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1/4

## PREPAID ELECTRIC METERING GAINS GROUND, but trend is playing out in different ways

By Neil Strother, Navigant Research

Buying energy ahead of time is not a new concept. We buy gasoline for cars and batteries to power lights that way, for instance. But prepaying for electricity is not that common in many parts of the world. The overall trend of prepaying for electricity, though, is on the upswing, in part because of the latest smart meter technology and utility back-office processes that can remotely allow customers to pay for electricity beforehand if they prefer.

Customers who have switched to prepay programs say they have more control of their budgets as they get immediate feedback about their consumption and can adjust usage to fit their resources. They also avoid end-of-month surprises after a period of beyond-the-norm consumption since they no longer receive a monthly bill. In addition, these customers avoid late fees or charges for disconnections. In fact, under some systems, prepay customers receive alerts via email or text when their remaining credit is low.

Another advantage of prepaid electricity is greater energy efficiency. Prepay customers are inclined to be more mindful of their energy use, often lowering the number of kilowatts they used as postpay customers. In addition, customers that switch to prepay who have built up debt can pay it off over time by making prepayments, with a portion of each new purchase going toward reducing the balance.

Utilities find a number of significant operational benefits with prepay systems, as well. Their exposure to bad debt is reduced when customers switch from traditional postpay to prepaid metering as customers can no longer fall behind on paying. The utility's cash flow improves since revenue is collected ahead of consumption, and there is a reduced emphasis on tracking deposits because new customers are able to sign up for service with a lower deposit, or in some cases, no deposit at all. And, utilities see a reduction in theft of service, since under a prepay scheme, it is more difficult for customers to steal service because the meter can disconnect itself when money runs out. Paperwork for the utility is reduced, too. Unlike postpay customers, prepaid customers are not sent a regular paper bill, so the associated paperwork costs are eliminated.

In addition, a prepay system can increase customer satisfaction. Utilities with prepaid metering report a boost in customer satisfaction since prepay customers are no longer bothered by overdue notices or phone calls for collection of debt. Moreover, postpay customers who switch to prepay tend to call their utility less often because they no longer need to negotiate paying overdue bills.

## Barriers to prepaid systems

However, prepaid metering systems have significant barriers. Vocal consumer groups have taken a stand against prepaid metering because they claim low-income customers and vulnerable people, such as senior citizens or those with lifethreatening medical conditions, could have their service cut off with little recourse. In some jurisdictions, utility regulators do not allow prepaid metering for this same reason - a need to protect vulnerable customers from an abrupt disconnection of service. For instance, the California Public Utilities Commission declined to approve a prepay system from San Diego Gas & Electric in 2013, and regulators in New York and Iowa have not allowed prepaid metering in their jurisdictions.

There are other obstacles to prepaid metering. Utilities face added costs when introducing a prepaid metering system, from purchasing special meters to additional software or service fees. Some utilities charge prepay customers higher rates than they do postpay customers, thus creating uncertainty among customers deciding which payment method is best—and causing consumer advocates to claim this creates an unfair market. In addition, utilities that launch a prepaid metering program have added costs for customer education and marketing.

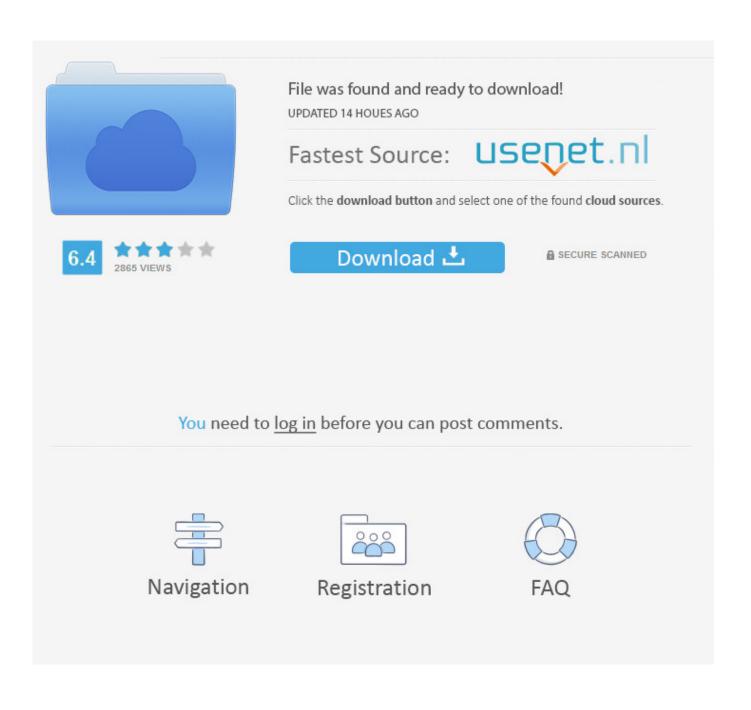
Prepaid metering also carries with it a long-held stigma that it is primarily for people who struggle financially. Customers who demonstrate they cannot pay on time



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3/4

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4/4