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Prepaid Utility Service Programs Pull the Plug on Vulnerable Customers
Elderly, Seriously Ill and Children at Risk as Programs Spread Throughout U.S.

Download the executive summary or full report:
<http://www.nclc.org/issues/prepaid-utility-service.html>

BOSTON—Prepaid utility service programs and proposals are expanding rapidly throughout the nation, putting low- and moderate income households' health and safety at risk, and setting up an inequitable two-tiered customer delivery system, according to *Rethinking Prepaid Utility Service: Customers at Risk*, a new report from the National Consumer Law Center (NCLC). Additionally, many companies add lucrative junk fees, such as initiation fees, equipment charges, transaction fees or frequent payment fees, to the prepaid customer plans.

“Because there is usually an immediate loss of electricity when an advance payment runs out, we urge regulatory agencies to carefully consider the potential tragic consequences of prepaid utility programs,” said National Consumer Law Center Senior Energy Analyst John Howat and co-author of the report. “Utility services provide life necessities, including cooling, heat, lights, and refrigeration, and loss of service is a threat to a family’s health and safety. Prepaid utility customers are often those with the least ability to pay and utility companies have been shown to steer low- and moderate-income families toward prepaid programs, allowing the companies to sidestep critical consumer protection laws.”

Prepaid utility service requires customers to pay in advance for their utility service through purchasing credits affiliated with a meter on the home. Once credits are depleted, usually service is automatically disconnected. Although usually marketed as a program to help customers reduce energy use and avoid paying a deposit, prepaid customers often pay more than traditional credit-based customers. Additionally, it’s misleading to label involuntary reduction in consumption as conservation. Although the program is “voluntary,” it’s frequently offered to low-income customers on the verge of disconnection for nonpayment. The largest prepaid electric program in the nation is Arizona’s Salt River Project M-Power program. Over time, the median income of M-Power prepaid customers has declined considerably and the percentage of Hispanics enrolled in the program is increasing. The program entails a number of equipment deposit and transaction fees, and program participants pay higher summer rates than post-paying customers.

Currently, 19 states have prepaid utility programs and as advanced “smart” meters gain ground (nearly half of all U.S. households may have smart meters by 2015, according to the Institute for Electric Efficiency), the technology will boost the capability of immediate remote disconnection of utility service from a home or business. In fact, 38 percent of electric utilities are considering prepaid service and industry research predicts that 11 percent are likely to implement a prepayment program in the near future.

NCLC opposes prepaid utility service but if a state's regulatory agency allows a prepayment program, the nonprofit advocacy organization urges that a set of 11 requirements be incorporated to protect customers, including:

- **Regulatory consumer protections must be maintained or enhanced.** This includes limiting or prohibiting immediate disconnection of service, and making available bill payment assistance and forgiveness plans for overdue past bills, as well as the right to dispute bills.
- **Health and safety risks must be reduced.** Prepaid customers should be given a five-day disconnection grace period.
- **Vulnerable populations must be protected.** Low-income households or households with children, elderly, disabled, or seriously ill members should not be offered prepaid service.
- **Marketing of service should be voluntary and not be presented to customers facing disconnection for nonpayment.**
- **Transaction and other junk fees should be eliminated, and rates should be lower than for comparable credit-based service.**
- **States should proactively plan for prepaid customers to have money returned in case of company default.**

The report also includes a map showing current and proposed prepaid utility programs throughout the U.S., and a series of customer service questions that utility companies should answer before regulatory boards each year to ensure that customer protections are being maintained in service territories where a prepaid service program is already operating.

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Since 1969, the nonprofit National Consumer Law Center® (NCLC®) has used its expertise in consumer law and energy policy to work for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the United States. NCLC's expertise includes policy analysis and advocacy; consumer law and energy publications; litigation; expert witness services, and training and advice for advocates. NCLC works with nonprofit and legal services organizations, private attorneys, policymakers, and federal and state government and courts across the nation to stop exploitive practices, help financially stressed families build and retain wealth, and advance economic fairness.