



DEFG Prepay Industry Survey Summary

Online Survey of Industry Experts
Conducted November 22nd – December 3rd, 2010

Survey Overview

- DEFG LLC (www.defgllc.com) worked with the Advisory Panel of companies, regulators and other stakeholders to draft and finalize the industry survey instrument on various aspects of prepaid products including the market potential for prepaid options offered by the utility on a voluntary basis.
- The industry survey was intended to test selected questions that were asked also in the EcoPinion consumer survey of 1,000+ Americans (conducted in November, release scheduled for January 2011) for comparison purposes.
- The industry survey was conducted from November 22nd – December 3rd, 2010. Approximately 600 stakeholders in the industry responded to the survey.
- The survey sample encompasses a broad array of industry views (self-identified, as percentage of sample), including consultants (19 percent), regulators/ government (11 percent), utilities (20 percent), public interest/ consumer reps (14 percent), and marketers/ retail energy (9 percent).

About DEFG

Distributed Energy Financial Group LLC has three branded business units:

DEFG (www.defgllc.com) is a management consulting firm focused on the consumer and the delivery of innovative energy technologies, clean tech solutions and new services by utilities, retail energy suppliers, and energy solution providers

EcoAlign (www.ecoalign.com) is a full-service strategic marketing agency focused on the development and execution of communications strategies that align corporate goals and consumer behavior with the future of energy and environment

DEFG Ventures, LLC is a private fund focused on early stage investments (up to \$500K) in clean tech and alternative energy

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Top Line Findings

- A majority of the respondents claim to be very knowledgeable about prepaid products. Using a scale from 1 to 10 with 10 being “extremely knowledgeable,” 57 percent of the respondents ranked their knowledge level to be a 7 or above.
- 83 percent of the industry respondents have used some form of prepaid products in the past. The types of prepaid products most commonly used by industry stakeholders include: prepaid gift cards (91 percent), prepaid wireless phone service (39 percent) and reloadable prepaid cards (38 percent).
- Respondents who have used prepaid products indicated high levels of satisfaction with prepaid gifts cards. Over half of the respondents were extremely satisfied and another 25 percent were somewhat satisfied with their purchase/ use of prepaid gift cards. For other prepaid products, e.g., prepaid wireless, reloadable prepaid cards, government benefits card, etc., the most common response was that satisfaction was “not applicable.” However, for those respondents who did feel that satisfaction was applicable, again, there were high levels of satisfaction recorded.
- When asked if they personally would be interested in a prepaid option offered by their local electric or natural gas utility, a majority (53 percent) indicated that they were “not at all interested.” Approximately 20 percent of industry respondents indicated a higher level of interest (responding either “interested,” “very interested,” or “extremely interested.”)
- Industry respondents estimated that approximately 10 percent of a utility’s customer base (the median of all the responses) would choose a voluntary prepay option. However, 30 percent of respondents estimated that 5 percent or less would choose the utility’s voluntary prepay option.

Top Line Findings (cont'd.)

- 40 percent of the respondents have evaluated prepay as an offering at their company or organization. If they had evaluated prepay, respondents were asked what the major limitations and challenges to offering prepay were in their state. Limitations cited (open responses) include: regulations/ allowances/ cost recovery, low income rules, cost, consumer awareness/ acceptance, technology/ AMI deployment. The biggest impediment cited was regulatory.
- With a quarter of the responses (25 percent), the top benefit cited by respondents for consumers to use prepay was “consumers may receive a discount if they pay in advance.” Other leading benefits cited by respondents include: “consumer don’t want to pay a security deposit and/ or avoid other fees associated with traditional service” (17 percent) and “consumers prefer increased control over energy costs and budget” (14 percent).
- The industry driver for utility prepay offerings most often cited was actually “other,” with a quarter of the respondents (25 percent) providing open responses. Most of the open responses emphasized the benefits of prepay to revenue (collections, cash flow, etc.) and risk management (bad debt management, credit risk, etc.) at the utility. 17 percent of the respondents pointed to smart grid deployment as the key driver in the industry. Another 16 percent cited “economic realities driven by the recession have created a real consumer need/ preference.”
- Over half of the respondents (54 percent) expressed interest in the idea that prepay could lead to lower energy consumption through consumer awareness of consumption and cost on a real-time basis. About 10 percent of the respondents were very skeptical of this idea.
- There was approximately an even split between the respondents on their concern (49 percent concerned, 41 percent not concerned) about regulatory challenges or rule changes to permit utilities to offer prepay.

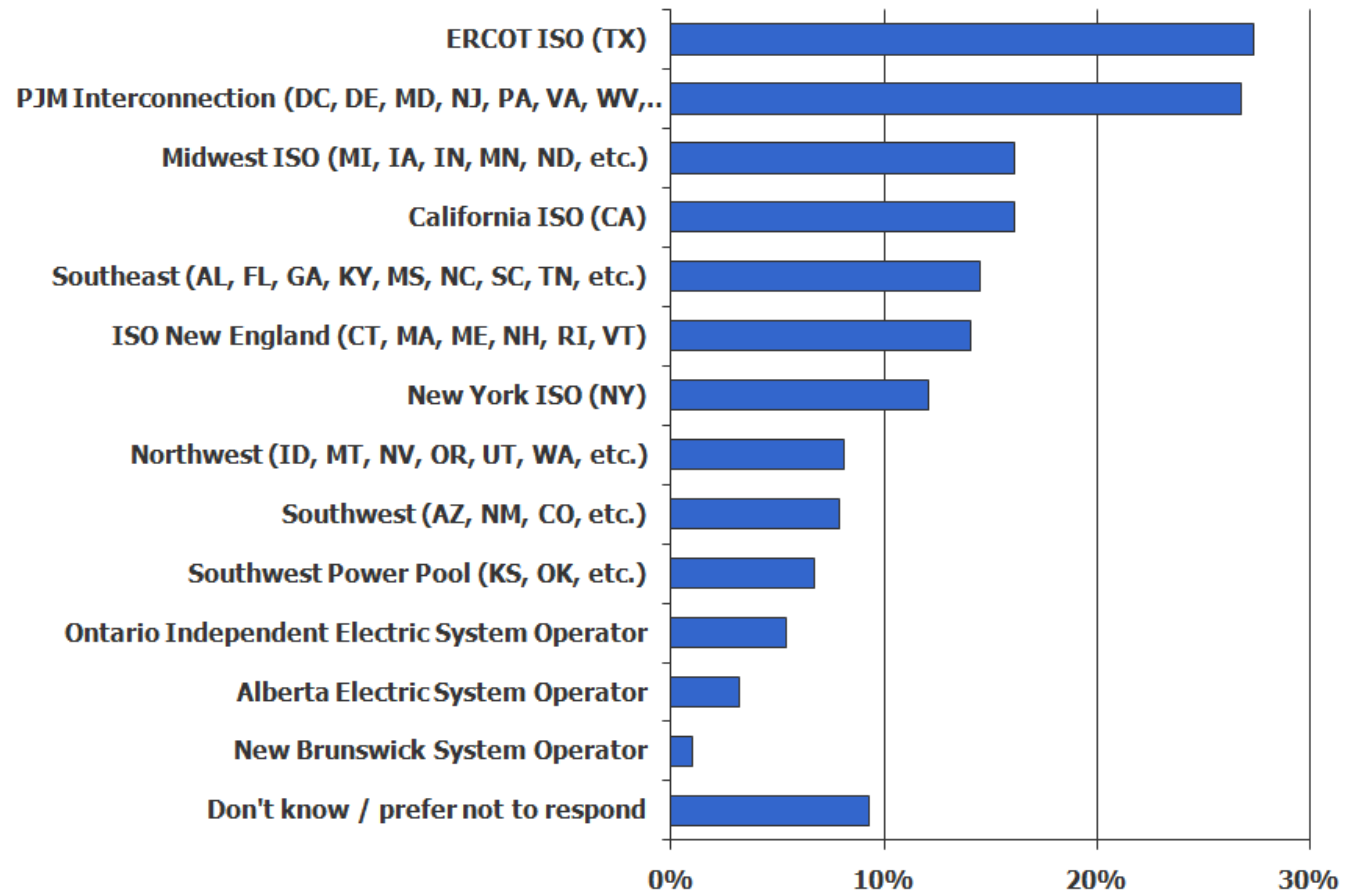
Regulatory Issues and Questions

- What regulatory questions around prepay do you feel need to be answered? Responses included:
 - Disconnection policies and moratoriums
 - Low income issues
 - Rates, rate design and tariff structures
 - Risk – utility and customer
 - Accounting Issues: Discounts, security deposits, true ups, fuel adjustment clauses, taxes, etc.
 - Cost allocations, cost of service calculations and treatment, e.g., how prepay may impact regulated return
 - Costs to consumers and fees
 - Billing issues
 - Dispute resolution procedures
 - Lost cards
 - Consumer protection/ redlining/ discriminatory practices
 - Bonding and supplier defaults
 - Pricing, link to dynamic pricing, real-time
 - Unused customer balances, treatment of interest once revenue in hand
 - Credit policies
 - Consumer benefits and rights
 - Governance
 - Voluntary, optional vs. mandatory
 - All-in rate structure, all costs bundled in without additional charges, true ups in the future
 - Energy efficiency/ conservation targets and credit towards those targets
 - Energy procurement
 - Consumer education
 - Contract terms with third parties/ procurement
 - Privacy and security

Who Responded to the Online Survey?

- 588 people responded to the survey
- Activities in electric regions (bulk power markets) often influence prices and services at the customer (retail) level
- Respondents indicated, on average, that they have expertise in 1.7 regions
- Over one quarter of respondents claimed expertise in Texas and one quarter claimed expertise in the PJM region

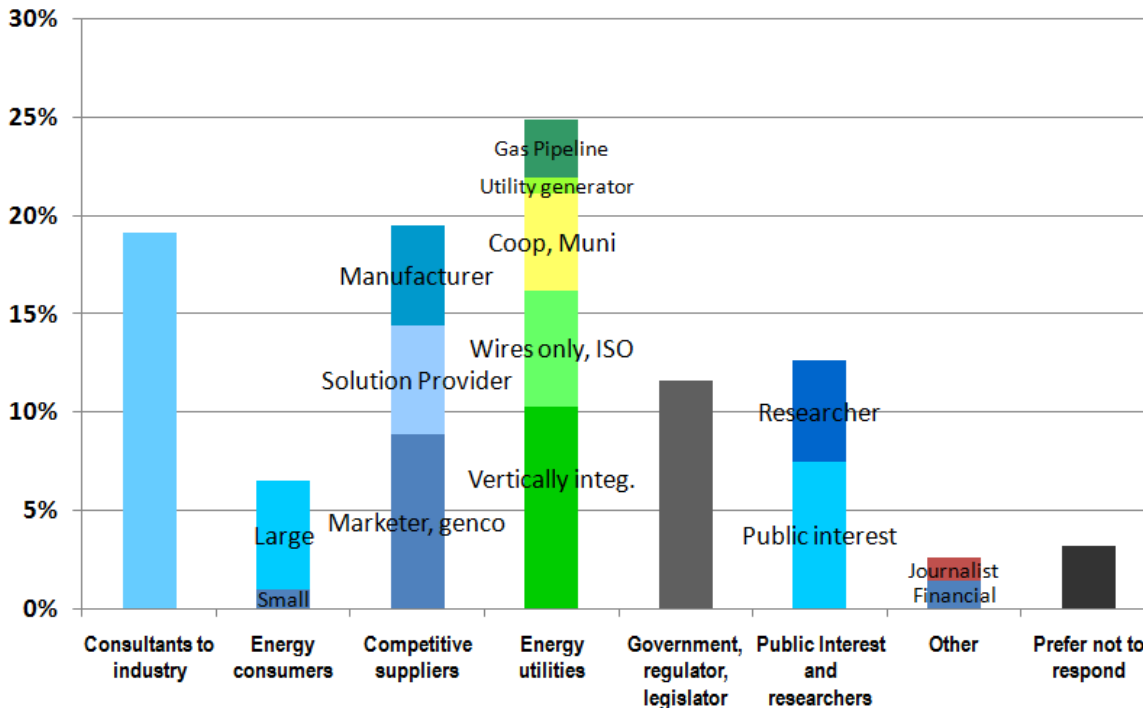
Select the power market region(s) that you know well and which inform your responses.



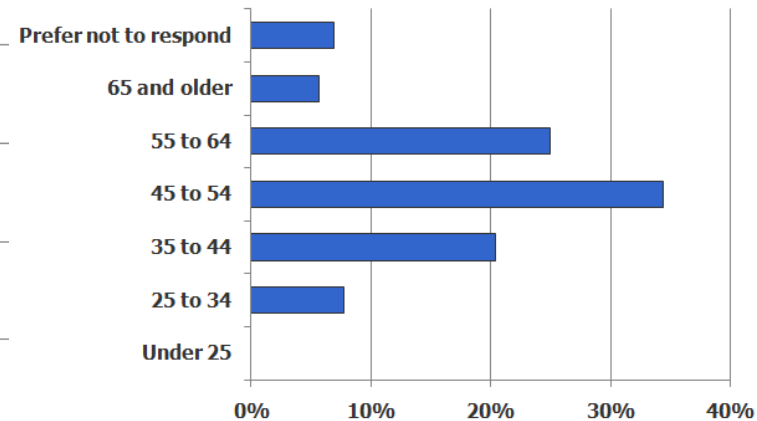
Who Responded to the Online Survey?

- 25% of respondents were industry professionals from utilities (electric/gas; IOU/coop/muni/ISO)
- 20% were markets/energy providers, project devel./solution providers or manufacturers who supply utilities
- 19% were consultants; 13% were researchers/public interest; 12% were government officials
- Respondents were a bit younger and more female than past industry surveys

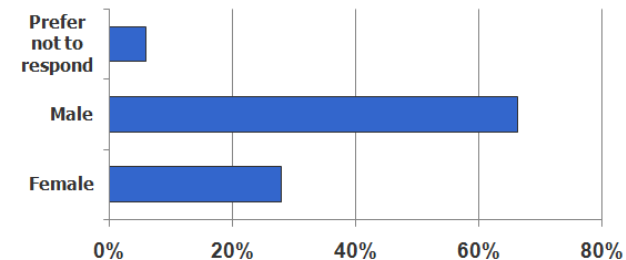
What is your area of expertise, type of job, or relationship to energy utility industries? Pick the one that is closest. Pick "small consumer" if you are not a professional or if the other choices do not apply to you.



What is your age range?

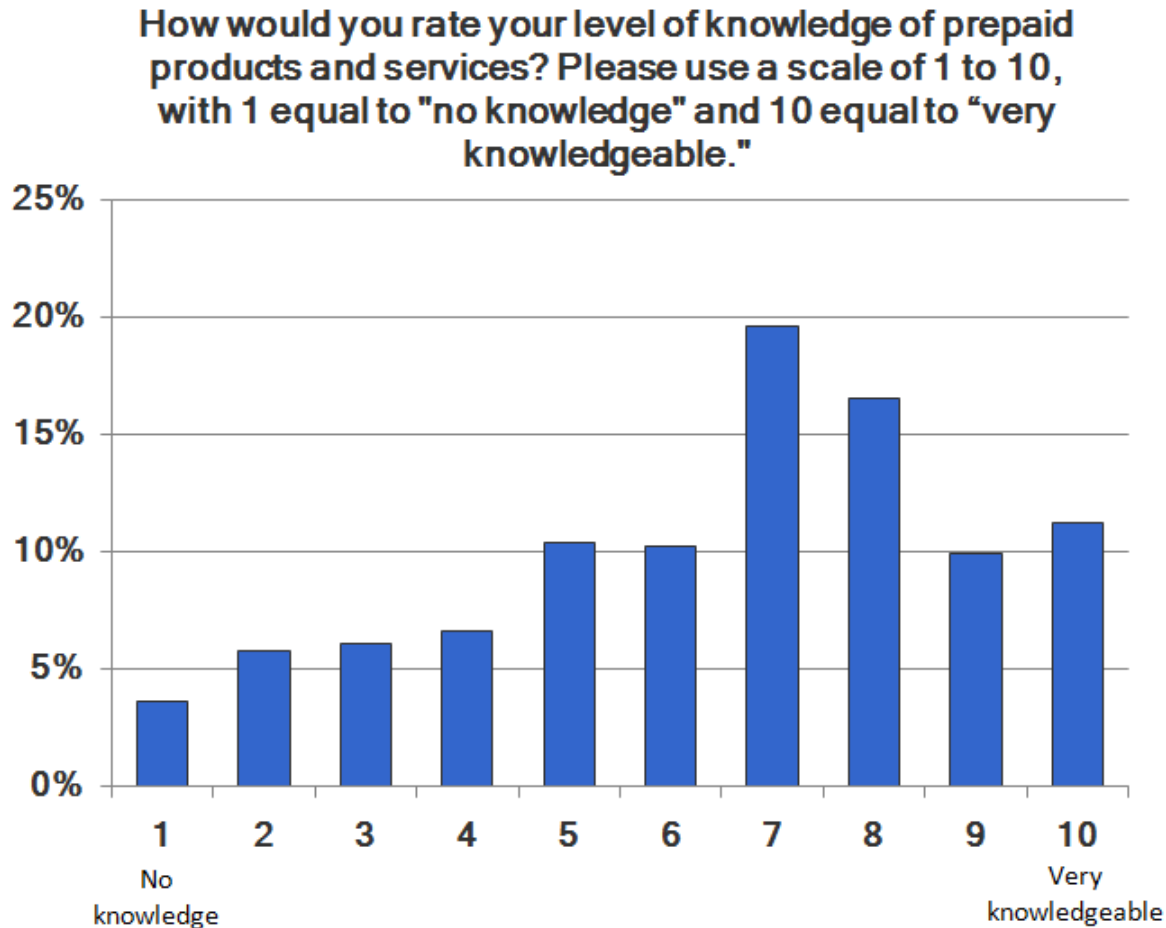


What is your gender?



Level of Knowledge about Prepay

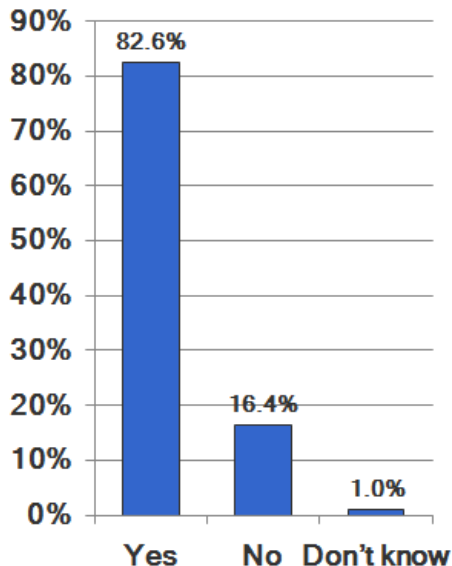
- Respondents rated themselves a “6.4” on a scale of 1 (no knowledge) to 10 (very knowledgeable), with 20% of respondents selecting a “7”



Experience Using Prepay; Types of Prepay

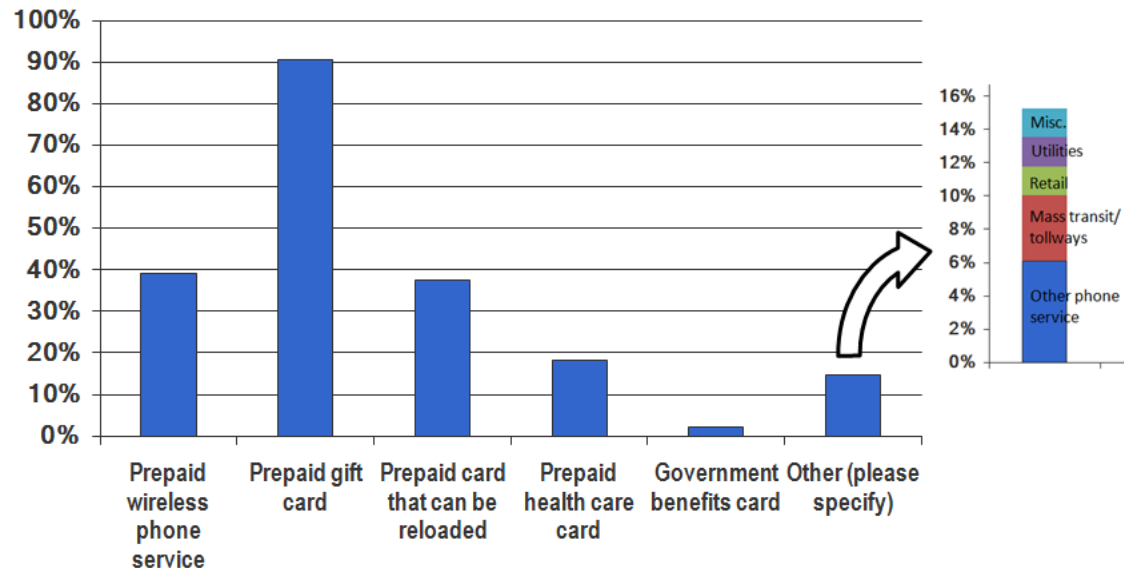
- An overwhelming majority (83%) have used or purchased a prepaid card or service
- 90% of those who said yes, had used or purchased a prepaid gift card
- Others has experience with phone cards, cards that be reloaded, health cards or even noted experience with prepay through tollways, mass transit and local retail establishments

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?



If "yes" to Q2 (Have you ever used or purchased a prepaid card?) What types of prepaid card or service? Choose all the responses that apply.

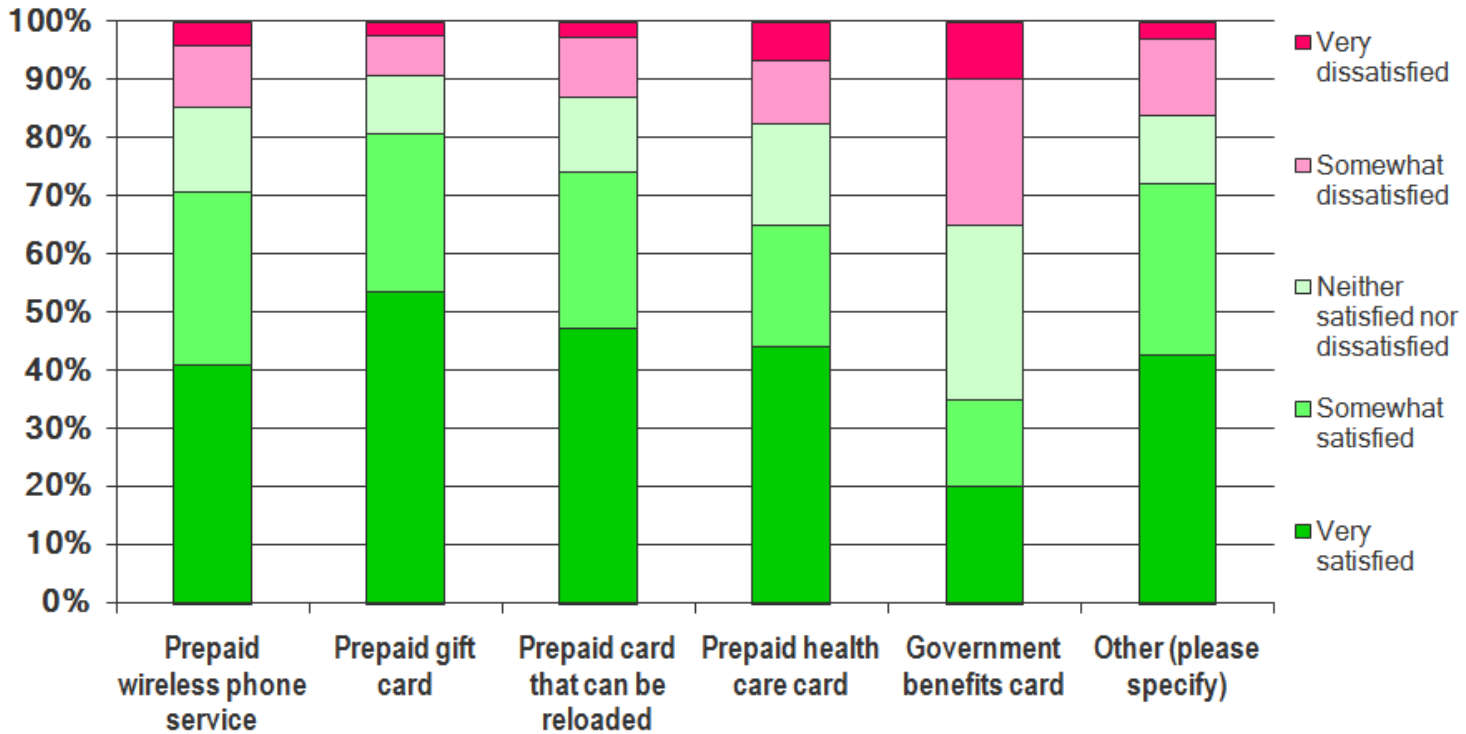
Percent of those responding to this question



Satisfaction with Prepay

- Energy industry professionals expressed satisfaction (very satisfied or somewhat satisfied) across all types of prepay experiences
- The most often used type – prepaid gift card – also registered the lowest levels of dissatisfaction (< 10%)

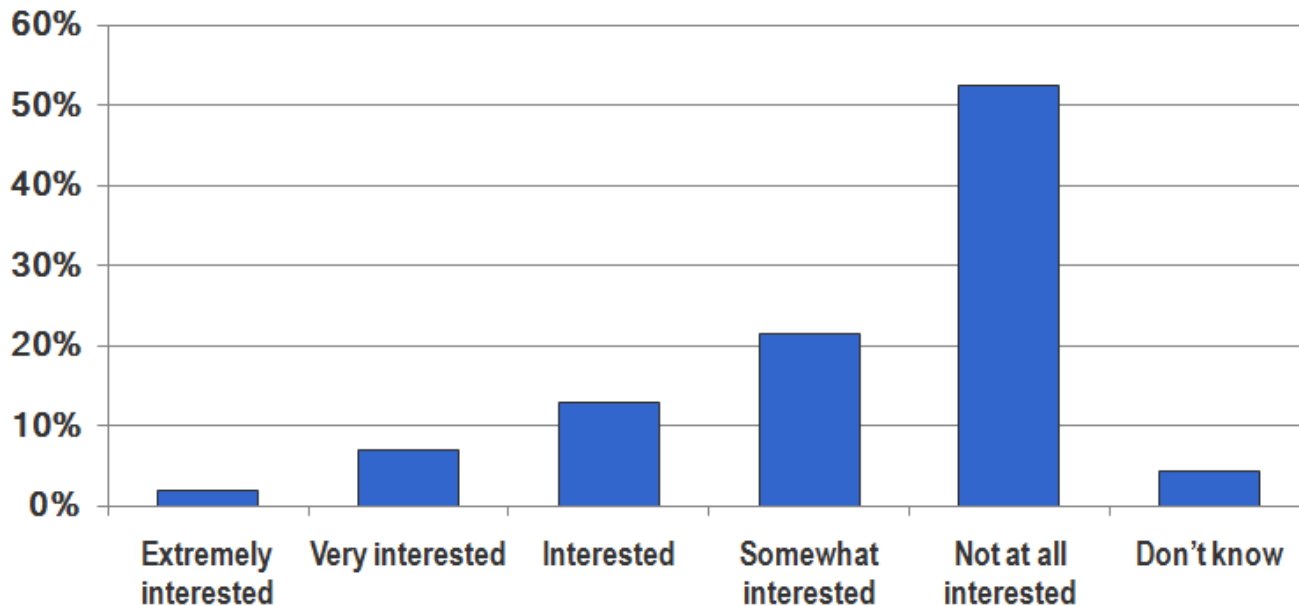
If "yes" to Q2 (Have you ever used or purchased a prepaid card?) How would you generally rate your satisfaction with using prepay as an option to make purchases or contract for services? Please choose one response for each choice.



Interest in Voluntary Prepay Option Offered by Utility

- Satisfaction with existing prepay experience for gift cards did not translate into enthusiasm for prepay in the energy industry
- Only 9% stated that they would be extremely interested or very interested in a voluntary prepay programs at their local utility

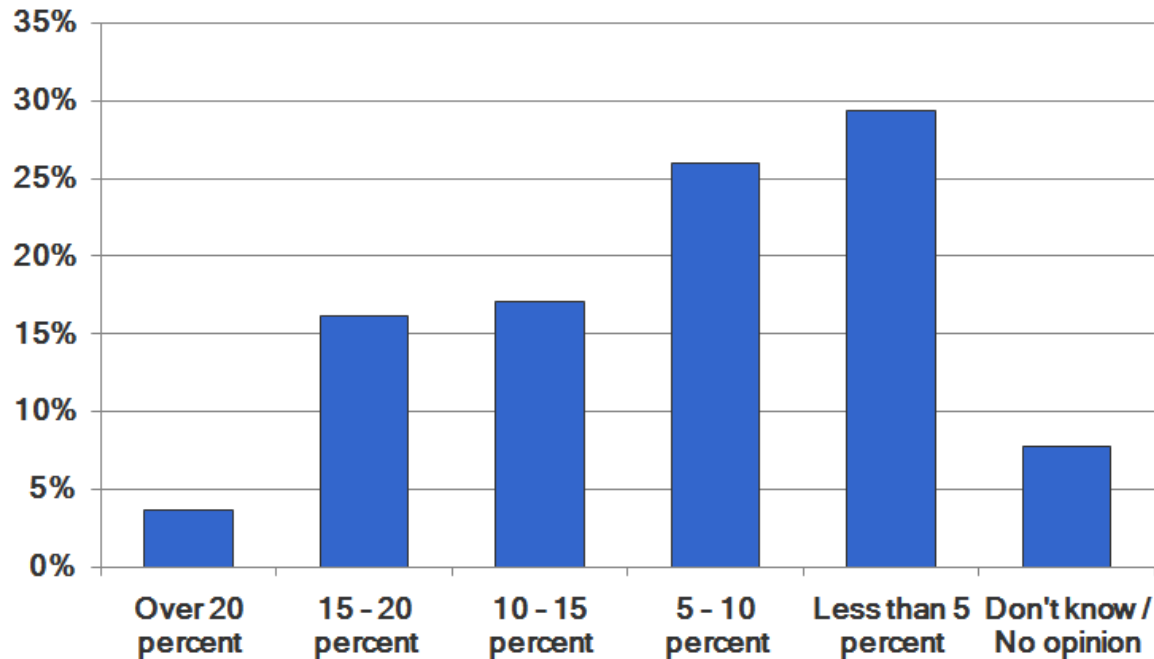
If your local electric or natural gas utility were to offer a voluntary prepay option for consumers, what would be your level of interest as a consumer in using a prepay option instead of paying your bill at the end of the month after you consumed energy?



Assessment of Estimated Consumer Interest in Utility Prepay

- 37% of respondents stated that more than 10% of typical utility consumers would be interested in prepay
- Nearly 30% view it differently, and stated that less than 5% of consumers would be interested in prepay
- The weighted average response is 9.2% of the utility customer base would be interested in prepay

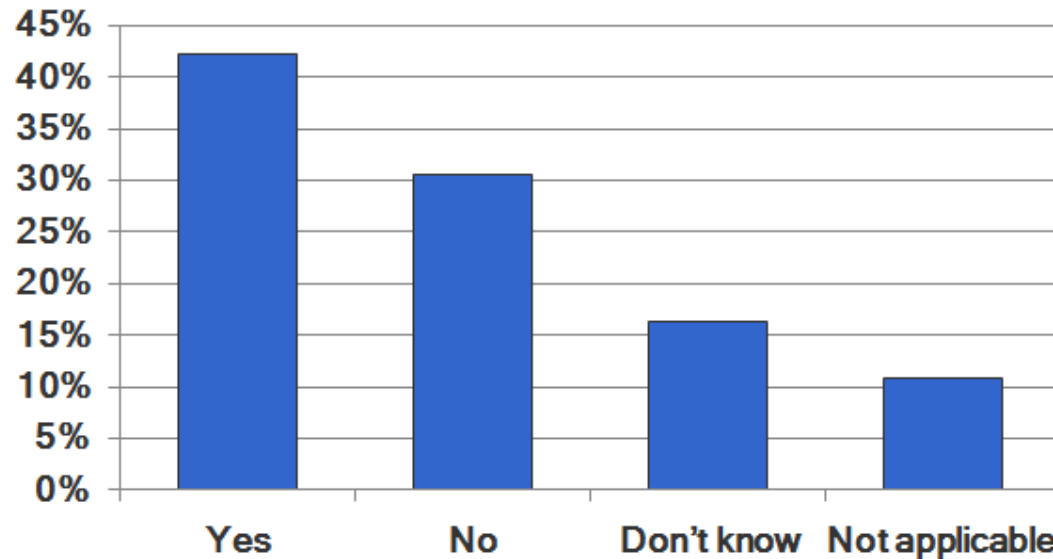
Now consider the potential interest of all consumers, what would you estimate as the percent of a utility's customer base that would choose a voluntary prepay option as an alternative to a traditional post-paid plan. Please choose one response.



Prior Evaluation of Prepay Offers

- More than 40% of the respondents stated that their company or organization evaluated prepay as an offering
- Of those who said “yes” to Q7, 80% responded to the open ended question #8:
 - (If “yes” to previous question) What are the major limitations and challenges to offering prepay service within your state (or province or local jurisdiction)?
- Limitations cited (open responses) include: regulations/ allowances/ cost recovery, low income rules, cost, consumer awareness/ acceptance, technology/ AMI deployment. The biggest impediment cited was regulatory.

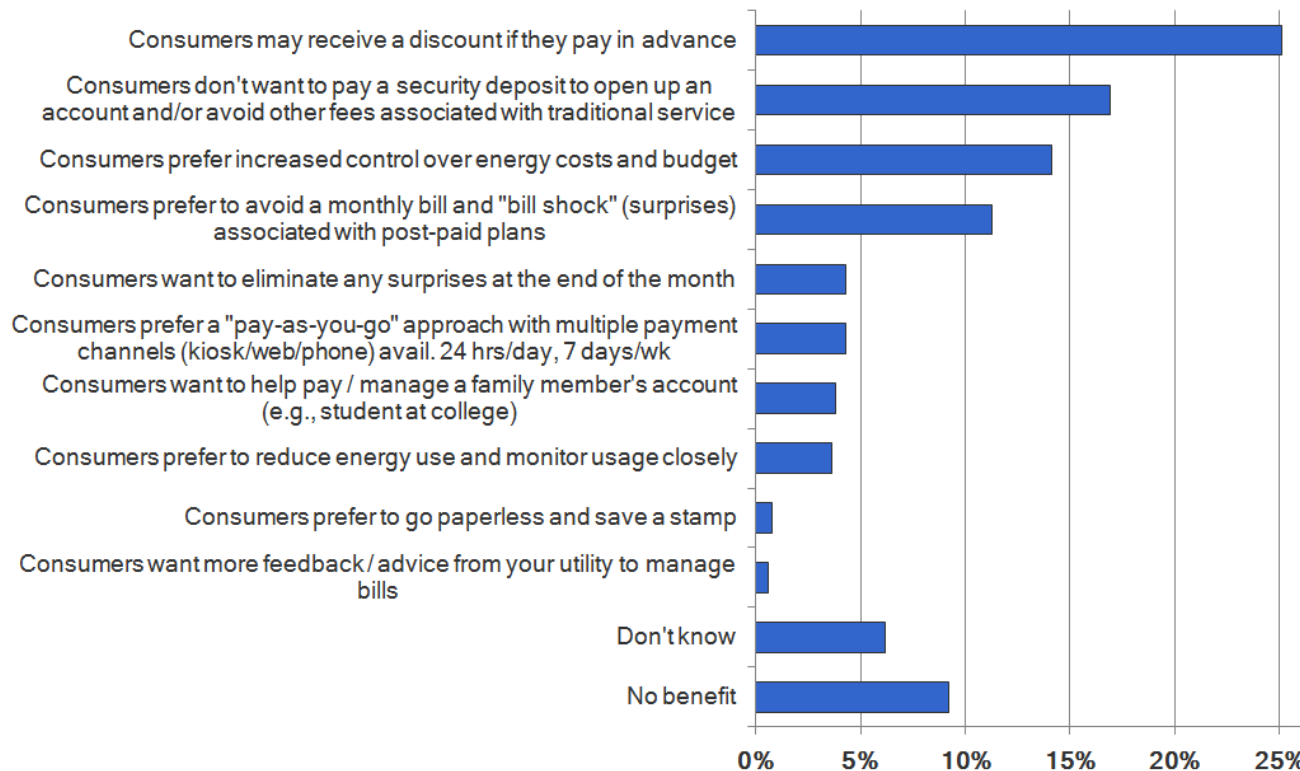
Has the company or organization you work for ever evaluated prepay as an offering? (If you are a consultant, the companies you have advised.)



Top Benefit to Consumers

- 25% of respondents stated that the top consumer benefit is a price discount for prepayment
- Consumer also want to avoid security deposits, increase control of their energy costs and budgets, and avoid an end-of-the-month bill shock

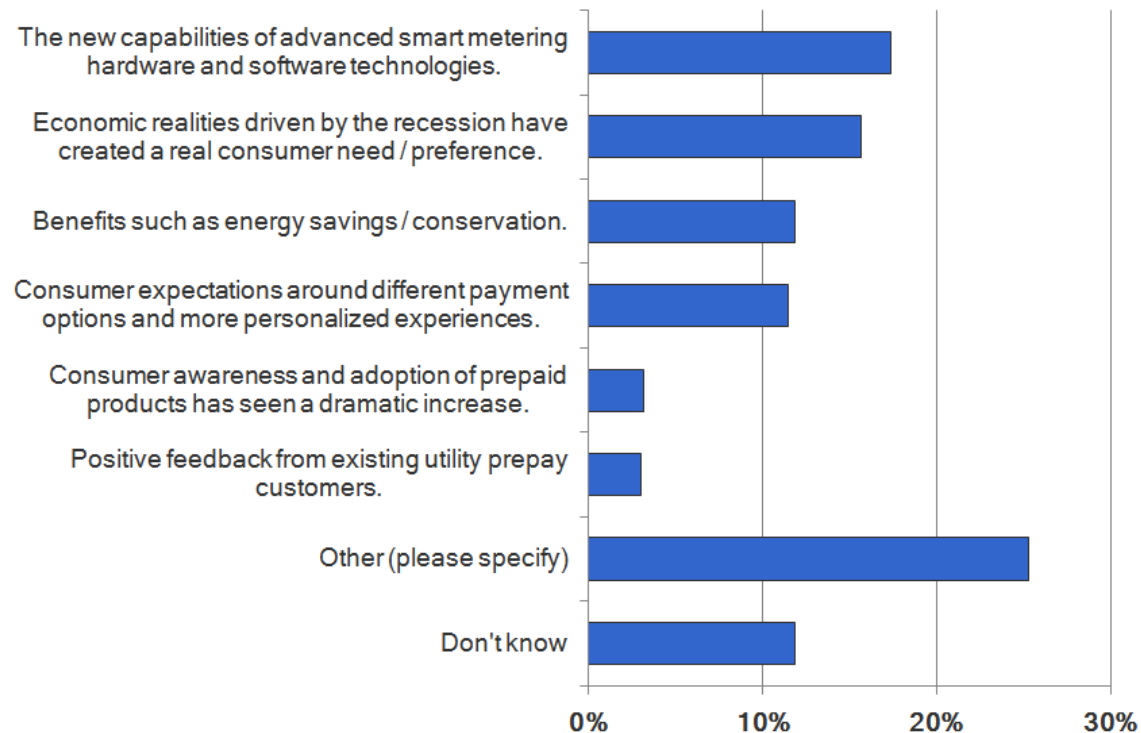
From an individual consumer perspective, what is the top benefit to consumers using the voluntary prepay option offered by the utility? Please choose one response from these randomly-listed options.



Top Drivers for Market

- Opinions were mixed regarding the top driver for market potential for utility prepay options
- The industry driver for utility prepay offerings most often cited was actually “other,” with a quarter of the respondents (25 percent) providing open responses. Most of the open responses emphasized the benefits of prepay to revenue (collections, cash flow, etc.) and risk management (bad debt management, credit risk, etc.) at the utility.

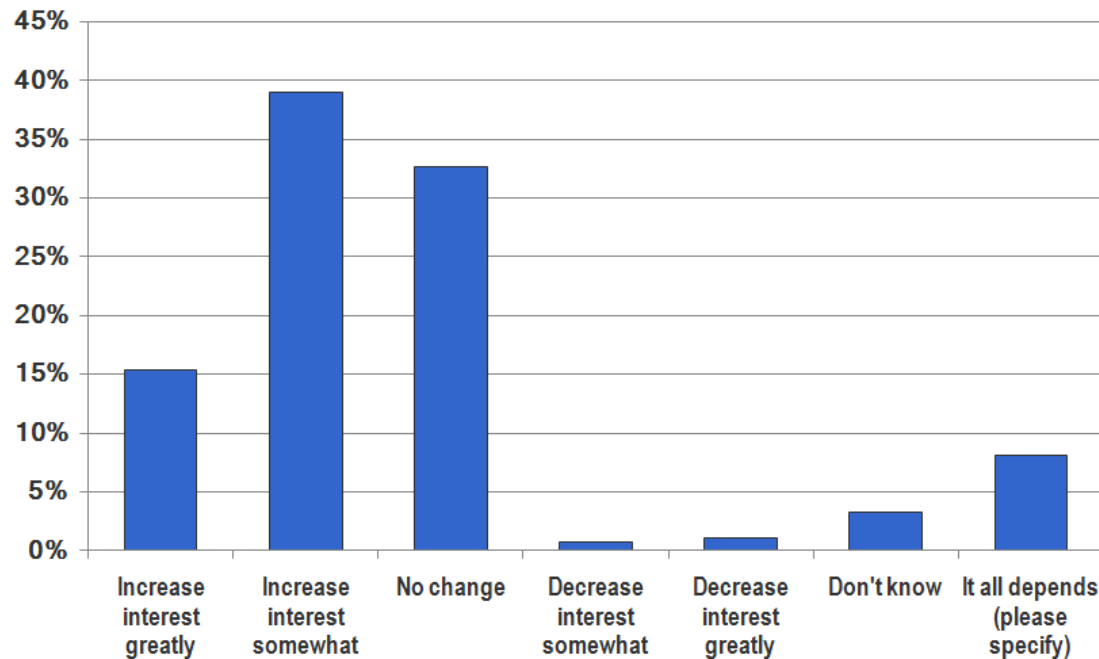
From an industry perspective, what do you think is the top driver for market potential for utility prepay options? Please choose one response from these randomly-listed options.



Interest in Prepay with Conservation Benefit

- There is a great deal of interest in energy conservation and consumer awareness of consumption and cost on a real-time basis
- 54% state that their interest in prepay would increase greatly or increase somewhat if you assume that the energy efficiency or conservation associated with prepay is real

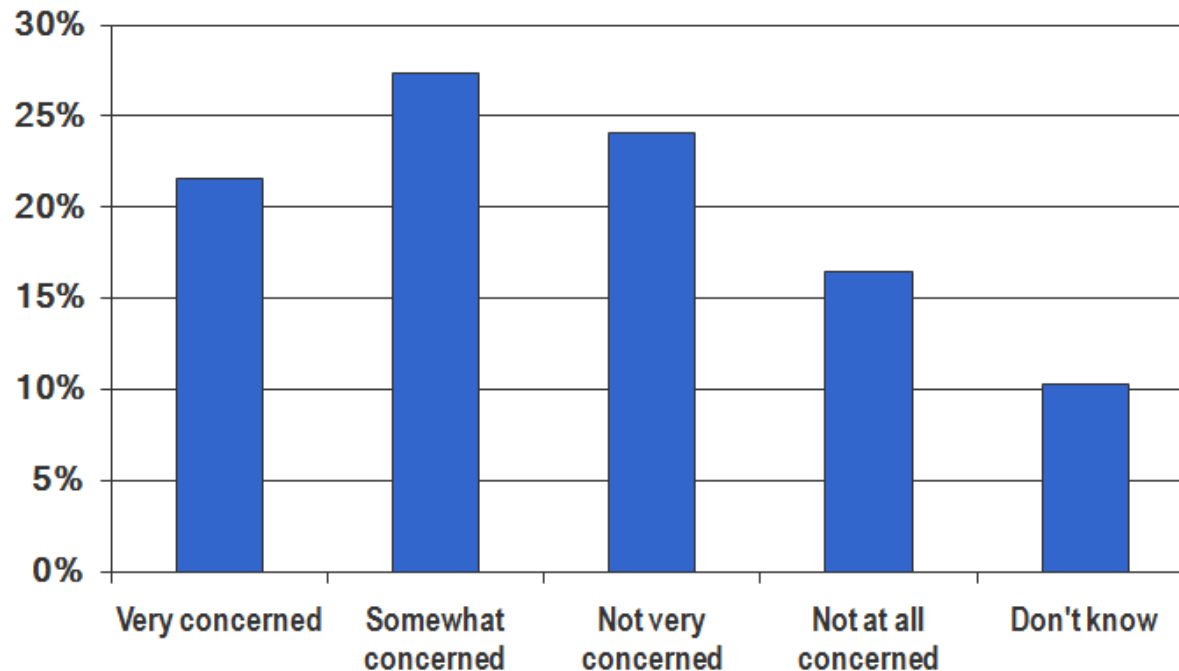
Several utility prepay programs have resulted in lower energy consumption through increased consumer awareness of consumption and cost on a real-time basis. As a result, consumers on prepay service may pay less and help the environment by lowering their energy use. How would the opportunity for lower energy consumption impact your interest in participating in your local utility's voluntary prepay option?



Concern with Regulatory Challenges or Rule Changes

- Some people are very concerned with the necessary rule changes that would be required to permit utilities to offer prepay

Are you concerned about any regulatory challenges or rule changes that may be required to permit utilities to offer prepay options on a voluntary basis?



Analysis

- Prepay has gone mainstream. Like the 83 percent of industry stakeholders who have used some form of prepaid product, a growing majority of Americans use prepaid products for a broad range of transactions everyday.
- Why? Because people are highly satisfied with prepay for a number of reasons – it fits their budget and/ or lifestyle, convenience, new features, preferred bill channel, etc. If anything, Americans generally record even higher satisfaction levels with prepay than the findings in the industry survey.
- So, what is the source of so much skepticism about voluntary prepay options offered by the local utility? It is important to note: the question is largely not about prepay but about *the utility* offering prepay. Reasons for the skepticism may include:
 - New product offering that is very different than the traditional utility bill pay so some of the skepticism may be driven by uncertainty how the offering will be handled by the utility and received by customers.
 - The utility may benefit from prepay.
 - Regulatory concerns were consistently cited as limitations. There are a number of questions that need to be addressed which are different than other service sectors.
 - An institutional perspective of what is best for the consumer. Some of the open responses were highly emotional and pointed, mainly due to concerns about low income consumers.
 - Technology issues, either connected to the AMI deployment or synching up back office systems to handle transactions.
- However, there is a recognition that prepay in itself is different and may be quite transformational. How so? High industry awareness and interest in prepay as a means to save energy via the real-time feedback loop rooted in a transaction. Also, prepay could lead to discounts or other consumer benefits that go beyond what the industry currently understands as value creation from a consumer perspective.
- Finally, prepay may not suit every consumer – *and that's OK.*

Schedule

- December: Release of the Industry Survey Findings
- Week of January 10th: Release of EcoAlign's EcoPinion Survey Report (findings and recommendations from 1,000+ randomly-selected Americans surveyed in November on prepay/ voluntary utility prepay option)
- Week of January 24th: Release of DEFG's *Series of Regulatory Choices* white paper framing up regulatory issues and questions linked to prepay
- Early 2011: Kickoff call for the Utility Prepay Working Group

“DEFG created the 2011 Utility Prepay Working Group to examine the significant regulatory issues and to establish a network of utilities that will share the results of utility pilots programs. The group will discuss prepay initiatives in other industries, best practices and publish case studies. I am confident that this group will make a mark in the industry this year.”

Jamie Wimberly, CEO, DEFG LLC

Persons interested in learning more about the 2011 Utility Prepay Working Group should contact Cindy Boland, DEFG Senior Associate, at cboland@defgllc.com or by calling her at 201-850-1255.



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