



Department  
of Public Service

# New York American Water

Staff Update – July 11, 2019

# Topics to be covered today

- 2017 Rate Plan
- Property Tax Error and Staff Investigation
- South Shore High Bill Complaints
- Independent Monitor's Final Billing Report
- NYAW's Interim Implementation Plan
- Independent Monitor's Review of Property Tax Error
- Expected Future Commission Actions

# 2017 Rate Plan

# Current 4-year Rate Plan

- Case 16-W-0259 Order issued May 23, 2017
- Rate Year 1 from April 1, 2017 to March 31, 2018
- Created SA1 – Lynbrook, SA2 – Merrick and SA2 – Sea Cliff
- Levelized increases:       \$10.1 million for SA1  
  \$ 3.1 million for SA2

# Current 4-year Rate Plan

- Revenue and Production Cost reconciliation
- Conservation Rate Implementation
- System Improvement Charge
- Property Tax Reconciliation
  - Incremental property taxes for Sea Cliff recovered via a surcharge

# Property Tax Error

# Property Tax Error

- **January 2018 Order – Investigate Property Tax Error**
  - Calculate Customer Harm
  - What caused the error so it does not happen again
- **April Staff Report / August Order – Hold Harmless**
  - Impacted the Sea Cliff Service Territory
  - Error occurred over 3 year period – 5 rate years
  - \$2.3M retrospective and \$2.4M prospective error
  - Customers refunded \$68.14 and property tax surcharges were reduced going forward

# Property Tax Error

- **June 2018 Staff Report – lead to the Consent Order**

Found issues in three areas:

- Plant Accounting – Shuffled Data Sort
- NYAW's Tax Department – ORPTS Filings
- NYAW's Regulatory Team – RC/PTR Filings

Findings:

- Lacked Proper Controls, and not Following Controls,
- Lacked Proper Supervision/Poor Communication
- Not Following Ethics Protocol
- Withheld known material facts in the Rate Case and Property Tax Reconciliation filings

# Property Tax Error

- Recommendations
  - Update and Improve Controls
  - Ensure Controls are Followed
  - Improved Communications within and between Departments
  - Update Ethics Manual and Training

# South Shore High Bill Complaints

# South Shore High Bill Complaints

- July 30, 2018 – beginning of high bill complaints
- 600 high bill complaints in first week alone
- Staff immediately engaged in daily communications with NYAW
- NYAW quickly assembled a team from American Water to respond to and investigate cause of complaints

# South Shore High Bill Complaints

- By August 15, over 1,200 complaints were received
- NYAW's investigation evaluated accuracy of metering, billing and system operations
- Cause of complaints centered on lack of adequate communication to customers of conservation rates

# Actions to Provide Relief

- August 18, 2018 Governor Cuomo announces agreement with NYAW to provide ratepayer relief
- August 29, 2018, PSC files legal action in State Supreme Court against NYAW
- September 11, 2018, Consent Order and Judgement issued

# Consent Order and Judgement

- Established Independent Monitors
- Required adoption of internal controls
- Accelerated tax refunds
- Required \$1 million conservation study and rebate plan
- Set aside \$1 million for Sea Cliff property sale
- Suspended Tier 4 rate for SA1
- Suspended RAC/PTR surcharge
- Required robust communication plan

# Customer Relief

- SA 1 Typical Customer Relief:
  - One-time Federal Tax Credit Pass Back of \$ 1.47
  - One-time Local Tax Savings Credit of \$ 4.34
  - Ongoing Monthly Federal Tax Credit Pass Back \$ 2.48
  - Tier 4 Retroactive Credit of \$ 4.74 for that month
  - Tier 4 Suspension Credit of \$ 4.74 for that month

# Customer Relief

- SA 2 Merrick Typical Customer Relief:
  - One-time Federal Tax Credit Pass Back of \$ 0.64
  - One-time Local Tax Savings Credit of \$ 3.90
  - Ongoing Monthly Federal Tax Credit Pass Back of \$ 1.28
- SA 2 Sea Cliff Typical Customer Relief:
  - One-time Federal Tax Credit Pass Back of \$ 1.43
  - One-time Sea Cliff Property Tax Credit of \$ 68.14
  - Ongoing Monthly Federal Tax Credit Pass Back of \$ 1.28

# Additional Actions Taken

- October 18, 2018 Order Authorizing Contract for Independent Monitor
- NYAW embarked on conservation study and 2019 Communication Plan
- February 25, 2019 Petition Filed
  - February 27 Order and confirming orders issued to postpone the levelization surcharge
- May 30, 2019 RAC/PTR Reconciliation Filed

# Billing Report Independent Monitor

# Final Report - Summary

- PA Consulting evaluated the cause of the elevated number of bill complaints, response to complaints, billing system, metering devices, and communication plan.
- Predominant reason for the extensive bill complaints was NYAW's failure to properly communicate two changes to its customers: the inclining block rate structure and the pressing need for additional conservation efforts.
- Final Report includes 23 recommendations for improvement.

# Billing System and Meter Accuracy

- PA Consulting's review of the Company's billing system found that longer billing cycles during July 2018 contributed to higher customer bills and that proration charges were not defined in NYAW's tariff.
- PA Consulting also found meter accuracy did not factor into high bills.
- Implement controls to limit the billing cycles to 30-to-31 days, define fees in its tariff and educate affected customers accordingly.

# Customer Communications

- Communications sent to customers did not outline the impact the inclining block rate structure could have on customer bills, or the need for water conservation to provide long-term protection of the Long Island Aquifer.
- Proactively notify its customers and stakeholders.
- Develop rebate partnerships.
- Develop and implement a program to monitor the progress of communication improvements and complaint reduction.

# Causes of Complaints

- Most complaints were related to high bills.
- Complaint tracking was comprehensive during the peak complaint period.
- Weather was not a contributing factor to complaints.
- Categorize complaints and conduct a root cause analysis of reoccurring outliers.
- Validate the root cause and determine if necessary remedial action was taken.
- Initiate complaint resolution cycles times.

# Complaint Handling and Resolutions

- Complaint handling procedures are working well.
- The Company made several managerial and process changes during the summer of 2018 to address the high volume of customer complaints.
- Include information about conservation measures in future customer communications.

# Management Process

- PA Consulting reviewed NYAW's management processes by analyzing billing exceptions, average customer usage, estimated meter reading, call answer rates, customer satisfaction, and budget billing.
- Complete a root cause analysis of billing exceptions to help balance billing accuracy with efficient management of the billing process and reduce the number of estimated bills.
- Maintain focus on customer satisfaction in 2019.
- Complete an analysis to determine if budget billing plans undermine conservation efforts.

# NYAW's Interim Implementation Plan

# Interim Implementation Plan

- Filed Interim Implementation Plan on June 26, 2019, and accepted all recommendations made by PA Consulting.
- Accept the Interim Implementation Plan as filed and release it for public comment in accordance with the SAPA.
- Company to meet with Staff on or about August 1, 2019.
- Company to meet again with Staff no less than 30 days after the completion of the SAPA review period (post-summer period)
- Submit a Final Implementation Plan no less than 30 days after the post-summer review period.

# Property Tax Independent Monitor

# Property Tax Monitor – October Order

- Review Internal Controls – related to property taxes and regulatory filings
- Review Process for Engaging with ORPTS,
- Review Processes for Ensuring the Accuracy of PTR and General Rate Case Filings
- Review Implementation of Recommendations Contained in the June 2018 Staff Report.

# Property Tax Monitor – PA Consultants

- PA Consulting in the Initial Stages of its Property Tax Review - conducted a series of interviews with Regulatory, Ethics, Property Tax and Plant Accounting staff.
- Currently reviewing NYAW's 2019 ORPTS Property Tax filing and Property Tax Reconciliation.
- PA Consulting to Report its Results to the Department, as well as NYAW's Senior Management and its Board of Directors.

# Future Commission Actions

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- Final Implementation Plan
- February 25 Petition to extend rate plan and modify SIC projects
- Revenue/ production cost, and property tax reconciliation
- Section 70 sale of Sea Cliff property
- Property Tax Monitor's Final Report