

City of Austin



**A Report to the
Austin City Council**

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AUDIT REPORT

Austin Energy Customer Assistance Programs Audit

January 2012



REPORT SUMMARY

Limitations on funding and participation in Austin Energy's (AE) Discount Program hinder the utility's ability to assist customers having difficulty paying their bills. In addition, each of the agencies that partner with AE to operate the Plus 1 Program establishes their own eligibility criteria and do not always consider a customer's income. Finally, AE has not determined how it will apply the funds collected for the proposed Community Benefit Charge.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT TEAM

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January 2012



Audit Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of City Auditor's (OCA) Fiscal Year 2012 Strategic Audit Plan.

Audit and Finance Committee members asked OCA to present the audit results in time for a January 2012 decision on Austin Energy's proposed rate increase.

What We Recommend

We recommended that Austin Energy work with partner agencies to develop minimum criteria for their Plus 1 program and work with the City Council to identify a funding source for their Discount program.



For more information on this or any of our reports, email oca_auditor@austintexas.gov

AUSTIN ENERGY CUSTOMER ASSISTANCE PROGRAMS AUDIT

Mayor and Council,

I am pleased to present this audit on the Austin Energy Customer Assistance Programs.

BACKGROUND

Austin Energy's (AE) Customer Assistance Program (CAP) assists eligible customers who are having difficulty paying their utility bill. The CAP includes several components, including the Discount Program and the Plus 1 Program.

AE provided \$2.6 million in assistance to customers through the Discount and the Plus 1 programs during Fiscal Year (FY) 2011 (\$2.23 million in the Discount Program and \$356,000 in Plus 1).

AE's Final Rate Proposal includes a Community Benefit Charge for costs associated with the CAP and other services that benefit the community.

OBJECTIVE AND SCOPE

The objective for this audit was to evaluate the funding and program structure for AE's customer assistance programs specifically in light of AE's pending rate proposal. A sub-objective was to determine how AE's Discount and Plus 1 programs compare to other selected municipally owned utilities.

The scope of this audit included activities of the Discount Program and Plus Program conducted during FY 2011. It also included portions of AE's Final Rate Proposal, presented to Council on December 14, 2011.

WHAT WE FOUND

We found that:

- The current structure of the Discount Program may not allow AE to fulfill the program's intended objective of assisting AE customers who are having difficulty paying their utility bill.
- The Discount Program no longer has an established funding source.
- AE has limited eligibility criteria for participants in the Plus 1 program.
- AE has not determined how it will use funds collected for the CAP from the proposed Community Benefit Charge.
- AE's Discount and Plus 1 programs are comparable to customer assistance programs offered by other electric utilities that we surveyed.

We appreciate the cooperation and assistance we received from Austin Energy management and staff during this audit.


Kenneth J. Mory, City Auditor

BACKGROUND

This audit was conducted as part of the Office of City Auditor's (OCA) FY 2012 Strategic Audit Plan. On December 14, 2011, Austin Energy (AE) presented a Final Rate Proposal to the Austin City Council. The Proposal included a new Community Benefit Charge for costs associated with the Customer Assistance Program (CAP) and other services that benefit the community. This charge, if approved, will be applied to all AE customers.

At their meeting on October 25, 2011, Audit and Finance Committee (AFC) members asked OCA to present the results of the AE Customer Assistance Programs audit in time for a January 2012 decision on AE's proposed rates.

AE's CAP includes several programs for assisting customers who are having difficulty paying their utility bills. This audit focuses on two CAP programs: the Discount Program and the Plus 1 Program. Combined, these two programs help approximately 10,600 customers with \$2.6 million in assistance as follows:

- The Discount Program provides for discounts, through a customer charge waiver and a discounted fuel rate, to qualified low-income and other disadvantaged customers. In FY 2011, the Discount Program provided discounts totaling \$2.23 M.
- The Plus 1 Program is intended to provide financial assistance, through the use of vouchers, to eligible customers who are having difficulty paying their utility bills. In FY 2011, the Plus 1 program provided \$356,000 in Plus 1 assistance.

Exhibit 1 shows the number of households that received assistance through the Discount and Plus 1 programs during the period FY 2007 to FY 2011.

EXHIBIT 1
Discount Program and Plus 1 Program Households Served FY 07 to FY 11



SOURCE: Unaudited data from Austin Energy

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objective of this audit was to evaluate the funding and program structure for AE's customer assistance programs specifically in light of potential rate changes. A sub-objective was to determine how AE's programs compare to other selected utilities.

Scope

The scope of this audit included all activities of the Discount Program and Plus 1 Program conducted during FY 2011. It also included portions of AE's Final Rate Proposal, presented to Council on December 14, 2011.

Methodology

To accomplish our audit objectives, we performed the following steps:

- Interviewed staff and management in AE's Customer Care Division, Financial & Corporate Services Division, and AE's executive office
- Interviewed citizens, stakeholders, and representatives for nine of the sixteen Plus 1 partner agencies
- Reviewed and evaluated applicable laws, policies, and procedures
- Reviewed and analyzed appropriate financial, budget, and performance documentation for each program
- Selected a judgment sample of seven electric utilities and surveyed them to determine how AE's CAP compares to other utilities
- Reviewed CAP-related portions of AE's pending rate proposal relevant to the Plus 1 and Discount programs

AUDIT RESULTS

Limitations on funding and participation in Austin Energy’s (AE) Discount Program hinder the utility’s ability to assist customers having difficulty paying their bills. In addition, each of the agencies that partner with AE to operate the Plus 1 Program establishes their own eligibility criteria and do not always consider a customer’s income. Finally, AE has not determined how it will apply the funds collected for the proposed Community Benefit Charge.

Finding 1: The current structure of the Discount Program does not allow AE to fulfill its intended objective.

Information provided by AE indicates that only 9,949 (38%) out of 25,980 potential eligible customers participated in the program in December 2010. The participation rate cannot grow significantly beyond 38% because AE limits the program to 10,000 customers. Eligibility for the discount program is based on the customer’s participation in applicable qualifying assistance programs. Exhibit 2 shows the applicable qualifying programs and the potential pool of eligible customers in January 2011.

EXHIBIT 2
Potential Volume of Customers Eligible for the Discount Program in AE’s Service Area¹

Qualifying Assistance Programs Targeted by AE	Potential Unduplicated Volume
Medicaid Monthly Letter (Medicaid type programs ²)	6,536
Supplemental Security Income (SSI) Program	5,078
Travis County Hospital District Medical Assistance Program (MAP)	10,899
Tier 2 Travis County Energy Assistance Programs: CEAP or FEMA	3,467
Potential Volume of Discount Program Participants	25,980

SOURCES: Unaudited data from AE and the City of Austin Budget Office.

The objective of the Discount Program is to assist customers who are having difficulty paying their utility bills. However, the current eligibility structure may not capture all customers who struggle with paying their utility bills. Examples of other high need groups identified by the low-income advocacy groups and AE include:

- Low-income customers with utility inclusive rents
- Supplemental Nutrition Assistance Program (SNAP)
- Child Health Insurance Program (CHIP)
- Medicaid Children Ages 1-5 (type: 48)
- Social Security Disability Insurance (SSDI)
- Veteran and Seniors with fixed income

AE management has stated that making these groups eligible would cost the City more money. For example, during January 2011 there were 50,684 AE customers registered in SNAP and 9,809 receiving Medicaid Children Ages 1-5 (type: 48) benefits. At the current average Discount Program

¹ AE service area includes the City of Austin, parts of surrounding cities, and unincorporated portions of Travis County

² Applicable Medicaid types are: 3, 11, 12,,13, 14, 18, 19, 22, 23, 24, 25,30, & 87

assistance of \$23 per month reported by Austin Energy, making those customers eligible could cost the City an additional \$1.4 million every month.

According to citizens groups and AE, the limited available funding under the current Discount Program structure is the key cause for the AE's inability to serve all eligible customers. Without identifying and obtaining sufficient funding, AE cannot achieve the objectives of the Discount program.

Finding 2: The AE Discount Program no longer has an established funding source; instead, AE is foregoing revenues in order to provide these discounts.

Since March 2011, AE has operated the Discount Program without an established source of funding. Up until that time, Discount Program participants received energy allocated from Batch 1 of GreenChoice®, AE's renewable energy program. Customers using energy from GreenChoice® Batch 1 paid fuel costs that were lower than that paid by other AE customers. AE allocated 100,000 megawatt-hours (mWh) from Batch 1 to the Discount Program.

Discount Program participants benefitted from the reduced GreenChoice® Batch 1 fuel charges until the allocation expired in March 2011. At that time, the Austin City Council directed AE to continue providing Discount Program participants the same reduced fuel charge amount and continue waiving the customer charge. Program participants receive an average monthly discount of \$23 on their electric bill. However, AE has not identified a funding source to pay for the discounts and is foregoing revenues in order to provide these discounts. From April 2011 through the end of the fiscal year, AE provided \$1.1 million in assistance to Discount Program participants.

Finding 3: AE has limited eligibility criteria for participants in the Plus 1 Program and, as a result, may be subsidizing customers who are not having difficulty paying their bills through the Program.

AE administers the Plus 1 Program through sixteen partner community organizations including social service agencies and Travis County Family Services. Each of these partners establishes their own eligibility criteria for customers who want to receive the program's benefits. Income is not always considered by these partners in determining eligibility. As a result, AE may be subsidizing some customers through the Plus 1 Program who are not having difficulty paying their bills.

AE has established standard criteria for selecting the partners involved in administering the Plus 1 Program, including consideration of the agency's location, experience in providing community assistance, and infrastructure to support the program. In addition, AE has controls in place to prevent customers from obtaining Plus 1 benefits from more than one partner. However, information received from the nine partners that we contacted revealed that the eligibility criteria vary significantly. For example:

- Five require an applicant to be receiving some type of assistance from the partner organization
- Seven stated that applicants must not have received any Plus 1 Program funding in the last twelve months
- Two use a multiplier of the federal poverty level limits to determine eligibility
- One indicated that the applicant must be a resident of Central Texas, US citizen or permanent resident
- At least three indicated that they do not consider a customer's income when determining eligibility.

Without consistent eligibility criteria, some Plus 1 Program partners may set higher thresholds while other set lower thresholds. This may lead to applicants qualifying through some of the partners but not others and does not ensure that customers receiving assistance are those struggling to pay their bill.

Finding 4: AE has not determined how it will use funds collected for the CAP from the proposed Community Benefit Charge.

Austin Energy management has not developed a plan on how AE intends to use the funds from a proposed Community Benefit Charge. AE's Final Rate Proposal, presented to the Austin City Council on December 14, 2011, includes the new charge for costs associated with the CAP and other services that benefit the community. AE estimates collecting \$7 million annually from this charge, which would be applied to all customers.

AE management indicated that they intend to develop formal plans for using the additional funds after the charge is approved by Council as part of the rate proposal. AE anticipates developing plans after receiving input from affected communities and other stakeholders.

Preparing a plan or various scenarios on how AE intends to use the collections from the Community Benefit Charge would provide necessary information that could assist policy makers in making informed decisions regarding these funds.

Finding 5: AE's Discount and Plus 1 programs are comparable to customer assistance programs offered by other electric utilities that we surveyed.

We selected a judgmental sample of seven electric utilities, both in Texas and nationally, and surveyed them to compare their customer assistance programs to those offered by AE. Based on responses from the surveyed utilities, we found that AE's Discount and Plus 1 programs are comparable to the customer assistance programs offered by the surveyed utilities in the following areas

- Types of customer assistance programs offered
- Funding sources
- Program administration
- Eligibility criteria
- Performance measures

For detailed results refer to Appendix B.

RECOMMENDATIONS

The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

- 1. AE management should work with Council to identify a funding source to pay for assistance provided through the Discount Program.**

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for management response and action plan.

- 2. AE management should work with the Plus 1 Program partners and community representatives to define what is meant by “having difficulty in paying utility bills” and determine the feasibility of establishing consistent minimum criteria for the end-recipients of the Plus 1 Program.**

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for management response and action plan.

**APPENDIX A
MANAGEMENT RESPONSE**



TO: Walt Persons, Assistant City Auditor
FROM: Jawana "JJ" Gutierrez, Vice President Customer Care
DATE: January 23, 2012
RE: AE Low Income CAP Audit

Austin Energy (AE) concurs with the two recommendations provided by city auditors in the AE Low Income CAP Audit dated January, 2012. Please find our management response in the attached document titled *AE Response, Guidelines, and Action Plan*. Austin Energy has worked diligently over the past seven years to employ best practices from the utility sector and ensure that our Customer Assistance Program is best in class. As compared with other utilities, AE has one of the most robust programs in the nation. We are pleased that the audit findings substantiate our success.

With regards to the audit recommendations;

Austin Energy recognizes the need to expand our existing program, and has proposed an increase in funding within the rate review proposal which is currently under consideration by City Council. We will continue to work to increase the Customer Assistance Program pursuant with the adoption of the rate proposal.

Austin Energy formalizes it relationships with the community partners who assist with the Plus1 program via a standard contract. The contract stipulates the minimum eligibility guidelines for Plus1 recipients but allows the partner agency to apply additional requirements when screening applicants based upon their organizational objectives. As a result of the audit recommendation, we have committed to reviewing the minimum eligibility guidelines to strengthen the screening process while taking into account the impact on operations and feedback from community stakeholders on program design.

We are excited for the opportunity to enhance the Customer Assistance Program and continue providing assistance to citizens of Austin. We believe that continual improvement like the changes described above will allow our program to remain best-in-class.

cc

Kerry Overton, Deputy General Manager, Austin Energy
Elaine Hart, Sr. Vice President of Finance, Austin Energy
Elaine Kelly-Diaz, Customer Solutions Process Manager, Austin Energy

Attachment

AE CAP Response Guidelines and Action Plan

ACTION PLAN

Austin Energy Customer Assistance Programs Audit

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
1. AE management should work with Council to identify a funding source to pay for assistance provided through the Discount Program.	<p>Concur AE’s current rate review proposal encompasses a funding mechanism to provide revenue source for an expanded assistance program.</p>	Planned	April 2012 (pending adoption of AE rate review proposal)
2. AE management should work with the Plus 1 Program partners and community representatives to define what is meant by “having difficulty in paying utility bills” and determine the feasibility of establishing consistent minimum criteria for the end-recipients of the Plus 1 Program.	<p>Concur AE management will conduct a study to determine the enhancements that could be made to the minimum criteria for Plus 1 Program participants taking into account the operational aspects and the feedback from community stakeholders impacted by the program.</p>	Planned	October 2012

APPENDIX B
SURVEY OF CUSTOMER ASSISTANCE PROGRAMS OFFERED BY OTHER UTILITIES

**Results From the Survey of Customer Assistance Programs
Offered by Other Electric Utilities**

We selected a judgmental sample and surveyed seven utilities, shown below.

EXHIBIT B.1
Utilities Surveyed

City	Utility
Denton	Denton Municipal Electric
Garland	Garland Power and Light
San Antonio	CPS Energy
El Paso	El Paso Electric Company
Sacramento	Sacramento Municipal Utility District
Memphis	Memphis Light Gas & Water
Seattle	Seattle City Light and Seattle Public Utilities

SOURCE: OCA

Types of programs

Austin Energy has more programs for assisting customers who have difficulties paying their electric bills than the utilities that we surveyed. Exhibit B.2 below shows the types of customer assistance programs noted by the surveyed utilities.

EXHIBIT B.2
Customer Assistance Programs Noted by the Utilities Surveyed

Number of utilities that have a program similar to the Discount Program	3 or (43%)
Number of utilities that have a program similar to the Plus 1 Program	7 or (100%)

SOURCE: OCA surveyed utilities

In addition to the programs noted above, Austin Energy has other programs that target low-income customers who have difficulty paying their utility bills namely:

- Payment Arrangement
- Payment Plan
- Budget Plan
- Free Thermostat
- Home Performance with Energy Star
- Weatherization

Funding Sources

The Austin Energy Plus 1 Program is funded through utility contributions, voluntary contributions from AE customers, and City of Austin Employees (through charity contributions). Currently there is no clear funding source for the Discount Program. Other funding sources used by the surveyed utilities include customer late fee collections; federal and state programs such as, the Low Income

Home Energy Assistance Program (LIHEAP); and community organizations. Exhibit B.3 shows the customer program funding sources for the utilities surveyed.

**EXHIBIT B.3
Customer Assistance Program Funding Sources for Utilities Surveyed**

Utilities	Customer/ Employee voluntary contributions	Utility contributions	Customer late fee	Federal/State Funding through County/Community Organizations	Community organizations
Austin Energy	X	X			
Denton Municipal Electric	X		X		
Garland Power and Light	X	X			
CPS Energy	X	X			
El Paso Electric Company	X			X	X
Sacramento Municipal Utility District	X			X	X
Memphis Light Gas & Water	X				
Seattle City Light and Seattle Public Utilities	X			X	

X Indicates that the utility utilizes the applicable funding source

SOURCE: OCA surveyed utilities

Program Administration

AE Discount and Plus 1 Program administration structure is similar to the utilities surveyed. Six of seven utilities (86%) administer their programs in partnership with community organizations. For one of these the county is also involved in administering the programs. Exhibit B.4 shows the customer assistance program administering entities for AE and the utilities surveyed.

**Exhibit B.4
Customer Assistance Program Administering Entities for Utilities Surveyed**

Utilities	Utility	Community Organizations	County	Another City Department
Austin Energy	X	X	X	
Denton Municipal Electric		X		
Garland Power and Light	X	X		
CPS Energy	X	X		
El Paso Electric Company	X	X	X	
Sacramento Municipal Utility District	X	X		
Memphis Light Gas & Water		X		
Seattle City Light and Seattle Public Utilities	X			X

X Indicates that the utility uses the applicable entity in administering its program

SOURCE: OCA surveyed utilities

Eligibility Criteria

The eligibility criteria used by the surveyed utilities varies significantly. Six of the seven utilities (86%) noted an applicant's income as one of their criteria. Additional criteria used by the utilities include requirements that the:

- Bill is in the customer's name;
- Applicant is a resident of the city;
- Applicant is experiencing a hardship or is on qualifying assistance programs;
- Applicant is a senior/disabled; or
- Applicant has a severe illness.

All the seven utilities (100%) surveyed indicated that they have standard eligibility criteria for their customer assistance programs. AE has developed standard eligibility criteria for the Discount Program, but currently there are not uniform criteria for the Plus 1 Program, which is administered by several separate agencies.

Performance Measures

Three of the seven utilities (43%) surveyed, and AE, measure the amount of assistance provided and the number of families assisted. In addition, AE also tracks applicants for the Discount Program. One of the surveyed utilities also measures the number of households that have become self sufficient as a result of assistance.