

Summary Overview of KMB Utility Corporation Customer Service Operations for Water and Sewer

The Engineering and Management Services Department (EMSD) staff initiated a review of customer service processes, procedures and practices at KMB Utility Corporation (KMB or Company) on September 26, 2002. Prior to on-site interviews, the EMSD staff examined Company tariffs, annual reports, Missouri Public Service Commission (Commission) complaint records and other documentation related to the Company's customer service operations.

The objectives of this review were to document and analyze the management control processes, procedures and practices used by the Company to ensure that its customers' service needs are met and to make recommendations, where appropriate, by which the Company may improve the quality of services provided to its customers. The scope of this review focused on processes, procedures and practices related to:

- Meter Reading
- Customer Billing
- Credit and Collections
- Complaint Handling and Recording
- Customer Communications

This overview contains an explanation of the Company's customer service operations.

Overview

KMB provides water service to approximately 313 customers in six subdivisions in Franklin and Jefferson Counties, and sewer service to approximately 187 customers in Cape Girardeau County.

The Company's primary office and field reporting locations are based out of the business office in House Springs. The office manager is responsible for the business office function and the plant operator is responsible for the daily operation of the water system. The office manager and the plant operator report to the president of the Company.

According to the Company, there has been minimal customer growth throughout most of its service territory during the last few years. The office manager stated that there has been customer growth in the Company's High Ridge subdivision, primarily from new construction.

Meter Reading

The plant operator reads the water meter for High Ridge Manor and Lakewood Hills customers each month. The office manager stated that the customer is responsible for reading the meter each month in Crestview Acres and Hillshine Acres. Scotsdale and Warren Woods meters are not typically read as those customers are charged a flat rate.

The High Ridge Manor and Lakewood Hills meters are read around the 28th of each month. The Crestview Acres and Hillshine Acres customers read their own meter around the first of each month. The office manager stated that the Company has not read individual customer meters since at least 1997 for its Crestview Acres, Hillshine Acres, Scotsdale and Warren Woods customers.

The office manager provides the plant operator with a meter reading worksheet that contains the route to be read. The worksheet lists the customers in route sequential order and contains the account number, name, address, meter location, meter number, the reading for the last quarter, and a space for the current reading to be recorded.

The office manager stated that it takes the plant operator about six hours to read the Company's meters each month. The office manager enters the meter reads into the billing system the next day and bills are generated the same day.

Customer Billing

KMB bills its water customers on a monthly basis. Customer bills are normally generated every 27 to 33 days, which is consistent with the Company's tariff. Customer bills are typically mailed to customers around the first of the month.

The Company has five separate water rate schedules within the six subdivisions that it serves. The following table lists each subdivision, the customer base rate, the usage or commodity charge per 1,000 gallons, and the monthly bill based on a monthly usage of 6,000 gallons:

<u>Water Service Area</u>	<u>Base rate</u>	<u>Rate/1,000 gal</u>	<u>Charge</u>
Crestview Acres	\$10.14	\$2.00	\$22.14
Hillshine Acres/Lakewood Hills	\$ 9.41	\$2.21	\$22.67
High Ridge Manor	\$ 9.41	\$3.05	\$27.71
Scotsdale	\$31.49	flat rate	\$31.49
Warren Woods	\$31.54	flat rate	\$31.54

The Company bills each water and sewer customer on a monthly basis. The Company does have one billing feature that very few other PSC-regulated water and sewer utilities have. According to the office manager, some of KMB's customers have bills that are due approximately 30 days after the end of a usage period while other customers have bills that are due approximately 60 days after the end of a usage period.

The office manager stated that bills are due within 30 days for customers that live in High Ridge Manor, Lakewood Hills, Scotsdale and Warren Woods. According to the office manager, August water usage is billed around September 1 and is due around September 30.

The office manager stated that bills are due within 60 days for customers that live in Crestview Acres and Hillshine Acres. According to the office manager, the actual water usage for August is read by the customer around September 1. The customer sends in the August meter reading along with the amount owed for the actual July usage in early September.

KMB will then calculate the bill for August usage around September 30 and mail the customer a bill for the August usage around October 1. Those customers will have until October 30 to remit the amount owed for August usage and to send in the actual meter read for September. The 60-day cycle continues for each month.

The Company's sewer customers are located primarily in and around the Cape Rock Village mobile home park in Cape Girardeau County. Customers living in single-family dwellings or in mobile homes located outside of the mobile home park are charged

a flat monthly rate of \$23.10. Customers living in multiple-family dwellings or in mobile homes located inside the mobile home park are charged a flat monthly rate of \$36.96.

The automated billing system was included as part of the current owner's purchase of a sister utility (Cedar Hill Estates Water Company) in April 2001. The office manager stated that paper billing records exist for KMB water and sewer customers dating back to the mid-1990s. A nominal annual software maintenance fee is paid to the vendor to keep the billing system current.

Credit and Collections

The Company's credit and collection activities are managed through the business office in House Springs. The office manager stated that customers primarily pay their bill by personal check through the mail. Customer payments are posted to the billing system as they are received. The payments are stored overnight in the office manager's unlocked desk drawer and are deposited in the bank on a weekly basis.

The office manager stated that the level of bad debt is reasonable, and that written delinquent notices are not typically used for customers with past due balances. The current policy is for the office manager to call customers to remind them of past due amounts.

The Company's tariff permits a \$50 fee to be charged for service reconnection as well as a late fee of \$3 per month. However, the Company does not charge for handling an insufficient funds check that is returned by the bank other than the \$5 fee that the bank charges the Company.

Complaint Handling and Recording

KMB has experienced few complaints since 1998. The Company's policy is to have the complaint addressed by the appropriate personnel as soon as possible. If the complaint is related to a field activity, the plant operator is dispatched to investigate and resolve. If the complaint is related to a billing or payment concern, the office manager is usually is able to resolve the matter.

Customer Communications

The KMB business office is open Monday through Friday from 8 a.m. to 5 p.m. KMB customers can contact the business office in House Springs on a 24/7 basis, as after-hours calls are handled by the office manager's pager.

The Company mailed a letter to each customer in September 2002 that described the current request for rate relief. According to the office manager, the Company has received few written complaints since customers were notified.

Findings, Conclusions and Recommendations

The following discussion presents a summary of the findings, conclusions and recommendations pertaining to the Company's customer service operations. The information presented in this section focuses on the following three areas that require management's attention:

- Lack of appropriate charges for returned checks
- Lack of timely deposit of customer receipts
- Lack of secured storage area for customer receipts

Lack of appropriate charges for returned checks

The Company does not charge a fee to process checks returned from the bank for insufficient funds other than the \$5 fee that the bank charges the Company. The fees should be priced at a level that is reasonable, yet discourages the customer from submitting insufficient funds checks.

The EMSD staff recommends that the Company review the actual costs to process returned checks. The costs that should be considered include the fully loaded wages and benefits of office personnel, as well as the fees charged by the bank. The Company should also consider the fee that area merchants charge for returned checks.

The EMSD staff has found that several regulated Missouri utilities charge approximately \$15 - \$20 to handle returned checks. A tariff should be filed with the PSC to recover these costs after the Company has determined the appropriate amount to charge for processing returned checks.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Determine the appropriate cost to charge for processing returned checks.

File a tariff with the PSC to recover the appropriate costs associated with processing returned checks.

Lack of timely deposit of customer receipts

The Company does not deposit customer receipts into the bank on a timely basis. The office manager stated that cash receipts are typically deposited each Thursday. At the time of the EMSD staff review, the office manager stated that there was about \$800 in customer checks that were stored in an unlocked desk drawer.

The EMSD staff believes that bank deposits should be made on a timely basis. The frequency of deposits being made can vary, but should be made at least twice per week.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Make bank deposits on a more timely basis.

Lack of secured storage area for customer receipts

The Company does not store customer receipts overnight in a secured storage area. According to the Company, cash receipts are stored overnight in a bank bag that is kept in an unlocked desk drawer.

The EMSD staff believes that customer receipts should be stored in a locked fireproof vault. The EMSD staff observed that there is a locked fireproof vault about 15 feet from the office manager's desk. The locked fireproof vault is an appropriate place for overnight storage of customer receipts.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Store customer receipts overnight in a locked fireproof vault.