

Prepaid Utility: Subpar Service for Cash-Strapped Families?

The More Things Change, the More They Stay the Same

While prepaid metering and service technologies have changed — utilities now use smart meters, cell phones and the internet rather than prepayment meters that had to be fed with cash or a debit card to avoid loss of service — the ugliest truths about prepaid service remain constant. Everywhere in the Western world where it has been implemented, prepaid service is concentrated among lower-income households and disconnection rates far exceed those of customers getting regular service. It remains a second-class service with utility and vendor proponents preying upon financially-strapped households. It obscures the need for utilities and regulators to implement bill payment assistance, deposit assistance, arrearage management, energy efficiency, and other consumer protection programs and policies to help ensure real home energy security for all households.

Free Choice or Hobson's Choice?

The aspect of prepaid service marketing that may be the most troublesome and challenging to overcome is that participation is described as voluntary, the free choice of the utility customer. Of course, those who have worked with utility customers have seen time and again low-income households faced with loss of necessary utility service doing whatever it takes to keep the lights and refrigerator going. We've seen households - to avoid disconnection - accept to last-minute payment "agreements" that are hopelessly unaffordable. In the case of prepaid service, a utility customer struggling to keep their household going may forfeit vital consumer protections and choose prepaid service rather than pay an unaffordable security deposit or deal with a looming disconnection.

The Prepaid Service - Predatory Lending Connection

Getting into the high-interest/high fee payday loan trap is a "free choice" exercised by about 12 million lower-income adults in the US each year. While proponents argue that payday lending helps underserved people solve temporary cash-flow problems, the practice preys on overburdened people in financial crisis. Similarly, prepaid service proponents promise greater control over electricity bills and energy savings, while preying on the vulnerability of low-income households juggling the financial impossibility of paying for basic necessities and keeping the lights on. Millions around the country and more recently the Consumer Financial Protection Bureau have come to recognize payday loans and other sub-prime lending as predatory. Hasn't the time come for prepaid utility service to be viewed and regulated in a similar manner?

For more information, please see this NCLC report or contact National Consumer Law Center Senior Energy Analyst John Howat at jhowat@nclc.org.