# MEMORANDUM

**TO:** Mayor and Council Members

**CC:** Marc A. Ott, City Manager

**FROM:** Larry Weis, General Manager LW

**DATE:** October 28, 2013

**SUBJECT:** Utility Customer Collections Update

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At the September 3rd meeting of the Council Committee on Austin Energy, we presented a briefing on the collections process, utility service disconnections, reconnection fees and policies. That briefing followed our previous memo, dated May 15, 2013, detailing the reinstatement of customer disconnections for non-payment, as well as previously established monthly Customer Care & Billing updates and e-mail notification of potential customer calls to Council.

The utility collections process was reinstated in phases over the last year, beginning with the delivery of notification letters to all customers who were delinquent. In April, customers started to receive 24-hour disconnection door hangers. Service disconnections for nonpayment were reinstated in May 2013 with a gradual ramp up in the number of customers eligible for disconnect. Each week during the time period from May to September, the threshold amount of outstanding balance was lowered. In August, customers who owed $5,000 or more became eligible for disconnection, reduced to $3,000 in September. This effort was successful in collecting over $15M in past due revenues. The utility will continue to gradually lower the threshold for eligibility over the next several months.

Austin Energy provides several options for residential customers with delinquent utility accounts. The customer may enter into a maximum of three deferred payment arrangements providing up to 36 months to repay debt. We make every effort to work with the customer at their budget level. However, we have substantial data that shows a customer is most successful when the payment installments are sufficient to reduce total debt prior to the summer billing season.

In February of this year, the terms of the deferred payment arrangements were relaxed to allow for longer payback periods and the opportunity for multiple arrangements if necessary. Customer Service Representatives are trained to negotiate payment arrangement terms in a way that best meet the customer's ability to pay, while still meeting the fiscal goal to reduce the customer's overall debt.

Customers who are delinquent and are not on a deferred payment arrangement are scheduled for service disconnection after 35 days. Once disconnected, customers may reconnect service by paying the account balance in full or requesting a Payment Plan. The Payment Plan requires a down payment of 50% immediately and a promise to pay the remaining balance within 15 days. Customers requiring one-time bill assistance are able to utilize Plus 1 pledges available through the Customer Assistance Program. A pledge is applied to the account as a promise to pay and typically takes 15-30 days to complete. However, the utility noticed in early September that customers who receive pledges from Travis County's Comprehensive Energy Assistance Program (CEAP) were unable to meet the terms of the Payment Plan due to a processing time that was exceeding 30 days. Effective October 15, 2013, the Utility extended the CEAP pledge duration to 45 days thus eliminating the issue of broken plans for these customers.

Austin Energy is 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 by abandoning debt. Additionally, the Texas Constitution does not allow city utility debt to be forgiven.

The October meeting of the Council Committee on Austin Energy is posted for discussion on the collection process and utility service disconnections, where we will gladly address these issues and any additional questions you may have regarding this matter.

**MEMORANDUM**

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| **TO:** | Mayor and Council Members |
| **CC:** | Marc A. Ott, City Manager |
| **FROM:** | Larry Weis, General Manager |
| **DATE:** | November 6, 2013 |
| **SUBJECT:** | Items 51 & 52 — Ordinance and Resolution regarding Deferred Payment Arrangements |


Summary

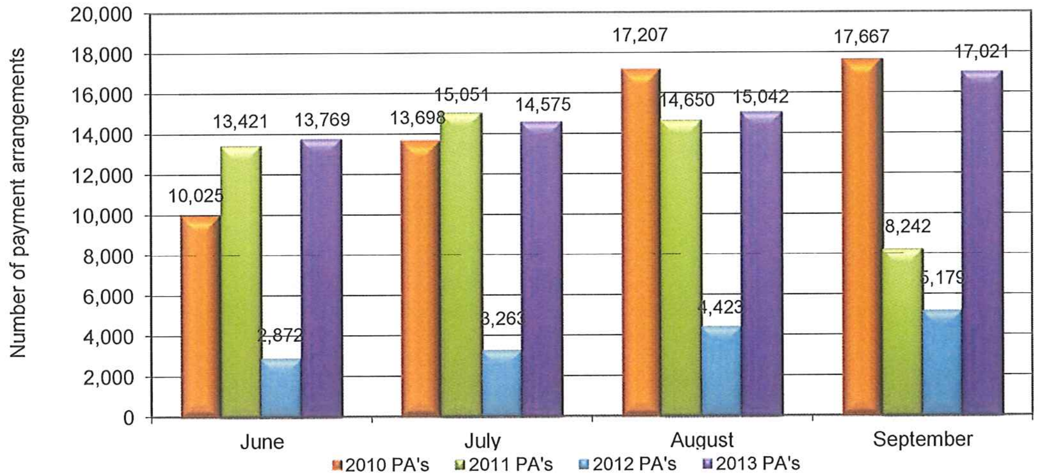
At tomorrow's Council meeting, Austin Energy staff supports adoption of Item 52 (resolution), but does not recommend adopting Item 51 (ordinance). The draft proposed ordinance contains provisions that will: 1) limit the effectiveness of the collaboration with the Discount Steering Committee and other advocates, 2) create new mandates that could be extremely difficult for Austin Energy to accomplish, and 3) potentially draw some customers into an unmanageable financial circumstance. Based on these concerns, staff believes that the path that ensures the best likelihood of success for all of our customers is to defer consideration of the draft proposed ordinance (Item 51) until after Austin Energy has worked with the Discount Steering Committee to develop a set of recommendations for Council's consideration (Item 52).


Background

This memo provides staff insight and recommendations regarding the proposed ordinance and resolution on deferred payment arrangements for consideration on the Thursday, November 7 Council agenda (Items 51 and 52). The best way to avoid disconnections and the associated stress placed on the most vulnerable members of our community is to assist customers with tools to help them make timely payments for their utility services. When a customer cannot pay in full on time, it is important to work with that customer to avoid making matters worse by creating a cycle of disconnections and unmanageable payment arrangements. Our staff has extensive experience working individually with our customers to ensure that payment arrangements are tailored to specific customer circumstances. Ultimately, Austin Energy has an obligation to all of our customers to ensure that the utility recovers its costs incurred in serving each individual.

Currently there are 17,021 active payment arrangements totaling approximately $20M in outstanding debt owed. The number of active payment arrangements is quite similar to the levels experienced during this same period in 2010 prior to the implementation of the new billing system and the related temporary moratorium on customer disconnections (See Table 1.0). Under the terms of Austin Energy's current policies, customers may receive up to three different negotiated payment arrangements terms. Although the majority of the arrangements have 12 or fewer installments, there are customers who have been allowed longer terms under extenuating circumstances. Austin Energy's Customer Care staff work individually with customers to identify and explore such cases of extenuating circumstances. It is important to note that only 22% of the active payment arrangements are with Customer Assistance Program (CAP) customers, and even fewer (1.5 %) are disconnected. Our experience working with peer utilities clearly demonstrates that Austin Energy provides one of the most flexible payment arrangement programs in the nation.

Table 1.0 Number of Payment Arrangements (June through Sept for 2010 – 2013)



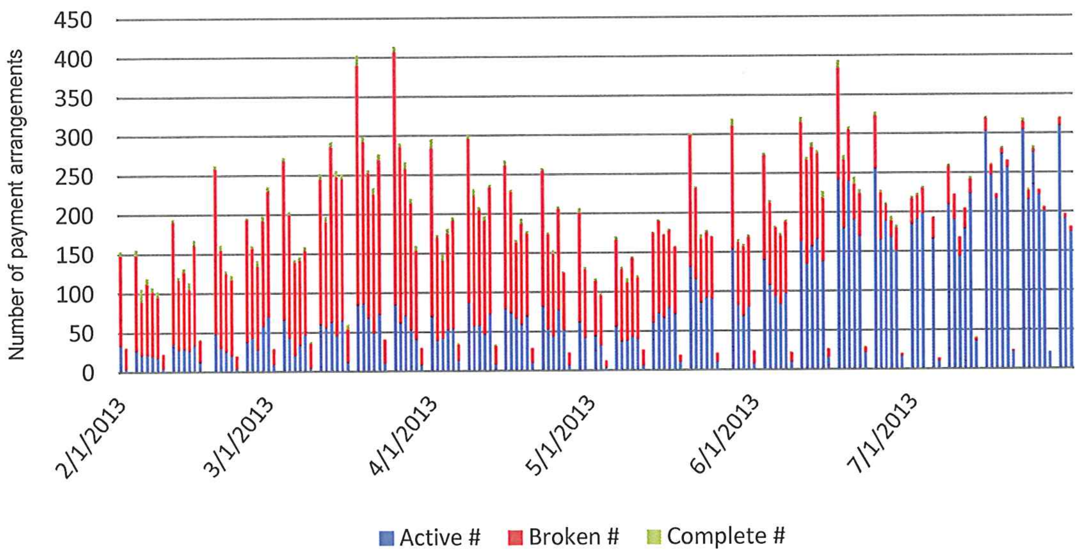

Staff has reviewed the draft proposed ordinance and identified several key issues that raise concerns about the practicality of successfully implementing the proposals as well as the ability of some customers receiving these terms to be successful in becoming current on their past due obligations:

1. **15-9-44(D)(1) Establishing monthly payments in relation to the customer's monthly income and financial circumstances will be time consuming and costly.**
   The proposed section 15-9-144(D)(1) requires that a customer's income and financial circumstances be the basis for determining the amount of repayment installments. Currently, Austin Energy does not request, capture, or store customer income information. As previously discussed with the Council over the years, Austin Energy does not have the capability to assess a customer's income. Thus, CAP was designed so that customers qualify based on their qualification for other federal, state and county programs that do have the ability to qualify customers by income level. It will be difficult, time consuming and costly for Austin Energy staff to develop and carry out new processes to verify customer income. Due to the sensitive nature of this information, much of the verification would have to be handled by our payment center staff, which is not currently equipped to handle the anticipated heavy customer load. At a minimum, additional staff will be required to manage the new process at the centers. The billing system will need to be modified to store customer income information, a process that will be expensive and time consuming. Access to certain financial data bases would be required, such as Equifax, Experian, etc., as well as additional staff to perform the "income analysis" similar to what banks perform when reviewing a customer for a long-term loan.

2. **15-9-144(D)(2) Setting a repayment period of 24 months may put some customers at greater risk.**

The proposed section 15-9-144(D)(2) requires that the repayment period of 24 months be used or some different negotiated period. Establishing a repayment period at 24 months will stretch out the repayment of debt. *Past experience has shown that the longer the payment arrangement period, the more likely the customer will default on the terms.* The chart in Table 2.0 shows for a "snapshot in time" the age of the payment arrangements outstanding at that snapshot and the status of the arrangements (successful, current, or default). For example, the chart shows for payment arrangements that were initiated in February, and are now eight months old, only a few remain active (blue), even fewer were successfully completed (green), and the majority had the terms broken (red). As you read the chart from left to right, you will see that the number of broken terms reduces. Our experience demonstrates that customers who have been successful in managing their utility debt have had shorter repayment periods and have reduced their high summer debt down to low levels prior to the start of the next summer.

Table 2.0 Payment Arrangements Created Daily – Subdivided by Status




3. **15-9-14(F) Open ended opportunity for renegotiating the payment agreement if the customer has demonstrated an effort to comply risks increasing a customer's debt and the utility's associated bad debt.**

The proposed section 15-9-14(F) requires that the utility allow renegotiating of the payment arrangement for an indefinite number of times as long as the customer demonstrates an effort to pay. Allowing the payment arrangement cycle to repeat for many cycles creates higher debt for the customer. In the examples shown in Table 3.0, data from five different customers allowed to renegotiate several payment arrangements is presented. In the first example, the customer owing $2,122.23, entered into an arrangement in March 2013 for 24 installments of $88.43. This arrangement was defaulted in May, and new arrangement set in June for 36 installments at $64.51. The second arrangement was defaulted in July, and a third arrangement set in July for 36 installments. This final arrangement was defaulted in August, resulting in the customer owing $2,773.49. *Following three deferred payment arrangements, this customer now owes more than what was initially owed in March.* Each of the five examples shows how a customer accrues more debt when allowed to default and reset multiple payment arrangements. With the passing of the proposed ordinance, this scenario could be multiplied many times creating a portfolio of utility debt much higher than current or past debt levels.

Recommendation

The draft proposed ordinance contains a number of business challenges. Staff is concerned that the implementation of the ordinance as is could sink some customers further into debt and will create a portfolio of debt that would be detrimental to the financial standing of the department. Because of these operational and financial issues, Austin Energy recommends **that Council defer adoption of an ordinance (Item 51)** until receiving the recommendation of Austin Energy working in collaboration with the Discount Steering Committee and the advocate community (Item 52).

Staff does not recommend approving the ordinance as written; however, if you proceed with the ordinance, staff recommends the following refinements at minimum:

1. Revise the eligibility to affect only CAP customers, who are eligible based on their participation in the tariff-identified federal, state and county programs. CAP customers have verified income levels and will require minimal additional validation. Utilize CAP information to determine repayment installment amounts.
2. Review the appropriate number of renegotiations for CAP customers. Austin Energy's experience suggests a limit of three, where customers who default three times should be subject to disconnection. If disconnected, allow CAP customers a fourth and final payment arrangement.
3. Revise the payment arrangement program for all customers, as stated in the proposed resolution, which is based upon best practices and input from the Discount Steering Committee and consumer advocates.
4. Retain a framework that is sufficiently flexible that the Discount Steering Committee rule development process is not hindered.

We share the Council's concern for assuring that customers receive continuous electric service at terms that allow them to manage their utility payments. Deferred payment arrangements can meet our fundamental goals of assisting customers in meeting their obligations without undue burden, while fulfilling Austin Energy's obligation to all of its customers that we will collect payment for services rendered.

Table 3.0 Examples of Customers with Multiple Payment Arrangements

| Customer A | PA Start Date | Beginning PA Balance | Down Payment Amount | Number of PA Installments | Installment Amount | PA Default Date | Account Balance at Default |
|---|---|---|---|---|---|---|---|
| First PA | 3/25/2013 | $2,122.23 | $0.00 | 24 | $88.43 | 5/30/2013 | $2,153.59 |
| Second PA | 6/13/2013 | $2,322.33 | $0.00 | 36 | $64.51 | 7/30/2013 | $2,535.43 |
| Third PA | 7/31/2013 | $2,535.43 | $0.00 | 36 | $70.42 | 8/30/2013 | $2,773.49 |
| Disconnect PP | 10/25/2013 | $3,136.46 | $1,570.00 | 2 | $1,566.46 | | |

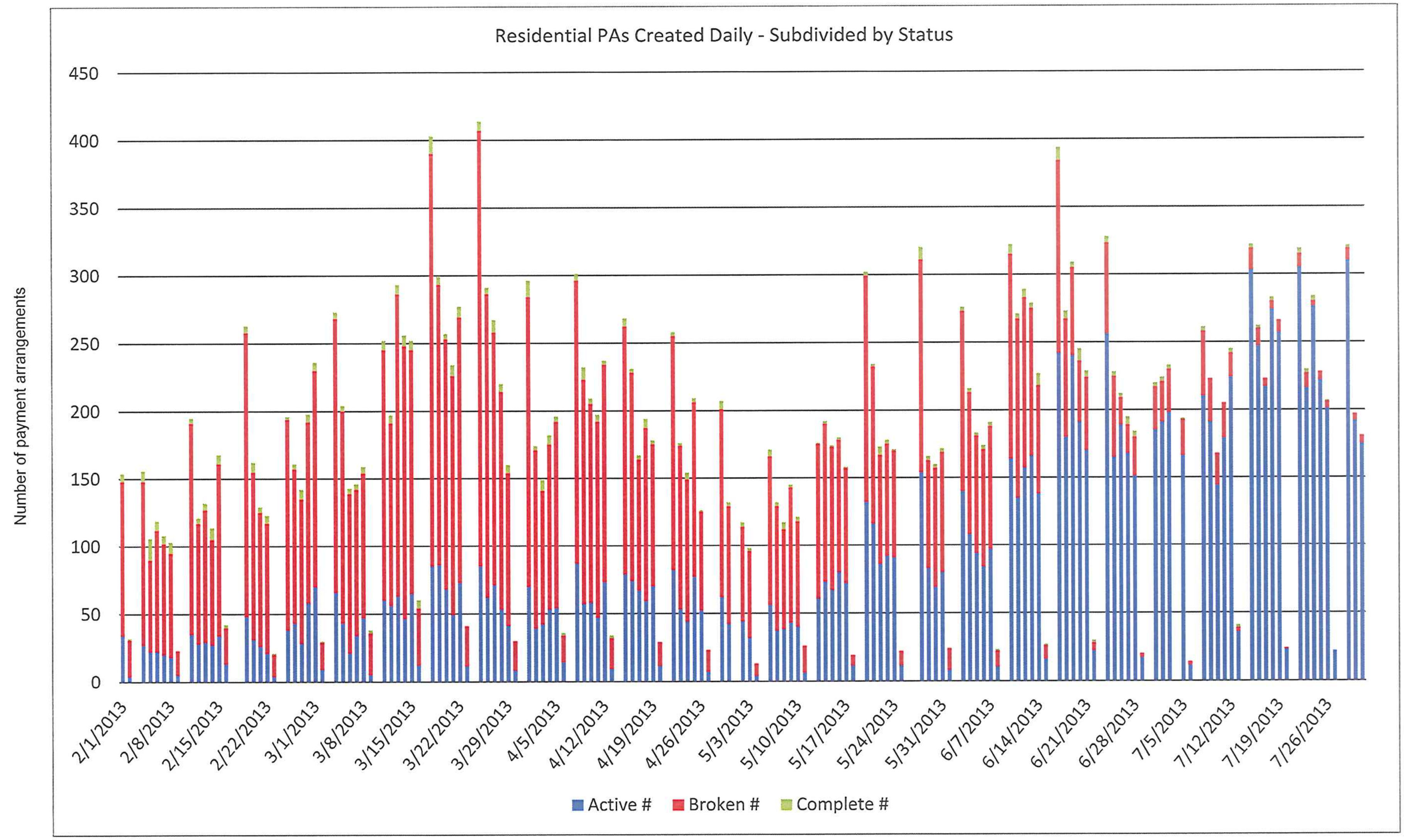
| Customer B | PA Start Date | Beginning PA Balance | Down Payment Amount | Number of PA Installments | Installment Amount | PA Default Date | Account Balance at Default |
|---|---|---|---|---|---|---|---|
| First PA | 12/1/2011 | $401.16 | $0.00 | 8 | $50.15 | 5/8/2012 | $444.64 |
| Second PA | 7/28/2012 | $680.87 | $0.00 | 8 | $85.11 | 2/11/2013 | $561.48 |
| Third PA | 2/25/2013 | $581.36 | $0.00 | 12 | $48.44 | 5/13/2013 | $651.63 |
| Fourth PA | 5/28/2013 | $592.06 | $0.00 | 12 | $49.35 | 7/12/2013 | $784.76 |

| Customer C | PA Start Date | Beginning PA Balance | Down Payment Amount | Number of PA Installments | Installment Amount | PA Default Date | Account Balance at Default |
|---|---|---|---|---|---|---|---|
| First PA | 9/12/2012 | $693.48 | $86.13 | 8 | $86.13 | 10/23/2012 | $709.65 |
| Second PA | 10/24/2012 | $967.99 | $0.00 | 24 | $40.34 | 3/14/2013 | $1,122.83 |
| Third PA | 4/1/2013 | $939.83 | $0.00 | 13 | $72.29 | 5/13/2013 | $1,100.92 |
| Fourth PA | 6/12/2013 | $990.79 | $0.00 | 12 | $82.57 | 7/12/2013 | $1,558.85 |
| Fifth PA | 7/24/2013 | $1,426.53 | $0.00 | 24 | $59.43 | 9/13/2013 | $1,810.70 |

| Customer D | PA Start Date | Beginning PA Balance | Down Payment Amount | Number of PA Installments | Installment Amount | PA Default Date | Account Balance at Default |
|---|---|---|---|---|---|---|---|
| First PA | 10/24/2011 | $801.39 | $100.18 | 8 | $100.18 | 7/2/2012 | $998.42 |
| Second PA | 7/19/2012 | $1,253.54 | $200.00 | 18 | $58.53 | 11/28/2012 | $1,930.31 |
| Third PA | 11/28/2012 | $2,116.25 | $0.00 | 30 | $70.53 | 5/30/2013 | $1,904.39 |
| Fourth PA | 6/6/2013 | $2,219.24 | $0.00 | 36 | $61.65 | 11/1/2013 | $2,199.33 |

| Customer E | PA Start Date | Beginning PA Balance | Down Payment Amount | Number of PA Installments | Installment Amount | PA Default Date | Account Balance at Default |
|---|---|---|---|---|---|---|---|
| First PA | 8/10/2012 | $648.29 | $81.04 | 8 | $81.04 | 12/5/2012 | $847.41 |
| Second PA | 12/11/2012 | $855.90 | $0.00 | 12 | $71.33 | 8/27/2013 | $551.54 |
| Third PA | 8/30/2013 | $633.37 | $199.98 | 10 | $43.34 | 10/25/2013 | $689.90 |

Appendix: Table 2.0 Payment Arrangements Created Daily – Subdivided by Status (Enlarged)



# MEMORANDUM

**TO:** Mayor and Council Members

**CC:** Marc A. Ott, City Manager

**FROM:** Larry Weis, General Manager LW

**DATE:** November 26, 2013

**SUBJECT:** Interim Payment Arrangement Process

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The purpose of this memo is to clarify the administrative guidelines regarding payment arrangements and customer disconnections currently in place. We understand your immediate concerns and have instituted additional customer protections prior to the December 5 Council Committee on Austin Energy meeting.

Since June 2012, Austin Energy has suspended the regular payment arrangement program and offered customers special payment arrangements. These special payment arrangements **do not** require a down payment and allow longer repayment periods (12 months or more) if required. During this time, customers have also been allowed to enter into up to three different payment arrangement agreements. We will commit to continue to offer these special payment arrangements to customers during an interim period up to May 2014, while staff responds to Council Resolution 20131107-052 by working with the Discount Steering Committee and consumer advocates to develop revised rules for deferred payment plans and service disconnections. In the interim:

- Continue special payment arrangements referenced above.
- For customers who are disconnected for nonpayment, we are offering a fourth payment arrangement and have removed the 50% down-payment requirement for reconnection, with the first installment being the down payment.
- The extreme weather moratorium which suspends customer disconnections will be invoked on days where the temperature is forecasted to be below 32°F or below 35°F with 50% precipitation.

Regarding the proposed substitute ordinance, we continue to have serious concerns and again urge you to not codify what have historically been administrative guidelines for our collections and payment arrangement procedures. The ordinance reduces the flexibility that we currently have in dealing with our customers, reducing staff's ability to negotiate the repayment solution best suited for the customer to successfully reduce their debt in a timely manner. The ordinance requires staff to ultimately verify various proofs of hardship (whether completely performed by the staff or partially by external agencies) as well as renegotiate payment arrangements many times over. These changes to the process could drive an increase in program costs. The ordinance also has the potential for customers to be in a perpetual loop of renegotiating payment arrangements, which data shows allows the customer to accrue more debt in the long run than they had initially.

We look forward to answering any questions you may have regarding our current processes or about the ordinance at the upcoming Council Committee on Austin Energy meeting.