



EcoPinion

Is Prepay the Way? Consumer Perceptions of Prepay in the Utility Sector

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Introduction

EcoAlign, a strategic marketing agency focused on energy and the environment, conducted 1,000 online interviews in November 2010. The sample was balanced to match the U.S. population by age, gender, region and ethnicity.

The primary objective for this ninth EcoPinion Survey Report is to test consumer perceptions and expectations in regard to prepaid services and products and then to examine the potential for voluntary prepay options offered by local utilities to customers. EcoAlign is interested in the convergence of two major developments – the growing use and popularity of prepay as a transaction mechanism, and what prepay may mean as a new voluntary payment option offered to utility consumers and enabled by smart grid.

Deployment of smart grid infrastructure continues apace with millions of Americans soon to have access to smart meters installed at their homes. These provide access to real-time information on personal energy usage and consumption. While the business case for smart grid has largely been built on the operational efficiencies gained on the utility side of the meter, the customer-facing benefits of smart grid remain an open question.

Some now argue that prepay could be the first fruit for consumers and perhaps even the “killer app” of smart grid. Today, consumers get an energy bill at the end of the month with no real linkage between consumption behavior and cost. Prepay allows consumers to pay for energy upfront and then to monitor their usage, account information and energy management options through daily communications with their supplier. Prepay would not only leverage the real-time information coming from smart meters, but



moreover, the information would be transactional allowing the consumer to change consumption patterns if necessary to fit within his/her budget.

There is further potential around consumer benefits tied to a voluntary utility prepay option. For consumers with credit challenges, prepay may be an alternative to security deposits or other requirements to open an account. And specific to the utility sector, prepay has been shown to result in energy conservation at very high levels – 5 to 15 percent energy savings, perhaps more.

What do consumers think of prepay though? Would they like a voluntary prepay option offered by their local utility? What would their needs and expectations be around a voluntary prepay option in the utility sector?

The findings of EcoPinion No. 9 point to a rapid ripening of prepay as a voluntary option which could have a large impact on the utility sector. The top line findings include:

- ❖ Prepaid products have gone mainstream with over half of all Americans having purchased or used a prepaid product, and even more Americans planning to do so over the next year.
- ❖ Why? Because 75 percent of all Americans are satisfied with their prepaid options and products, with almost half of all Americans who have used prepaid products responding they were “highly satisfied.”
- ❖ What are the drivers behind satisfaction? Consumers pointed to “ease” and “convenience.” This implies that prepaid is aligned to consumer preferences in regard to bill pay channels and lifestyle choices. This is especially true of younger Americans (18 – 30) who put a premium value on mobility and flexibility. In short, when asked how prepaid products make them feel, many Americans simply responded “happy.”
- ❖ Yet, prepaid products may not suit all consumers equally. As noted above, there clearly is a generational divide, with younger people being much more likely to be satisfied or highly satisfied with prepaid options. Women also tend to like and use prepaid products more than men. Finally, renters may be more apt to use prepaid products than home owners.
- ❖ A core group of consumers (17 percent) are “extremely interested” or “very interested” in a voluntary prepay option offered by their local utility. For most service industries, this level of interest would signal the need to support prepay products and channels. Another 25 percent of consumers indicated that they were “interested” or “somewhat interested,” signaling that there is ample room for growth, once utility



prepay options enter the market. Our findings further show that when consumers use prepay, they like the option and are more interested in having the option available for other transactions such as paying utility bills.

- ❖ It is important to note that 46 percent of respondents were “not interested at all” in a voluntary prepay option.
- ❖ Americans increasingly use prepay options and like them. Yet, there is a sizeable number of Americans who are not at all interested in a voluntary prepay option offered by their local utility. Why is that? Another way of asking the question may be: Is it prepay that they are not interested in, or the utility offering prepay? Some possible reasons for the gap may be:
 - Prepay is a new bill paying option for some Americans, so unfamiliarity leads to uncertainty around how it will work for them and the value.
 - A generational transition, with older Americans much more likely to stick to traditional bill pay channels, e.g., writing a paper check and sending it to the utility (with 38 percent of older Americans using that method vs. 24 percent of younger Americans).
 - Distrust and/or skepticism of the utility’s motives.
 - Uncertainty with regard to costs vs. benefits, especially if there are fees associated with a utility prepay option (when there are no fees, interest levels in prepay double).
 - Concerns over service disruption and disconnection (62 percent of Americans are “very concerned”).
 - The utility has not met consumers’ current needs and preferences so they are less keen on trying a new option (see the findings on utility bill payment channel most often used vs. what consumers would prefer to pay bills). If utility customer service is not “smart” from a total service perspective, then new products will do little to change that perception.
- ❖ So, given the above, what might make consumers more interested in a voluntary prepay option offered by the local utility? The short answer is discounts and lower bills. As our EcoPinion survey findings have pointed to time and again, consumers largely see their utility service as a commodity and so everything gets calculated as payback in dollars and cents. Almost one-half of all Americans responded that their interest level in a voluntary prepay option would be increased with a discount of 10 percent or more off their utility bills.



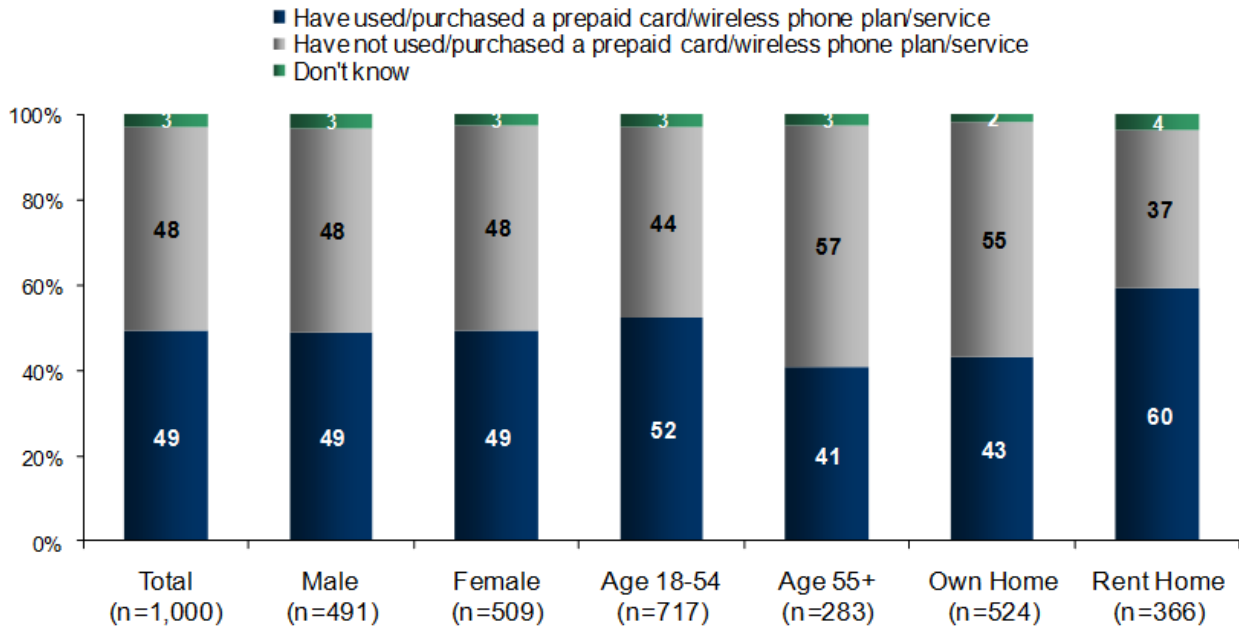
- ❖ Consumers cited the following top three benefits for using a voluntary prepay option: 1) paying for energy as you use it, 2) eliminating any surprises at the end of the month; and 3) control over costs. Additionally, saving money and bill management were cited by consumers as the biggest drivers for a voluntary prepay option. These responses highlight the consumer perspective of utility service as a commodity and thus something to be managed and controlled.

As noted in EcoPinion No. 8, smart grid holds a lot of promise in the minds of Americans. Yet for this promise to be realized, new products and services will need to be allowed into the utility sector. Products such as prepay will be challenging in many respects to a traditional regulatory structure that has focused on providing equal access and service to all consumers regardless of their individual preferences and needs. This EcoPinion clearly points to the fact that some customers will readily embrace new options if offered.

Use of Prepay Cards or Services

The findings of the study indicate that approximately one-half of consumers in the U.S. have used or purchased a prepaid card or service. For example, 54 percent of respondents indicated that they had used prepaid wireless phone service, and 51 percent had used a prepaid gift card. Those under age 55 and those who rent a home are significantly more likely to have used or purchased a prepaid card or service.

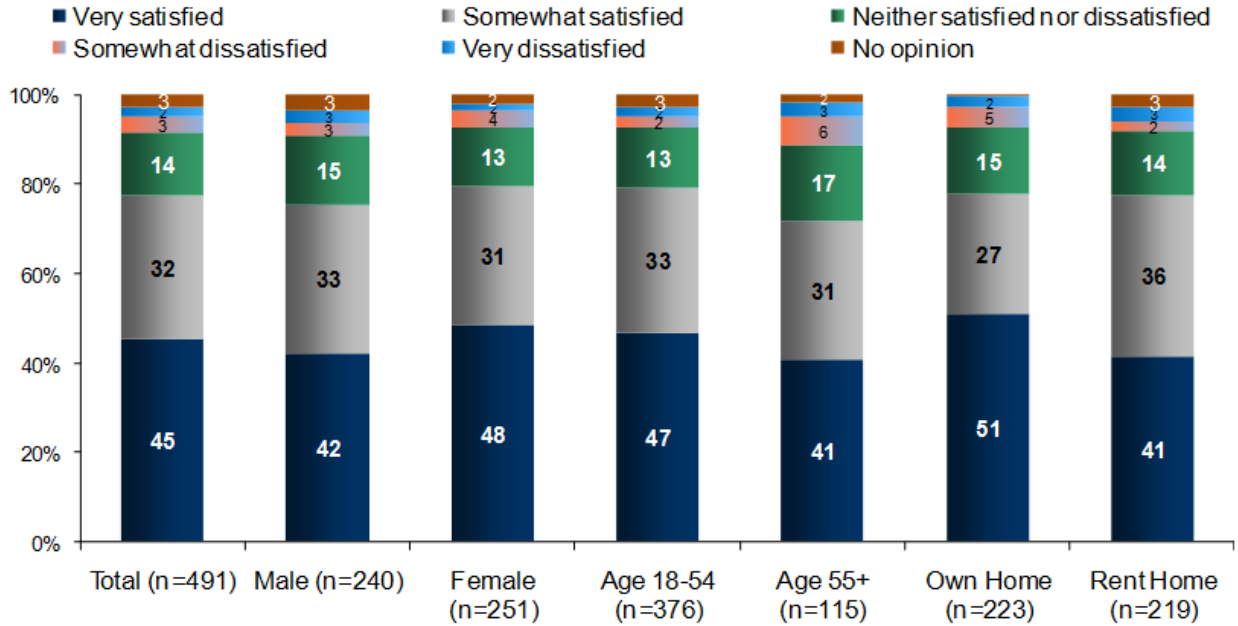
Prior Usage/Purchase of Prepaid Card or Service





Among those using prepay, satisfaction is high – approximately 75% of prepaid card or service users were “very satisfied” or “somewhat satisfied” with the option. There were slightly higher levels of satisfaction among women and among younger respondents.

Satisfaction with Using Prepay Options



Notably, more than one-half of the respondents who have never used or purchased a prepaid card or service indicated that they were not likely to do so in the next year. Those 55 or older and those who own their own home were the least likely to anticipate purchasing a prepaid card or service in the next year.

Word Associations

When asked to describe prepaid options, the most common response was “convenient,” followed at much lower levels by “easy” and “gift.”

One Word Associations with Prepay Options



The survey also queried for emotional responses to prepay options, and consumers mostly expressed “happy,” “good,” “easy,” “safe,” and “relieved,” and with lesser frequency mentioned “satisfied,” “convenient,” and “great.”

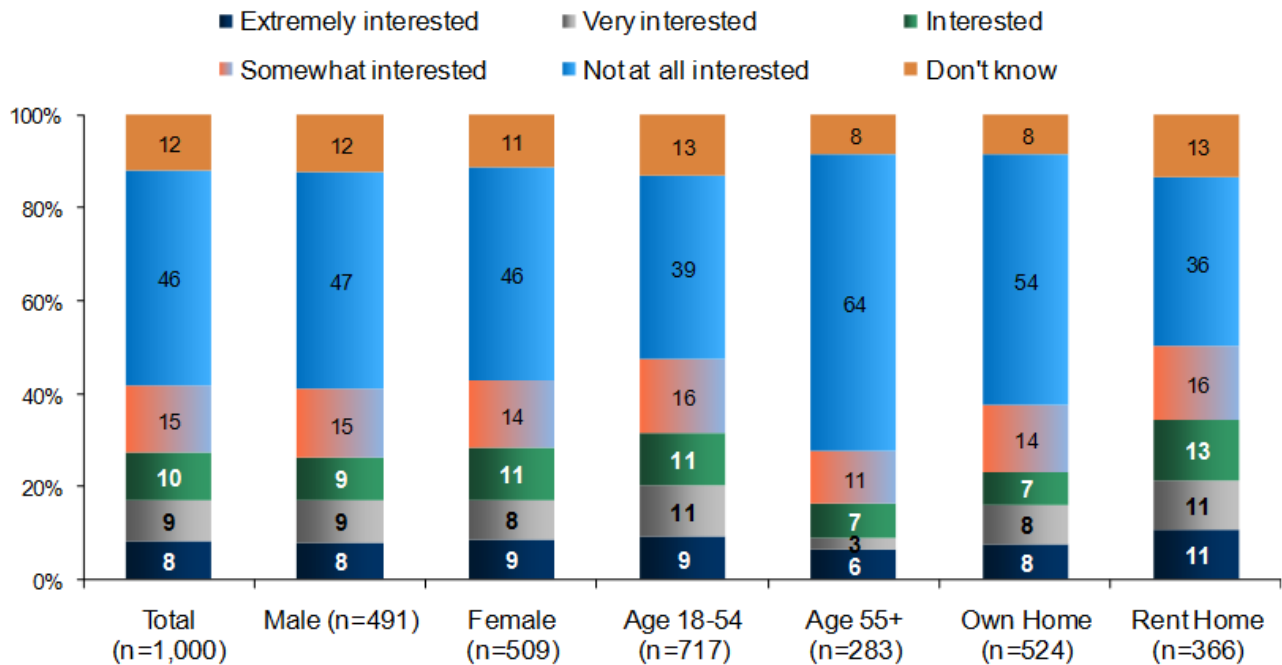
One Word Emotional Associations with Prepay Options



Prepay Utility Option

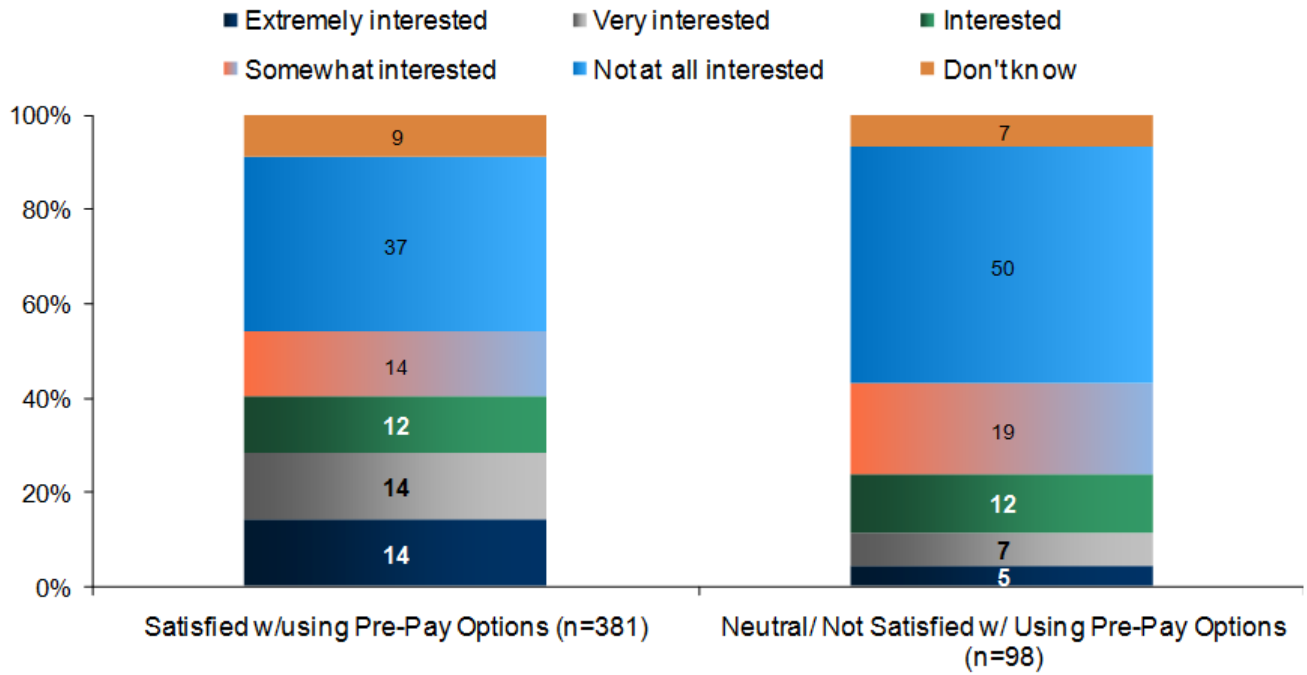
When asked specifically about their interest in a prepay option offered by their local utility, only 17 percent were “extremely interested” or “very interested” in such an option, even when it was offered free of charge (no fees). Interest then dropped by half when the option was offered with a small fee. As with prepaid options in general, interest was highest among the younger consumers and those who rent a home. Interest was only somewhat higher among consumers who had previously purchased and were satisfied with prepaid cards/services versus consumers that had never used a prepay option.

Interest in Voluntary Prepay Utility Option - Free, No Fee

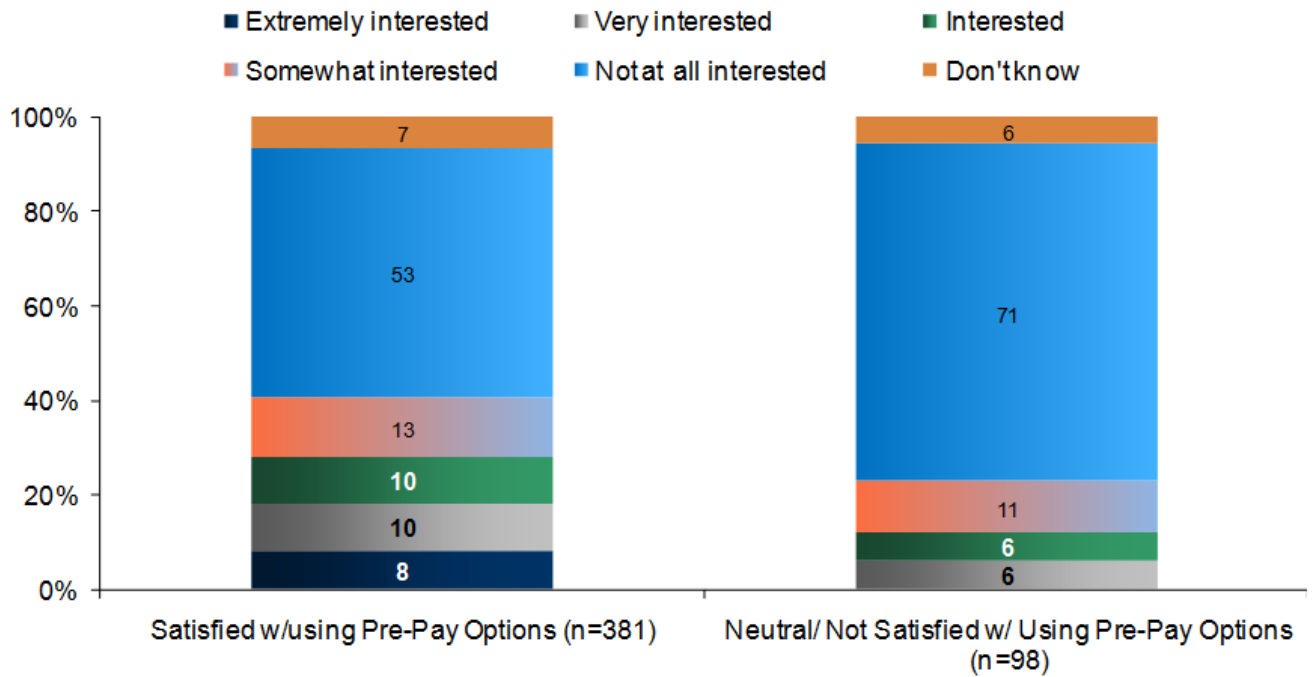


Interest in no-fee prepay options offered by the local utility was higher among those satisfied with using prepay (28 percent were “extremely interested” or “very interested”). If there is a small fee, interest level in this group of satisfied consumers fell off to 18 percent. Lower levels of interest were registered among those who were neutral or not satisfied with using a prepay option.

Interest in Voluntary Prepay Utility Option - Free, No Fee



Interest in Voluntary Fee Prepay Utility Option with Small Fee



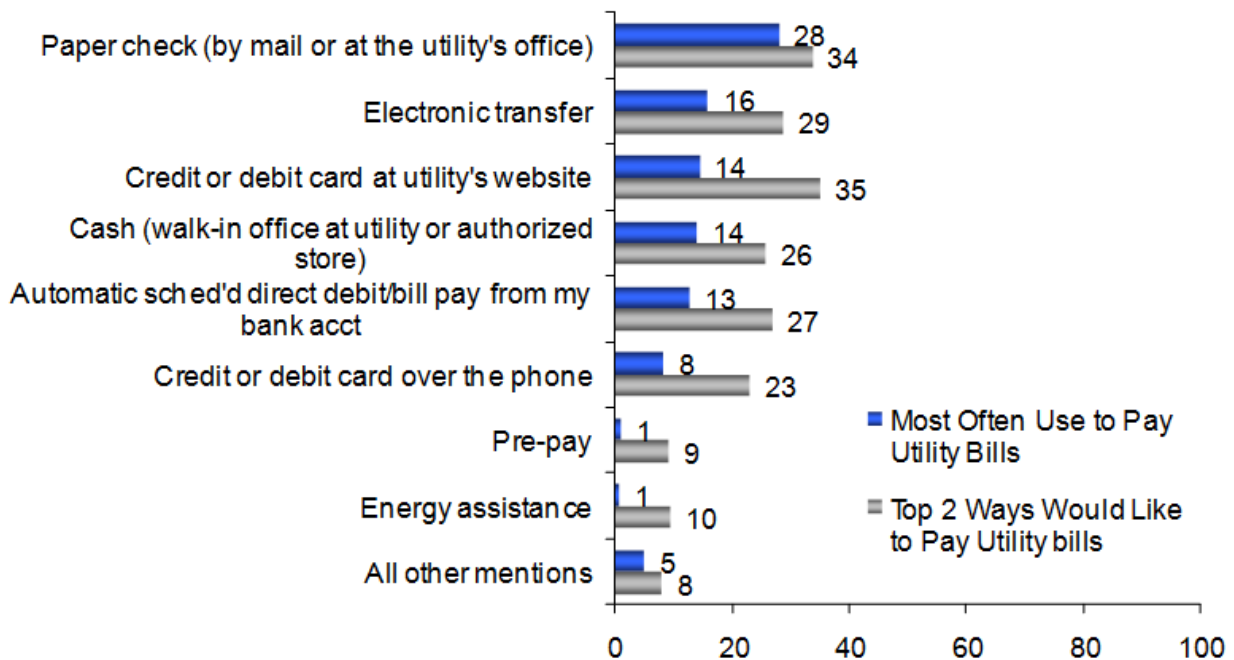


How Do People Pay for Utility Services Now?

Consumers are most likely to pay utility bills by check. (See the blue bars in the chart below.) At somewhat lower levels, consumers use a variety of other methods such as electronic transfers, credit/debit cards, or cash. Older consumers (55+ years) are much more likely to pay by check than younger consumers (38 vs. 24 percent) and more likely to pay by cash (18 vs. 4 percent). Homeowners are more likely than renters to pay by check (33 vs. 22 percent), and renters are more likely than homeowners to pay by cash (22 vs. 8 percent).

When asked what methods they would be interested in using to pay their utility bills – even if such methods were not currently available – credit cards and checks were mentioned most often, followed by electronic transfer, automatic or scheduled debit from bank account, and cash. (See the gray bars in the chart below.)

Utility Payment Type Used Most Often/Would Like To Use





Reasons for Using a Prepay Utility Option

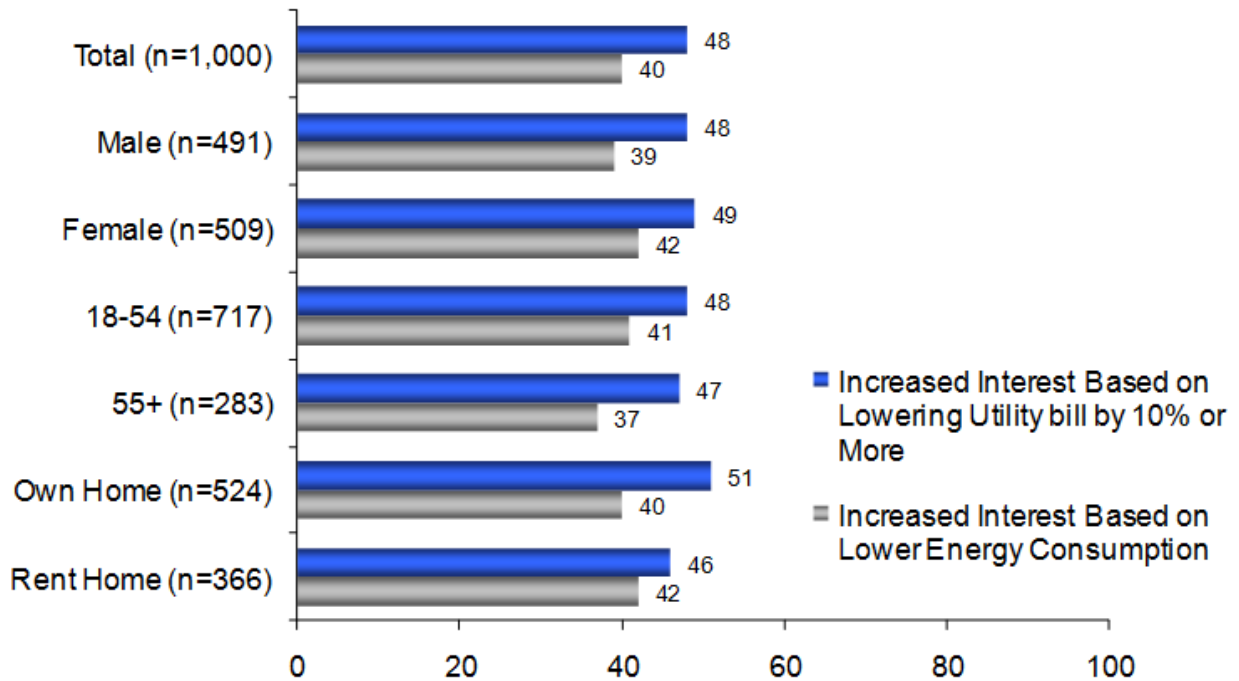
When asked to select the top two reasons they would use a utility prepay option from a list, the most commonly selected choices were: preferring to pay for energy as it is used; wanting to eliminate any surprises; and wanting control over energy costs and budget.

Top Two Reasons Would Use Utility's Voluntary Prepay Option

	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>18-54</u>	<u>55+</u>	<u>Own</u>	<u>Rent</u>
Total Respondents	(1000)	(491)	(509)	(717)	(283)	(524)	(366)
	%	%	%	%	%	%	%
You prefer to pay for energy as you use it	29	29	28	27	33	33	23
You want to eliminate any surprises	28	25	31	30	25	30	28
You want control over energy costs and budget	26	25	26	26	25	27	24
You don't want to pay a security deposit to open up an account and/ or avoid other fees associated with traditional service	17	15	18	17	16	14	20
You want to reduce energy use and monitor closely	17	15	18	18	14	14	21
You want to go paperless and save a stamp	16	15	17	15	18	15	18
You don't want a monthly bill	15	18	13	17	10	13	18
You want more feedback/ advice from your utility to manage your bills	7	9	5	7	8	8	6
You want to help pay/ manage a family member's account, e.g., student at college	6	6	5	7	3	5	7
Don't know	20	21	18	18	24	20	17

Nearly one-half of consumers indicated that their interest in a prepay option would increase if it meant they would save at least 10% on their bills. Four out of ten thought their interest would increase if the prepay program helped them lower their energy consumption through increased awareness of usage and the related cost.

Impact On Interest in Prepay Utility Option - Reduced Cost vs. Reduced Energy Consumption (Would Increase Interest)



Concerns About Prepay Utility Option

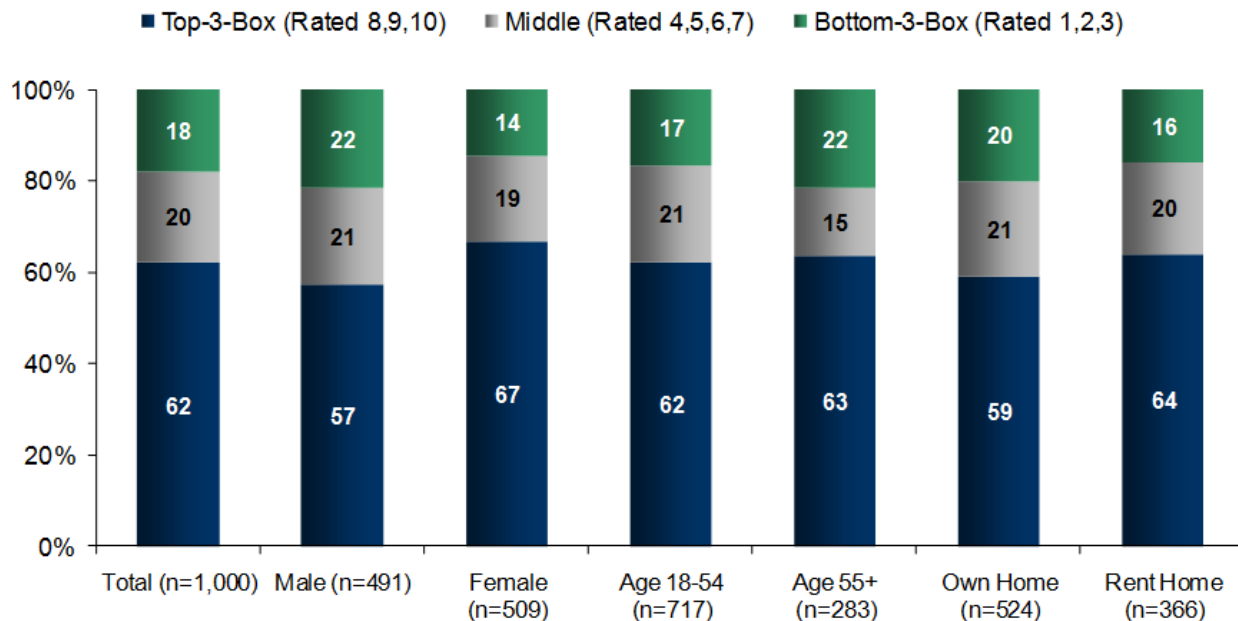
In terms of concerns that consumers might have about a prepay utility option, the words used most frequently were related to the costs involved, the loss of control, and what happens to utility service if they run out of credit. Some specific one-word associations were "cost," "overpayment," "control," "service disruption," "uncertainty," "budgeting," "underpayment," "fees," and "errors."

One Word Associations to Describe Biggest Concern with Prepay Options Offered by the Utility



Nearly two-thirds of consumers are extremely concerned (a rating 8, 9, or 10 on a 10-point scale) about the prospect of running out of credit on their prepay account or having service temporarily disconnected while they replenish the account. Women are significantly more concerned about this than men (67 versus 57 percent).

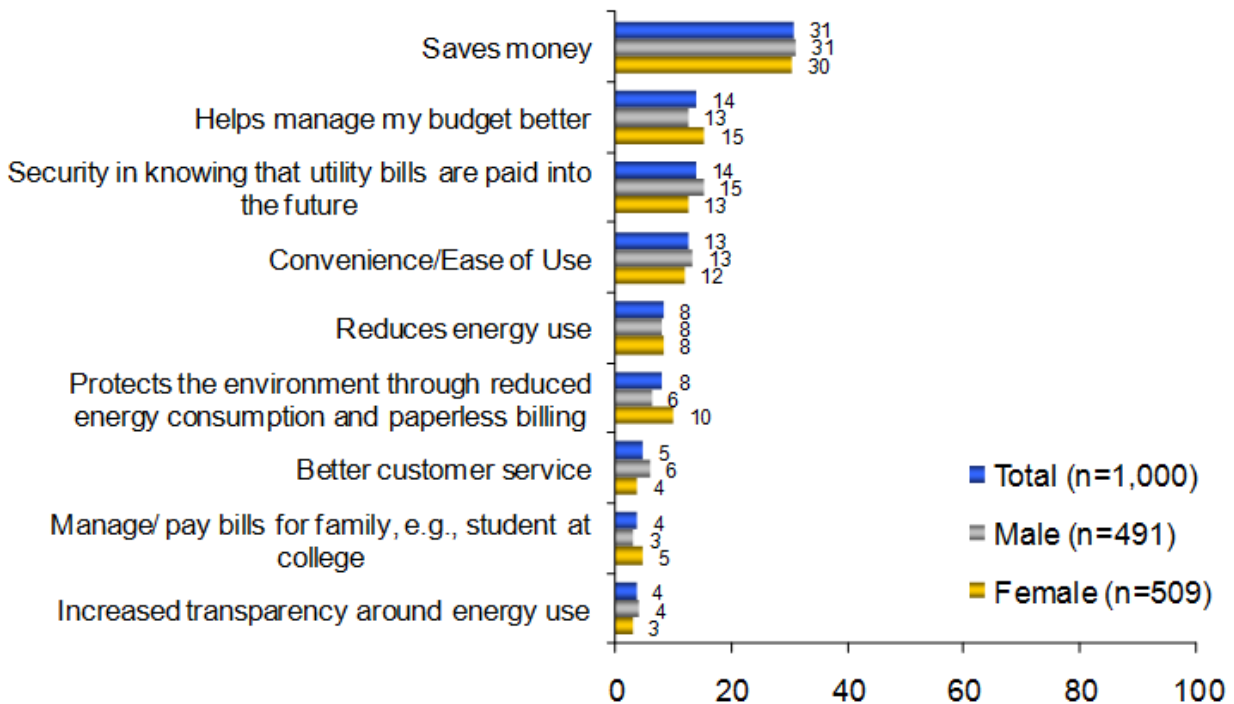
Level of Concern About Running Out of Credits and Services Being Disconnected



Value of Prepay Utility Option

On the other hand, consumers think the aspect of the prepay program they would most value and would be the most important is that it would help them save money (chosen from a list by nearly one-third of the respondents). At lower levels, they also indicated that a prepay plan would help them manage their budget better, know that their bills are paid, and be convenient/easy to use.

Most Valuable/Important Prepay Option



Notifications Methods

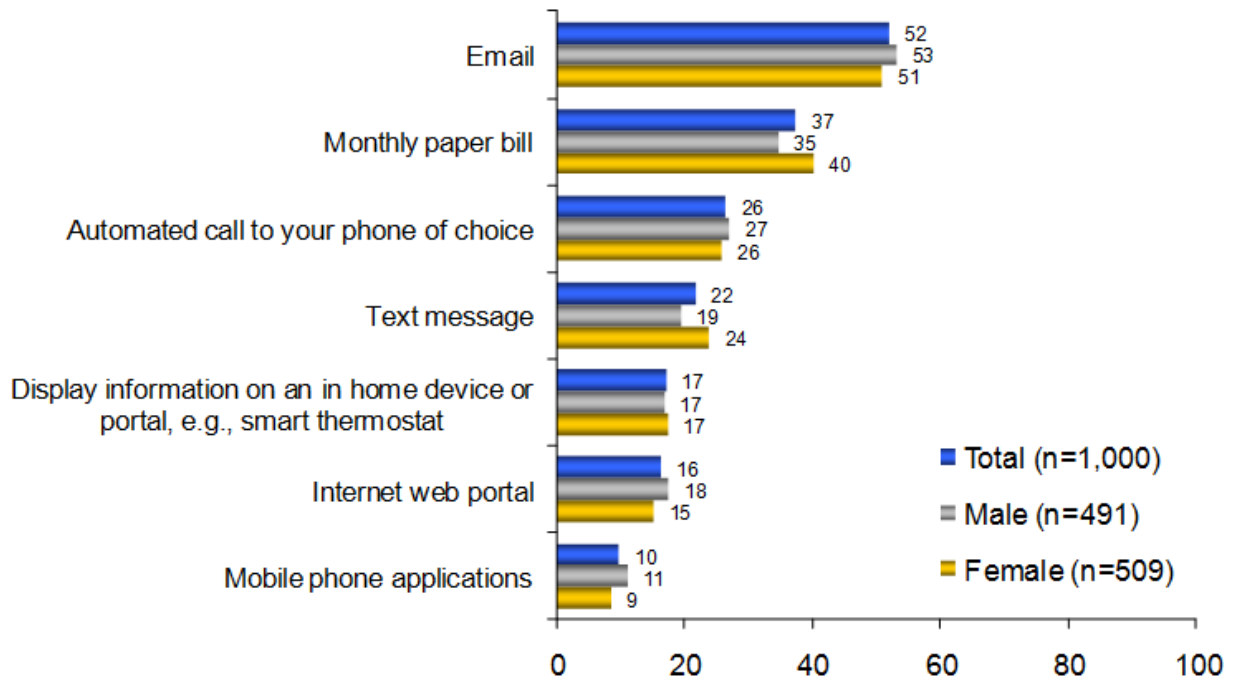
Consumers using prepay need to be contacted regarding the level of funds left in their account, and the number of days remaining at typical usage levels. Consumers indicated that email was a preferred method, followed by a monthly paper bill, automated call to a telephone, text messaging, in-home display, Web portal and mobile phone application.

Consumers both older than 55 years and younger than 55 years stated that they preferred email, but there were generational variations for the remaining choices. Older consumers expressed a stronger preference for



monthly paper bill than did younger consumers. Younger consumers expressed a stronger preference for text messaging than did older consumers. Differences among homeowners and renters were less pronounced.

Notification Methods Would Require To Consider Prepay



What Does It All Mean?

Prepay has gone mainstream. Americans are increasingly using prepay and are highly satisfied with it. Once they have used it, they are interested in using it for other transactions, including paying utility bills. The findings from EcoPinion No. 9 point to an addressable market in the short-term of approximately 20 percent of utility consumers who would consider a voluntary prepay option offered by their local utility. Another 25 percent or so could be reached over time through education, marketing and word-of-mouth validation from friends and family. These are potentially huge numbers of participants.

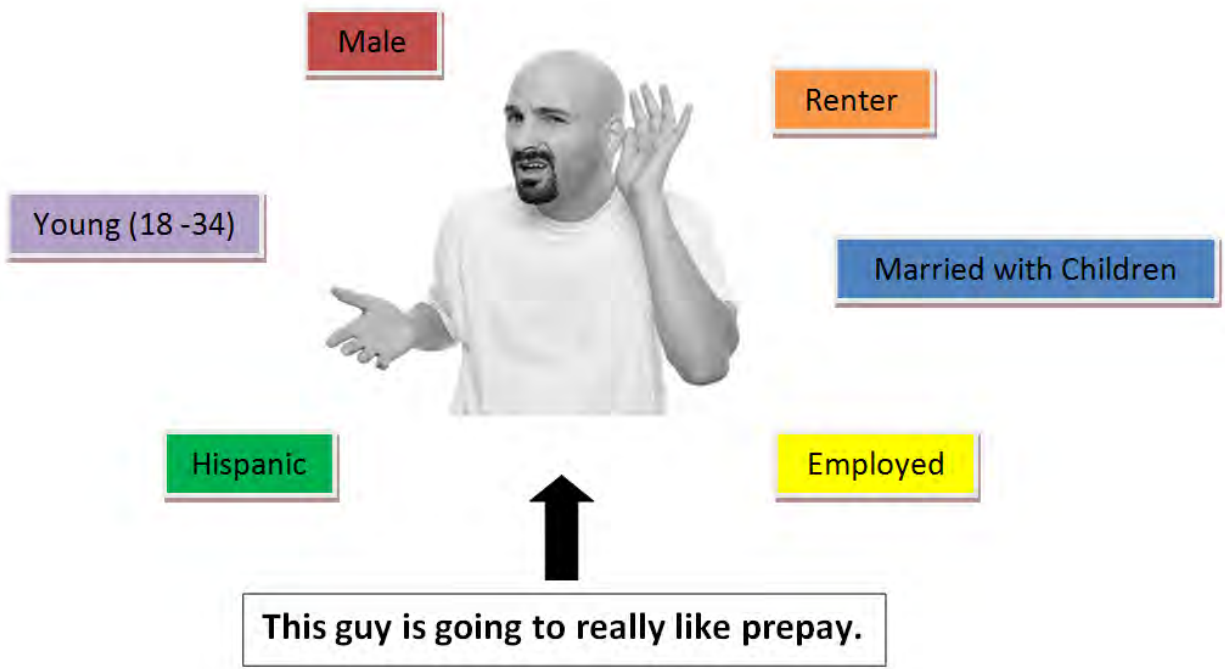


From a consumer perspective, what needs to be done for prepay to reach its full potential as a voluntary bill pay option in the utility sector? EcoAlign's recommendations would include:

1. **Consumer Education:** Consumer education will be important if utilities are planning to pursue prepay options. Prepay may serve as the lead to an overall customer strategy enabled by smart grid. There should be transparency about the motives and benefits to utility.
2. **Voluntary Option:** Utilities ought to focus on the voluntary nature of a new prepay offering, and avoid fees if possible.
3. **Visibility:** Utilities can use prepay to increase visibility of the underlying commodity, tied to new options enabled by smart grid, combined with segmentation and a targeting of the customer profiles most likely to value prepay (e.g., college students). Utilities can offer discounts for consumers and make the savings very visible on the bill or through other means (rebates, coupons, etc.) to increase satisfaction and the "stickiness" of the offering.
4. **Conservation:** Prepay can bolster energy conservation, and the utility can make a connection to measurable energy efficiency results. Measurement and verification (M&V) methodologies must be adapted to cover more behavioral approaches to conservation. More data and analysis will be required.
5. **Clear Policies:** Utilities must have very clear policies and processes in place to handle consumer and regulatory concerns, including billing and accounting issues, service disconnections and disruptions, and consumer protection and data privacy.
6. **Channel Management:** The utility should support the delivery channels and platforms that consumers prefer. As noted in EcoPinion No. 8, there will be nothing "smart" about smart grid with poor customer service and nonalignment of delivery with customer preferences. One need only observe the migration of consumers to other transaction platforms – including text messaging, mobile applications, credit and debit transactions on web sites – to realize there is a growing gap between the current state of utility customer service, channels supported, and consumer expectations.

In order to allow for new products and services that will lead to customer-facing benefits from the investment in smart grid, the utility sector as a whole will need to find a way to move from a "ratepayer" approach to a "customer" mentality. That is, move from the view that all consumers must be served in exactly the same way and receive exactly the same treatment, to an understanding of consumers with different needs, preferences, and values.

As with other EcoPinion survey findings, this survey demonstrates that there are statistically significant differences among generations, between renters and homeowners, and by gender with regard to perceptions and preferences connected to prepay products. Let customer demand be the “tail that wags the dog” this time.



For more information about adding questions to future surveys, the *2011 Utility Prepay Working Group* or customized survey and research efforts, please contact Jamie Wimberly at (202) 483-4443 or jwimberly@ecoalign.com.

For more information about EcoAlign, visit our website at www.ecoalign.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.

Methodology

The survey was conducted online in November 2010 among a sample of 1,000+ online adults across the U.S. 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 and 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 e-mailed 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.