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MERCATOR
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PAYGO UTILITIES

*A NEW WAY TO PAY THAT BENEFITS
CONSUMERS, RETAILERS, AND UTILITIES*

A Mercator Advisory Group Research Brief Prepared for InComm

Contents

PayGo Utilities3

The Market for This Service4

Product Overview4

Real Time Pre-Pay, a Technology for Constant Monitoring of Consumption 4

 Convenient Payment 6

Case Study: Southern Company7



Using an innovative data algorithm, utility business rules, and a retail interface, PayGo Utilities is providing consumers with real-time, convenient options to pay for and manage their consumption of electricity, water, and gas, including using cash payment in the checkout lane at an expanding number of grocery stores, pharmacies, and other retail locations.

PayGo Utilities

PayGo Utilities (PayGo) is a company providing cloud-based, software-as-a-service (SaaS) solutions that offers prepaid payment services for utility customers in the United States. The firm markets its services as “a flexible billing and payment solution for any utility company that wants to empower their customers to proactively manage and pay for their consumption.” PayGo generally integrates its software with the local utility’s core operating systems. The company’s software can be also installed remotely on the utility’s household meters, which collect household utilization data. This data is used to estimate and alert customers to the dollar amount and days remaining until additional funds need to be added to continue full service. Utility companies retain PayGo’s services to increase customer satisfaction, promote utility conservation, and reduce operations and maintenance (O&M) expenses related to missed or late payments. The firm’s innovative technology supports billing services for electric, gas, and water services.

PayGo’s patent-pending mobile application *Real Time Pre-Pay*® installed on the utility meter continually monitors a customer’s household consumption and then sends the customer an alert indicating the estimated available utilities service and days of full service remaining based on the dollar amount in the customer’s prepaid account. The system works exactly like prepaid mobile solutions whereby customers prepay for minutes or gigabytes of cellular services. Besides enabling end-user utilities customers to pay online or by phone, the company provides the convenient option of payment by cash in retail locations via another patent-pending mobile capability called *CheckOut by PayGo*®, a method that enables customers to pay their bills or add money to their account at a network of retail locations.

PayGo was founded by Ron Sewell in 2006 to help customers better manage their utilities bills and consumption. Early in his career with engineering groups and utilities, Sewell identified an opportunity that enabled him to found Utiliread Software, which he later sold before creating the PayGo Utilities solution. His 20 years of industry expertise enabled him to create innovative services such as *Real Time Pre-Pay* and *CheckOut by PayGo* which improve bill payment rates. Since its inception, the firm has had a core group of employees committed to the mission of growth for the company. Outside of its internal owners and employees, PayGo has received capital from one main investor, TTV Capital, a fintech market investment firm.

The Market for This Service

Traditionally, people have paid for their household usage of utilities after consumption. Prepaid utilities are becoming more common in the market, where 30% of smartphones are prepaid, and the market for prepaid cards is growing dramatically.

As with a prepaid mobile phone account, PayGo customers can eliminate upfront deposits and late fees and pay the utility when they have money available, not on a specific date.

As in telecom and other industries, consumers have sought more control over their utility expenses. Consumers' desire for more control of their household bills led to the development and increasing popularity of prepaying for utilities, most often electricity. As with a prepaid mobile phone account, PayGo customers can eliminate upfront deposits and late fees and pay the utility when they have money available, not on a specific date. Millennials are a key demographic for prepaid services. Prepaid utilities services enable budget-conscious households to pay when it is convenient for energy power or other utilities they depend on. Prepaying for utilities is like filling a car with gas before the tank is completely empty.

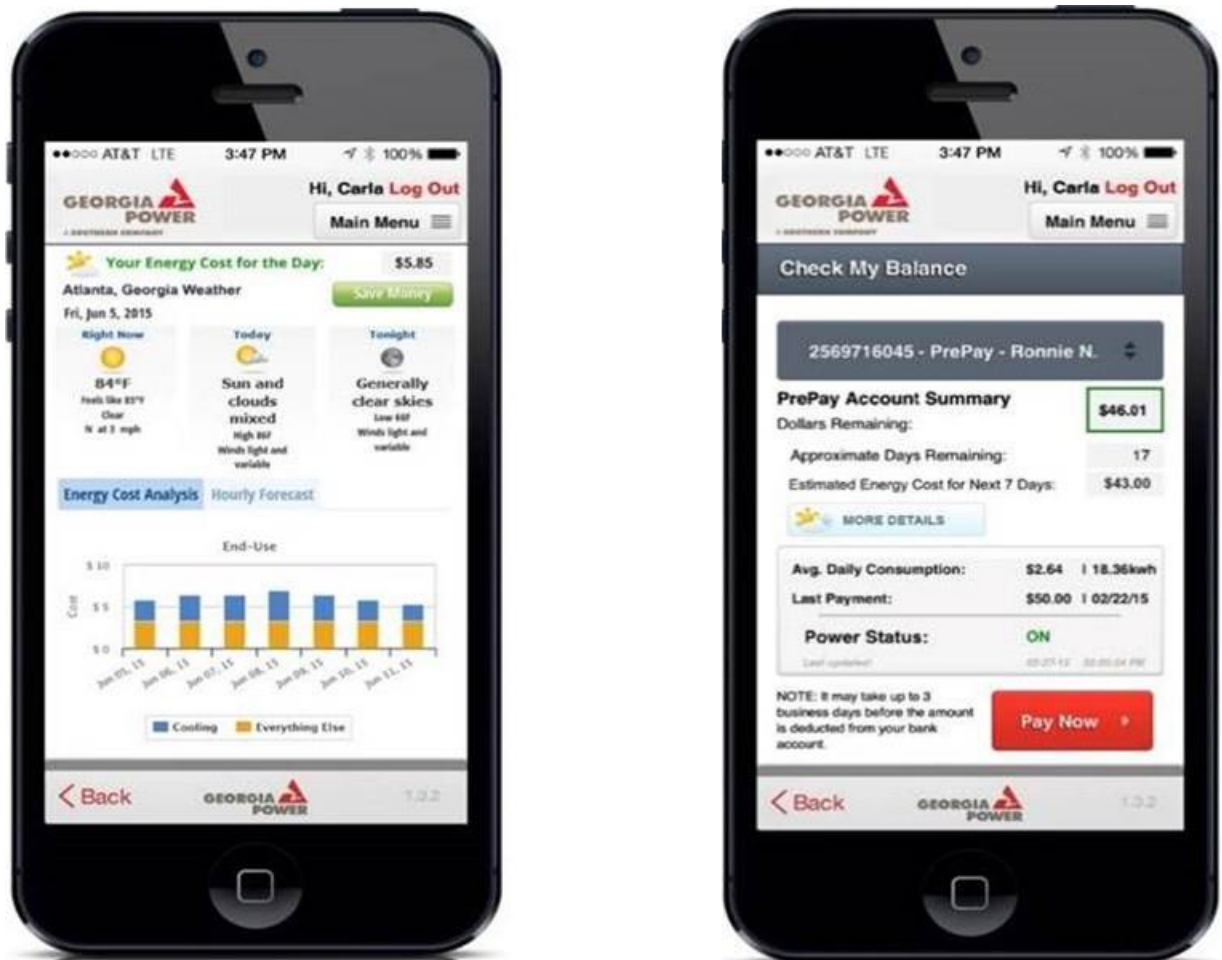
Utilities companies are embracing the idea of prepayment services because such services ensure payment by customers, thus reducing the risk of missed or late payments as well as reducing the risk for customers by preventing shutoff of service for nonpayment. Utilities such as Southern Company, Consumers Energy, NV Energy, and Exelon are in various stages of deployment of the PayGo service. The prepay method has a side benefit of conservation of energy and reduced costs for consumers since people tend to be more conservative with what is actually theirs, such as energy they have pre-purchased. Studies have shown that customers use about 10% less energy when on the PayGo program, which is good for the customer and good for the environment. Electric power companies with prepaid metering programs have seen an increase in customer satisfaction because their customers are conserving electricity and not having to pay account deposits and other fees such as late payment fees and reconnections charges.

Product Overview

Real Time Pre-Pay, a Technology for Constant Monitoring of Consumption

Because utility customers tend not to understand their bills and the relationship between price and consumption, and because PayGo believes that a customer in control is a happier customer, the firm aims to make this expense clear to the customer. To this end, PayGo developed *Real Time Pre-Pay*, a patent-pending technology that supplies customers with up-to-the-minute information on how many days of utilities service remain based on the balance in the customer's prepaid account. This information is updated frequently, and it immediately informs the consumer of the new balance following a payment as illustrated in **Figure 1**.

Figure 1: PayGo Real Time Pre-Pay mobile application for consumption level and account balance



Source: Courtesy of PayGo

Once customers make a payment via PayGo Utilities, the firm keeps them fully aware of their individual household consumption via mobile messaging, web portal, email, and interactive voice response (IVR) technology. The information is based on an algorithm developed by PayGo that converts the amount of money remaining in a customer's balance into the number of dollars and days left with full service by the utility company based on the customer's unique parameters of location and consumption pattern. PayGo software monitors customer usage through software installed on the utility meters or by integration with utility's operational systems. PayGo provides each customer with updates on consumption via alerts, using the contact method the customer chooses—mobile app, text, email, or online alert. Increasing customers' awareness of their own consumption habits encourages them to conserve energy to preserve account balances longer or to add funds in a timely manner.

A traditional utility company's bill states the kilowatt hours (kWh) of electricity, therms for gas, or gallons of water consumed along with the price, but it does not show or explain the relationship between these two key variables. PayGo's algorithm for consumption extends beyond a simple conversion of dollars to kilowatt hours by incorporating live weather forecasts. This additional piece of the equation provides individual customers with a close and customized estimate of their future consumption based on their previous habits. Based on their remaining balance, this information provides customers an accurate estimate of the number of days of service remaining and when funding is required.

The prepaid utility customer typically makes four payments per month to the utility company. PayGo constantly updates its calculations based on modeling to inform customers how much the dollars remaining in their accounts are really worth in terms of the amount of power available to be consumed. The company sends alerts to the customer 30–50 times per month to make sure the customer is constantly aware of the account status. PayGo uses its *Real Time Pre-Pay*®, technology to update a customer's balance and consumption constantly throughout the day, eliminating one of the biggest concerns—service interruption. (It is important to note that PayGo has safeguards built into its system that allow the utility company to prevent interruption if the company knows that the end user needs electricity for a life support machine, for example, or if the weather conditions are not safe for the customer to be without service.)

Convenient Payment

PayGo's technology allows customers to scan their bills, loyalty cards, or mobile application so they can pay their bills over the phone, online, or using cash at a kiosk. The *CheckOut by PayGo*® product, however, sets the firm apart from its competitors by enabling PayGo customers to pay their utilities bills, or prepay them, using cash at a pharmacy, convenience store, or other retail locations with real-time account validation IP and payment postings while shopping for other goods they are purchasing.

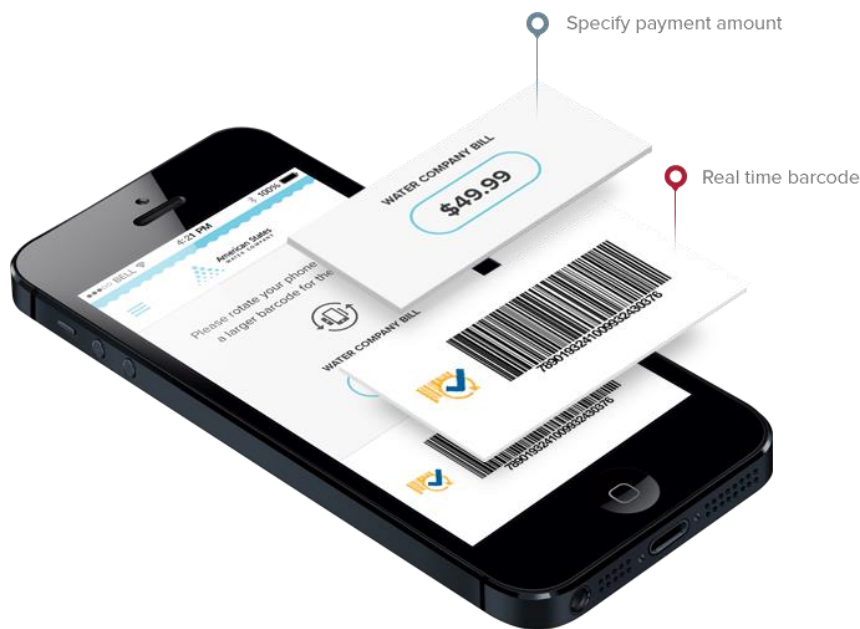
As illustrated in **Figure 2**, the mobile app displays the barcode and the utility customer pays the amount her or she prefers.

The cashier at the retail location scans the barcode on the mobile device or the bill and validates the customer, and then the corresponding paid amount is credited to the customer's utilities bill—in real time. The customer then completes the transaction by paying the cashier with cash while paying for other purchases. This is all done in the checkout lane, which is convenient for the customer, who does not have to go a separate customer service counter to pay the utilities bill.

Customers can even get change back from the transaction, which is uncommon with kiosks. This program is truly real-time, since it updates the customer's prepaid utilities balance even before the customer obtains a receipt from the store via mobile device, email, or outbound IVR.

Customers typically pay a transaction fee for this service, or the utility can choose to absorb the cost.

Figure 2: A cash mobile payment application: CheckOut by PayGo®



Source: Courtesy of PayGo

PayGo has partnered with prepaid and payments technology leader InComm to use InComm's VanillaDirect Pay application programming interface (API) to create the barcodes that utilities customers can scan to make payments at the point of sale using the *CheckOut by PayGo* application. Today, over 3.5 million bills include the barcode. The VanillaDirect Pay solution serves as the rails for connecting the payments. One utility started with CheckOut in July and by December, almost 20% of walk-in payments leveraged a barcode at retail locations—with almost 70% being repeat customers. Partnering with InComm to leverage its authorized agent network has also greatly expanded the retail footprint where utilities customers can conveniently make bill payments at the point of sale using the barcode. And, because the retailer is accepting cash, the utility (or aggregator in the case of PayGo) knows that the funds are good and can enable an instant credit to a customer's account. The VanillaDirect Pay solution assigns code ranges to billers. Each code in the range is paired with an account, so any customer of a utility partnered with PayGo can use cash to pay a bill at a retailer that is integrated with InComm.

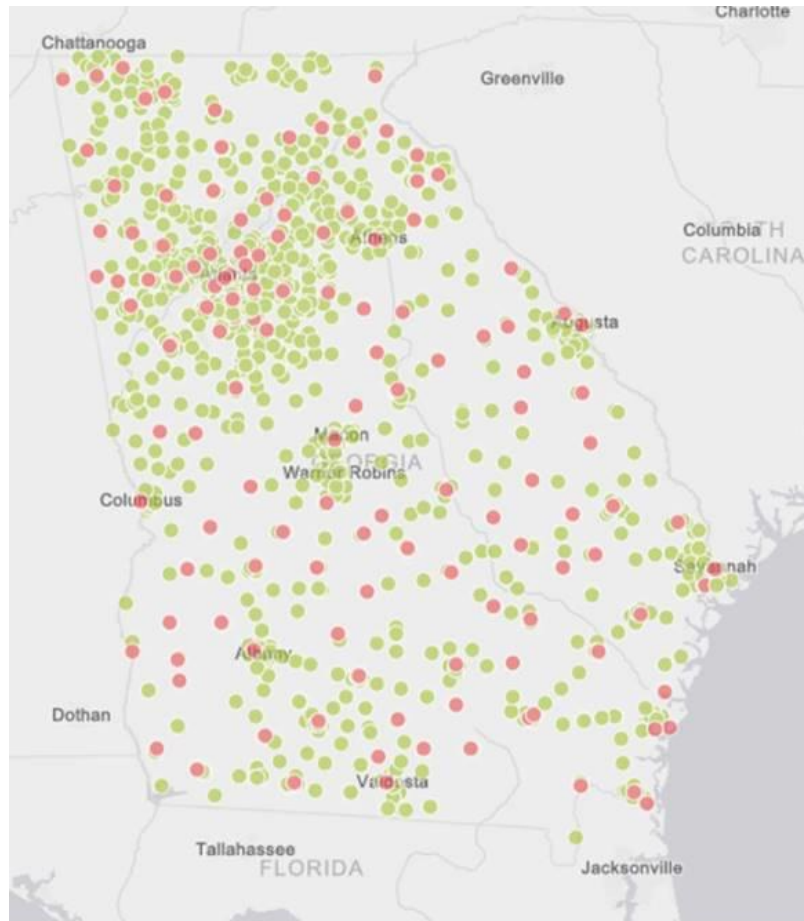
Case Study: Southern Company

The Southern Company, the parent of Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Southern Company Gas, is well into deployment of PayGo and is now implementing the *CheckOut by PayGo* capability so that customers can pay their bills as they pay for other merchandise in the checkout lane at a wide range of retail locations. This is a benefit not only to the customer, but also to the stores, as they do not need a separate customer service counter to manage the process, eliminating lines and the need for extra staff. For example, beyond the existing number of nationwide locations where Georgia Power customers can pay their bill,

they can now visit over 900 additional retail locations in Georgia, which include Dollar General, Family Dollar, and Speedway stores, to top up their prepaid accounts and/or pay their utilities bills using a barcode.

The green dots shown on the map in **Figure 3** represent the new store locations that accept *CheckOut* in-lane payments. The red dots represent Georgia Power locations that have been closed.

Figure 3: A map of old and new payment locations



Source: Georgia Power

The large number of stores that can now process utility bills has enabled Southern Company to selectively reduce the number of payment locations that it operates directly. This not only provides Southern Company significant savings in operating costs, but it also provides extraordinary convenience to utility bill paying customers. The convenience factor is so compelling that in January 2018, nearly 20% of customers who had traditionally utilized walk-in bill payments were already paying their Southern Company utility bills at the new PayGo-enabled retail locations. This customer transition was accomplished through a well-orchestrated communications campaign that included bill stuffers and the online marketing shown in **Figure 4**.

Figure 4: Example of marketing campaign communicating benefits of CheckOut by PayGo.

Georgia Power

[Residential](#) [Business](#) [Community](#) [Company](#) [Shop](#) [Q](#)

Pay By CheckOut Barcode

Present your Georgia Power CheckOut barcode at:

- Dollar General
- Family Dollar
- Speedway

The Georgia Power CheckOut barcode is located on the back of your bill. Only barcodes can be used to make payments at these locations.

Pay in three easy steps:

Step 1: Show your barcode to the cashier when you checkout.

- If you do not have your bill handy, [click here](#) to obtain your barcode. You must have your account number to retrieve your barcode.

Step 2: Have your barcode scanned by the store representative.

Step 3: Make a payment.

- Cash is accepted at all locations, and some locations accept debit cards. Credit cards and checks are not accepted. Add a low convenience fee of \$1.50.

More venues that accept barcodes are being added regularly so check back often for updates.

[Click here](#) to retrieve your Georgia Power CheckOut barcode or find an APL locations near you.

Source: Georgia Power website, accessed 2/21/2018

An additional program put in place by Georgia Power enables customers that are carrying a past-due balance to move to a prepaid account that will allocate 25 cents of every dollar paid to the remaining balance, providing these customers a flexible and achievable path to a zero balance. This program has clearly been a success, given that 56% of the initial participants who had a past-due balance were able to achieve a zero balance over time. Using this approach, customers have a method for resolving their past-due balances, while Georgia Power has been able to collect \$13,000,000 from past-due balances.

What makes it easy and convenient for consumers to pay is the combination of the convenient retail locations and the ability to apply any amount of funds at any time at any accepting retail location. This enables low-income and moderate-income families to manage their liquidity by paying some part of the bill as they themselves get paid. This not only provides value to the consumer, but it also provides value to the retailers that have agreed to accept *CheckOut* by PayGo payments.

It is typical for prepaid customers to pay for their service as money becomes available, and this is often based on hours worked, not on a schedule. As a result, retailers equipped to accept CheckOut by PayGo payments typically attain more visits, higher average baskets, and a new revenue stream. Participating retailers are likely to experience an increase in traffic and potentially new customers. PayGo already has agreements with Georgia Power, Consumers Energy, Alabama Power, Just Energy, Mississippi Power, Clay EMC and Newberry Utilities and has prepayment software agreements with utilities serving more than 25 million homes representing more than 75 million consumers in the United States. Clearly, local and national retailers that align with PayGo and InComm are in a position to attract a significant volume of new visits and additional revenue as these utilities begin to roll out the PayGo solution.



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