



EcoPinion

Prepay Energy at an Inflection Point
Survey Report • Issue 18 • February 2014



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EcoPinion Consumer Survey Report

Prepay Energy at an Inflection Point

February 2014

Introduction

EcoAlign, a strategic marketing agency focused on energy and environment, and DEFG, a management consulting firm specializing in energy, partnered in November 2013 to conduct 1,001 online interviews based on the Russell Research Omnibus Methodology. The project team worked with the members of the Prepay Energy Working Group¹ to finalize the survey instrument.

Prepay as a payment option is part of a mega-trend that includes gift cards, reloadable debit cards and benefits cards. This mega-trend continues to intensify, with 62% of Americans having used some form of prepayment in 2013 as compared to 55% in 2012 and 49% in 2010. As such, when considering prepayment in all forms as simply a payment and cash management option, prepayment is definitely in the mainstream.

An important corollary to the above finding is that we actually think the number of Americans using some type of prepayment is higher than what has been self-reported in this survey. Companies frequently brand prepay transactions (e.g., iTunes card, Metrocard, EZPass, etc.), so they do not appear to be prepayment. A higher proportion of Americans are likely using prepayment, but are not aware of it.

PREPAY ENERGY IS APPROACHING AN INFLECTION POINT OF RAPID IMPLEMENTATION AND ADOPTION IN THE UNITED STATES

Why is prepay increasing in use? Surveys point to the same conclusion: Americans are satisfied with prepayment. In 2013, 39% of Americans surveyed who have used prepayment were “very satisfied” and 36% were “somewhat satisfied” to make purchases or contract for services using prepayment. Younger and more mobile Americans were especially satisfied.

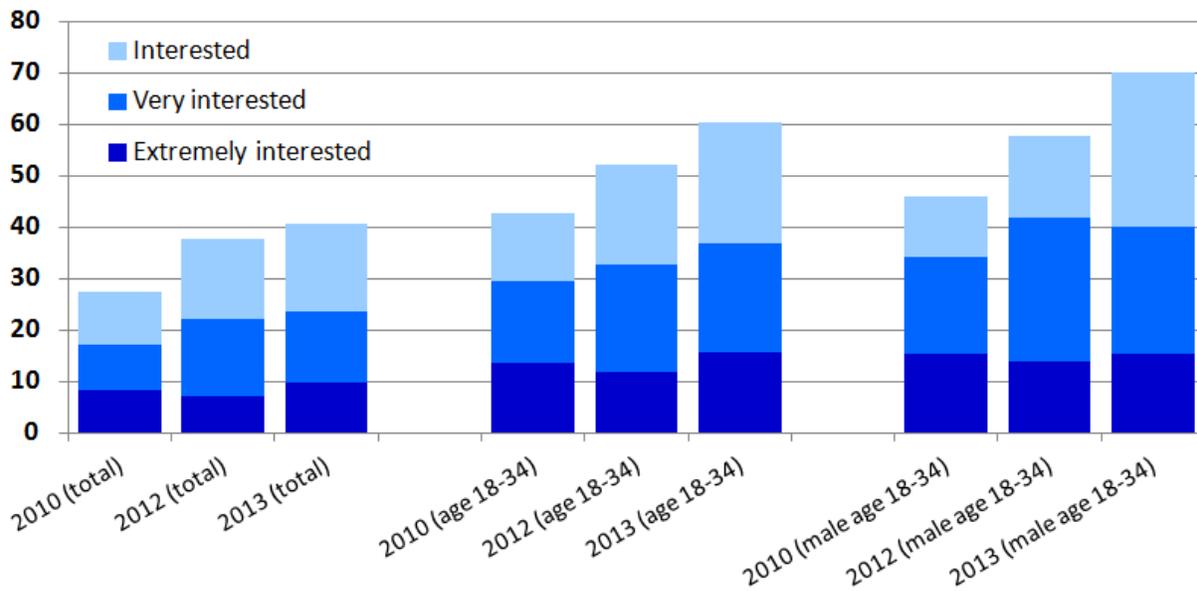
¹ The Prepay Energy Working Group (PEWG), managed by DEFG, is the retail energy industry’s leading forum on prepaid energy offerings. The working group is comprised of utilities, energy retailers, metering and software vendors, energy efficiency organizations, and it includes an advisory panel of regulatory commissioners and consumer advocates. Members interact on a regular basis and develop a research agenda after thoughtful discussion. Research findings are subjected to member review.



On the other hand, 61% of older Americans (55 years or older) were “very” or “somewhat satisfied,” preferring other payment options in relative terms.

As clearly seen in the graphic below, prepay energy is quickly approaching an inflection point of rapid implementation and adoption in the United States. The percentage of Americans interested in a voluntary prepaid energy option increased by 3% from 2012 to 2013, growing from 38% in 2012 to 41% in 2013. Since 2010, the “top two box” responses (“extremely interested” and “very interested”) increased 7 points, from 17% (2010) to 22% (2012) to 24% (2013).

Percent Respondent Interest in Prepay Electric Service by Survey Year and Selected Age Range and Gender



Background

This is the fourth EcoPinion consumer survey report to address prepayment.² Prior reports have suggested that the spread of advanced meters has resulted in opportunities for new services, and that prepay electricity is a “killer app” for the “smart grid.” Prepayment allows consumers to pay for energy in advance and to monitor their usage and account balance through

² The reports are available on the DEFG website: <http://defgllc.com/publications/ecopinion/>, including, "Is Prepay the Way? Consumer Perceptions of Prepay in the Utility Sector," EcoPinion Consumer Survey Report No. 9, January 2011; "Prepay Energy's Pathway to Consumer Satisfaction and Benefits: Survey Results from Texas and Arizona," EcoPinion Consumer Survey Report No. 14, February 2012; "Prepaid Energy Appeals to Consumers in a Connected World," EcoPinion Consumer Survey Report No. 16, February 2013.



daily communications from their supplier. The daily information changes their behavior and facilitates energy management to help the home budget.

The second survey, limited to Texas and Arizona, was conducted in 2011, and provided insights around consumer awareness and acceptance of prepay electricity service. (Texas and Arizona represent the largest base of U.S. consumers currently use prepay electric service.) A top finding was that Texas and Arizona consumers strongly correlate prepay electricity with increased control and management, and the potential to use less energy and save money.

A 2012 survey focused on consumer perceptions and satisfaction levels with prepaid options in general, and examined awareness and acceptance of prepaid electricity. The findings reveal a significant number of Americans (38%) are interested in prepaid electricity, with younger adults, renters, and males most open to the new service. Additionally, the top reasons or drivers for choosing prepaid electricity have held steady: to closely monitor and reduce energy usage and to increase control over energy use and the household budget.

Prepay energy, in fact, does lead to a significant drop in consumption, and consumer bills are lower as a result. Using consumer data obtained from Oklahoma Electric Cooperative, DEFG hired economist Michael Ozog, PhD to apply techniques widely accepted in the evaluation of utility-sponsored energy efficiency programs to measure the effect of prepayment on energy usage.³

The major finding is that participation in prepaid energy service resulted in an average reduction in energy usage of 11%.⁴ Recently, DEFG conducted another measurement and verification of prepay service in the Pacific Northwest and, again, found a significant reduction in energy usage. (Those findings will be released in Q1 2014.)

This current survey included several questions from the earlier surveys to identify response patterns from year to year.

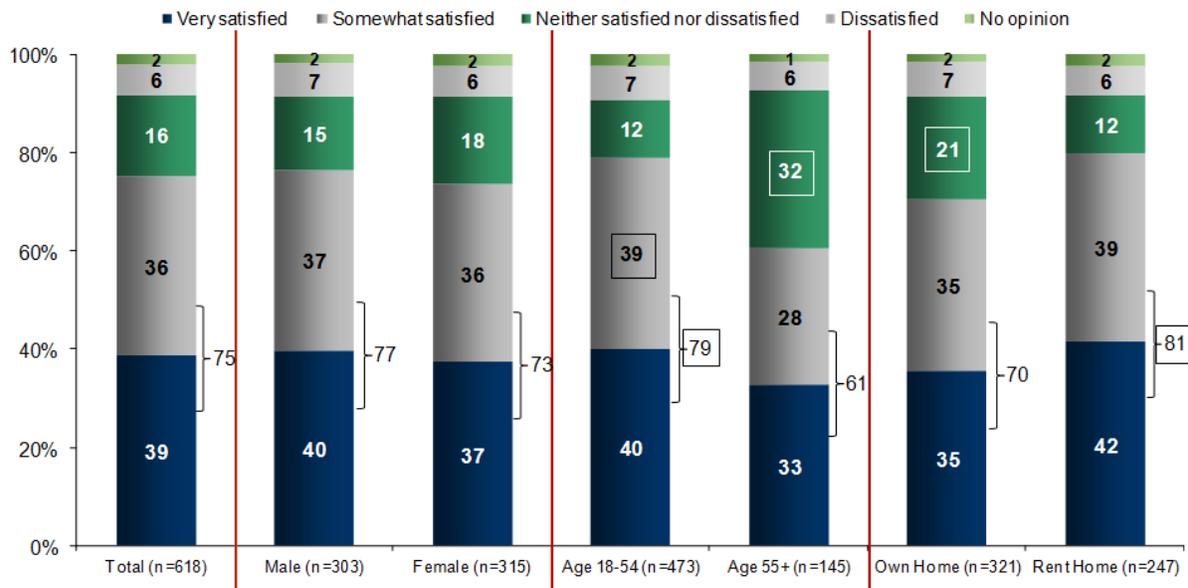
³ See: Ozog, Michael. 2011. *A Method for Estimating the Conservation Effects of Energy Prepayment* (DEFG's Series of Regulatory Choices No. 7). Washington, DC: Distributed Energy Financial Group LLC. Available from <http://defgllc.com/publication/method-for-estimating-the-conservation-effects-of-energy-prepayment/>

⁴ Ozog, Michael. 2013. *The Effect of Prepayment on Energy Use* (DEFG's Prepay Energy Working Group). Washington, DC: Distributed Energy Financial Group LLC. Summary available from <http://defgllc.com/publication/the-effect-of-prepayment-on-energy-use/>

Top-Line Findings

- ❖ The majority of respondents (62%) have used or purchased some type of prepaid card.⁵ They are generally satisfied with using this payment option, with three-quarters (75%) indicating they are “very satisfied” or “somewhat satisfied” with prepayment.
 - Younger respondents (18-54 years) were more likely to have use a prepaid card (66% v. 51%) and more likely to be “very satisfied” or “somewhat satisfied” with this option (79% v. 61%).

Satisfaction with Using Prepayment Option⁶

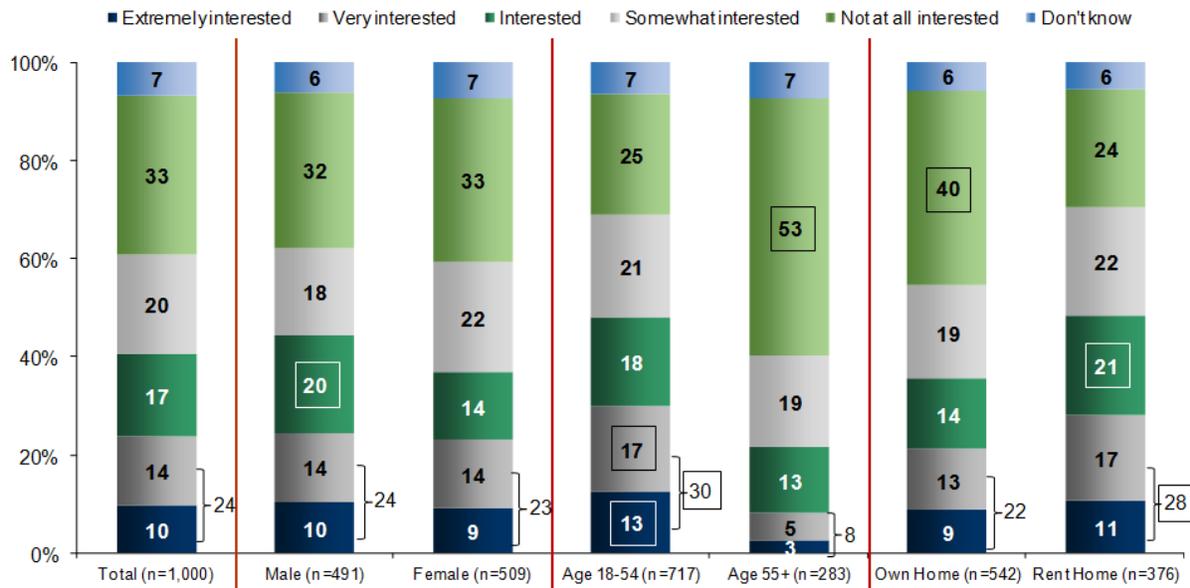


- ❖ Interest in a voluntary a prepaid option from their local electric utility or service provider was even more segmented. Interest was highest among those 18 to 54 year olds and renters.
 - One-fourth (24%) of respondents were extremely or very interested in a voluntary prepaid electric utility/service provider option.
 - The 18 to 54 year olds were significantly more interested in this concept compared to those 55 years or older (30% v. 8%).
 - Renters were also significantly more interested in this option than homeowners (28% v. 22%).

⁵ Many graphics appear in the Addendum along with all the survey questions.

⁶ Q.4: How would you generally rate your satisfaction with using prepayment as an option to make purchases or contract for services?

Interest in Voluntary Prepaid Option for Electric Utility/Service Provider⁷



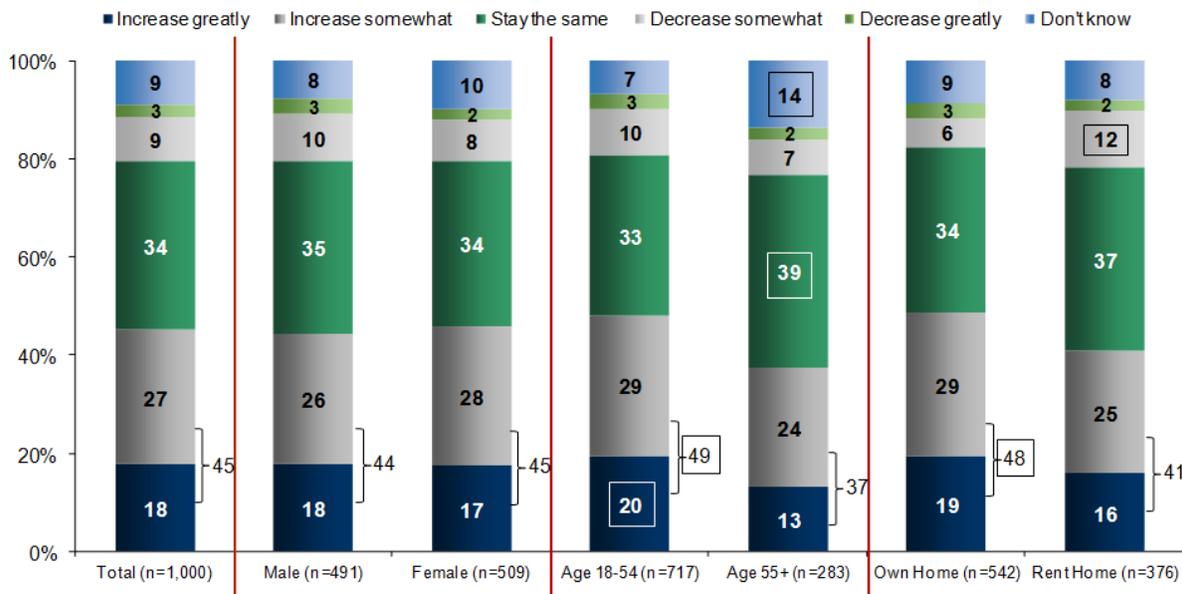
- ❖ When asked for one word to describe prepay options, respondents overwhelmingly mentioned that it is “convenient.” Other respondents described it as “interesting,” “unnecessary,” “good,” and “great.”
- ❖ When asked for one word to describe their biggest concern related to a voluntary prepaid electric service option, the main concerns were “cost,” “overpaying,” “security,” “overcharging,” “expensive” and “disconnect.”
- ❖ Respondents were most likely to feel the prepayment option was only for customers who have problems paying their bills.
 - Four out of ten (43%) felt this type of payment plan was an option that can help customers who only have problems paying bills.
 - Nearly one third (31%) felt it was a new, convenient, and better-suited option for customers who like to do business “on the go.”
 - Fewer still think of it as an offering to help all customers save money on energy bills (27%), or as something “like other prepaid services you have used in the past” (24%), or as a means to save energy and thus help the environment too (21%).

⁷ Q.5: Your local electric utility or service provider may offer voluntary prepaid electric service to consumers in the future. Under this option, you would choose to pay upfront before you used the energy rather than paying your bill at the end of the month after you used the service. ... If your local utility or provider were to offer a voluntary prepaid option for consumers, how interested would you be?

- ❖ Respondents indicated that their top reason for using a prepay option would be because you would want to save money if this service offered a reduced rate.
 - More than half (55%) indicated that being a way to save money if the prepay service were to offer reduced rates would be a reason they would use this service.
 - Fewer respondents included the following among their top two reasons for using this payment option:
 - Preferring to pay for energy as you use it and eliminating surprises (29%)
 - Wanting to reduce energy use and monitor closely (27%)
 - Wanting increased control over energy costs and budget (27%)
 - Not wanting to pay a security deposit to open up an account and/or to avoid other fees associated with traditional service (26%)
- ❖ The most important feature of a prepay option is the ability to make payments online.
 - Four out of ten (43%) included being able to make payments online/on a website among their top two most important features.
 - One fourth mentioned the following:
 - Being able to schedule recurring payments on predetermined dates with set amounts (25%)
 - Being able to set up automatic payments when balance gets low (25%)
 - Receiving daily updates with details about their energy usage (25%)
- ❖ A majority of respondents want to receive notifications if using a prepaid electricity service option. If one notification option is selected:
 - 44% want to be notified by email.
 - 24% want to be notified by more than one communication channel.
 - 18% want to be notified by text.
 - Small percentages want phone calls (8%) or “no alerts” (5%).
- ❖ The preferred method of notification when usage is above normal is a text or email alert. Among the types of information received:

- 46% would like a text or email telling them they used more than they normal amount.
- 41% would like a text or email telling them in advance about peak days when electricity will cost the most and how to avoid high charges.
- 37% would like a notice of a discount if they take actions to use less energy during certain periods.
- 31% would like an email with information about energy conservation tips tailored to their household.
- 22% would like an email with charts comparing their use to similar homes in their neighborhood.

How Communication with Local Electric Utility/Service Provider Would Change if Used Prepaid Electric Service⁸



- ❖ Close to half (45%) these adults felt they would increase their communication with their local electric utility or service provider if they elected to use a prepayment option, with younger adults and home owners more likely to feel this way.
 - 45% indicated that a prepayment option would “increase greatly” or “increase somewhat” their need to communicate or engage with their local electric utility or service provider.

⁸ Q.12: If you chose to have prepaid electric service, do you estimate that the need to communicate with or engage with your local electric utility or service provider would increase, decrease or stay the same?

- Younger adults (18 to 54 years) were significantly more likely to feel a prepayment option would increase their communication with their provider compared to older adults (49% v. 37%).
 - Homeowners were significantly more likely to feel this way than renters (48% v. 41%).
- ❖ When managing their account with the electric utility or service provider, respondents were asked to indicate the importance of various types of information, using a 1 to 10 scale.
- “Transaction history” was the most important type of information indicated, with 61% of respondents giving it an 8, 9 or 10 (“top three box” score)
 - “Current usage summary” received a score of 59%.
 - “Account profile” received a score of 54%.
 - “Detailed usage history” received a score of 52%.
 - “Alert management” received a score of 44%.
- ❖ Regarding whether they would take an action to reduce energy bills, respondents were asked to indicate how likely they were to take an action, using a 1 to 10 scale.
- The most likely action, with 78% of respondents giving it an 8, 9 or 10 (“top three box”) was “make sure the lights are off in unused rooms.”
 - “Adjust the thermostat a few degrees to use less electricity when their residence is empty” received 70%.
 - “Replace light bulbs with energy-efficient light bulbs” received 65%.
 - “Adjust the thermostat a few degrees to use less electricity when you are in the residence” received 61%.
 - Apply weather stripping to windows and doors or add insulation to the attic or around the water heater” received 52%.

What Does It All Mean?

Prepay is a Mainstream Option Driven by High Consumer Satisfaction

- ❖ When trying to gauge consumer interest specifically in a voluntary prepaid energy option, this analysis can quickly become one of

perspective on “how full the cup is.” Critics will argue that these numbers are low. However, our analysis indicates that:

- Consumer interest in prepaid electricity continues to grow and prepaid electricity is ripening as a service option in line with the mega-trend.
- Based on the top box responses, over a fifth of a utility’s consumer base could switch to a prepaid electricity account within a fairly short period of time (2 -3 years), and perhaps more with education and growing awareness of the option over a longer period of time. This would be a remarkable shift.
- There is a clear generational shift in regard to payment preferences, with 30% of younger Americans (18-54 years) indicating they are “extremely” or “very” interested in a prepaid electricity option.

Drivers of Customer Engagement

- ❖ The utility sector continues to struggle to move from a reactive, service-order mentality to supporting customer engagement, choice and a better customer experience. When asked what type of information is important to them to manage their account with the utility, consumers indicated “transaction history” and “current usage summary” were more important. For customers, therefore, this means moving from a focus on managing general information to managing transactions and usage in an actionable manner. From a customer perspective, the primary goal is to manage family budgets, and they are seeking “engagement” with the utility as a means to reduce costs in a meaningful timeframe, tying actions directly to the customer’s objectives within the relevant billing cycle.
- ❖ Women are relatively more open to being engaged with the utility than men.
- ❖ There is a divide between renters (who are more mobile) and homeowners. Renters are much more inclined to be engaged around bill and account management. Homeowners, on the other hand, are more likely to be engaged around energy management and taking actions to increase efficiency in the home.

Perception Matters

- ❖ In the utility sector, and especially by consumer advocates, prepay energy continues to be viewed as primarily an option for low-income and/or credit-challenged customers. When asked on their views of prepaid electric service, 43% of Americans shared the view that prepay

was “an option that can help customers who only have problems paying their bills.”

- ❖ Our analysis, however, points to a much broader acceptance and use of prepay from a diverse range of customers. How do we therefore reframe the prepay energy offering in a context aligned with the facts on the ground?
- ❖ Like in past surveys, when asked to use one word to describe a voluntary prepaid electric service option, the word “convenient” is most associated with the option. Therefore, one possibility for naming the offering could be leveraging that finding, e.g., “convenience pay” rather than “prepay,” in order to align perception directly with the offering.
- ❖ In addition to branding the offering around convenience, customer expectations would be further met by proactively demonstrating that the offering leads to savings and better management of cash/ energy especially if reduced rates were offered. This was the top reason given for using prepay.
- ❖ “Cost,” “overpaying,” and “security” were all concerns that should be dealt with in terms of rolling out the offering and for customer education.

Getting The Mechanics Right

- ❖ There are many moving parts to an effective prepay energy offering. As such, it is important to get the mechanics right behind the offering.
- ❖ Prepay energy, especially for younger Americans (18-54 years), is very much aligned with electronic payments, billing and remittances (EPBR). Therefore, to be effective, the utility needs to be on top of their game in regard to presentment and information across many channels. When asked what features were required by customers for a good experience with prepay, the number one response by almost 20% was “to be able to make payments on a website.” This finding points to the need to really examine the current website and other electronic channels from a user’s perspective. Bad design will be equated with bad offering.
- ❖ Over half of the respondents would prefer alerts and notifications by email (44%) or text message (18%). As importantly, an increasing number of American expect to be communicated with a number of channels depending on what is most convenient to them. Over 90% of Americans want to receive alerts connected to their prepay energy account.



- ❖ Interestingly, almost half (45%) of consumers responded that they expected communication with the utility to increase greatly (18%) or increase somewhat (27%). So, consumers expect to be engaged.

Recommendations

Prepay energy is one element of a mega-trend toward prepayment, and it is best to understand it in that context rather than as an isolated option that has developed as a result of the smart grid.

- ❖ **Understand that prepay energy did not arise from a utility smart grid project; it's part of a mega-trend toward convenience and control over family budgets.**

Prepay energy may be associated with bill payment problems, bad debt and uncollected revenues. It is best to treat prepay energy as one option in the portfolio, thereby changing the context and the perception of prepayment.

- ❖ **Understand that prepay energy is one option in a portfolio of customer choices.**

Prepaid electricity can be placed in the context of any new option (e.g., dynamic pricing, residential solar, etc.) in regard to penetration rates and enrollment. Every new option needs time to take hold.

- ❖ **Understand that like any new option, prepay energy needs time to take hold.**

Certain customers may prefer one billing platform over another. We can identify different segments and generational shifts in regard to payment needs and billing preferences, so prepay energy is not for everyone.

- ❖ **Understand that prepay energy is not for everybody.**

There is a need to better understand the motivations and preferences of customers. Some want to lower their bills; others focus on the cost per unit; others understand the need to lower energy consumption. Lower energy use results in lower energy bills, so the results are the same. But, better understanding of the motivations and preferences of these groups could lead to different messaging, channels and programs.

- ❖ **We must do more research to understand human behavior and the motivations and preferences of various customer segments.**

Women are increasingly paying the utility bills and managing the family budget. We must understand how to provide easy opportunities for behavior change.



- ❖ **The design of “actionable” services and programs is a key theme, with a focus on ways to facilitate changes in behavior.**

Customer education remain important. Education needs to focus on each consumer’s perceived benefits such as the convenience of changing, or the ability to reduce costs, avoid overpaying, achieving financial security, etc.

- ❖ **We must focus customer education on the perceived benefits such as convenience, reduced costs, security and other consumer values.**

For more information about this survey, please contact Jamie Wimberly at 202-483-4443 or jwimberly@defgllc.com.

For more information about EcoAlign and DEFG, visit our website: defgllc.com.

EcoAlign: The Energy and Environment Agency

EcoAlign is the energy and environment marketing agency. We develop and execute marketing strategies for utilities, renewable energy providers and companies operating in the energy and environment space. We are uniquely suited to help companies achieve their business objectives, from reaching efficiency program targets and improving customer satisfaction, to launching new products, increasing market share and repositioning for growth in the green tech space.

Distributed Energy Financial Group LLC

DEFG is a specialized consulting firm focused on energy. Our vision is that customers are core to the future of energy: as a resource, to reduce risk, and to increase revenue potential. Our mission is to help clients engage with customers to create value in the energy commodity market place and to enhance the customer experience. Our clients include energy utilities, technology companies, energy suppliers and energy solution providers. We focus on business strategy and planning, regulatory, customer service and operations, marketing and product development, and analysis of customer-facing technologies.

Methodology

The Russell Omnibus was conducted nationally via the internet among 1001 adults, 18 years of age or older, in November 2013. Figures for gender, age, and geography were weighted where necessary to match their actual proportions in the population.

In theory, with probability samples of this size, one could say with 95 percent certainty that the results have a statistical precision of plus or minus 3.1 percentage points of what they would be if the entire adult population had been polled with complete accuracy. Unfortunately, there are several other possible sources of error in all polls or surveys that are probably more serious than theoretical calculations of sampling error. They include refusals to be interviewed (non-response), question wording, question order and weighting. It is impossible to quantify the errors that may result from these factors. This online survey



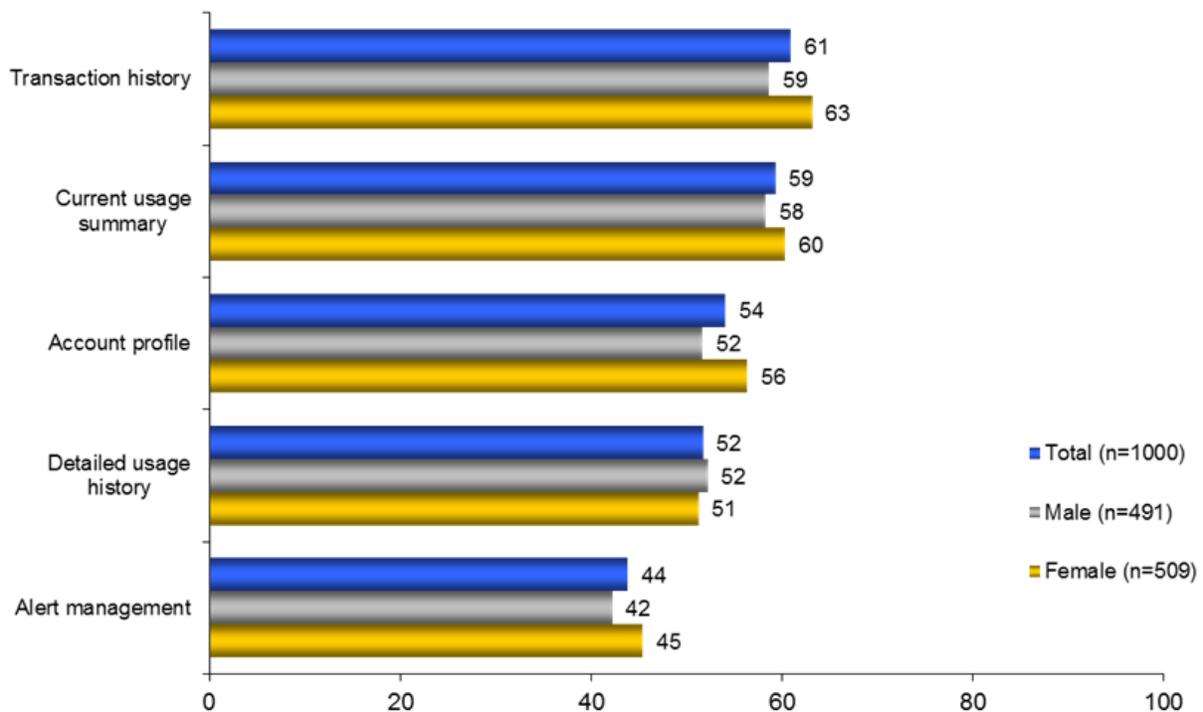
is not a probability sample. Online sample for the study was drawn from Survey Sampling International's SurveySpot online consumer panel. Survey Sampling is recognized as the premier sample provider in the market research industry. The SurveySpot panel currently has 1.6 million panel members who are recruited using a wide variety of online and offline methods, including website registrations, email invitations and telephone recruiting. For this study, invitations were emailed to potential respondents targeted by gender, age, census region and ethnicity.

These statements conform to the principles of disclosure of the National Council on Public Polls.

Addendum: Survey Results in Graph Format

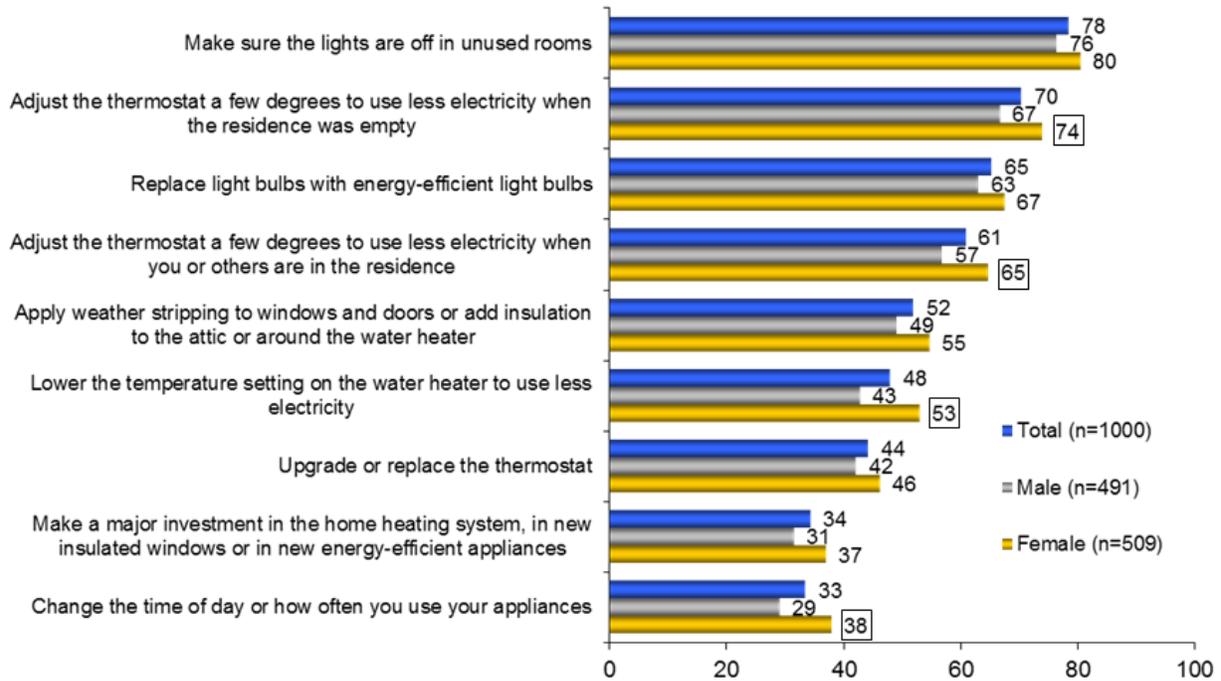
The survey results are presented in the order the questions were asked. The wording of each question appears in the footnotes.

Importance of Information When Managing Electric Utility/ Service Provider (Top-Three Box Summary: Rated 8, 9, 10)⁹

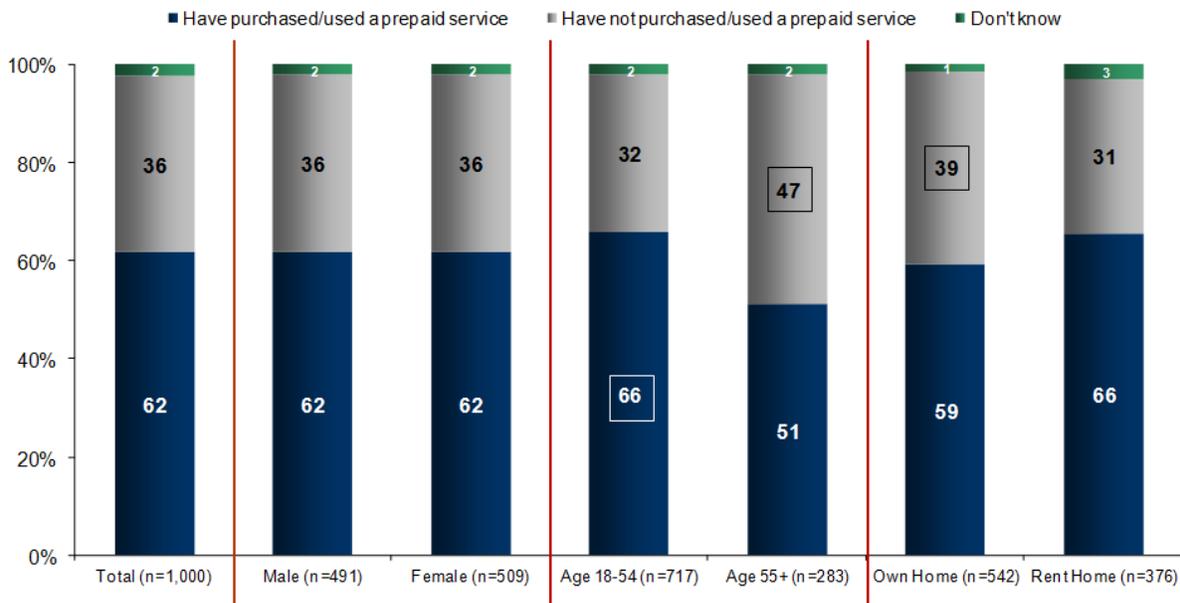


⁹ Q.1: When managing your account with your electric utility or service provider, please indicate how important you consider the following information, by using a scale from 1-10, with 10 being "Extremely Important" and 1 being "Not Important At All."

Likely Actions To Reduce Energy Bills (Top-Three Box Summary: Rated 8, 9, 10)¹⁰



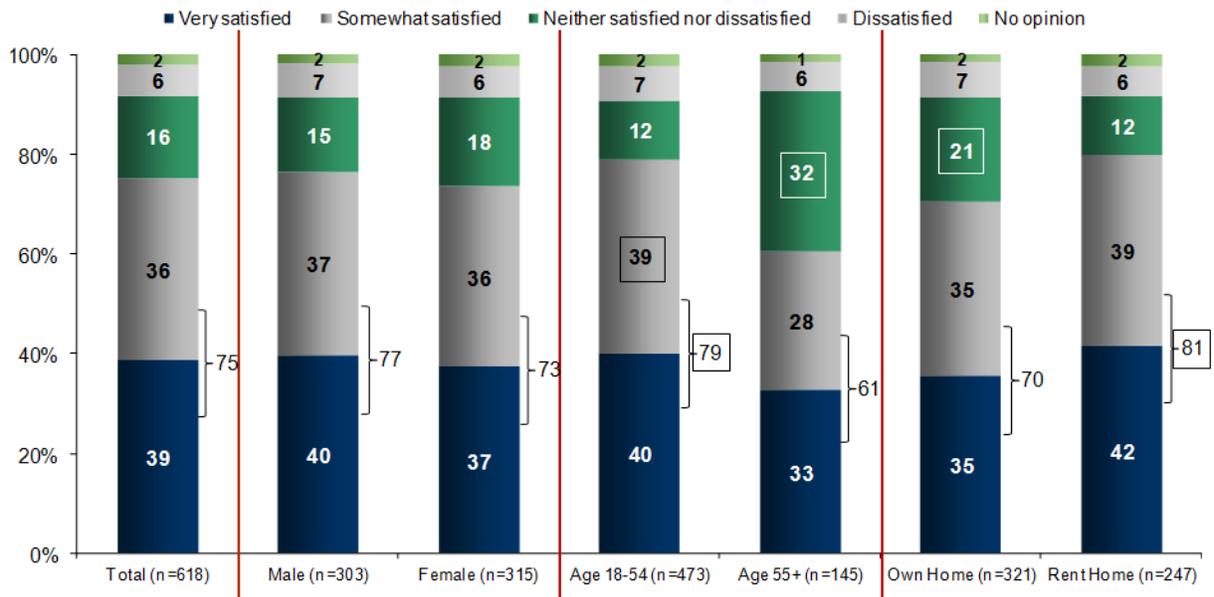
Ever Used/Purchased a Prepaid Card¹¹



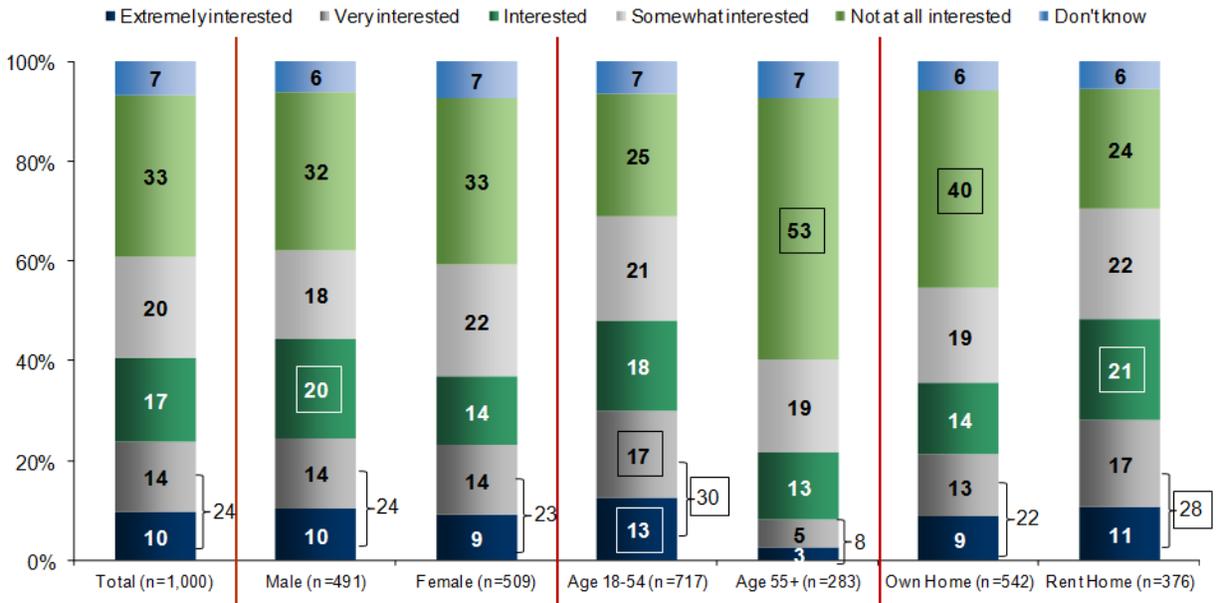
¹⁰ Q.2: If you were looking for ways to reduce your energy bills, please indicate how likely you would be to take the following actions, by using a scale from 1-10, with 10 being "Extremely Likely" and 1 being "Never."

¹¹ Q.3: Have you ever used or purchased a prepaid card (e.g., payroll, gift or reloadable), prepaid wireless phone service plan or any other service that you paid before you used the good or service?

Satisfaction with Using Prepayment Option¹²



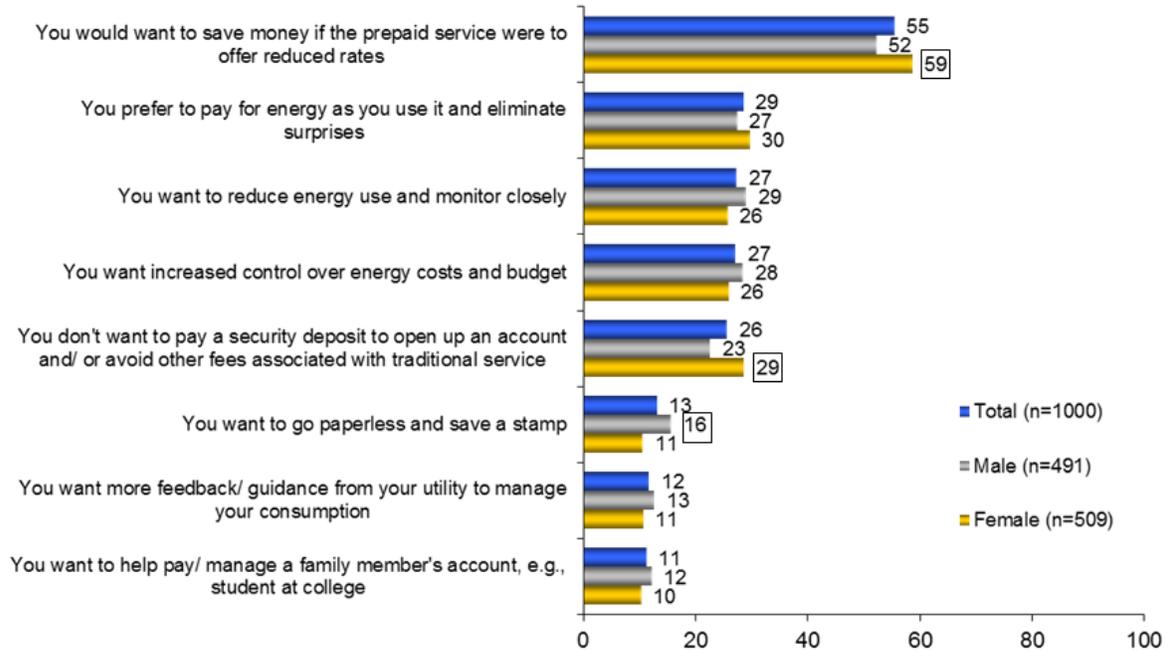
Interest in Voluntary Prepaid Option for Electric Utility/Service Provider¹³



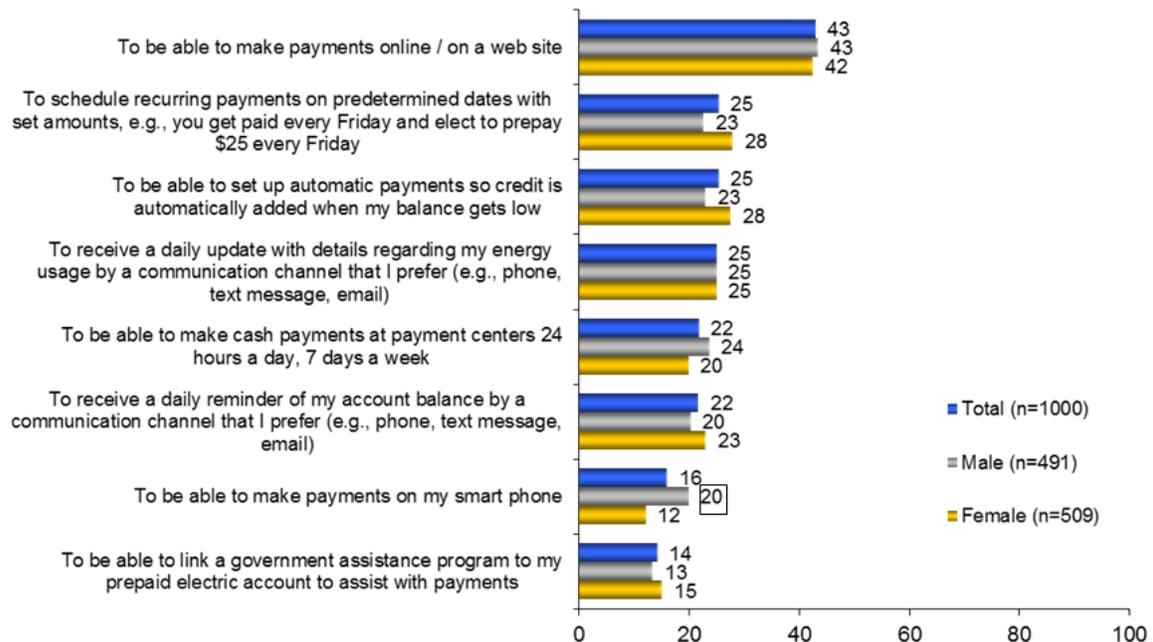
¹² Q.4: How would you generally rate your satisfaction with using prepayment as an option to make purchases or contract for services?

¹³ Q.5: Your local electric utility or service provider may offer voluntary prepaid electric service to consumers in the future. Under this option, you would choose to pay upfront before you used the energy rather than paying your bill at the end of the month after you used the service. ... If your local utility or provider were to offer a voluntary prepaid option for consumers, how interested would you be?

Top 2 Reasons Would Elect to Use Prepaid Electric Service Option¹⁶



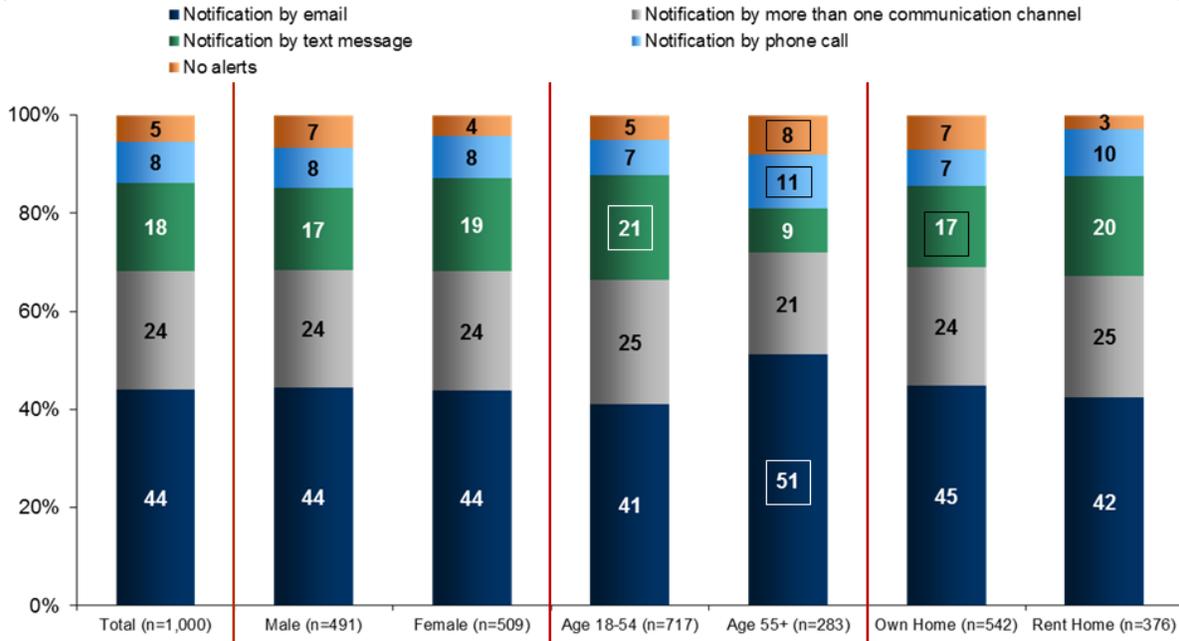
Top 2 Features for a Prepaid Electric Service Option¹⁷



¹⁶ Q.8: If you were to elect to use a prepaid electric service option, which of the following top two reasons would be why you and your family would use this service?

¹⁷ Q.9: If you were to elect to use a prepaid electric service option, which of the following top two features would be the most important to you?

Method Prefer for Notification If Using Prepaid Electric Service Option¹⁸



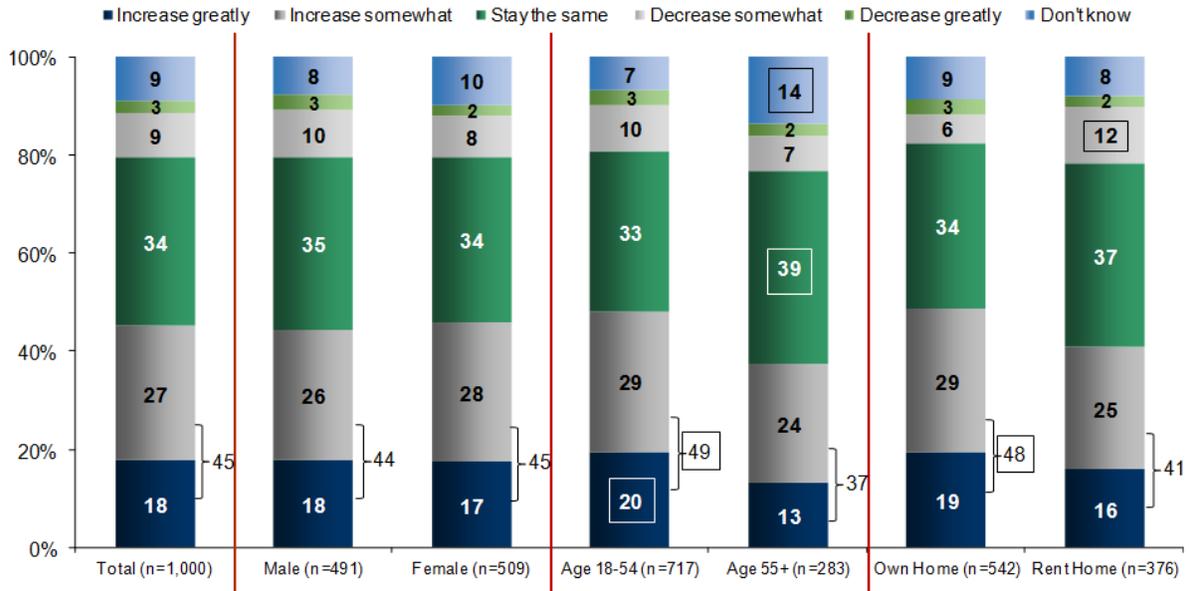
Method Prefer for Notification When Usage is Above Normal if Using Prepaid Electric Service Option¹⁹

	Total (1000) %	Male (491) %	Female (509) %	18-54 (717) %	55+ (283) %	Own (542) %	Rent (376) %
Total Respondents							
Would Like To Receive Alerts (net)	93	92	94	95	89	92	95
A text or email to tell me that I used more than my normal amount	46	42	50	49	41	45	49
A text or email alerting me in advance about peak days when electricity will cost the most and how to avoid high charges	41	37	45	43	37	42	41
A notice of a discount if you take actions to use less energy during certain periods	37	34	41	37	39	39	34
An email with information about energy conservation tips that are tailored to me and my household	31	29	33	32	27	30	31
An email with charts to compare my use to similar homes in my neighborhood	22	25	20	25	17	20	26
Notification by phone call	14	12	16	13	17	14	15
No alerts	7	8	6	5	11	8	5

¹⁸ Q.10: If you were to elect to use a prepaid electric service option, which one method would you most like to be notified by?

¹⁹ Q.11: If you were to elect to use a prepaid electric service option, you might receive alerts when your usage is above normal. Which of the following alerts, if any, would you like to receive?

How Communication with Local Electric Utility/Service Provider Would Change if Used Prepaid Electric Service²⁰



One Word To Describe Biggest Concern Regarding Voluntary Prepaid Electric Service Option²¹



²⁰ Q.12: If you chose to have prepaid electric service, do you estimate that the need to communicate with or engage with your local electric utility or service provider would increase, decrease or stay the same?

²¹ Q.13: What one word would you use to describe your biggest concern in regard to voluntary prepaid electric service?