric Service Agreement that Westar intends to perform disconnections wirelessly, with no personal service.

Q. Did the Commission recently deny Westar's request to waive the Billing Standards related to personal service prior to disconnection and remote disconnections?

A. Yes. On December 3, 2013, the Commission denied Westar's application in Docket No. 13-WSEE-707-TAR ("707 Docket"). In its order denying Westar's application in the 707 Docket, the Commission stated that approving such a waiver "would create an unfair situation because the 9% minority customers on digital meters would get one less chance to avoid disconnection than the customers on non-digital meters. Westar makes several good points on how digitally metered customers will still have adequate notice and opportunity to pay; however, these considerations do not cure the unfair result that granting the waiver will bring about."[5]

Q. Has Westar provided new information or evidence that would support the Commission overturning its previous decision in the 707 Docket?

A. No.

Q. Are there other Billing Standards that Westar's prepay program may violate?

A. Yes. First, customers enrolled in the prepay program will no longer receive a monthly

[5] KCC Docket No. 13-WSEE-707-TAR, *Order Denying Application*, December 3, 2013, at ¶4.

bill. Instead, customers will receive periodic communications regarding the account balance via an email, text message, or automated phone message. Westar's discontinuation of a monthly bill, as described and defined in Section 1 Item A, appears to be in violation of current Commission Billing Standards.

Second, as part of the Cold Weather Rule, Section 5 Item 3(C) allows customers to enter into an arrearage payment plan. This plan would allow customers to make an initial payment of 1/12 of the total arrearage amount and enter into a payment agreement that would equally spread the remaining arrearage over the next eleven months. Westar's prepay program includes a "debt recovery" plan, in which customers can still elect to participate in the prepay program even if they have arrearages stemming from the Cold Weather Rule. However, the debt recovery option proposed in Westar's prepay program does not comply with the Commission's Billing Standards.

Q. Why is Westar's debt recovery option not in accordance with the Commission's Billing Standards?

A. The Commission's Billing Standards allow for arrearage payment plans, that must evenly distribute a customer's past due amount over a set period of time. For example, if a customer enters into a payment agreement with Westar on January 1, for an arrearage totaling $360, that customer will make an initial payment of $30 and have an additional $30 added to each monthly bill for the next eleven months. If this customer's typical monthly bill for electric service is $125, then the customer will make a payment of $155 each month and remain in good standing with Westar.

Alternatively, a customer enrolled in the prepay program, with the same $360

arrearage will have 25% of every payment allocated to its arrearage. If the customer in the prepay program makes the same $155 payment as the customer in the arrearage payment plan, 25% of the total payment, or $38.75, will go towards the amount in arrears. Westar's proposed debt recovery payment plan appears to require accelerated arrearage payments when compared to the arrearage plans that are part of the Commission's Billing Standards.

VII. COLD WEATHER RULE

Q. Does Westar's application provide an explanation of how the pre-pay service will affect consumers during the Cold Weather Rule?

A. Briefly. Westar indicates that "during the Cold Weather Rule period, if a customer participating in this pilot program has arrears owing to Westar, Westar will have the ability to limit the amounts of electricity provided to that customer. This limited electric service will be sufficient to permit heating, lighting and refrigeration during the Cold Weather Rule period."[6]

Q. Did Westar's application indicate how it will determine what amount of electricity is sufficient to provide heating, lighting and refrigeration?

A. No.

[6] Application at ¶5.

Q. Does Westar currently have the capability to limit load on residential advanced meters?

A. It is unclear whether Westar has the ability to limit load on residential advanced meters. In its response to CURB Data Request No 5, Westar states that the "current digital meter deployment does not offer the ability to set load limits but we expect that future technology will." However, this statement is contradictory to comments made by Westar representatives during meetings held with CURB and in its application.

Q. Did Westar purport to have the immediate ability to limit load on its advanced meters?

A. Yes. As is usual when requesting new programs, Westar met with CURB to informally discuss its prepay pilot program. During this meeting, Westar representatives discussed at length the process by which loads could be limited through the use of advanced meters, how the amount of load would be determined, and what would happen if customers attempted to use more load than allowed through a load limiter. The specificity of the discussion led me to understand that Westar has the ability to limit load through its advanced meters. Westar's contradictory answers, from the informal meeting to its data request responses, makes it unclear whether Westar currently has the ability to limit a customer's load through an advanced meter.

Q. Should the Commission approve changes to Westar's General Terms and Conditions, to allow for load limiting during the Cold Weather Rule?

A. No. Assuming Westar's verified response to CURB Data Request 5 is accurate, then Westar doesn't have the capability to limit load. As a result, its request to be authorized to limit load during the Cold Weather Rule period is premature and not supported by evidence in the record. When such technology becomes available, Westar will be able to request a waiver of the Commission's Billing Standards to allow for load limiting during the Cold Weather Rule period if it can demonstrate such a waiver is in the public interest.

Q. Even if the record demonstrated Westar has the ability to limit load on residential advanced meters, should the Commission approve Westar's request to limit load during the Cold Weather Rule period?

A. No. Despite Westar's informal discussions with CURB, it has not presented information or evidence in this docket to explain what the proper amount of load is, how customers will be notified of load limiting, and whether or not limiting a customer's access to electricity during the Cold Weather Rule period is reasonable and in the public interest. Without evidence to properly weigh and consider, the Commission should reject Westar's proposal to limit customer load during the Cold Weather Rule period as part of the proposed prepay pilot program.

VIII. REPORTING RESULTS

Q. Does Westar's application include any discussion of how the program results will be measured and evaluated?

A. No.

Q. Has Westar provided any additional information detailing the timing and content of any reports on the progress of this program?

A. No.

Q. How will Westar measure the success of this program?

A. Westar's application is void of any details pertaining to how Westar, and subsequently the Commission, will judge the success of this program. In its response to CURB Data Request No. 9, Westar provided a working draft of the Prepay Performance Metrics. While I understand that this is a working draft, it appears that nearly all of the information to be acquired by Westar is qualitative in nature. For example, the age of the participant, the participant's income level, complaint tracking, and preferred communication channel – while useful demographic data for future program design – cannot be used to measure the success of this pilot program.

Q. In your opinion, how could Westar measure success in this pilot program?

A. In my opinion, there are only a few ways to evaluate the success of Westar's prepay program. The first would be to measure market saturation, or overall participation. Westar is currently limiting its pilot program to 1,000 customers. If 1,000 Westar

customers volunteered to participate in this program, then Westar would have achieved its participation goal. A second way to evaluate success would be to measure customer retention, or how long customers choose to remain in the prepay program. A third way to monitor success would be to determine the program's overall cost-effectiveness. A fourth option would be to measure the frequency of disconnections for customers enrolled in the prepay program when compared to customers taking standard residential service.

Q. Does Westar have a plan to record and report the program's success or failure?

A. No.

Q. Should the Commission approve Westar's pilot program without a plan to report results back to the Commission, Staff and CURB regularly throughout the program?

A. No it should not.

Q. In the alternative, if the Commission decides to approve Westar's proposed prepay pilot program, do you have a recommendation of what should be tracked and reported back to the Commission during the pilot?

A. Yes. At minimum, the Commission should require Westar to track and report the following items for **both** traditional payment residential customers and prepay residential customers:

1. Number of customers,
2. Number of customers with arrears of 30 days or more,

3. Dollar value of arrears,
4. Number of disconnection notices sent with each communication method (standard first-class mail, SMS text message, email, etc.),
5. Number of service disconnections due to non-payment,
6. Number of service reconnections after disconnection for non-payment,
7. Number of new arrearage payment agreements entered into,
8. Number of arrearage payment agreements successfully completed,
9. Number of failed arrearage payment agreements,
10. Number of security deposits required for existing customers, and
11. Dollar amount of security deposits required for existing customers.

IX. RECOMMENDATIONS

Q. What are your recommendations to the Commission?

A. I recommend the Commission deny Westar's application at this time, suggest that Westar re-file its application with supporting evidence and explanation of the program, and propose a more reasonable procedural schedule. Westar's application fails to provide substantial, competent evidence demonstrating that its proposed pilot program is reasonable and in the public interest. Further, Westar has failed to seek appropriate waivers of the Commission's Billing Standards that would be required for implementation of this program. At this time, Westar's application is unsupported and should be denied.

Q. In the alternative, if the Commission approves Westar's application to implement its prepay pilot program, do you have a recommendation on additional provisions that should be included in the program?

A. Yes, I do. Exhibit SMH-1 includes a list of provisions that should be required for utilities offering a prepaid service. If the Commission decides to approve Westar's prepay pilot program, I recommend the Commission include the provisions as described in the article.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

STATE OF KANSAS)

COUNTY OF SHAWNEE) ss:

I, Stacey Harden, of lawful age and being first duly sworn upon my oath, state that I am a regulatory analyst for the Citizens' Utility Ratepayer Board; that I have read and am familiar with the above and foregoing document and attest that the statements therein are true and correct to the best of my knowledge, information, and belief.

Stacey Harden

SUBSCRIBED AND SWORN to before me this 26th day of March, 2014.

DELLA J. SMITH
Notary Public - State of Kansas
My Appt. Expires January 26, 2017

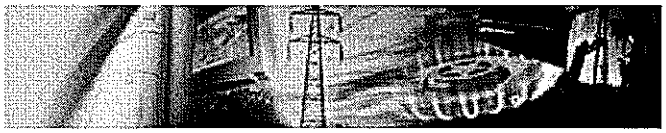
Notary Public

My Commission expires: 01-26-2017.

Referenced Data Requests

CURB-2
CURB-5
CURB-9

KCC-1

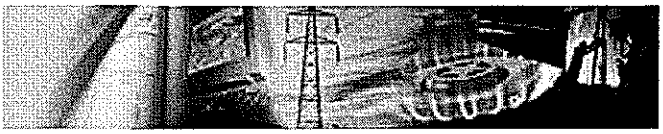


Docket: [14-WSEE-148-TAR] Optional Prepay Plan
Requestor: [CURB] [David Springe]
Data Request: CURB-2 :: Payment History
Date: 0000-00-00

Question 1 (Prepared by Hal Jensen)
Please discuss how customer's payment history will be recorded by Westar during the customer voluntary enrollment in the Pre-pay program? Specifically, if a customer participates in the Pre-pay program, will Westar consider the payments made through the program "good payment history" so that the customer may later qualify for no security deposit?

Response:
See KCC Staff DR 4, Question 6

No Digital Attachments Found.

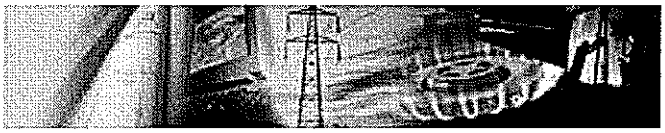


Docket: [14-WSEE-148-TAR] Optional Prepay Plan
Requestor: [KCC] [Kathleen Vinlove]
Data Request: KCC-4 :: Customer Service and Participation
Date: 0000-00-00

Question 1 (Prepared by Hal Jensen)
Please answer the following questions regarding customer service and participation in the Prepay Pilot Program. 1. After notice of disconnection within 24 hours, what is the amount a customer must pay to prevent disconnection? 2. Would there be any limitations on the number of disconnections allowed per customer? 3. Will there be an allowable limit on the number of a customer's insufficient funds payments during a 12-month period before the customer is no longer eligible for the program? 4. Will Pre-pay customers be allowed to enroll in the Automatic Bill Payment Plan or a version of this plan that would be compatible with the Pre-pay Program? 5. If a customer receives a low-balance notification or notice of disconnection and wishes to dispute the usage charges, what would be the Company's process for handling the dispute? 6. If a customer has successfully used the Prepay Program for at least one year without late payments, insufficient funds payments, or accrued arrearage and wishes to change to standard service, would a security deposit be waived? 7. Are customers who receive low-income assistance eligible for the Pre-pay Program?

Response:
1. To prevent disconnection, a customer must pay an amount that will restore a credit balance in their prepay account; a minimum amount is not required. However, if disconnected a customer must pay an amount that will restore a minimum of a $35 credit in their account. 2. No, there are no limits set on the number of disconnections. 3. No; Insufficient fund payments will not disallow a customer from participating in the prepay program. However, our current policy for all customers is to refuse payment by check if the customer has two insufficient fund payments in a rolling 12 month period. The customer would have to utilize another payment option rather than check if this occurs. 4. For the pilot program this will not be available as an option, although it is one we would consider offering should the program move out of pilot status. Automatic Bill Payment is generated via the issuance of a bill and prepay customers will not receive a bill. Support for this could be programmed in the future however we have elected not to undertake that work for a pilot. Prepay customers would have the option of setting up an automatic payment on their banks website to automatically credit their account. 5. We would apply the same business process we use for all customers. These calls are handled through our customer relations center where they are resolved or escalated and investigated as appropriate. A customer in dispute status would not be disconnected. Once all appropriate steps have been taken to verify the accuracy of a customer's billing then the disconnect would proceed if the account status is still negative. 6. Yes, a security deposit would be waived for a customer meeting the above status. 7. Yes.

No Digital Attachments Found.

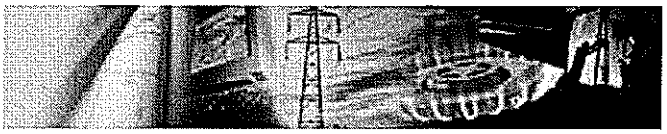


Docket: [14-WSEE-148-TAR] Optional Prepay Plan
Requestor: [CURB] [David Springe]
Data Request: CURB-5 :: Cold Weather Rule
Date: 0000-00-00

Question 1 (Prepared by Hal Jensen)
The following questions pertain to the Cold Weather Rule: • Please explain how Westar will apply load-limiting technology during the Cold Weather Rule to customers that do not have a positive balance? • If a customer is unable to pre-pay for service during the cold weather rule and the customer's load is limited, how will amounts accrued during this time be treated when the Cold Weather Rule expires? Will the amount be considered arrearages or will it be a negative balance that if unpaid will result in disconnection? • How will Westar determine what the appropriate amount of heating, lighting, and refrigeration load is for a customer during the cold weather rule? • What notifications will consumers receive regarding the Cold Weather Rule and Westar's intention to limit load to support only heating, lighting and refrigeration? How will these notifications be delivered to customers?

Response:
In practice, load limiting devices are used sparingly and none are currently in service, in fact our digital meters (AMI) do not currently have the ability to load limit. The ability to utilize load limiting devices is something Westar currently is authorized within our General Terms and Conditions via a special meter. The load limiting meter has a switch that will open if the electric load exceeds the amperage of the switch, generally 15 amps, which will then reset itself after a period of time – typically about 30 minutes. Advancements for load limiting that improve the features for both our customer and company in the prepay filing was intended to be forward looking and to cause a collaborative discussion on appropriate business processes and rules. The current digital meter deployment does not offer the ability to set load limits but we expect that future technology will. The inclusion of load limiting in the prepay pilot filing has clearly caused confusion that distracts from the true objective of the pilot; offering customers additional service choices from Westar. We do anticipate that we will request working conversations in the future with KCC Staff and CURB to discuss load limiting applications and appropriate business practices. These discussions would be for general rules and business processes and not tied to the prepay pilot.

No Digital Attachments Found.



Docket: [14-WSEE-148-TAR] Optional Prepay Plan
Requestor: [CURB] [David Springe]
Data Request: CURB-9 :: Reporting
Date: 0000-00-00

Question 1 (Prepared by Hal Jensen)
Please explain what reporting will be done by Westar and/or Acceleron during this pilot. For example, how will Westar monitor and evaluate the benefits versus the costs of the program, voluntary participation versus program participants that were in danger of disconnection and unable to qualify for Westar's other payment programs, etc.?

Response:
Two attachments are provided with the answer to this data request. The first, titled "Exceleron Reports" gives the standard menu of reports available from the Exceleron platform. We will continue to identify internally which of these, and in what configuration, are the most meaningful to our management of the prepay offer. The second attachment titled "Pay As You Go" metrics identifies various measurement areas for the pilot. Both of these attachments are work in progress and the exact reporting not finalized yet however the attachments should show the level of data detail available which will be used for evaluation. The program is proposed as a pilot. As with most pilots, it is expected that it will be more expensive on a per customer basis because by design it is intended to provide quantitative and qualitative data that will help determine if prepay is a customer program which would make sense to offer on a larger scale. All participation in the prepay offer is voluntary. In the case of a customer's "that were in danger of disconnection and unable to qualify for Westar's other payment programs, etc.?" the prepay option afforded them a choice to maintain service that they otherwise would not have and would have been disconnected. However, even in those cases the prepay program offer is still voluntary. It affords another option not currently available to maintain service for some customers.

Attachment File Name	Attachment Note
ExceleronReports.docx	
Pay As You Go Metrics.draft.dja.docx	

Prepay Performance Metrics – Working Draft December 31, 2013

Customer Success Targets

1. Number of sign up's 1,000
2. Length of time to reach 1,000 customers < 6 months
3. Attrition rate <10%
4. Opt in rate to interest calls with CSR's >30%
5. Customer satisfaction rating – at or above standard satisfaction >84% (chk w Victor)
6. Complaint Tracking

Internal Success Targets

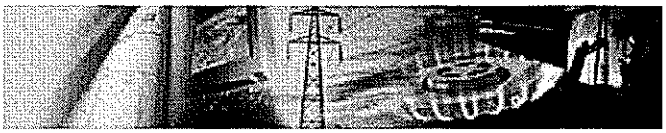
1. ESA presentation at Exceleron – acknowledgment %
2. Welcome email survey completion %
3. CSR process at < 15 minutes
4. Online webpage FAQ and video support
5. Secure Westar account page modified to support
6. Billing true up process results in credit to prepay > XX% at dollar amount less than XX% to total bill.
7. Number of customers who requested pre-pay quote, but did not make a payment in time.
8. Failed disconnects/reconnects (automated).

Customer Demographics

1. Age of participant
2. Income level
3. Pre and post usage comparison data (behavioral change, weather normalized)
4. % of participants who entered with an arrears balance
    a. Did arrears go up or down?
    b. How quickly did debt recovery amounts get paid?
5. Tracking of arrears both in and out of CWR period.
6. Number of Customers receiving energy assistance & percentage of total participants

Program Reporting

1. Preferred communication channel
2. Number of payments made per month
3. Preferred payment channel
4. Average amount of payments made per month
5. Number of pending disconnect notices sent
6. Number of actual disconnects completed
7. Average time from disconnect to reconnect



Docket: [14-WSEE-148-TAR] Optional Prepay Plan
Requestor: [KCC] [Kathleen Vinlove]
Data Request: KCC-1 :: Program Costs & Fees
Date: 0000-00-00

Question 1 (Prepared by Hal Jensen)
Regarding costs and fees relevant to the pre-payment pilot program, please answer the following questions. 1. Referring to the Electric Service Agreement, number 2 (b), please provide a detailed account of the specific costs of customer communications associated with the $4 service fee. 2. Please identify the costs of prepaid service management system software, communications upgrades, and other items necessary to implement this pre-payment pilot program. 3. Please identify any fees beyond the $4 service fee (e.g., insufficient funds fee) that a customer could incur as a participant of this program.

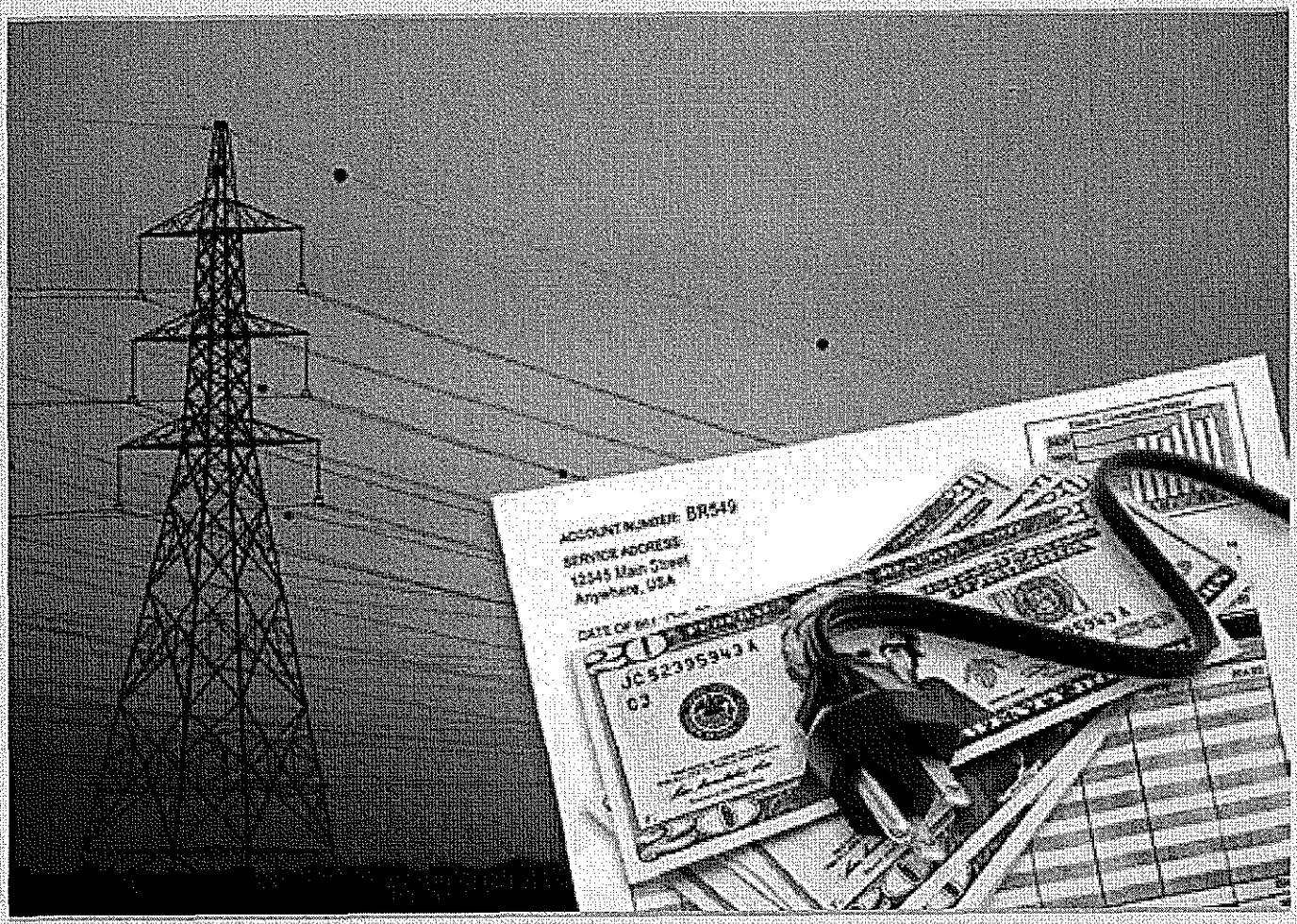
Response:
1. For the prepay pilot we are contracting with a company, Exceleron, to provide the services which support the pilot. Exceleron charges a per customer fee on the sliding scale as shown below: 1 - 5,000 customers $6.00 per month per customer 5,001 - 7,500 $5.00 7,501 - 10,000 $4.00 10,000+ $3.00 $5,000 per month is the monthly minimum for service fees. Notification to customers for things such as account balance, low balance, payment received are critical to keeping customers informed in a prepay plan. These notifications can be made via outbound phone call, text and email. Associated charges for these notifications are $0.05 per phone messages (automated IVR) and $0.04 per text message. There is no additional charge for email messages. The $4.00 fee is based upon the intent to represent customer charge for the pilot similar to what a full service area offering would be and is a combination of the $3.00 monthly charge plus an estimate of $1.00 for notification fees. Actual notification fee average will be monitored in the pilot plan and can be adjusted should a regular prepay option go forward. 2. As mentioned in response to question 1, a monthly minimum of $5,000 dollars - $60,000 annual cost - for the service management system will be required. As the pilot is limited to 1,000 customers this monthly minimum will be applicable throughout the pilot. An additional onetime fee of $50,000 is required to provide required system integration, training and system set-up. In total over a two year period, pilot costs will be $170,000 - the $50,000 set-up fee plus two years of the $60,000 annual service fee. 3. All new customers are assessed a one-time $5.00 Connection Charge. An existing customer that converts from Standard Residential Service post pay to prepay would not be assessed this charge at the time of conversion from post pay to prepay. Prepay customers are responsible for maintaining a credit balance on their account. If a prepay customer becomes disconnected due to non-payment a fee of $10 for reconnection would be assessed prior to reconnection, rather than the standard post pay disconnection and reconnection fee of $35.00. All customers regardless of post pay or prepay could also incur fees to make payments if the customer chooses to pay the billing through payment options requiring a fee, (e.g., credit card, non-authorized Westar pay stations.

No Digital Attachments Found.

EXHIBIT
SMH 1

RETHINKING PREPAID UTILITY SERVICE

CUSTOMERS AT RISK



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June 2012

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ABOUT THE AUTHORS

John Howat is a senior energy analyst at the National Consumer Law Center (NCLC) with more than 30 years of experience in energy policy. Areas of expertise include: design and analysis of low income energy affordability and efficiency programs, low-income utility consumer protections, prepayment and advanced metering, utility credit reporting and utilization of credit scores, and utility rate design. John has managed a range of regulatory, legislative, and research projects across the country in support of low-income consumers' access to affordable energy and utility services. He has represented public agencies and non-profit organizations in a range of capacities in 27 states and as an expert witness in proceedings before state utility regulatory commissions in 11 states. John is author of numerous publications, including co-author of NCLC's *Access to Utility Service*. He has a Master's Degree from Tufts University's Graduate Department of Urban and Environmental Policy.

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ACKNOWLEDGMENTS

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RETHINKING PREPAID UTILITY SERVICE

CUSTOMERS AT RISK

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Electric and natural gas utilities in numerous states have sought to replace traditional "credit-based service" with "prepaid service" delivered through prepayment meters or advanced, digital meters with remote disconnection and reconnection capabilities. (See map of the United States on page 6 identifying currently-operating prepaid service programs.) Traditionally in the U.S., electric and natural gas service has been billed on a post-paid basis where a utility company tracks a customer's usage during the previous monthly or quarterly period and then mails a bill to the customer based on that usage. The customer is then required to make payment within a predetermined time frame or face disconnection procedures. In most states a utility must offer a customer facing disconnection a payment plan to pay down an arrearage over a period of months while retaining access to service.

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, service is automatically suspended when account balances are depleted. While consumers using prepaid service may receive electronic notification that billing credits are running low, there is no obligation on the part of the utility to deliver shutoff notification securely through the mail, to continue providing service for some period of time (e.g., days or weeks) after credits are exhausted, or to work with payment-challenged customers by offering reasonable payment plans or other means of retaining access to basic utility service.

The movement to prepayment allows companies to sidestep critical consumer protections that have evolved over decades while altering the utility's incentives to interact creatively and constructively with payment-troubled customers. State legislators and utility regulators have long recognized that utility service is a necessity of modern life and that loss of service poses a threat to health and safety. Toward this end, they have adopted important utility consumer protections regarding bill payment timeframes, and secure, reliable notification by mail prior to disconnection of service. Many states help to ensure utility bill affordability through discounted rate structures and "arrearage management" programs. In some states, consumer protections include prohibitions or limitations on residential customer late payment fees and security deposits. The movement to prepayment effectively guts these important consumer protections.

Experience in the United Kingdom and the United States demonstrates that prepaid metering and billing is targeted toward and concentrated among low- or moderate-income consumers, particularly those who are facing unaffordable security deposit requirements or disconnection for nonpayment under traditional service. In the largest prepayment program operating in the United States (Arizona's Salt River Project's M-Power program), prepaid electric service is increasingly concentrated among racial minorities. Additionally, prepayment results in more frequent service disconnections or interruptions (a 1997 customer service survey conducted by Centre for Sustainable Energy National Right to Fuel Campaign found that 28 percent of prepayment

customers in Great Britain were disconnected from service over the past year). Also, customers sometimes pay higher rates than they would under traditional credit-based service. Low-income customers using prepaid utility service tend to make numerous, small payments on a monthly basis to retain electricity or natural gas service, often incurring transaction fees that add to the customer's total cost for basic service.

Households with the least means are trapped under prepayment, often paying higher costs and transaction fees while experiencing more frequent, disruptive, and dangerous loss of service. Such a system creates a two-tiered system, favoring wealthier, credit-paying households.

Increased disconnections of gas and electric service that come with prepayment threaten the health and safety of customers, particularly the elderly, disabled, and low-income families with children. Disconnecting natural gas or electric service has caused house fires and extreme indoor temperatures, which can result in illness and death. Implementing prepaid utility service, with the increased rates of service disconnection that result, increases the risk that such tragedies will occur.

With prepaid utility service, low-income customers who struggle to pay their bills often end up paying more for second-class utility service. Access to essential service, delivered by regulated, franchised monopoly utility companies, should not be compromised by a service model that leads to the forfeiture of regulatory consumer protections. **Rather, payment issues related to the inability of some households to afford a basic level of uninterrupted utility service should be addressed through delivery of comprehensive, effective low-income energy efficiency programs, bill payment assistance and "arrearage management" programs, reductions of burdensome late payment fees and security deposits, and implementation of deferred payment agreements that are truly reasonable and based on a household's actual income and expense circumstances.**

The advent of advanced metering infrastructure (AMI) and digital meters, commonly called "smart meters," dramatically increases the potential for new utility prepayment programs. Advanced meters—which include remote disconnection and real-time communication capabilities—obviate the need for utility companies to invest in "standalone" prepayment meters, and reduce the related upfront capital investment required to implement a new prepayment program. The recommendations that follow are based in large measure on provisions of a resolution adopted by the National Association of State Utility Consumer Advocates on June 11, 2011.

Recommendations

The National Consumer Law Center opposes prepaid electric and gas services. However, if a company is allowed to implement prepaid service, state regulatory commissions should require each of the following provisions.

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.

Conclusion

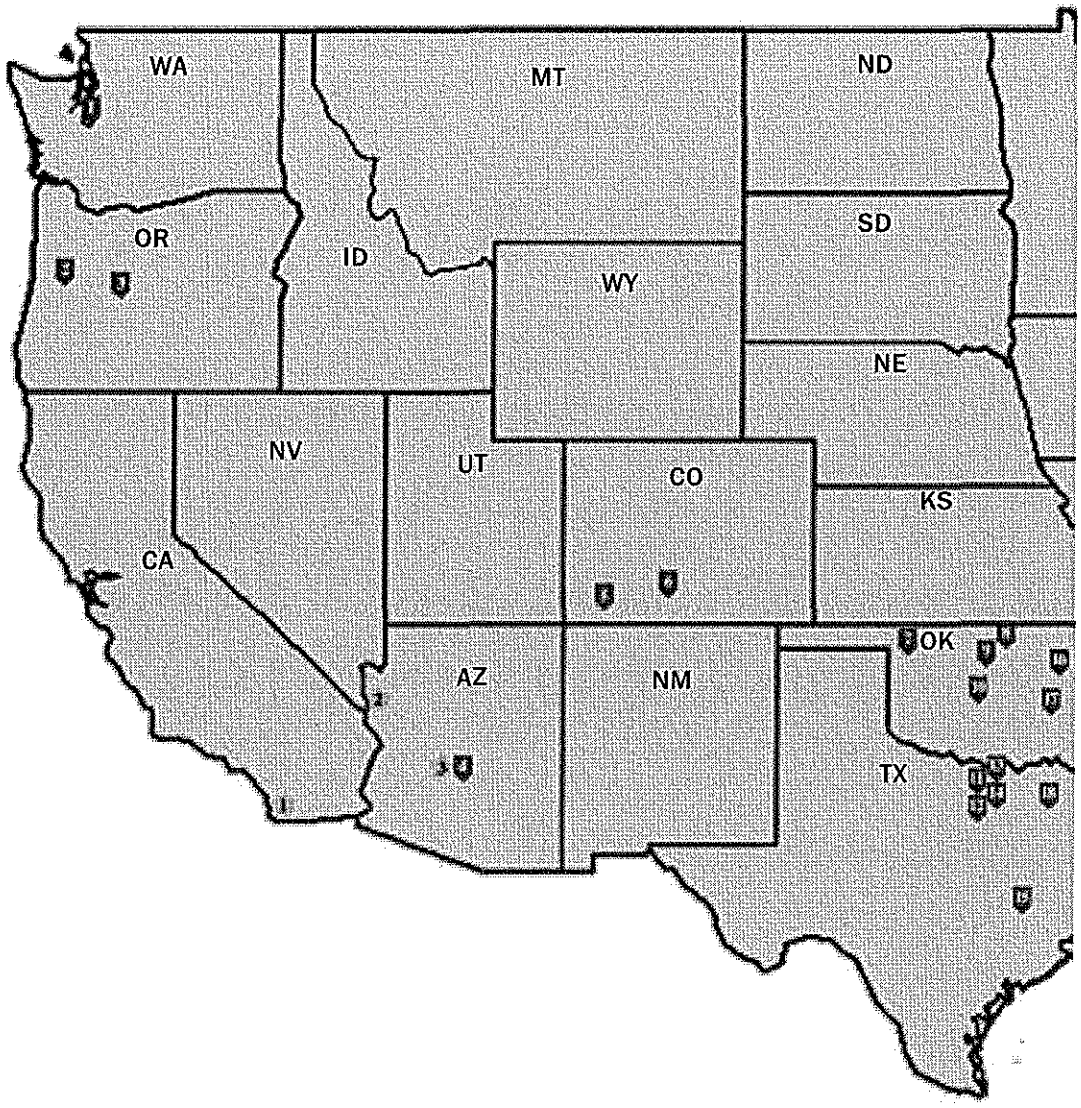
In service territories where prepaid service is already implemented, the implementing utility should answer a series of customer service questions on an annual basis. A list of those questions may be found in Appendix A (page 27).

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. Instead, payment issues should be addressed through delivery of comprehensive, effective programs and policies that account for a household's actual income and expenses, rather than a punitive prepaid program.

If a utility company is allowed to roll out a prepayment program, it is critical that state governing bodies enact provisions that will not put customers' lives at risk and avoid setting up a two-tiered system which targets low-income and minority customers.

CURRENT AND PROPOSED PREPAID

(current as of

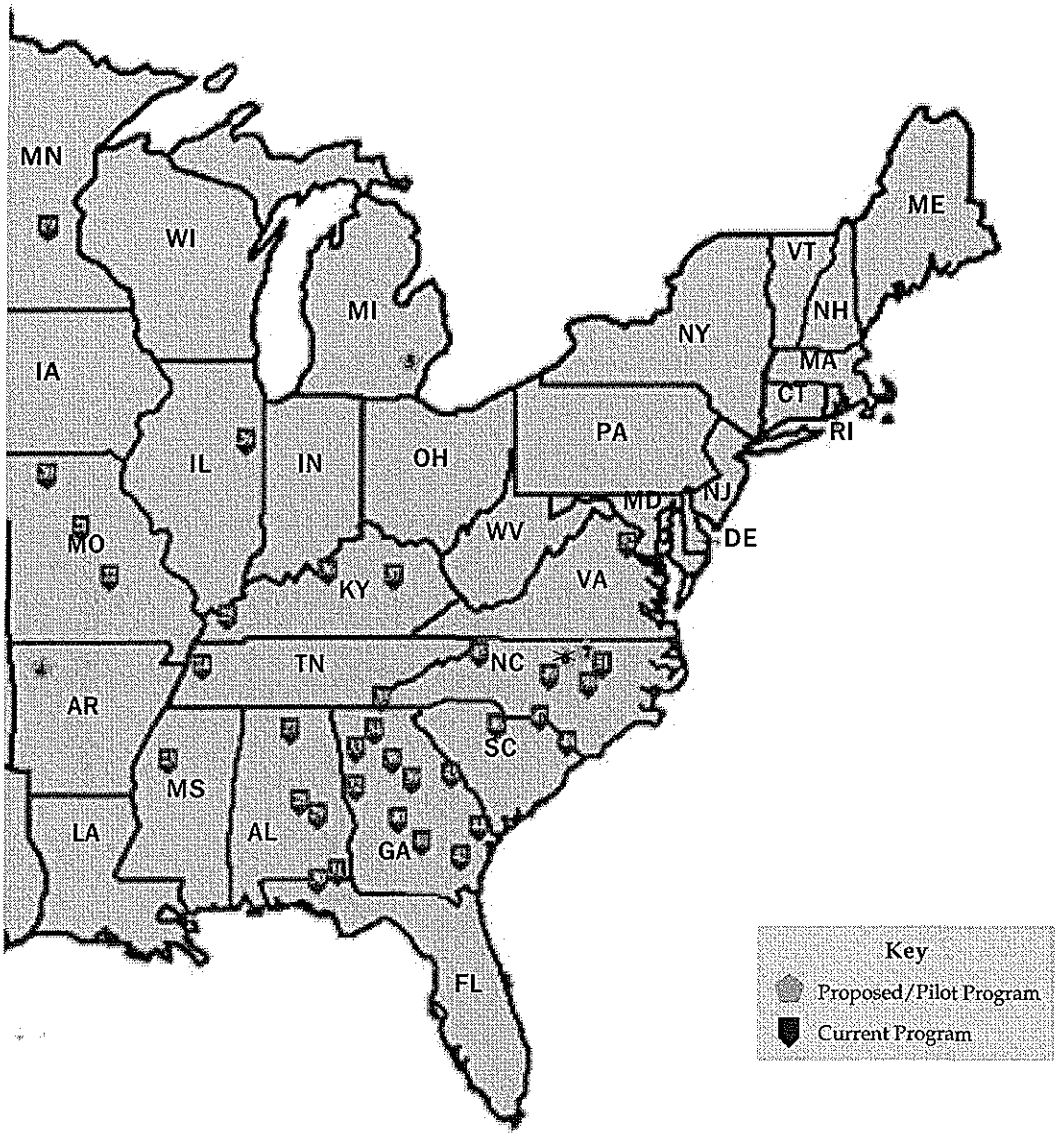


Current Programs

1. Tacoma Public Utilities
2. Lane Electric Cooperative
3. Midstate Electric Cooperative
4. Salt River Project
5. La Plata Electric Cooperative
6. San Luis Valley Rural Electric Cooperative
7. Northwestern Electric Cooperative
8. Indian Electric Cooperative
9. Central Rural Electric Cooperative
10. Oklahoma Electric Cooperative
11. Payless Power
12. United Cooperative Services
13. First Choice Power
14. Direct Energy
15. Mid-South Synergy
16. Lake Region Electric Cooperative
17. Kiamichi Electric Cooperative
18. Wood County Electric Cooperative
19. Minnesota Valley Electric Cooperative
20. Farmers' Electric Cooperative
21. Co-Mo Electric Cooperative
22. Intercounty Electric Cooperative
23. Delta Electric Power Association
24. Southwest Tennessee EMC
25. City of Mayfield
26. Eastern Illini Electric Cooperative
27. Cullman Electric Cooperative
28. Central Alabama Electric Cooperative
29. Dixie Electric Cooperative
30. Choctawhatchee Electric Cooperative
31. West Florida Electric Cooperative
32. Diverse Power Incorporated
33. Caroll EMC

ELECTRIC PROGRAMS IN THE U.S.

March 31, 2012)



34. Greystone Power Corp.
35. Tri-State EMC
36. Nolin Rural Electric Cooperative
37. Jackson Energy Cooperative
38. Central Georgia EMC
39. Tri-County EMC
40. Middle Georgia EMC
41. Irwin EMC
42. Okefenoke Rural Electric Cooperative
43. Jefferson Energy Cooperative
44. Coastal Electric Cooperative
45. Blueridge EMC
46. Fairfield Electric Cooperative
47. Pee Dee Electric Cooperative
48. Hory Electric Cooperative
49. Central EMC
50. South River EMC
51. Town of Selma
52. Rappahanock Electric Cooperative

Proposed/Pilot Programs

1. San Diego Gas & Electric Company
2. Mohave Electric Corp.
3. Arizona Public Service Company
4. Ozarks Electric Cooperative
5. Detroit Edison
6. Progress Energy* Program rejected by North Carolina Utility Commission, June 13, 2012.
7. Wake Forest Power

I. INTRODUCTION: PREPAID UTILITY SERVICE CAN POSE GRAVE RISKS FOR CUSTOMERS, ESPECIALLY LOW INCOME, CHILDREN, ELDERLY AND SERIOUSLY ILL PEOPLE

Prepaid service results in customers experiencing disconnection of service once any billing credits they have paid expire. This poses grave risks for low-income households, households with children, the elderly and seriously ill. Sudden loss of utility service can result in the customer's home becoming dangerously hot or cold, the inoperability of medical equipment, loss of refrigeration of food and medicines, loss of lighting, and loss of the ability to cook food.

Increased remote service disconnections of gas and electric service as the result of prepaid service threaten the health and safety of customers, especially the elderly, disabled, and low-income families with children. Disconnecting natural gas or electricity service can cause house fires or lead to extreme indoor temperatures, resulting in illness and/ or death. Prepaid utility service increases the rate of remote service disconnection, and the risk that such tragedies will occur.

Generally, utilities that are regulated by state commissions must seek permission when proposing to implement prepaid service to eliminate critical consumer protections, including those related to bill payment timeframes, notification of disconnection, and establishment of payment plans. Such protections were initially established for an important reason: electric and natural gas services are essential to customers' health and safety. Proponents of prepaid service seek to work around these vital consumer protections. In Iowa, for example, legislation was recently introduced that would have allowed for automated, remote disconnection of service if the prepaid account balance ran out by defining it as a "voluntary termination."[1] Prepayment should never undermine the consumer protections that have developed over decades.

The proliferation of advanced meters with remote disconnection capabilities improves the utility business case for prepaid service delivery. With advanced metering infrastructure, relatively minor additional software and communications system upgrades are needed to implement prepaid service. Further, because service terminates automatically as soon as billing credits are exhausted, companies implementing prepaid service do not have any incentives to negotiate effective, reasonable payment agreements or to implement programs to assist low- 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 needed heat, cooling, and power.

Finally, electric service delivery companies in at least one state have gone out of business after receiving prepayment funds from customers, resulting in large unpaid fines and customers losing money paid in advance for service.[2] Companies implementing prepaid service, particularly in states where utility distribution services are "unbundled" from distribution and transmission functions, should be required to post a bond or

Safety Matters in Michigan

Marvin Schur, a 93-year-old Michigan man, had a "limiter" device on his home's electric meter. Similar to a prepayment meter or advanced meter with remote disconnection capabilities, a "limiter" device caps the use of electricity at an individual's home. Once consumption exceeds a level set by the limiter, power is disconnected. In January 2009, a neighbor found Schur's body in his home; he froze to death after his electricity was shut off by the "limiter." On Schur's table was cash clipped to his electric bills.[3]

other assurance to protect prepaid customers' funds. This action helps to level the playing field with traditional credit-based customers who would not experience such a loss.

II. UTILITY CONSUMER PROTECTIONS

Basic energy and utility service is a life necessity. Yet, the circumstances of lower income households often make that service unaffordable. Many states recognize this principle explicitly in their utility laws.[4] Indeed, in most cases utility payment difficulties stem from affordability problems. While prepaid service may allow some customers to avoid certain deposit charges in the short term, it does not enhance the long-term affordability of service.

As noted, each state has adopted critical utility regulatory consumer protections that are intended to shield vulnerable utility customers from loss of essential service. 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.

This consumer protection framework has evolved over decades in many states and is intended to prevent disconnecting vital home energy service, particularly where there is financial hardship and where loss of service poses a threat to human health and safety. Prepaid utility service is designed to allow utility companies to sidestep this critical life-saving customer protection blueprint.

A. Bill Payment Timeframes

All states require that, before a payment is considered past due, companies provide customers with a fixed number of days to make payment. Some states require payment in as few as 10 days after a bill is postmarked.[5] Other states allow as many as 45 days to expire before a bill is considered past due.[6] Payment due dates are important because they have direct bearing on the amount of time which must expire before a customer faces the possibility of disconnection. Since there are no bills rendered under a prepayment structure, prepay customers lose these important payment provisions which credit-based customers receive.

Prepaid utility service is designed to allow utility companies to sidestep the critical lifesaving customer protection blueprint.

B. Notification of Disconnection by Mail

Regulations require secure, reliable notification by mail if disconnection for nonpayment is pending. Similar to variations in bill payment timeframes, states have adopted a range of provisions regarding the timing of delivery of mailed disconnection notices. In Arizona, for example, notices must be sent five days prior to actual disconnection of service.[7] Ohio requires a 14-day notice.[8] Prepaid utility customers do not receive notification by mail prior to disconnection. Instead, notification is delivered through less secure, less reliable electronic means.

C. Establishment of Payment Plans

Most states have adopted rules that require utility companies to offer customers special payment agreements as an alternative to disconnecting service or to restore service. Access to reasonable payment plans is key to protect utility customers, but is lost when a customer accepts prepaid service.

In Iowa, for example, customers who have received a disconnection notice are offered a payment plan of at least 12 months. Should the initial payment plan fail after the customer has demonstrated a good-faith effort to make timely payments, a subsequent payment plan of equal or greater duration must be offered.[9] This rule is based on the assumption that most customers want to remain current on their utility bills, but that difficult financial circumstances often lead to payment troubles. The basic right to a reasonable payment plan in Iowa and other states would be lost to customers participating in a prepaid utility program.

III. PREPAYMENT DOES NOT ENHANCE AFFORDABILITY OF UTILITY SERVICE, PROVIDE CUSTOMERS WITH ADDED CONTROL, OR ENHANCE ENERGY EFFICIENCY

Despite claims of proponents, prepayment does not enhance the affordability of utility service, but instead results in added fees, more frequent loss of service, and forfeiture of basic regulatory consumer protections. Further, features of prepaid service that lead

proponents to claim that the service provides participants with added control over their usage and payments—features such as real-time consumption and expenditure information and the option to make numerous, small payments over a monthly periods—are not unique to prepaid service. Such features may be provided to customers without the threat of immediate loss of service that comes with prepaid service, and may often be provided more cost-effectively than prepayment. Finally, while some proponents cite conservation and energy efficiency gains that come through implementation of the service, there is currently little or no compelling evidence that reductions in usage among prepayment participants are not attributable to deprivation (e.g., sacrifice of other necessities or disconnections that come automatically when billing credits are used up).

A. Claims of Affordability

Given that prepaid service customers must pay in advance while facing heightened risk of disconnection, prepayment customers should arguably pay less than credit-based customers. Yet this is not the case as prepaid service rates are in all cases in the U.S. equal to or higher than those paid by similarly-situated credit-based customers. In addition, although proponents of prepayment point to the prospect of foregone security deposits and late payment fees, companies often charge prepaid customers higher rates, equipment deposits and a range of new service fees. For example, utilities in at least one state impose additional fees on prepayment customers who make payments more frequently than once a month. These fees gouge financially strapped customers and do not enhance affordability of utility service. (Information about rates, charges and fees associated with specific prepayment programs is provided further in this report.)

With respect to the claim that prepaid service allows customers to avoid security deposits, it should be noted that some states simply prohibit utilities from charging residential customers any security deposits or late payment fees. In Massachusetts, for example, no electric or natural gas utility company under the jurisdiction of the state utility regulator may require a security deposit of a residential customer as a condition of providing service.[10] Clearly, imposing prepaid service is not the sole means of addressing the difficulty some customers face in paying security deposits and late fees.

Further, prepaid service does not enhance affordability by decreasing or writing down any arrearages (past due utility bills) that may have accrued. For low-income households, utility arrearages are attributable primarily to inability to afford monthly utility bills, household and living expenses. While prepayment allows utilities to avoid dealing with customers' payment difficulties, it does nothing to change the fact that for many households, there simply is insufficient income to pay for monthly utility service and other necessities of life.[11]

Data from the United Kingdom (U.K.) shows that prepayment customers with arrears pay higher weekly repayment amounts than similar customers using the credit system.[12] Ofgem, the UK energy regulator, noted: "We are concerned by this given that PPM (prepayment meter) customers are more likely to be on low incomes."[13] A 2010 study by Consumer Focus explains the disparity. Only half of prepaid customers surveyed agreed that their repayment rate was mutually acceptable.[14] Thirty percent of those surveyed said they had minimal or no consultation with the supplier about the rate and 14 percent

said the supplier set a rate higher than they were comfortable with.[15] The report notes this trend despite a law stating that suppliers "are required, when setting debt repayment levels, to establish the consumer's ability to repay."[16] Surveys of prepayment customers in Northern Ireland reveal a similar tendency. Eleven percent of households with debt reported that their repayment rate was determined by the energy company without consulting the customer.[17] Thus, unless prepayment of current bills is coupled with an "arrearage forgiveness" feature or an arrearage repayment component that is reasonable and affordable to the customer, it does not enhance the ability of customers to retire back bills.

Rather than introducing prepaid service or other punitive means of changing payment patterns, utilities should address problems with customer arrearages and payment difficulties using incentives.

Prepayment does not enhance affordability of utility service. Rather than introducing prepaid service or other punitive means of changing payment patterns, utilities should address problems with customer arrearages and payment difficulties using incentives. Examples include comprehensive, effective energy efficiency programs; bill payment assistance and arrearage management programs; reductions or elimination of burdensome security deposits and late payment charges; and implementation of deferred payment agreements that are reasonable and based on a household's actual income and expense circumstances.

B. Claims of Added Control

Proponents of prepaid service claim that it provides customers with increased control over their utility bills, that customers reduce consumption, and that as a result utility service is made more affordable for low-income customers. These claims are often misleading and require further scrutiny. For example, the claim regarding greater control over utility bills is often based on the notion that prepayment customers have access to energy consumption and billing information on a real-time basis, and are therefore more likely to reduce consumption and not be surprised by large monthly bills that must be paid after consumption occurs. The claim also hinges on the ability of customers to make payments—large or small—at any time. However, these benefits are not unique or limited to prepaid service delivery. Advanced meters and other "consumer feedback" mechanisms can provide real-time information to customers about the cost of the utility services they are using whether the customer is on a prepaid program or a traditional credit-based service plan. Further, nothing prevents a utility from accepting payments throughout the month from customers who are not on a prepayment program that disconnects service as soon as billing credits expire.

Further, while prepaid service proponents claim that the programs help payment-troubled customers manage their energy budgets, it removes incentives that exist under the credit-based system that encourage a mutual negotiation of payment plans, particularly for customers with conditions or circumstances that entitle them to special protections. If a credit-based customer accrues a debt, it's in the utility company's interest to develop an affordable payment plan to collect on the past due balance. Under prepayment arrearages do not accrue. Therefore, utilities can skip the negotiation and mandate

payment under a flat rate that fails to account for household circumstances or ability to pay. This sets up an inequitable, two-tiered system of service delivery to customers.

C. Claims of Energy Efficiency and Conservation

The claim that prepayment customers use less energy, save money on utility service, and therefore have more affordable utility service must be examined carefully. At least one utility company has proposed a prepayment program as part of its demand response program portfolio (used to reduce use of electricity during peak usage times to reduce strain on the power supply).[18] While there are reports of a "conservation effect" of prepayment,[19] proponents argue that the effect is due, at least in part to the fact that prepayment "requires consumers to pay attention to when and how, they use electricity, *allowing* them to make immediate adjustments in usage to lower their bills."[20] (emphasis added) However, 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 that occurs after being remotely disconnected is not clear. There is currently no conclusive evidence demonstrating the source of any usage reductions associated with prepayment. Unlike efficiency measures that generate real energy savings for a consistent level of work (e.g., heating, cooling or light), forced usage reduction or remote disconnection of service simply cannot be considered an enhancement to the quality or affordability of utility service.

D. Utility and Shareholder Advantages

While customers face grave risks from prepaid service, utility companies reap substantial benefits from placing lower-income customers on prepaid 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, the risk that uncollectible accounts of prepayment customers will have to be written off is eliminated. Finally, prepayment allows companies to dramatically reduce short-term capital costs, such as 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.

Because it allows utility companies to simply disconnect customers before they fall behind on their bills, prepayment is the ultimate *utility arrearage management tool*. No longer do companies need to try to collect from customers in debt, nor do companies need to worry about escalating uncollectible accounts. In estimating the utility's return on investment in purchasing prepayment software, the biggest savings by far to the utility are bad debt savings. According to PayGo, a prepaid service software company, bad debt savings comprise nearly 80 percent of the estimated savings if utilities adopt prepayment:[21]

As PayGo's estimates show, prepayment serves as an extraordinarily effective collection tool. In contrast to credit meters, prepayment customers cannot accumulate debt if their electric service is unaffordable. They are simply cut off from service. Not only are customers automatically disconnected if they cannot pay, but prepayment guarantees that customers with past arrearages are steadily paying their debt off. Most programs

Table 1: **PAYGO PROJECTIONS OF UTILITY SYSTEM BENEFITS OF PREPAID SERVICE**

	Year 1[22]	Year 2	Year 3	Year 4	Year 5	
Number of Customers	2,000	4,000	9,000	12,000	15,000	
Number of Truck Rolls	—	—	—	—	—	
Truck Roll Savings	—	—	—	—	—	
Support Service Savings	$48,000	$48,000	$48,000	$48,000	$48,000	0.9%
CSR Savings	$139,200	$278,400	$626,400	$835,200	$1,044,000	19.5%
Bad Debt Savings	$568,000	$1,136,000	$2,556,000	$3,408,000	$4,260,000	79.6%
						100.0%

Table Modified from PayGo

will automatically allocate a percentage of a customer's electric payments toward paying down past debt. The Minnesota Valley Electric Cooperative assesses a 50 percent repayment rate if a customer enrolls in prepayment and has a past arrearage, meaning that if a customer pays $1, the customer gets only 50 cents worth of electric credit.[23] Arizona's M-Power program dedicates 40 percent of a customer's payment to past due debts.[24]

In short, with prepayment, the costs and challenges associated with low-income customers' payment difficulties are no longer the concern of the utility company; they rest solely with the low-income customer. But, as discussed previously, low-income customers bear the added health and safety risks when universal access to basic utility service is denied.

IV. RATES, CHARGES, AND FEES

As previously described, proponents of prepayment often describe the service as a customer budgeting tool, but the reality is that many low-income customers end up paying more for their electricity bills than credit-based customers. So customers with the least means pay the most for an essential service. While some prepayment customers may avoid traditional security deposits, they rarely, if ever, pay lower rates for prepaid service, even though it brings numerous advantages for utility companies. For example, customers enrolled in the Arizona-based M-Power Prepaid Program with average usage will pay $38 more than credit customers each year.[25]

Another prepaid program, offered by the Choctawhatchee Electric Cooperative (CHELCO) in Florida, also results in higher costs. CHELCO charges prepaid customers a higher fixed rate for service than it does for credit customers. Over the course of a year, CHELCO prepaid customers will pay an extra $127.75 in fixed costs than the utility's

credit-based customers.[26] The increased cost comes from two sources: a contract with an outside company to manage the daily calculations on prepayment accounts and equipment that can remotely disconnect accounts. Customers with prepaid service pay an extra $54.75 a year to give the utility the ability to seamlessly terminate their power.[27] While the company touts the lower deposit requirement for prepaid customers, other costs quickly erode any cost advantage that prepayment provides.[28]

Prepayment programs often include burdensome junk fees, including transaction fees, monthly program fees, and reconnection fees. The Horry Electric Cooperative in South Carolina, for example, charges prepayment customers a $12 monthly equipment charge.[29] Customers avoid the $200 deposit required on other residential accounts, but they pay an extra $144 annually for prepayment service. Unlike credit customers, they will pay this amount every year whereas customers only need to pay a deposit once.[30]

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. The REP Smart Prepaid, for example, charges a $2.95 payment processing fee each time a customer refills a prepaid account balance, an enrollment fee, and a variable disconnection fee.[31,32]

> While some prepayment customers may avoid traditional security deposits, they rarely, if ever, pay lower rates for prepaid service, even though it brings numerous advantages for utility companies.

The West Florida Electric Cooperative charges a $2 transaction fee every time a prepayment customer purchases electricity.[33] Prepayment proponents argue that frequent payments help families budget and conserve electricity but transaction fees quickly inflate the cost of prepayment.

V. PREPAYMENT EXPERIENCE IN THE UNITED KINGDOM AND THE UNITED STATES

Experience in the United Kingdom (U.K.) and the United States (U.S.) demonstrates that prepaid metering and billing is concentrated among low or moderate income customers, many of whom are facing service disconnections for nonpayment. Prepayment results in frequent service disconnections or interruptions, and it is sometimes delivered at a higher rate than traditional credit-based service. In general, prepaid service is offered to customers on what is termed a voluntary basis. Further, when a prepayment customer experiences a service disconnection, it is referred to among many in the prepaid service industry as a "self-disconnection" or "voluntary disconnection." However, a customer who is facing imminent loss of essential service—often with devastating consequences—may surrender consumer protections and access to a reasonable payment agreement to keep service in the short term.

A. United Kingdom

In the western world, the United Kingdom (U.K.) took the lead in prepaid electric service, approving prepayment as a billing option in the 1980s. Prepayment meters are now common in Great Britain, which began deregulation of its utility industries even earlier than experiments in the U.S. began. By 1989, about 3.7 million electricity customers and 1.1 million natural gas customers in Great Britain used prepayment meters to pay for utility service. The number of customers using the systems nearly doubled between 1990 and 1997.[34] Currently, about 6.2 million residential natural gas and electric utility customers in Great Britain use prepayment meters, representing about 13 percent of all installed residential meters.

Table 2 **Surveying Great Britain Prepayment Customers**

54%	Used "emergency credit" to retain utility service
45%	Cut back their energy use
22%	Gave up other necessities (e.g. food) to stay connected
16%	Had "self-disconnected" at least once over the previous year

Source: "Cutting back, cutting down, cutting off: Self-disconnection among prepayment meter users" by Hannah Mummery and Holly Reilly, *Consumer Focus* July 2010, page 17.

Historically, a vast majority of prepayment meter users in Great Britain were low-income customers.[35] Utility companies there target marketing of prepayment meters to low-income households in arrears, even though they charge substantially more for service delivered under prepayment than for service paid for by traditional billing means or through direct debit.[36]

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, there has been a steep increase in the number of "self-disconnections," which occur when a customer's credit balance is depleted. (For more information on rates of service disconnections, see Section D on page 20.)

In short, utility deregulation in Great Britain has coincided with the proliferation of prepaid service in low-income households. Utility companies have turned to the technology as a means of managing arrearages (past due bills). Prepayment customers pay the highest rates for service. The highest utility rates in Great Britain were paid by those least able to afford them, and a relatively high proportion of customers using prepaid service are disconnected at least once per year.

Prepayment meters in Great Britain are still concentrated disproportionately in lower-income households. Sixty percent of electricity and natural gas customers with prepayment meters in 2010 had annual incomes below £17,500 ($27,704). 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.

Similar to the Salt River Project in Arizona (see page 17) experience, average income among prepayment customers in Great Britain is declining. In 2008, the average household income for prepaid customers was £16,091 ($27,523). By 2009, the average income fell to

£13,466 ($21,929).[37] The number of customers with disabilities increased from 26 percent to 39 percent.[38]

Northern Ireland's prepayment programs provide the only example of a program that enrolls affluent customers in any significant numbers. The country's program is unique, however, because prepayment customers receive a 2.5 percent discount on energy rates.[39] Nonetheless, low-income individuals comprise 58 percent of the prepayment customer base in Northern Ireland.[40]

Utilities in Great Britain do not report the number of 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 in low-income households, where disconnections are not reported.

B. United States

At least 52 utilities in 18 states currently operate prepayment electric programs in the United States. Electric cooperatives comprise the majority of utilities that offer prepayment utility service. Implementation of prepaid utility service is concentrated in service territories served by publicly-owned utility systems that are not subject to the full regulatory jurisdiction of state utility commissions.

Salt River Project (SRP) in Arizona through its M-Power program and Oklahoma Electric Cooperative deliver large-scale prepayment programs. In Texas, which has a largely deregulated retail electricity market, at least six Retail Electric Providers deliver prepaid service through advanced meters. Investor-owned or privately-held utilities have proposed or are considering prepayment programs in Arkansas, Arizona, California, Delaware, Florida, Louisiana, North Carolina, and Oklahoma.

Most of the prepayment programs in the United States—both existing and proposed programs—are in states where utilities are subject to relatively weak regulatory consumer protection and oversight, with the exception of Iowa and California. (In 2011, a prepayment program was proposed in Iowa but after newspaper accounts raised questions regarding the health and safety risks no action was taken by the legislature.)[41]

A Way to Evade Consumer Protections?

Prepayment should never undermine the consumer protection framework that has developed over many decades. One of the most troubling aspects of prepaid service is the use of the term "voluntary" to describe disconnections and justify the shift from a structure based on consumer protections and regulatory oversight of disconnections to one where loss of service is invisible and undocumented. *The notion that low-income households voluntarily opt to go without service or reduce usage to levels that may have detrimental impacts on well-being is not defensible.*

Prepaid service proposals that are subject to the jurisdictional authority of state utility regulators 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. Protections, adopted in various forms by regulators in *every* state in the U.S., reflect that electric and natural gas services are essential to the health and safety of people.

Iowa proponents of prepaid service sought legislation to work around these important consumer regulations by defining a remote disconnection of service as a 'voluntary termination.' The filed bill stated that an electric utility may install

> a prepaid metering system and equipment that is configured to terminate electric service immediately and automatically when the customer has incurred charges for electric service equal to the customer's prepayments for such service. *The automatic termination of electric service once the customer's prepaid limit has been reached shall be considered a voluntary termination of service by the customer and shall not be considered a disconnection by the utility for purposes of this chapter and applicable rules adopted by the board.*[42] (Emphasis added.)

Thirty-eight percent of electric utilities are exploring prepayment as a billing option and industry research has predicted that eleven percent are likely to implement a prepayment program in the near future.

No investor-owned utilities (IOUs) outside of Arizona, Texas, and Michigan have received approvals to deliver prepaid service. However, state utility regulators are considering IOU pilot proposals in a few states, including California.[43] According to a recent study, 38 percent of electric utilities are exploring prepayment as a billing option. A utility industry research firm has predicted that 11 percent of utilities are likely to implement a prepayment program in the foreseeable future.[44]

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 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 SRP program.

Lower-income households make up the vast majority of SRP prepayment program participants and the median income of M-Power customers has declined considerably in recent years. In 2007, the median participant income was $27,500. Within a year, it dropped to $19,500. In 2010, the median income fell below the poverty level for a family of three or more to $17,900.[45] In 2010, 82 percent of program participants had household income of less than $30,000.

A study of customers in the M-Power program shows that the proportion of racial minorities enrolled in prepayment service is increasing. Surveys prior to 2010 showed

that Hispanics comprised 22 to 23 percent of customers but in just two years, that percentage has leaped to nearly 50 percent (they comprise 41 to 48 percent).[46] In Phoenix, the largest city served by the Salt River Project, Hispanics account for only 40.8 percent of the population.[47]

A 2009 analysis showed that M-Power customers are "more likely to be relatively young, have families, be relatively low-income, be low electricity consumers, live in apartments, have been SRP customers for less than five years, and have unsatisfactory or "new credit ratings" compared to other residential customers.[48] On average, the head of a household with a prepaid meter is 36 years old, makes an average annual income of $24,400, and is Hispanic.[49]

Salt River Project's M-Power prepayment meter program in Arizona is the largest in the U.S., with more than 100,000 customers. On average, the head of a household with a prepaid meter in this program is 36 years old, makes an average annual income of $24,400, and is Hispanic. What's more, prepayment customers pay a rate that is higher than traditional, credit-based service customers.

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. 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.

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 establishment fee. 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. Despite making inquiries to SRP personnel, NCLC was unable to obtain information detailing how much an average prepayment customer pays in fees on an annual basis. Further, SRP does not release data on rates of disconnection among its prepayment customers.

C. Marketing

Many utilities market prepayment service as a customer budgeting tool, describing prepayment as a "pay-as-you-go" plan.[50] Companies highlight the flexibility of smaller, more frequent payments and emphasize that consumers will no longer be surprised by a high bill at the end of the month. First Choice Power, a Texas utility, summarizes a common marketing pitch in their prepayment slogan: "$0 DEPOSIT. NO CONTRACT. NO CREDIT CHECK."[51]

Pee Dee Electric Cooperative (PDEC) in South Carolina stresses that one of the most compelling features about prepayment is that no deposit is required. In a customer information video, PDEC's Vice President of Member Services says they began the program after customers balked at paying high deposits.[52]

Other companies compare prepayment electric service to filling up a gas tank.[53] Rappahannock Electric Cooperative, a Virginia-based municipal utility, discusses its marketing strategy for a proposed prepayment program: "Much like people tend to think about their gas mileage when they fill-up their cars, REC believes that people will think about ways to be more thrifty and conservative in the way they consume electricity when they regularly, at their convenience, elect to add to, or 'fill-up,' their Prepayment Account Balance."[54] Companies emphasize conservation, flexibility, customer control, and increased information.[55]

D. Disconnections

Proponents of prepaid electric service often argue that such service actually decreases the number of customer disconnections, contributing to increased energy security for customers.[56] KEMA, a utility consulting company, praises prepaid service's high penetration rate in the United Kingdom, arguing that the service drastically reduced disconnections due to debt. They report: "There are fewer disconnections in the UK for reasons of debt (only 1,361 in 2003; versus 70,000 in 1990)."[57] Such claims are misleading. British regulators categorize disconnections under prepaid service as "self-disconnections." The change in categorization is responsible for the staggering reduction in disconnections. An independent report observed, "When self-disconnection occurs it is only the people living in the property who know about it. Even energy supply companies remain unaware that one of their customers has self-disconnected."[58]

Customer surveys, however, have helped fill the information gap. Accent, an independent research firm in the UK, surveyed prepaid customers. They found that 9 percent of prepaid electric customers were disconnected in the past 12 months.[59] Credit customers experienced a disconnection rate of about one tenth of one percent during the same time period.[60] Further, a 1997 customer service survey conducted by Centre for Sustainable Energy National Right to Fuel Campaign found that 28 percent of prepayment customers in Great Britain were disconnected from their service over the past year.[61]

Research shows that the rates of disconnection due to lack of funds are increasing in the United Kingdom. Between 2008 and 2009, the number of customers reporting disconnections for lack of funds increased from 21 percent to 39 percent and an increasing number of customers were disconnecting with greater frequency. The duration of disconnection also lengthened, with less than half of customers disconnecting for more than a day in 2008 whereas most customers disconnected for more than a day in 2009.[62] While most customers are disconnected for short periods, the poorest customers are disconnected the longest.[63]

In the United States, newer advanced metering infrastructure (AMI) systems can track disconnections but not all prepaid electric programs use AMI technology. The lack of

transparency on the true effects of prepaid is exacerbated by the fact that all prepaid electric programs in the U.S.are run by cooperatives and municipal utilities. Cooperatives and municipal utilities are typically not required to report their disconnection rates and they usually fall outside the purview of state utility boards.[64] Arizona's Salt River Project's M-Power program, the largest prepaid electric program in the U.S.,[65] refuses to share any data on disconnections with the National Consumer Law Center, although a 2006 SRP study of eight M-Power households shows that three households reported running out of power. If the households were representative and randomly selected, the rate of disconnection would be quite high.[66] The National Consumer Law Center could not obtain disconnection rates for any prepaid programs, although the Oklahoma Electric Cooperative (OEC) reports, "Less than 50 percent of OEC pre-paid accounts have been disconnected."[67]

Even when customers remain connected, many engage in harmful self-rationing. Self-rationing occurs when households reduce spending on certain household expenses in order to pay for energy. Again, the U.K. is the only source of information available. A 2010 study (see Table 2) found that half of prepaid meter customers self-rationed, spending less on food, heat, or medicine. One customer reported that she had stopped vacuuming her house and cut back on laundry to keep the electric meter running.

"Sometimes I am not able to wash my clothes because I can't afford the washing liquid to do it, which is not right because I do like to have clean clothes to wear."[68] Others prioritized energy bills over other financial obligations.[69] One in ten prepaid service customers spent less on other bills and 6 percent of households reported missing payments on their other bills.[70] Customers reported going without heat, eating microwaveable meals, or skipping meals altogether.[71] Despite these measures, those who self-ration are more likely to disconnect.[72]

E. Reported Customer Satisfaction

In studies designed and conducted or commissioned by the SRP in Arizona, 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. The longer customers remain in the prepayment program, the more dissatisfied they are with the pay centers. When looking at overall experience, SRP's credit customers reported a better overall experience (50 percent) compared to prepayment customers (44 percent) in 2010.

The National Consumer Law Center is not aware of any Salt River Project customer satisfaction survey that asks customers if they would prefer paying arrearages through a reasonable payment agreement versus taking a service option that entails automatic disconnection as billing credits expire.

This may explain in part why the turnover rate for the M-Power program is high, with customers enrolled in the program for 20 months on average. The Electric Power Research Institute (EPRI) speculates that the population that uses M-Power is more transient than its credit customers but the report did not disclose whether such customers switched back to the credit-based system or any other data that would back up its assertion.[73]

SRP's M-Power customer surveys may not fully capture the extent to which customers are aware:

1. That they are paying a higher rate for service,
2. That M-Power prepaid customer disconnections may be considerably higher than those of credit-based customers, or
3. That in other utility service areas, customers may have access to reasonable payment plans and other consumer protections geared toward helping customers with financial hardships retain access to service.

VI. TECHNOLOGY

Since its inception, the technologies enabling utilities to implement prepayment programs have evolved and advanced. However, the fundamental concept and motivations behind the service have not changed over time.

A. Early Technologies

In the United Kingdom, the first prepaid customers loaded credit onto the meter by inserting a coin in a slot on the device.[74] The next generation of meters used tokens, keys and cards to load credit. In the United States, SRP's M-Power program in Arizona initially used a configuration where an in-home display (IHD)—a device that displays customer energy consumption and expenditure information—was hard-wired to the customer's meter. Gradually, the program used a Powerline carrier (PLC) to facilitate communication between the meter and the IHD through existing home electrical wiring; but the fundamentals of the program remain. M-Power customers buy credit at a self-service kiosk called a PayCenter using a Smart Card. The customer then inserts the Smart Card into the in-home display, re-loading the meter.[75] The utility's back office personnel can also process transactions by telephone or by check.[76] The meter has remote disconnection capability and there is real-time bi-directional communication between the utility's back office and the meter.[77] SRP integrated the back office systems and the customer information software over time.[78]

In Great Britain, prepaid meter customers bore the added cost of maintaining a separate system of electric service and the transactional costs of frequent payments. Customers often paid rates that were considerably higher than those paid by credit-based customers.[79] Many utilities in the U.S. have historically resisted prepayment in part because of

the high capital and maintenance costs of the technology.[80] However, most utilities currently considering proposals plan to offer prepayment service as part of their AMI, or "smart meter" programs.[81]

B. "Smart" Meters Advance Prepayment Programs

Advanced or "smart" meters can provide instant communication between the utility company and a customer's meter. Unlike older prepayment technology, these newer systems can easily switch customers from credit to prepayment service, adjust for fluctuations in energy prices, and provide one billing system for all customers.[82] When a prepayment customer's credit becomes depleted, advanced meters may remotely disconnect customers immediately and seamlessly. AMI dramatically increases a utility's economic potential to roll out new utility prepayment programs. Utility companies generally obtain regulatory approval to recover investments in AMI based on assumptions that these investments lead to reduced operating costs or the need to invest in new energy supplies or capacity. AMI avoids the cost to invest in "standalone" prepayment meters, and reduces the upfront capital investment required to implement a new prepayment program. To date, companies have not obtained regulatory approval to proceed with investment in AMI based on plans to roll out prepaid service. However, once approval is granted, the bulk of a utility's cost for implementing prepayment is covered.

By the Numbers

Advanced (smart) meter technology dramatically increases a utility's economic potential to roll out new utility prepayment programs.

Smart meters in the U.S.

As of June 2011	20 million
By 2015*	65 million (almost half of all U.S. households)

*Industry estimate

Source: Institute for Electric Efficiency[83]

The Institute for Electric Efficiency (IEE) has documented that as of June 2011, there were about 20 million smart meters in the U.S. By 2015, it is estimated that over 65 million new advanced meters will be installed, representing nearly half of all U.S. households.[83] Unless consumers, advocates, policymakers, and regulators take a stand against implementation of prepaid electric and gas utility service, the potential for new programs in the U.S. is immense.

VII. RECOMMENDATIONS

The National Consumer Law Center opposes prepaid electric and gas services. However, if a company is allowed to implement prepaid service, state regulatory commissions should require each of the following provisions. The recommendations that follow are based in large measure on provisions of a resolution adopted by the National Association of State Utility Consumer Advocates on June 11, 2011.

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.

In service territories where prepaid service is already implemented, the implementing utility should answer a series of customer service questions on an annual basis. A list of those questions may be found in Appendix A.

VIII. CONCLUSION

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.

Instead, payment issues should be addressed through delivery of comprehensive, effective low-income energy efficiency programs, bill payment assistance programs and "arrearage management" programs, reductions of burdensome late payment fees and security deposits, and implementation of deferred payment agreements. These are examples of effective programs and policies that account for a household's actual income and expenses.

If a utility company is allowed to roll out a prepayment program, it is critical that state governing bodies enact provisions that will not put customers' lives at risk and avoid setting up a two-tiered system which targets low-income and minority customers.

APPENDIX A

CUSTOMER SERVICE QUESTIONS THAT UTILITIES WITH PREPAID SERVICE PROGRAMS SHOULD BE REQUIRED TO ANSWER ANNUALLY

In utility service territories where prepaid service is already adopted, the following questions should be posed "on the record" annually to implementing utilities.

1. Does the utility plan to replace prepayment meters with advanced meters?
   a. If so, will prepayment rates go down?
2. Does the utility track service disconnections among prepayment customers?
   a. If so, can the utility provide data on
      i. Duration of disconnections
      ii. # of "self-disconnections" by month over the past three years
      iii. Annual and monthly rates of "self-disconnection" (i.e., # residential self-disconnections ÷ # of residential customers)
   b. Has the utility conducted analysis or surveys among customers who self-disconnect to determine
      i. reasons for the disconnections
      ii. income and demographics of customers who self-disconnect?
3. Does the utility track disconnections among customers who post-pay?
   a. If so, can the utility provide data on
      i. Duration of disconnections
      ii. # of "self-disconnections" by month over the past three years
      iii. Annual and monthly rates of "self-disconnection" (i.e., # residential self-disconnections ÷ # of residential customers)
   b. Has the utility conducted analysis or surveys among customers who self-disconnect to determine
      i. reasons for the disconnections
      ii. income and demographics of customers who self-disconnect?
      iii. Will the utility provide survey instruments along with results and analysis?
4. Fees
   a. Does the utility charge prepayment customers fees for
      i. Paying by phone
         1. how much?
         2. how many customers pay by this method?
         3. Percentage of M-Power revenues that come from this payment method
      ii. Paying online
         1. how much?
         2. how many customers pay by this method?
         3. Percentage of prepayment revenues that come from this payment method

iii. Paying at a kiosk
    1. how much?
    2. how many customers pay by this method?
    3. Percentage of prepayment revenues that come from this payment method
iv. Paying a third party
    1. how much?
    2. how many customers pay by this method?
    3. What 3rd party fees are involved with this payment method?
    4. Percentage of M-Power revenues that come from this payment method
v. Other payment method?

5. Does any of the utility's post-paying residential customers use in-home devices to track consumption and expenditures?
    a. If so, how do these devices differ from those used by prepayment customers?
    b. Has the utility studied the energy savings associated with use of in-home devices without prepayment?
    c. If so, please provide results of analysis.
6. Energy savings
    a. What is the average energy savings realized by a prepayment customer?
        i. How is this calculated?
        ii. Is baseline consumption of individual customers used to develop savings estimates?
        iii. Has the utility analyzed the factors to which savings are attributable?
            1. self-disconnection
            2. energy efficiency
            3. energy conservationv
            4. Has the utility studied the extent to which prepayment customers engage in "self-rationing," that is, cutting back on other expenditures, including necessities, to stay connected to their electric service?
7. Customer satisfaction surveys
    a. Will the utility share instruments and results of customer satisfaction surveys conducted over the past five years?
    b. In customer satisfaction surveys, are respondents asked whether they may prefer a long-term payment agreement to prepayment as a means of managing arrearages?
    c. How is sampling conducted?
8. Marketing and Enrollment
    a. Among prepayment customers enrolled over the past three years, what proportion came to the program as
        i. a new the utility customer
        ii. an existing the utility customer
            1. with no outstanding arrearage
            2. with an outstanding arrearage
                a. average vintage
                b. average dollar value
            3. with a pending notice of disconnection
            4. with previous disconnections for non-payment

ENDNOTES

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6. Mass. Regs. Code tit. 220, § 25.02.
7. Arizona Code 14-2-2-210 and -211.
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15. Hannah Mummery and Holly Reilly, "Cutting back, cutting down, cutting off: Self-disconnection among prepayment meter users," *Consumer Focus* (July 2010), p. 11.
16. *Id.*
17. Consumer Council, "In Control? An investigation into the patterns of use and level of self-disconnection by gas and electricity Pay As You Go meter users in Northern Ireland," (March 30, 2006), p. 6.
18. *See, e.g.,* Arizona Public Service Company in Docket No. E-10345A-10-0075.
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