



MEMORANDUM

To: Mayor and Council

Cc: Marc A. Ott, City Manager
Robert D. Goode, P.E., Assistant City Manager

From: *DK*
Greg Meszaros, Director, Austin Water Utility
Larry Weis, General Manager, Austin Energy *LW*

Date: November 21, 2013

Subject: Options to Curtail Disconnection of Residential Water Service (Resolution 20130926-083)

This memorandum is in response to Council Resolution 20130926-083 approved on September 26, 2013 requesting options to curtail disconnection of residential water service for late or nonpayment of utility bills and consists of the following sections:

- A. Options for curtailing disconnections of residential water service
- B. Staff Recommendation
- C. Overview of current practices
- D. Survey of other cities' disconnect practices
- E. Austin Energy Remote Disconnect readiness

A. Options for curtailing disconnections of residential water service:

The following options were developed collaboratively by Austin Water and Austin Energy for Council consideration. For purposes of this memo, a residential customer is defined as a customer billed at a residential water service rate, and utility bill refers to the consolidated utility bill for all utility services provided by the City – electric, water, wastewater, solid waste, clean community, drainage and street services (transportation user fee).

Option 1: Discontinue disconnection of residential water service

The current practice of disconnecting residential water service for nonpayment would be fully discontinued. The practice of disconnecting electric service for non-payment would continue.

The advantage of this option is residential customers will have access to safe drinking water, adequate sanitation and good hygiene regardless of payment status with City.

A disadvantage is that this practice reduces motivation for customers to pay for water service, reduces their incentive for water conservation, and would likely result in increased bad debt, which would reduce revenue for all City Utilities.

Option 2: Modify the current practices to phase in the disconnection of residential water service.

The practice of disconnecting electric service for non-payment would continue. The current practice of disconnecting residential water service for non-payment would be phased in after the disconnection of electric service.

The advantage of this option is residential customers will have access to safe drinking water, adequate sanitation and good hygiene through reduced disconnects of water service for non-payment.

A disadvantage is that this practice reduces motivation for customers to pay for water service, reduces their incentive for water conservation, and would likely result in increased bad debt, which would reduce revenue for all City Utilities.

A summary of the two options along with the pros and cons of each option are included in **Appendix A**.

B. Staff Recommendation:

After consideration of the options to curtail the disconnection of water service, Austin Water and Austin Energy recommend the following revisions to the current practices of disconnecting water service for non-payment:

- Modify the current practices to provide a phasing of the disconnection of water service for non-payment under the following circumstances:
 - a) Continue the current practice of disconnecting water service for non-payment for those “water only” customers who receive electric service from a different provider than Austin Energy. These water only customers would be subject to disconnect after 35 days;
 - b) Phase the disconnection of water service for non-payment an additional 35 days after the electric service has been cut. This creates a phasing of service disconnects with the electric service being disconnected after 35 days and the water being disconnected after 70 days.

These disconnect policies would only apply for those customers that have not made a payment on their account or have a current payment arrangement. These policy revisions would reduce the number of disconnections of water service while still providing leverage for those “water only” customers. The phasing of service disconnects for electric service first after 35 days, then water service after 70 days, would provide the customer more time to pay on their account or set up a payment arrangement before their water service is disconnected. The phasing policy would balance the risk between providing an incentive for our customers to pay their bills and providing for health and safety through access to water service. The phasing of disconnecting electric and water service is a current practice in several cities nationwide. This policy would also provide the customer an incentive to keep their unpaid balances at levels which could more reasonably be repaid through a payment agreement.

Possible Pilot Program:

There could be the possibility of initiating a pilot program of any of the two options provided above. Since these options would require modification of our CC&B billing system, the Council could consider a pilot period in advance of the completion of these modifications. During this pilot, Austin Energy and Austin Water could identify the extent and cost of CC&B modifications. Manual work processes would be performed to void the disconnection notice produced by CC&B. An evaluation of the effect the

disconnect changes have on the City's accounts receivable would also be completed to the fullest extent possible with the limited accounts receivable reporting currently available within the CC&B billing system.

The staff at both Austin Water and Austin Energy will be glad to continue discussions with Council regarding our policies for disconnection of water and electric service. The information below provides information used to formulate our recommendation.

C. Overview of current practices

Collection and Service Disconnection process:

Customers who have not brought their utility account current, have not entered into a payment arrangement, or who are not currently working with AE's Customer Solutions Management Team are scheduled for service disconnection of electric and water service 35 days after the initial bill generation, or approximately 18 days after the initial bill due date.

Approximately 70% of the City's utility customers stay current on their payments and pay their bills on time. Of the 30% of customers who do not pay their bills on time, about 74% will not respond to the Delinquent 10 Day letters. Roughly 7 to 10% of customers are eligible for disconnection for non-payment and ultimately up to 2% of customers are actually disconnected in any given month.

The chart in **Appendix B** shows the approximate timeline between the utility bill generation to the possible disconnect for nonpayment.

Payment Arrangements:

The City provides several options for residential customers with delinquent utility accounts:

- A payment arrangement (PA) defers the debt on the account and divides the outstanding balance into monthly installments.
- PA installments are offered for terms up to 12 months.
- Installment amounts appear on the bill, in addition to monthly utility charges, and are due by the bill due date.
- Longer payment terms may be available for customers in Low Income, Medically Vulnerable or Life Support programs.
- When PA terms are not upheld, the account falls back into the collection process. A Broken PA letter is mailed providing an additional 10 days for the customer to bring the account current. If no action is taken, the account becomes eligible for a 24-Hour courtesy door hanger Notice followed by disconnection for non-payment.
- Customers may enter into a maximum of 3 separate payment arrangements to avoid further collection activity on the account. Further collection activity is avoided when the terms of the agreement are not broken.

Legal Requirements:

Austin Energy and Austin Water are committed to helping customers maintain service; however, utility bond covenants, City Code, state law and the Texas Constitution do not allow the City to provide free utility service or lend the City's credit. When utility bills are not paid the City pursues collection with a variety of processes to ensure payment occurs. However, the longer the City carries the debt/account receivable without consistent or effective means to collect it, the closer the threshold of de facto providing free water service.

Historical Suspension of Utility Service Termination for nonpayment:

Prior to 1988, the City of Austin had a phased approach to disconnection of utility services for late or non-payment. After 30 days of late or non-payment, the electric service was disconnected, then after an additional 30 days, the water service was disconnected. After 1988, the City of Austin began disconnecting electric and water service for late or nonpayment at the same time after 35 days. Since this process began there have been two periods in which disconnection of utility service has been suspended due to utility billing system conversions.

In September 1999, the City suspended disconnections for a period of two years due to the implementation of the CIS billing system. Again in August 2011, the City suspended disconnections for a period of twenty-one months, reinstituting the disconnection process in May 2013. This most recent suspension in disconnects was due to the implementation of the current CC&B billing system.

In addition to the service disconnection suspensions due to billing system conversions, City Code Chapter 15-9 contains provisions for utility service disconnection moratorium during extreme weather conditions - excessive heat and freezing temperatures.

Effect on Accounts Receivable during cessation of utility service disconnects:

The chart in **Appendix C** illustrates the cyclical effect of disconnects moratoriums for excessive heat on the City's utility accounts receivable. During the disconnect moratoriums over these pre-CC&B 5 historical years, the accounts receivable over 30 days increased significantly. Following the disconnect moratoriums, the accounts receivable balances slowly decrease to pre-moratorium levels over the remaining months of the year.

In the 2011 calendar year the City experienced 85 days of 100 plus degree temperatures, breaking the 69 day record in 1925. Thus the City performed utility service disconnections for only 5 days during the summer months of June through August. The effect of this moratorium increased the total utility debt balance from \$12 to \$25 million.

D. Survey of other City practices:

Austin Water and Austin Energy staff conducted surveys of Texas cities to determine current practices for disconnection of water services. The results indicate that all Texas cities surveyed have practices of disconnecting water service for nonpayment.

The other national municipal utilities surveyed have practices of disconnecting water service for nonpayment, with some using a phased approach by disconnecting certain services before others.

The chart in **Appendix D** provides the cities surveyed and the results.

E. Austin Energy readiness for remotely disconnecting electric service:

The September 26, 2013 Resolution states that currently a city truck must be dispatched to disconnect electric and water service, but that in the near future Austin Energy will be able to remotely connect and disconnect electric service at many buildings.

Austin Energy currently has 428,000 automated meters throughout its service territory, 20,000 of which are remote service connect/disconnect ready. Within the next 5 years AE plans to replace an additional 108,000 of its automated meters with two-way meters capable of remote service disconnection.

If you have any questions or need additional information, please reach out to either of us.

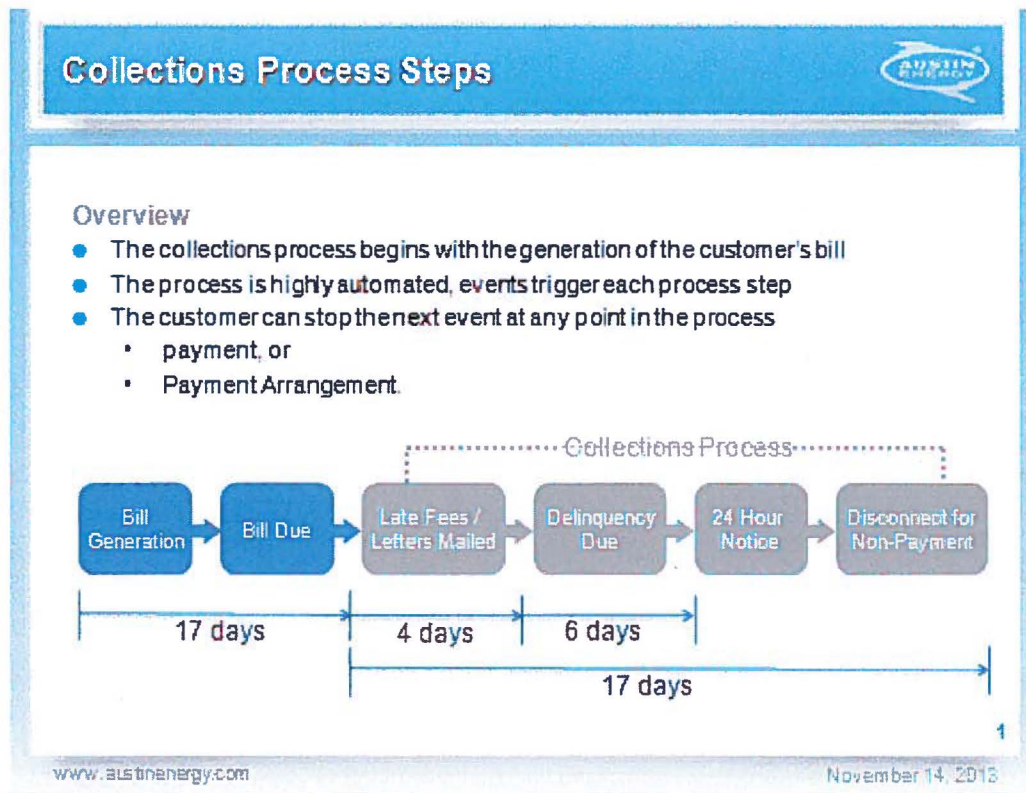
Appendix

Appendix A: Options for curtailing water disconnection due to late or nonpayment of utility bills:

<u>Option # 1</u>	<u>Pros</u>	<u>Cons</u>
<p>Discontinue disconnection of residential water service</p> <p>Description: The practice of disconnecting water service for nonpayment would be discontinued; the practice of disconnecting electric service would continue</p>	<p>Water service will not be disconnected for residential AWU customers</p> <p>Increased access to safe drinking water regardless of payment status with City</p> <p>Adequate sanitation and good hygiene would be available to residential customers regardless of payment status with City</p> <p>Cost savings from reduced field trips to disconnect electric and water services when Austin Energy can remotely disconnect their electric meters</p>	<p>Reduced motivation for customers to pay for water service</p> <p>Increase in outstanding accounts receivables, e.g. decreased cash flow will affect all COA utilities billed</p> <p>Currently 30,000 customers receiving only water service from COA, e.g. no electric service to disconnect</p> <p>Water Conservation disincentive</p> <p>Higher overall future rate increases for water and sewer</p> <p>Multi-family and commercial customers will remain subject to service disconnection</p> <p>Requires extensive modification to base CC&B with additional cost</p> <p>Inconsistent with Major Texas cities</p>
<u>Option # 2</u>	<u>Pros</u>	<u>Cons</u>
<p>Modify disconnection process:</p> <p>Description: Allow for continued disconnection of water service under selected restrictions, which could include the following:</p> <ul style="list-style-type: none"> • Implement a phased disconnect approach where electric is disconnected first with water disconnected after a specified period of time (e.g. electric 35 days, water 70 days) • Disconnect “water only” customers for nonpayment (e.g. 	<p>Continues the practice of water disconnects, but provides limitations which would reduce overall number of water disconnects below the current 7-8% of customers in any given month</p> <p>Protects customer from incurring additional debt</p> <p>Phased approach would allow for more time before water service is disconnected</p> <p>Disconnecting water only</p>	<p>Reduced motivation for customers to pay for water service</p> <p>Outstanding accounts receivables, e.g. decreased cash flow will affect all COA utilities</p> <p>Austin Water would have no leverage for water only customers who are not also Austin Energy customers</p> <p>Water Conservation disincentive</p> <p>Higher overall future rate increases for water and sewer</p>

<p>disconnect customers that are water customers but have another electric provider such as PEC or Bluebonnet.</p> <ul style="list-style-type: none"> • Extend moratorium period, e.g. defined months, not dependent on weather; no disconnects during this period. (e.g. no disconnects of water service from April to October) 	<p>customers will provide the only leverage for bill payment since AE is not electric provider</p> <p>Extended disconnect moratorium will provide more time to pay during normally higher bill periods</p>	<p>Multi-family and commercial customers will remain subject to service disconnection</p> <p>Requires modification to CC&B with additional cost</p> <p>Inconsistent with Major Texas cities</p>
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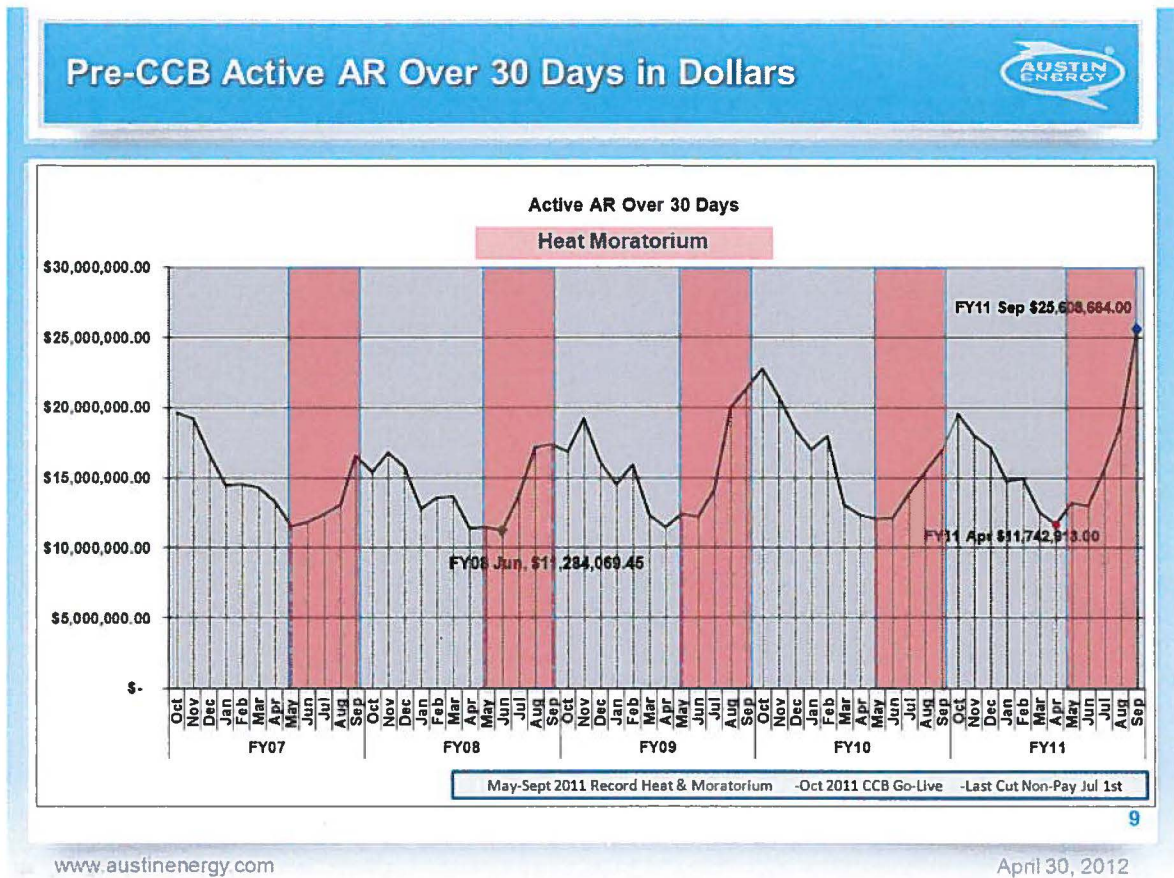
Appendix B: Overview of Collections Process:



Summary:

- Accounts are reviewed daily for appropriate collection event creation.
- If payment is not received after the bill due date, a late fee is calculated on metered services and is assessed on current amounts due.
- Customers who pay their bills late will receive either a Friendly Reminder or a Delinquent letter. The frequency of account delinquency and overall activity on the account determines which letter is mailed to the customer. Both letters provide an additional 10 days for the customer to take action and avoid further collection activity.
- After the Delinquent 10-Day Letter due date has lapsed, a field order is produced for delivery of a 24-Hour Notice courtesy door hanger to be delivered within the next few business days.
- After delivery of the 24-Hour Notice courtesy door hanger the account is reviewed again to detect payments or the setup of a Payment Arrangement (PA). If neither exists, a field order to disconnect for non-payment is dispatched to be completed within the next few business days

Appendix C: Pre-CC&B Active Accounts Receivable balances that are over 30 days old



The chart above illustrates the cyclical effect of disconnects moratoriums for excessive heat on the City's utility accounts receivable.

During the disconnect moratoriums over these pre-CC&B 5 historical years, the accounts receivable over 30 days increased significantly, generally doubling the pre-moratorium levels.

Following the disconnect moratoriums, the accounts receivable balances slowly decrease to pre-moratorium levels over the remaining months of the year.

Appendix D: Surveys conducted of other Texas cities and national municipal Utilities:

Texas City / Utility	Major utility services billed	Disconnect water services (Residential and Commercial)
City of Austin	Electric / water/ sewer/ trash	Yes
Brownsville Public Utility	Electric/ water/ sewer/ trash	Yes
Dallas Water Utility	Water/ sewer/ trash	Yes
El Paso Water Utility	Water/ sewer/ trash	Yes
Fort Worth Water Utility	Water/ sewer/ trash	Yes
Houston Water Utility	Water/ sewer/ trash	Yes
San Antonio Water Utility	Water/ sewer	Yes
Other national municipal utilities	Major utility services billed	Disconnect water services (Residential and Commercial)
Colorado Springs	Electric / gas / water / sewer	Yes, phased with electric disconnected first
Jacksonville Electric Authority	Electric / water / sewer	Yes
Knoxville Utilities Board	Electric / gas / water / sewer	Yes
Los Angeles Department of Water & Power	Electric / water	Yes
Memphis Light, Gas & Water	Electric / gas / water	Yes, phased with water disconnected last
Orlando Utilities Commission	Electric / water	Yes
Seattle Public Utilities	Water / sewer / trash	Yes, phased with electric first and water 10 days later