

Summary Overview of Cedar Hill Estates Water Company Customer Service Operations

The Engineering and Management Services Department (EMSD) staff initiated a review of customer service processes, procedures and practices at Cedar Hill Estates Water Company (Cedar Hill 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

Cedar Hill provides water service to approximately 187 customers in the Cedar Hill Estates subdivision. The subdivision is located in Cedar Hill on U.S. Highway 30 in Jefferson 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 growth during the last several years. The office manager stated that the subdivision consists primarily of low-income and elderly customers that rent mobile homes. The current owner acquired the water system in April 2001.

Meter Reading

The plant operator reads customer meters on a quarterly basis. Meters are usually read about 15 days after the close of each calendar quarter. For example, the water usage for July through September was read around October 15.

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 quarter. The office manager enters the meter reads into the billing system the next day and bills are generated the same day.

Customer Billing

Cedar Hill bills its customers on a quarterly basis. The Company's tariff allows for monthly billing to occur, but the Company continues to bill its customers on a quarterly basis that is consistent with the practice of the previous owners. Customer bills are typically mailed the day following the reading of the meter.

The Company's current rate table consists of a service charge, a customer charge, and a usage charge. The service charge is \$1.65 per month for a standard 5/8-inch meter. The customer charge is \$1.78 per month per customer. The usage rate is \$0.64 for each 1,000 gallons used. For example, a customer using 6,000 gallons per month would owe the Company \$7.27 per month or \$21.81 per quarter.

The automated billing system was included as part of the current owner's purchase of Cedar Hill in April 2001. 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 Company stated that written delinquent notices are not typically used for customers with past due balances even though the Cedar Hill tariff allows them to do so. The current policy is for the office manager to call customers to remind them of past due amounts. This usually occurs about 25 days after the current bill has been mailed to the customer. For example, the office manager will contact past due customers (April through June usage that remains unpaid) around November 12.

The office manager stated that approximately \$300 has been written off from Cedar Hills customers during the past 18 months. According to the Company, these write-offs have primarily resulted from customers who have moved and have not left a forwarding address or telephone number. The office manager stated that service is rarely disconnected for non-payment.

The Company does not have a 'revert-to-owner' policy that would permit Cedar Hill to transfer service to the customer's landlord in lieu of service disconnection. The tariff allows the Company to charge \$2 to reconnect service during business hours and \$10 to reconnect service after business hours.

The Company does not charge a deposit to secure service or charge for late fees even though the Cedar Hill tariff allows them to charge a deposit and require a late fee. According to the office manager, the Company does not charge for handling an insufficient funds check returned by the bank other than the \$5 fee that the bank charges the Company.

Complaint Handling and Recording

Cedar Hill has experienced few complaints since the current owners acquired the Company in April 2001. 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 business office is open Monday through Friday from 8 a.m. to 5 p.m. Cedar Hill 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 two 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 nine areas that require management's attention:

- Lack of appropriate charges for service disconnections and reconnections
- Lack of appropriate charges for returned checks
- Lack of timely deposit of customer receipts
- Lack of secured storage area for customer receipts
- Lack of written delinquent notices
- Lack of monthly customer billing
- Lack of disconnection of service for non-payment
- Lack of security deposits and late fees
- Lack of 'revert-to-owner' policy

Lack of appropriate charges for service disconnections and reconnections

The current fee for performing service disconnections and reconnections during business hours (\$2) and after business hours (\$10) does not reflect the Company's actual cost to send a serviceman to perform these activities. The fees should be priced at a level that is reasonable, yet discourages the customer from utilizing these services.

The EMSD staff recommends that the Company review the actual costs to send the plant operator into the field. The costs that should be considered are the fully loaded wages and benefits (including overtime) of office and field personnel, as well as the actual cost to operate the truck on a per-hour or per-mile basis.

The EMSD staff has found that several regulated Missouri utilities charge approximately \$15 - \$20 to perform these activities during regular business hours, and \$20 - \$25 to perform these activities after regular business hours. Cedar Hill should file a tariff with the PSC to recover these costs after the Company has determined the appropriate amount to charge for service disconnections and reconnections during and after regular business hours.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Determine the appropriate cost to charge for performing service disconnections and reconnections during and after regular business hours.

File a tariff with the PSC to recover the appropriate costs associated with performing service disconnections and reconnections during and after regular business hours.

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 \$400 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.

Lack of written delinquent notices

The Company does not typically use written delinquent notices to inform customers of past due bills. The EMSD staff believes that the Company is permitted by its tariff to mail delinquent notices to past due customers in a timely fashion.

The office manager stated that telephone calls are made to past due customers as a courtesy reminder. According to the Company, there is an overall problem with past due customers leaving the system without a forwarding address or telephone number.

The Company has charged off about \$300 in past due accounts during the past 18 months. The EMSD staff believes that the use of written delinquent notices will prompt some of its slow-paying customers to bring their account current.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Utilize written delinquent notices for past due customers.

Lack of monthly customer billing

The Company does not bill its customers on a monthly basis. Bills are currently rendered on a quarterly basis around the 15th of the first month following the end of the quarter.

The EMSD staff believes that monthly billing is more customer-friendly, provides a more even cash flow and could help to reduce the overall level of bad debt. According to the Company's current billing schedule, follow-up efforts would not begin until November to collect on past due accounts for April through June usage.

The Company stated that it is difficult to locate customers that have left the system owing several months of usage without a forwarding address or telephone number. The EMSD staff believes that Cedar Hill should formally evaluate the costs and benefits of a monthly billing schedule to help alleviate some of the Company's cash flow concerns.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Evaluate the propriety of billing customers on a monthly basis.

Lack of disconnection of service for non-payment

The Company does not disconnect water service for customer non-payment. The current policy is to work with past due customers on an informal basis to encourage customers to bring their balance current.

The EMSD staff believes that it is appropriate to disconnect service for non-payment. Failure to do so may result in further unauthorized usage by the customer who owes a past due amount, or by a new customer at the premise who has not formally applied for service. An appropriate service disconnection policy could help the Company reduce its current level of bad debt.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Disconnect service for non-payment when it is deemed appropriate to do so.

Lack of security deposits and late fees

The Company does not charge a security deposit or assess a late fee. The Cedar Hill tariff allows for both a security deposit and a late fee to be charged. The EMSD staff believes that security deposits and late fees could help the Company reduce its current level of bad debt.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Determine an appropriate amount of security deposits and late fees to be charged.

Lack of 'revert-to-owner' policy

The Company does not utilize a 'revert-to-owner' policy. This policy allows the Company to transfer service into the landlord's name in lieu of a service disconnection.

The EMSD staff believes that it is appropriate to develop and implement a 'revert-to-owner' policy. Such a policy could help the Company reduce its current level of bad debt.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop and implement a 'revert-to-owner' policy.