Illinois Statewide Smart Grid Collaborative Recommendation:

Customer Prepayment Policy

Discussion

A prepayment program provides customers with an option to purchase electricity in advance of its use by purchasing a specified amount of electricity at a specified price. Such programs typically include automatic disconnection of service when the customer’s usage exceeds the amount of electricity purchased. Prepayment can serve as an alternative to deposit requirements for utility service, and may reduce the utility’s credit and collection costs, as well as provide a structure to assist customers in reducing their electricity usage. However, as detailed below, prepayment for utility service also may have other effects that raise significant social and regulatory issues.

Prepayment offers a potential for reduced electricity bills for participants, only if utility cost savings due to prepayment (billing, collection, and receivables) are greater than the costs of operating the prepayment program and the reduced costs are reflected in participants’ rates. Moreover, operation of a prepayment program requires: a) an in-home device to display the customer’s actual usage and remaining credit, b) a means by which customers may purchase credits and have them recognized by the device, and c) a link between the device and the utility’s meter so that the device can signal the meter and the utility when credit is exhausted or restored. The administrative and equipment costs associated with a prepayment program may be high relative to the small incremental savings realized by the operating utility. AMI deployment may reduce or eliminate the need for additional hardware.

The primary technological challenges for AMI-based prepayment rest with modifications to utility back office systems and processes. A standard smart meter equipped with an integrated service switch and communicating with an in-premises device can provide customers with continual measurement of and access to real-time energy usage and cost information as well as provide the utility automatic disconnection and reconnection capabilities, in accordance with approved prepayment policies.

Aside from the issues noted above, many stakeholders remain skeptical of or opposed to customer prepayment because of concerns that include the following:

1. Prepayment raises social policy issues about equal access for all households to an essential service. Customers with poor credit history or with unaffordable arrearages could find prepayment to be their only means to acquire and maintain access to electricity. This could be a violation of the law prohibiting discrimination in provision of utility service.

2. Immediate and remote disconnection when an account balance “runs to zero” could place customer health or safety at risk, particularly if Part 280 provisions prohibiting disconnection during extreme weather conditions were not in force for customers on a prepayment program.
3. Incremental costs to support customer prepayment may offset any cost savings, raising cost allocation issues and/or increasing the cost of prepayment service over traditional rates, with potential adverse effects on vulnerable populations unable to post deposits.

4. If it were technologically feasible and allowed by regulation for electricity prepayment to be offered by non-utility entities, third parties could market prepayment in a predatory way to customers who have been disconnected or who are unable to qualify for utility credit and lack funds for a deposit.

Policy Recommendations

Stakeholders are skeptical about the potential value of a customer prepayment program. A fully-functional AMI-enabled customer prepayment program has not yet been demonstrated in the U.S. and significant consumer protection issues exist. The Consumer Policy Workgroup unanimously agrees that any prepayment program considered for implementation in Illinois must be strictly voluntary, and that prior to considering approval of any such utility program the Commission require:

1. Development of an Illinois-specific cost-benefit analysis showing net system and individual benefits from customer prepayment without adverse implications for customer health and welfare compared to the current system;

2. Study of policies and procedures that could affect the rights of customers on a voluntary prepayment program to remain protected by seasonal disconnection moratoria (Sec 8-205, 8-206) medical disconnection prohibitions, and any other disconnection rules intended to protect consumer health and public safety;

3. Consideration of the feasibility of customer options other than automatic disconnection if the account balance runs to zero;

4. Implementation of rules to require and technological capabilities to enable immediate application of customer payments and the customer’s access to utility service in a prompt manner;

5. An analysis of how fixed distribution costs would be recovered under the specific proposed program;

6. Guidelines regarding marketing of prepayment programs, to ensure that customers are made aware of all mechanisms to retain utility service, including subsidies, payment plans, government-funded and utility-sponsored energy assistance programs, and other available options;

7. Prohibition of the utility disconnecting service to a customer based upon request of a third party.