

STATE OF INDIANA

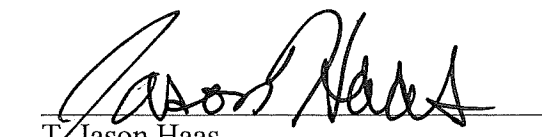
INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF DUKE ENERGY INDIANA,)
LLC REQUESTING THE INDIANA UTILITY)
REGULATORY COMMISSION TO DECLINE ITS)
JURISDICTION OVER, OR OTHERWISE APPROVE)
AN ALTERNATIVE REGULATORY PLAN FOR THE) CAUSE NO. 45193
OFFERING OF A PREPAID ADVANTAGE PILOT)
PROGRAM APPLICABLE TO RESIDENTIAL)
CUSTOMERS PURSUANT TO IND. CODE §§ 8-1-2.5-5)
AND 8-1-2.5-6)

OUCC's PROPOSED ORDER
(Clean Version)

The Indiana Office of the Utility Consumer Counselor hereby respectfully submits its
Proposed Order in the above captioned cause to the Indiana Utility Regulatory Commission.

Respectfully submitted,



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Deputy Consumer Counselor

CERTIFICATE OF SERVICE

The undersigned hereby certified that a copy of the foregoing **OUCC's Proposed Order Clean Version** has been served upon the following parties of record in the captioned proceeding by electronic service on July 1, 2019 to the following:

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STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF DUKE)	
ENERGY INDIANA, LLC REQUESTING)	
THE INDIANA UTILITY REGULATORY)	
COMMISSION TO DECLINE ITS)	
JURISDICTION OVER, OR)	
OTHERWISE APPROVE AN)	
ALTERNATIVE REGULATORY PLAN)	CAUSE NO. 45193
FOR THE OFFERING OF A PREPAID)	
ADVANTAGE PILOT PROGRAM)	
APPLICABLE TO RESIDENTIAL)	
CUSTOMERS PURSUANT TO IND.)	
CODE §§ 8-1-2.5-5 AND 8-1-2.5-6)	

PROPOSED ORDER

Presiding Officers:

David E. Ziegner Commissioner

Lora R. Manion, Administrative Law Judge

On January 31, 2019, Duke Energy Indiana, LLC (“Duke Energy Indiana” or “Petitioner”) filed its Petition with the Indiana Utility Regulatory Commission (“Commission”) seeking Commission declination of jurisdiction or approval of an Alternative Regulatory Plan (“ARP”) for a voluntary Prepaid Advantage pilot program, (“*Prepaid Advantage*” or “*Pilot*”), as requested under applicable Indiana law. On February 1, 2019, Petitioner filed its case-in-chief in this Cause, consisting of the direct testimony and exhibits of Joseph R. Thomas, Director of Enhanced Customer Solutions for Duke Energy Business Services LLC. On April 15, 2019, the Indiana Office of Utility Consumer Counselor (“OUCC”) submitted the testimony of John E. Haselden, Senior Utility Analyst in the OUCC’s Electric Division. The Citizens Action Coalition of Indiana, Inc. (“CAC”) submitted the testimony of Kerwin Olson on April 15, 2019. Duke Energy Indiana filed the rebuttal testimony and exhibits of Mr. Thomas on May 6, 2019.

Pursuant to notice, as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, an evidentiary hearing was held in this Cause on May 21, 2019 at 9:30 a.m., PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner, OUCC, and CAC appeared and participated at the hearing, and the parties’ pre-filed evidence was offered and admitted into evidence without objection.

Based on the applicable law and evidence presented herein, the Commission now finds as follows:

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Duke Energy Indiana is a public utility under Indiana Code § 8-1-2-1, *et seq.*, and is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. In its Petition, Duke Energy Indiana indicated that it has elected to be subject to the provisions of Indiana Code §§ 8-1-2.5-5 and 8-1-2.5-6 (“Alt. Reg. Statute”) for purposes of declination of Commission jurisdiction, over *Prepaid Advantage*, and for authority to waive customer rules, 170 IAC 4-1-13(a)(1)-(11) and (c), 170 IAC 4-1-15, and 170 IAC 4-1-16, for customers that participate in the *Pilot*. Thus, Duke Energy Indiana’s verified petition, testimony, and exhibits submitted constitute Duke Energy Indiana’s proposed ARP for purposes of this proceeding.

2. **Petitioner’s Characteristics.** Duke Energy Indiana is an Indiana limited liability corporation with its principal office in the Town of Plainfield, Hendricks County, Indiana. Duke Energy Indiana is engaged in the business of generating and supplying electric utility service to more than 827,000 customers located in 69 counties in the central, north central, and southern parts of Indiana.

3. **Relief Requested.** Duke Energy Indiana requested declination of jurisdiction or approval of its ARP for the voluntary *Prepaid Advantage* program, and approving Petitioner’s *Prepaid Advantage* pilot program for a period of eighteen (18) months. Petitioner requests a waiver from 170 IAC 4-1-13(a)(1)-(11) and (c), 170 IAC 4-1-15, and 170 IAC 4-1-16, for customers that participate in the *Pilot*.

4. **Petitioner’s Case-in-Chief.** Mr. Thomas presented the Company’s ARP. He described the *Prepaid Advantage* proposed pilot program, explaining that it is a voluntary payment option that offers residential customers the convenience of making payments at any time in any dollar amount to prepay for their electricity usage and participating customers are not required to pay a deposit to enroll. He testified that the *Pilot* is designed to give customers the control and flexibility to make payments to their account before using electricity and the amount a customer pays determines how much electricity the customer uses before they need to add funds to the account. To participate, Mr. Thomas explained, customers must have a smart meter¹ and an email address on file, which will allow customers to monitor their accounts and view how many days of electric usage are remaining.

Mr. Thomas testified that Duke Energy Indiana proposed to offer this *Pilot* because customers want more options and *Prepaid Advantage* is one more option in the existing suite of Duke Energy Indiana payment options.² Mr. Thomas testified that the *Pilot* as proposed will last for eighteen months with a maximum of 4,000 customers. Company personnel will gauge customer interest and make enhancements to a possible permanent offering to all customers.

¹ A smart meter (also called an Advanced Metering Infrastructure (“AMI”) meter) provides two-way communication between Duke Energy Indiana and the customer; it enables automated meter reading, remote connects/disconnects and quicker outage detection.

² Budget Billing, Fixed Bill, Paperless Billing options, Pick Your Due Date, Adjusted Due Date, Payment Agreements, Summary Billing, or automatic payment options.

Mr. Thomas testified that customers who enroll in the *Pilot* program can log into the *Prepaid Advantage* customer portal (via desktop or smartphone) to view their electricity usage and account balance as often as they choose. Additionally, Petitioner will notify customers when there are five, three and one-day(s) worth of electricity usage remaining on the account. Customers have the option to customize low balance notifications to select different thresholds³ and communications channels.⁴

Mr. Thomas explained the *Pilot* will be available to customers in Duke Energy Indiana's service territory who are residential customers, who have Duke Energy Indiana-installed smart meters, and are not enrolled in other billing programs.⁵ In addition, customers designated with critical electric needs⁶ will not be eligible to participate in the *Pilot*. He explained that a smart meter enables customers and Duke Energy Indiana to monitor usage daily, and allows the customer to be disconnected/reconnected remotely.

Mr. Thomas testified that in the summer and winter months an internal moratorium on disconnections is initiated for a limited time when weather is extremely hot or cold. During this *Pilot* period, if a participating customer becomes eligible for the low-income heating assistance program ("LIHEAP"), Duke Energy Indiana would remove the customer from the *Prepaid Advantage* tariff and the customer will revert to a post pay account for the winter moratorium period to ensure continuity of service. Disconnections would not occur for customers who qualify for the statutory winter disconnect moratorium.

Mr. Thomas testified the Company plans to market the *Pilot* to new and existing eligible customers through direct mail, electronic mail and the Duke Energy Customer Care Center.

Mr. Thomas testified that there is no monthly fee to participate in the *Pilot*. He discussed the payment requirements and disconnection process for the *Pilot*. To enroll in the program, eligible residential customers must make an initial payment of at least \$40. Mr. Thomas testified that if a customer exits *Prepaid Advantage* and return to a post-pay account, a deposit may be required. Customers who have an outstanding balance up to \$500 will be allowed to participate in the *Pilot* and 25 percent of a given payment will be apportioned to the outstanding balance with 75 percent to fund on-going usage until the outstanding balance is paid in full. Mr. Thomas explained that based on the amount of electricity used by customers, the prepaid balance draws down the account balance from the amount paid daily based on a daily meter reading. At the end of the monthly billing cycle, Petitioner will confirm that the energy charges comply with the existing rate by comparing the amount charged to the amount of record in the Duke Energy customer billing system. Mr. Thomas testified that if there is a difference, the Company would adjust the customer's *Prepaid Advantage* account to ensure that the customer had paid the correct tariffed amount. Customers will be able to view any adjustment to their bill via the customer portal.

Mr. Thomas testified that if a customer pays by check, cash or bank transfer, the customer will incur no additional charges. Customers who choose to pay by credit card can make one

³ Number of days remaining.

⁴ Email, text, and/or phone call.

⁵ See, fn 2.

⁶ Medical Alert, Special Needs, Medical Certificate, Essential Customers, and Life Saving Device customers.

payment per month and not incur additional fees by paying through the Prepaid Advantage Customer portal. Subsequent credit card payments beyond one a month will incur a \$1.50 pass through charge.

Mr. Thomas explained that when a customer has a zero balance on their account, the Company will communicate to the customer via the customer's chosen method. Customers can make a payment or the customer can set up automatic payments. Mr. Thomas stated that if the customer has set up an automatic payment for any time the account is drawn down, then the Company will withdraw the preauthorized amount to fund the account. If the customer has not set up an automatic payment option and does not make a payment, then the customer will be remotely disconnected the following business day after registering a zero-account balance. Mr. Thomas testified that participating customers will have at least until the next business day after the balance reaches zero, before they are disconnected. Once a customer has added additional funds to his/her account, registering a positive balance, a reconnect order will be initiated and service will be remotely reconnected.⁷ Customers enrolled in the *Pilot* will not be charged a reconnection fee.

Mr. Thomas described focus groups that were conducted on November 7, 2018 by the Julian Group to gauge interest and collect customer insights into whether additional payment options were desired. The sessions were observed by Duke Energy personnel and members of the OUCC and a summary was provided as Petitioner's Exhibit 1-B.

Mr. Thomas explained that this proposal is being filed under the Alternative Utility Regulation provisions of the Alt. Reg. Statute to provide certain, limited flexibility to Petitioner in operating this program. The *Pilot* as designed requires the waiver of certain Commission rules relating to monthly billing, creditworthiness of customers and those regarding disconnecting and reconnecting to service. Mr. Thomas testified that Petitioner is requesting a waiver from the following Commission's rules:

- 1) 170 IAC 4-1-13(a)(1)-(11) and (c): (billing) - This rule requires a utility to render periodic bills for electric services and prescribes information to be included on the monthly bill. Because the *Pilot* offers daily information and customers pay in advance of usage, a monthly bill is no longer needed;
- 2) 170 IAC 4-1-15: (creditworthiness of customers, deposits, refunds) – This rule gives latitude to utilities as to when to charge a deposit, and in *Prepaid Advantage*, there are no deposit requirements for enrolled customers;
- 3) 170 IAC 4-1-16: (disconnection of service; prohibited disconnections; reconnection) – The rule establishes timelines and time periods regarding connections and disconnections and because customers have prepaid and can monitor usage, customers can be disconnected the day after the balance reaches \$0.00 and reconnected when they have a positive balance.

Mr. Thomas explained that Duke Energy Indiana is requesting the Commission to approve an ARP or otherwise decline its jurisdiction over this voluntary *Pilot* offering to the extent required for the Company to offer a *Prepaid Advantage* pilot program to its residential customers. Mr. Thomas testified that public interest is served by approval of this option because there are

⁷ The average reconnection time observed in the Duke Energy South Carolina pilot was 13 minutes.

technological and competitive forces that render Commission jurisdiction unnecessary, and this option provides benefits to the Company, its customers, promotes energy utility efficiency, and allows Petitioner to effectively compete with providers of functionally similar services.

5. OUCC and Intervenor Testimony

Mr. Haselden testified on behalf of the OUCC. Mr. Haselden outlined the criteria the Commission must consider under Ind. Code § 8-1-2.5-5 when determining whether approval of an ARP is in the public interest. Although Mr. Haselden notes that Mr. Thomas briefly addresses each criteria, Mr. Haselden addressed the absence of evidence provided in the case-in-chief for each criteria:

1. Ind. Code § 8-1-2.5-5 (b)(1): “Whether technological or operating conditions, competitive forces, or the extent of regulation by other state or federal regulatory bodies render the exercise, in whole or in part, of jurisdiction by the commission unnecessary or wasteful.”

Mr. Haselden noted that while Mr. Thomas discussed payment choices and information available to participants through technology, these services and activities are now available to all Duke Energy Indiana customers with an AMI meter and there is nothing unique to the program. Further, he noted Mr. Thomas provided no evidence of how the Commission’s jurisdiction is wasteful other than stating it is necessary to operate the program.

2. Ind. Code § 8-1-2.5-5 (b)(2): “Whether the commission’s declining to exercise, in whole or in part, its jurisdiction will be beneficial for the energy utility, the energy utility’s customers, or the state.”

Mr. Haselden observed that Mr. Thomas addressed this criteria by stating, “Research and experience from other Duke Energy jurisdictions and other utilities’ prepaid bill options demonstrate that customers place value and derive increased satisfaction from the availability of a prepaid offering.” However, Mr. Haselden stated that Mr. Thomas supplied no evidence or references to support this statement. Mr. Haselden also stated that he did not observe evidence of support at the focus group sessions he attended. Further, Mr. Haselden pointed out that Mr. Thomas did not support the claim that increased customer satisfaction allows Duke Energy Indiana to maintain its competitive position against alternative providers of utility related services.

3. Ind. Code § 8-1-2.5-5 (b)(3) “Whether the commission’s declining to exercise, in whole or in part, its jurisdiction will promote energy utility efficiency.”

Mr. Haselden stated that Mr. Thomas’ opinion that utility efficiency will be enhanced primarily in back office operations due to assumed lower customer call volume and administration of customer deposits are simple assertions with no supporting evidence. Mr. Haselden also observed that glaringly omitted from Mr. Thomas’ discussion is the estimated \$2.2 million estimated cost (acknowledged by Duke Energy Indiana to be \$5.2 million at the evidentiary hearing) to implement the pilot and ongoing costs associated with administration and operation of the Program were not provided. Mr. Haselden summarized that Duke Energy Indiana presented no evidence indicating benefits of the program outweigh costs.

4. Ind. Code § 8-1-2.5-5 (b)(4) “Whether the exercise of commission jurisdiction inhibits an energy utility from competing with other providers of functionally similar energy services or equipment.”

Mr. Haselden stated that in Mr. Thomas' claim that Commission jurisdiction could "inhibit [Duke Energy Indiana] from competing with payment options from other providers of energy," Mr. Thomas did not identify these other providers, how they are functionally similar or how Duke Energy Indiana is competing with these companies, given Duke Energy Indiana is a regulated monopoly. Mr. Haselden expressed that, as with the other criteria, Duke Energy Indiana did not offer any evidence to support their claims.

In summary, Mr. Haselden stated Duke Energy Indiana did not meet its burden of proof by providing sufficient evidence for any of the criteria the Commission must consider, and that the ARP's public interest requirements were not met.

Mr. Olson provided testimony on behalf of the CAC and expressed the following concerns with the *Pilot*: Prepaid service is concentrated among lower-income households, necessitating more robust consumer protections for participants; prepaid electric service rates and fees are typically equal to or higher than rates for customers on traditional billing and payment; participants typically struggle to make numerous payments monthly to stay connected to basic service, often incurring multiple transaction charges; prepaid participants experience higher rates of disconnections than customers on regular service; and unwanted disconnection from electric utility services poses a heightened risk to health, safety, and household security.

Mr. Olson discussed the proposed notification protocols and that it was possible participants will not receive electronic notifications of credit balances and other important account information, should participants lose access to cell phone service or internet access. He also testified that the California Public Utilities Commission rejected San Diego Gas and Electric Company's prepaid service program due in large part to a notification flaw.

Next, Mr. Olson testified regarding various prepaid service programs in the United States, Great Britain, and New Zealand and that participants in a prepaid service are typically low or moderate-income customers, many of whom are at risk of disconnection for non-payment. He explained that prepaid programs in the U.S. tend to be concentrated in service territories not subject to full regulatory jurisdiction of state utility commissions and that investor owned utilities are now beginning to examine and implement these programs, such as Arizona Public Service ("APS") in Arizona, Westar Energy ("Westar") in Kansas, and DTE Energy in Michigan. He discussed each of these programs.

Mr. Olson also discussed the Duke Energy Carolina prepaid pilot and concluded that participation was concentrated among low-and moderate-income households for prepaid programs, and that elevated rates of service disconnection, which create hardships for those households to maintain essential and affordable utility service.

Next, Mr. Olson discussed the National Association of State Utility Consumer Advocates ("NASUCA") Resolution 2011-3 urging states to require consumer protections as a condition for approval of prepaid residential gas and electric service and encouraged the Commission to heed this advice, deny the *Pilot* as proposed and order the Company to make the following modifications to its program to ensure consumer protections:

- (1) All regulatory consumer protections and programs regarding disconnection limitations or prohibitions, advance notice of disconnection, premise visits, availability of payment plans or deferred payment agreements, availability of bill payment assistance or arrearage forgiveness, and billing disputes are maintained or enhanced;
- (2) In the event that the billing credits of a customer receiving prepaid residential electric or natural gas service are exhausted, the customer shall be given a reasonable disconnection grace period, after which the customer shall revert to traditional, credit-based service, subject to all rules and customer protections applicable to such service;
- (3) Prepayment households include no one who is:
 - (a) income-eligible to participate in the federal LIHEAP; or
 - (b) protected under state law from disconnection for health or safety reasons;
- (4) Prepaid service is only marketed as a purely voluntary service and is not marketed to customers facing imminent disconnection for non-payment;
- (5) Utilities offering prepaid service also offer effective bill payment assistance and arrearage management programs for all customers, including customers with arrearages who choose prepayment service;
- (6) Rates for prepaid service are lower than rates for comparable credit-based service, reflecting the lower costs associated with reduced cash working capital requirements, uncollectible amounts and shareholder risk affecting a utility's return on equity;
- (7) Utilities demonstrate the cost effectiveness of any proposed prepaid service offerings through a cost versus benefit analysis and reveal how costs will be allocated among various classes of customers;
- (8) Prepayment customers are not subjected to any security deposits or to additional fees of any kind, including but not limited to initiation fees or extra fees assessed at any time customers purchase credits;
- (9) Utilities ensure there are readily available means for prepayment customers to purchase service credits on a 24-hour a day, seven-day a week basis;
- (10) Prepayment customers can return to credit-based service at no higher cost than the cost at which new customers can obtain service;
- (11) Payments to prepaid accounts are promptly posted to a customer's account so as to prevent disconnection or other action adverse to the customer under circumstances in which the customer has in fact made payment; and

- (12) Adequate financial mechanisms are developed and in place within the state to guarantee that funds prepaid by customers are returned to the customers who prepaid them if and when a company becomes insolvent, goes out of business or is otherwise unable to provide the services for which the funds were prepaid

Mr. Olson testified that should the Commission approve this program, the CAC would suggest tracking and reporting metrics monthly to include: number of customers; number of customers with arrears of 30 days or more; dollar value of arrears; number of disconnection notices sent; number of service disconnections for non-payment; number of service reconnections after disconnection for non-payment; number of new payment agreements entered into; number of payment agreements successfully completed; number of failed payment agreements; the length of each disconnection, and the customer's zip code. Additionally, Mr. Olson proposed an annual report that provides the number of customers who enroll in the *Prepaid Advantage* program who came to the program as a new utility customer or an existing customer. If an existing customer enrolls, CAC proposes that Duke Energy Indiana report whether that customer has an outstanding arrearage or not and details of the arrearage. Mr. Olson also proposed the Petitioner report whether participating customers had a pending disconnection notice or had been previously disconnected. Finally, he proposed that the annual report provide information by customer, the number of times per month a customer pays by phone, pays online, pays at a kiosk, pays with a third party, or other accepted payment methods.

Mr. Olson testified that prior to the implementation of the *Pilot*, Duke Energy Indiana should present a plan for evaluation that includes the cost effectiveness of *Prepaid Advantage* and consumer protections for participants, including an understanding of what happens when billing credits are exhausted.

6. Rebuttal Testimony. Mr. Thomas provided rebuttal testimony responding to the testimonies of the OUCC and CAC.

Mr. Thomas first addressed Mr. Haselden's contention that Duke Energy Indiana failed to satisfy the criteria set out in IC § 8-1-2.5-5(b). He testified that the Alt. Reg. statute does not require the utility requesting approval to bear the burden of proving all four of these items, but that "the commission shall consider the following:"⁸ (*emphasis added*). Mr. Thomas testified that the petition and his direct testimony addressed these four items for the Commission's consideration and the Commission must determine whether Petitioner's Alt. Reg. plan is in the public interest.

Mr. Thomas first addressed Mr. Haselden's statement that the *Pilot* is not in the public interest. He explained that the proposed voluntary *Pilot* program will allow customers to decide whether the program is in their best interest and customers may come and go from the *Pilot* without penalty. To support his contention that the *Pilot* is in the public interest, Mr. Thomas asserted that programs sponsored by other utilities have demonstrated improved customer satisfaction, elimination of deposit payments, a reduction in uncollected charges, a reduction in reconnection fees, reduction in late payment charges, and a significant reduction in customer usage for participating customers.

⁸ See, IC § 8-1-2.5-5(b).

Mr. Thomas explained how the *Pilot* meets the requirements of Ind. Code § 8-1-2.5-5(b)(1). He testified that technological conditions have changed with the advent of smart meters, rendering certain Commission rules regarding monthly billing, creditworthiness and disconnection and connection for *Pilot* participants unnecessary. Because the nature of the *Pilot* does not align well with the requirements of the cited rules, the Company is requesting a waiver of 170 IAC 4-1-13(a)(1)-(11) and (c), 170 IAC 4-1-15, and 170 IAC 4-1-16. He testified that the *Pilot* utilizes several technological advances to respect the spirit of the rules. For example, rather than receiving a monthly printed bill, customers will be able to log onto the customer portal any time and view usage and charges. Real-time payments result in faster times to reconnect service and electronic communication channels provide proactive and timely communication of account balances or pending disconnections. Mr. Thomas testified that *Pilot* participants will not be charged deposits. In fact, the Company will not extend any credit to *Pilot* participants, thus rendering the need for a credit check or deposit unnecessary. Because the *Pilot* provides for disconnection when an account balance is zero, rather than accumulation of unpaid amounts, non-participant customers are not negatively impacted by the occurrence of bad debt.

Mr. Thomas disagreed with Mr. Haselden's assertion that the Company did not demonstrate the benefits of the program in accordance with Ind. Code § 8-1-2.5-5(b)(2). He explained that the *Pilot* will be beneficial to Duke Energy Indiana, its customers and the state of Indiana. The benefits will primarily derive from offering a new payment option with two key benefits: the elimination of deposits and the extension of credit, as well as, the expected average 8.5% reduction in usage by participants. All Indiana residents will also receive an environmental benefit due to the expected reduction in usage by *Pilot* participants.

Mr. Thomas stated that customers who choose to participate in the *Pilot* should benefit because new customers who would otherwise fail a creditworthiness check, will not need to pay a deposit to start service and existing customers who have a deposit will be able to apply the deposit to pay for electricity charges. Participants with a history of regular disconnections will not have to pay a \$25 connection fee to reconnect service. Mr. Thomas testified that participants in other utilities prepay programs have experienced higher levels of customer satisfaction, including 82% of Arizona Public Service's participants had a positive rating of their prepay program and, on average, customers in the Duke Energy South Carolina pilot experienced an approximate 8.5% reduction in electricity usage (based on internal findings without a formal 3rd party Evaluation, Measurement, and Verification study and an acknowledgement that the results of the South Carolina project were not conclusive). He asserted that a similar reduction in Duke Energy Indiana would equal approximately \$130 in savings per year for the average residential customer.

Mr. Thomas also testified that non-participants in the *Pilot* should benefit because the expected reduction in usage should slow peak electricity demand growth, resulting in lower investments in generating and transmission capacity necessitating rate increases. Other benefits for non-participants is the reduction in Petitioner's operating expenses, particularly the reduction in uncollectable charges that will result in fewer costs to be supported by the rate base and shorter call center wait times due to reduction in inbound calls.

Mr. Thomas testified that the *Pilot* addresses how a declination of jurisdiction will promote energy utility efficiency (Ind. Code § 8-1-2.5-5(b)(3)). He testified that Duke Energy Indiana hopes to learn about efficiencies that can accrue from a prepaid program and that based on experience in South Carolina and research, he believes many efficiencies will be achieved from the *Pilot*, including a reduction in uncollectable charges, collections expenses, administrative fees, and interest payments for deposits.

Mr. Thomas also addressed the OUCC's testimony regarding the costs to implement the *Pilot*. He stated that Petitioner is not requesting recovery of these costs in this proceeding and thus these concerns are not relevant to this proceeding, but stated the costs to implement the program is estimated at \$1 million per year through 2022 due to third-party vendor software costs.

As to the last factor in Ind. Code § 8-1-2.5-5(b), Mr. Thomas explained that Petitioner may be inhibited from competing with providers of functionally similar energy services such as unauthorized third-party billing agents if the Commission does not decline jurisdiction for the rules stated above.

Mr. Thomas discussed the focus groups of Duke Energy Indiana customer hosted in Indianapolis by the Company and facilitated by the Julian Group. In addition to other Duke Energy employees, Mr. Thomas was in attendance along with two members of the OUCC, who attended portions of the focus groups. He testified that he would characterize the focus groups as viewing a prepay option positively, as long as it is voluntary. Mr. Thomas emphasized that contrary to Mr. Haselden's assessment that the focus group participants found the program lacked benefits, participants were asked to list aspects of the program they liked and most participants cited three or more aspects of the program which provided benefit. The Julian Group concluded that *Prepaid Advantage* was a viable billing and payment option by the focus group participants, with a majority agreeing the program "might be" or "would definitely be" right for them.⁹ Mr. Thomas stated that these results align with those in South Carolina.

Next, Mr. Thomas addressed Mr. Olson's objections to the *Prepaid Advantage* pilot program, specifically Mr. Olson's concerns that participation will be concentrated among low-income households. He responded that the Company does not intend to market the program to any specific population. To the extent low-income households choose to participate those households are likely to derive financial benefit from the program because it eliminates the need for a deposit payment to begin service, elimination of late payment charges, elimination of reconnection fees. The *Pilot* also provides for existing customers to use their previously paid deposit to pay for electricity charges, one free credit card payment per month, and the potential reduction in electricity usage and corresponding charges.

Mr. Thomas responded to Mr. Olson's concern that prepaid programs typically have higher rates and fees. He stated that this wasn't true for the *Pilot* and that customers will not incur additional costs to participate in the program. *Pilot* participants can make one fee-free credit card transaction per month, whereas customers who do not participate in the *Pilot* incur a transaction fee for all credit card payments. Additionally, participating customers will not incur

⁹ See, Petitioner's Exhibit 1-B.

late payment charges and reconnection charges. Mr. Thomas explained that under no circumstances will customers be charged higher rates.

Mr. Thomas addressed Mr. Olson's concern that customers enrolled in prepaid programs typically struggle to make numerous payments a month. He explained that experience in South Carolina suggests that customers make more frequent payments in smaller amounts and that the average payment amount in the Company's South Carolina prepay program was \$40. The *Indiana Pilot* is designed so that all households have the flexibility to pay whatever and whenever a customer chooses, without incurring higher fees. Mr. Thomas discussed that the Arizona Public Service prepay program found that payment flexibility allowed fewer low-income households to forego other critical purchases such as food, to avoid disconnection.

Mr. Thomas next responded to Mr. Olson's concern that unwanted disconnections pose heightened risks of health, safety and household security by stating that he doesn't disagree with Mr. Olson's position, but he pointed out that unwanted disconnections are not limited to customers who will participate in the *Pilot*. Mr. Olson's focus on avoiding disconnection misses one of the advantages of the *Pilot*, which is to restore power after paying just a small amount. Mr. Thomas explained that post-pay residential customers must pay an average past due balance and late payment charges of \$161 and a reconnect fee of \$25, while *Pilot* participants will incur no late fees or reconnection fees. Company experience in South Carolina shows that prepay participants average a disconnection length of only 5 hours 34 minutes and only 16 minutes from payment to reconnection.

Mr. Thomas next responded to Mr. Olson's concerns regarding electronic notifications should participants lose access to cell phone service or internet access. Mr. Thomas testified that all participants are required to have email access or a phone when they enroll, so that participants can interact directly with their account on the *Prepaid Advantage* portal and to receive electronic notifications. Disconnection notifications will also be sent using automated voice calls, so participants without a smartphone can receive notifications. Should a customer temporarily lose access to the internet or phone service, participants still are able to contact the Company's call center for account information, and to make cash payments at the Company's payment stations.

Mr. Thomas addressed Mr. Olson's references to prepaid program in other states and countries. He explained that the *Pilot* was designed to address the most common issues and that its design addresses most of Mr. Olson's concerns. Mr. Thomas addressed Mr. Olson's comment, that many prepaid programs are in service territories served by utilities not subject to full regulatory jurisdiction, by explaining that although Duke Energy Indiana is requesting a declination of jurisdiction, the Company and the program will remain under Commission jurisdiction.

Mr. Thomas testified to CAC's recommendation regarding key design features that would alleviate the CAC's concern and provided other improvement suggestions based on NASUCA Resolution 2011-3. Mr. Thomas explained that Mr. Olson's idea, when a customer's account credits are exhausted the customer be given a seven-day disconnection grace period and returned to credit-based, normal service at no higher cost than other post-pay customers, cannot be accommodated in a prepay option. He testified that Duke Energy Indiana does not object to many

of Mr. Olson's recommendations. Specifically, customers enrolled in the *Pilot* will be allowed to return to credit-based, normal service at no higher cost than the cost at which new customers can obtain service, but if they return to post-pay status they may be charged the same deposit amount as any other customer based upon creditworthiness. At the hearing, Mr. Thomas agreed to discuss with the CAC and OUCC any deposit issues surrounding customers who are removed from the *Pilot* because they are participating in LIHEAP.

Mr. Thomas testified that the *Pilot* program will only be marketed as a voluntary service and that Duke Energy Indiana will ensure that there are readily available means for *Pilot* program customers to purchase service credits on a 24-hours a day, seven-days a week basis for electronic payment methods. He stated that customers who are protected under state law from disconnection for health or safety reasons will not be eligible to participate in the *Pilot*. To assist customers who have an arrearage at the time they enroll in the *Pilot*, the customers will have bill payment assistance and arrearage management in the form of a deferred payment arrangement. In other words, any past due balance at the time of *Pilot* enrollment will be paid in installments as 25% of any payments made to the customer's account balance. *Pilot* customers are not subjected to any security deposits or to additional fees of any kind, including but not limited to initiation fees or extra fees assessed at any time customers purchase credits and payments to *Pilot* accounts are promptly posted to a customer's account to prevent disconnection or other action adverse to the customer when the customer has in fact made payment.

Mr. Thomas said that the Company was not in favor of any proposal that results in increasing subsidization of customers who are unable to pay as the Company does not want to increase its uncollectible charges and spread those costs among the customer base at large. He further stated that any requirements that Duke Energy Indiana continue to follow Commission rules on disconnection regarding the traditional means of providing a disconnection notice would have the effect of encouraging customers to forego keeping their account current. Additionally, the Company is not willing to charge *Pilot* customers a lower rate for electric service as participants will realize financial benefits through lower transaction fees, greater payment flexibility, and since smart meter costs will be borne by customers, any lower operating costs generated by the *Pilot* should be shared across all customers. As to Mr. Olson's contention that the *Pilot* should not be offered to customers facing imminent disconnection for non-payment, Mr. Thomas countered that this is an additional option available for payment assistance.

Mr. Thomas also stated that Company did not want to treat customers who participate in the *Pilot* differently in regards to weather disconnect moratoriums than customers in traditional credit-based services due to the state winter moratorium on disconnection. However, the Company has agreed that customers subject to the moratorium may not participate in prepay for those months of the year. On cross-examination, Mr. Thomas agreed to work with the CAC and OUCC to discuss the warm weather temperature for the disconnection moratorium. In his prefiled testimony, Mr. Thomas disagreed that participation in the *Pilot* for one year without a disconnect should demonstrate creditworthiness for a traditional credit-based service. However, during cross-examination, he agreed to work with the CAC and OUCC to develop a standard for participants to be deemed creditworthy. Finally, Mr. Thomas stated that it was unnecessary to protect customers' prepaid funds because the participation numbers and prepaid account balances are small for a Company the size of Duke Energy Indiana.

Mr. Thomas responded to Mr. Olson's proposed tracking and reporting metrics. He explained that similar to the South Carolina Learnings Report, the Company wants to measure customer behavior and satisfaction, track participant data and behaviors, and proposed to report the following information: number and length of disconnects; number of payments per month and average payment amount; customer energy usage patterns; preferred modes of payment; number of enrollments; number of un-enrollments and reason for unenrollment; deferred balances; and notification volumes and preferred channels. During the course of cross-examination, Mr. Thomas committed to work with the OUCC and CAC on reporting metrics.

Mr. Thomas agreed with the CAC's recommendation that the *Prepaid Advantage* program be proven to be cost effective before being commercialized and rolled out to all Duke Energy Indiana customers, and that the purpose of the *Pilot* is to determine whether the program will be cost effective.

Responding to the CAC's concerns about customer protections for those who participate in the *Pilot*, Mr. Thomas testified that participants will have protections equal to or exceeding those of traditionally billed customers. The *Pilot* is a voluntary program and customers may revert to traditional billing with no penalty for having participated in the *Pilot*. Multiple real-time electronic communications will be provided to avoid disconnection and for those customers struggling to pay a large past due balance, the *Pilot* provides a better solution than traditional payment arrangements. Lastly, the *Pilot* eliminates deposits to customers either starting service or struggling to pay their monthly bill.

7. Commission Discussion and Findings.

In this proceeding, Petitioner seeks approval of its ARP to offer no more than 4,000 customers an opportunity to participate, for a maximum of eighteen months, in a prepaid program. Petitioner also requests that the Commission decline to exercise its jurisdiction as to certain rules regarding billing, disconnect of service and creditworthiness.

Duke Energy Indiana is an "Energy Utility" under the Alt. Reg. Statute, Indiana Code ch. 8-1-2.5. Under Section 6(a)(1), the Commission may adopt alternative regulatory practices, procedures, and mechanisms and establish just and reasonable rates and charges that (a) are in the public interest as determined by consideration of the factors listed in Indiana Code § 8-1-2.5-5; and (b) enhance or maintain the value of a utility's energy services or properties. ARPs authorized by the statute include practices, procedures, and mechanisms focused on the price, quality, reliability, and efficiency of the utility service. Pursuant to Indiana Code § 8-1-2.5-5(b), in determining whether the public interest will be served, the Commission must consider:

- (i.) Whether technological or operating conditions, competitive forces, or the extent of regulation by other state or federal regulatory bodies render traditional regulation unnecessary or wasteful;
- (ii.) Whether the Commission's approval of an alternative regulatory plan will be beneficial for the utility, its customers, or the state;

- (iii.) Whether the Commission's declining to exercise, in whole or in part, its jurisdiction will promote energy utility efficiency; and
- (iv.) Whether the exercise of Commission jurisdiction inhibits a utility from competing with other providers of functionally similar services or equipment.

In considering the first factor, we find Duke Energy Indiana did not show the rules were unnecessary or wasteful. Addressing bills under 170 IAC 4-1-13, Duke Energy Indiana requests waiver of the rule because customers will be able to “log onto the customer portal any time and view usage and charges,” instead of receiving a monthly bill. However, this information is provided to all customers with a smart meter, not just customers on the *Prepaid Advantage* program. Simply because customers can receive this information through an electronic customer portal does not relieve Duke Energy Indiana of the responsibility to ensure that customers receive a statement containing the information listed in the rule. For creditworthiness and deposits under 170 IAC 4-1-15, Duke Energy Indiana acknowledges that the rule gives it latitude to charge a deposit. Even if the rule was not waived, Duke Energy Indiana would still have the ability to not charge a deposit to prepaid customers. Thus Duke Energy Indiana has not shown why the rule is unnecessary or wasteful for this program. For disconnections and reconnections under 170 IAC 4-1-16, Duke Energy Indiana states how customers will be informed of pending disconnections, but, as noted by Mr. Haselden, does not show how the rule is unnecessary or wasteful other than that waiver is needed to meet the conditions of the prepaid program. For all of the rules, Duke Energy Indiana does not show that waiver of the rules is needed because of competitive forces or regulation by other state or federal regulatory bodies. For these reasons, we find that Duke Energy Indiana has not shown that the rules are unnecessary or wasteful.

Regarding the second factor, this Commission finds that Duke Energy Indiana has not submitted sufficient testimony supporting the benefits for the Company, its customers or the state of Indiana. While Mr. Thomas suggests several different benefits, citing Duke’s experience in South Carolina and programs by other utilities, no evidence is provided to support these benefits other than the assertions by Mr. Thomas. In addition, Mr. Thomas acknowledged that the total costs of the program would be \$5.2 million and that Duke Energy Indiana would seek to recover these costs, to the extent that the costs fall within the test period in its next rate case. Recovery of these costs would impose a significant burden on all of its consumers and the state. The Commission finds that it has considered this second factor and that approval of the Company’s proposed program will be not beneficial to the utility, its customers and the state.

The third factor we must consider is whether our limited declination of jurisdiction will promote energy utility efficiency. As with the other factors, Mr. Thomas makes assertions of energy utility efficiency that are not supported by the evidence. Mr. Thomas references Duke’s experience in South Carolina and research from other jurisdictions as support for the purported efficiencies, but provides no evidence of either to support his claims. Without any support for his statements, the Commission cannot find that this program will promote energy utility efficiency.

Finally, the fourth factor we must consider is whether exercise of Commission jurisdiction would inhibit Duke Energy Indiana from competing with other providers of functionally similar energy services or equipment. Again, Mr. Thomas makes unsubstantiated assertions in an attempt to support this argument. Mr. Thomas initially asserts that customers have come to expect some

form of prepaid offering, then makes a confusing reference to “unauthorized third-party billing agents,” before finally claiming that Duke Energy Indiana is in competition with other utilities in terms of customer satisfaction scores. There is no evidence provided to support any of these statements. Duke Energy Indiana acknowledges that it is a monopoly energy supplier with a dedicated service territory. Based on this fact, the Commission finds that Duke Energy Indiana is not in competition with other providers of functionally similar energy services or equipment based on a prepaid service offering.

The Commission must consider certain factors in determining that the public interest will be served through the declination of jurisdiction. Having reviewed the record in this Cause, the Commission determines that Duke Energy Indiana has not provided sufficient evidence on these factors, and the Commission cannot find that the public interest will be served through the declination of jurisdiction and the ARP. Because the public interest will not be served through the declination of jurisdiction, the Commission need not examine the specific details of the *Prepaid Advantage* program. Therefore, the Commission will not decline jurisdiction over its rules and does not authorize Duke Energy Indiana to implement the *Prepaid Advantage* pilot program.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Petitioner’s Alternative Regulatory Plan as filed is hereby denied.
2. Petitioner’s request for a declination of jurisdiction and a waiver to comply with 170 IAC 4-1-13(a)(1)-(11) and (c), 170 IAC 4-1-15, and 170 IAC 4-1-16 is hereby denied.
3. This Order shall be effective on and after the date of its approval.

HUSTON, FREEMAN, KREVDA, OBER, AND ZIEGNER CONCUR:

APPROVED:

**I hereby certify that the above is a true
And correct copy of the Order as approved.**

Mary M. Becerra
Secretary to the Commission