

## *Utility Arrearage Management Technology Threatens Utility Consumer Protections*

With utility prices at very high levels and increasing numbers of low- and moderate-income utility customers falling behind on their utility bills, utilities in many states are considering or have already deployed prepayment meters to replace traditional meters and credit-based billing for utility service. When a prepayment meter is installed, the customer must pay in advance for service, with payment balances decreasing as service is delivered. Service is automatically terminated if the payment balance is depleted. Service is restored only if and when additional payment is rendered at a remote pay center or via the internet.

While some prepayment systems may provide customers with useful, real-time information regarding their energy consumption and projected utility cost, replacement of credit-based service with prepayment brings *much higher rates of disconnection and threats to the health and safety of elderly and other customers particularly susceptible to the effects of service interruption*. Prepayment also provides utility companies with a means of reducing customer arrearages but require *bypassing of existing state utility regulatory consumer protection frameworks*. Given that the technology is expensive and may be concentrated among payment troubled, low-income customers, it is reasonable to expect that in many instances *the relatively high cost of prepayment meters will be borne by those least able to absorb it*.

Proposals to deploy prepayment meters should be viewed with great skepticism. In no case should state regulators or legislators approve the use of prepayment meters in low-income or temperature-sensitive elderly households where there is particular vulnerability to the effects of service loss.

### *Most prepayment meter systems include the following components:*

An electronic meter that automatically disconnects service when customer credits run out

A display or “readout” device that shows the dollar amount of credit remaining and information regarding customer energy usage

Magnetic strip “smart” cards that are used to “load” the home meter after deposit of funds, or an internet-based payment system

Pay center units accepting cash, credit card or debit card payment

A central processor located at the utility company’s billing facility

### *Summary of Concerns:*

Increased rates of service disconnection

Threat to health and safety

Higher cost of service for prepayment customers

Degradation of regulatory consumer protection structure

***Prepayment metering and elimination of premise visits:*** The key feature of prepayment metering is that service is remotely disconnected in the event of nonpayment. Traditionally, disconnection is a manual process conducted by utility field personnel at the premise of the customer. The premise visit is vital to ensuring that disconnection does not pose a dire health and safety threat as utility field representatives are able to identify signs of distress (e.g., buildup of mail or newspapers or presence of medical equipment requiring electricity) prior to disconnecting necessary utility service. In addition, many companies allow field personnel to accept a payment from a customer to avoid the necessity of a disconnection.

***Prepayment metering and state regulatory consumer protections:*** Implementation of prepayment proposals require suspension of key provisions of state regulatory utility consumer protection rules, including those pertaining to service termination timelines and notification, establishment of deferred payment agreements, and requirements regarding premise visits upon disconnection of service. None of these important provisions, developed in recognition of the necessity nature of utility service and adopted to protect customers from the health and safety risks associated with service loss, are operative under prepayment metering scenarios.

### **The Experience in Great Britain**

Prepayment meters are widely used in Great Britain. The cost of a standard, credit meter in Great Britain was about 15% of the cost of a prepayment meter in 2004. Further, the life expectancy of a traditional, credit meter is 21 years, while a prepayment meter is expected to last only 7 years. Prepayment meter service is the most expensive payment method in Great Britain, though many prepayment customers do not realize they pay extra for the service.

Prepayment meters in Great Britain are concentrated disproportionately in lower-income households because utilities require them in cases of payment difficulty. According to Great Britain's Office of Gas and Electricity Markets, 47% of electric prepayment users and 58% of gas prepayment users in 2004 had incomes below \$20,325.

Thus, in Great Britain prepayment meters are far more expensive than standard, credit meters and these higher costs are passed on to prepayment customers through surcharges. Further, lower-income households are more likely than their higher income counterparts to use expensive service that may be frequently interrupted.