

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 12

TO: Community Advisory Committee

FROM: Mitch Sears, Interim General Manager
Edward Burnham, Director of Finance & Internal Operations

SUBJECT: Preliminary discussion on Collections Policy

DATE: January 20, 2022

RECOMMENDATIONS

Information item. No action is requested.

OVERVIEW

The Collection Policy is intended to govern the collection of accounts receivable that are no longer being collected by Pacific Gas and Electric (PG&E) and are due to VCE. Collecting outstanding receivables can reduce past-due balances and reduce VCE's bad debt expense, thus reducing upward pressure on rates for all other customers.

BACKGROUND

VCE's charges appear on PG&E's bills and are collected by PG&E. During the ordinary course of business, PG&E returns outstanding receivable amounts due to VCE when PG&E is no longer required to collect. Examples of circumstances in which PG&E returns receivables to VCE include:

- accounts that are closed (move outs)
- a customer has been disconnected due to non-payment
- a customer is bankrupt
- active accounts with receivables more than ~180 days past due

In March 2020, PG&E suspended disconnections as part of the state mandate and increased the threshold for returning receivables to VCE for active accounts. Receivables associated with active accounts have not been returned to VCE by PG&E, though this practice and the disconnection process will resume in the near future. California Public Utilities Commission (CPUC) extended the moratorium on disconnections to the end of September to align with the eviction moratorium and allow the utility debt forgiveness funding to work through the system before any disconnection process resumes. The CPUC also ordered those customers whose debt has not been forgiven to be placed on a two-year repayment plan.

ANALYSIS

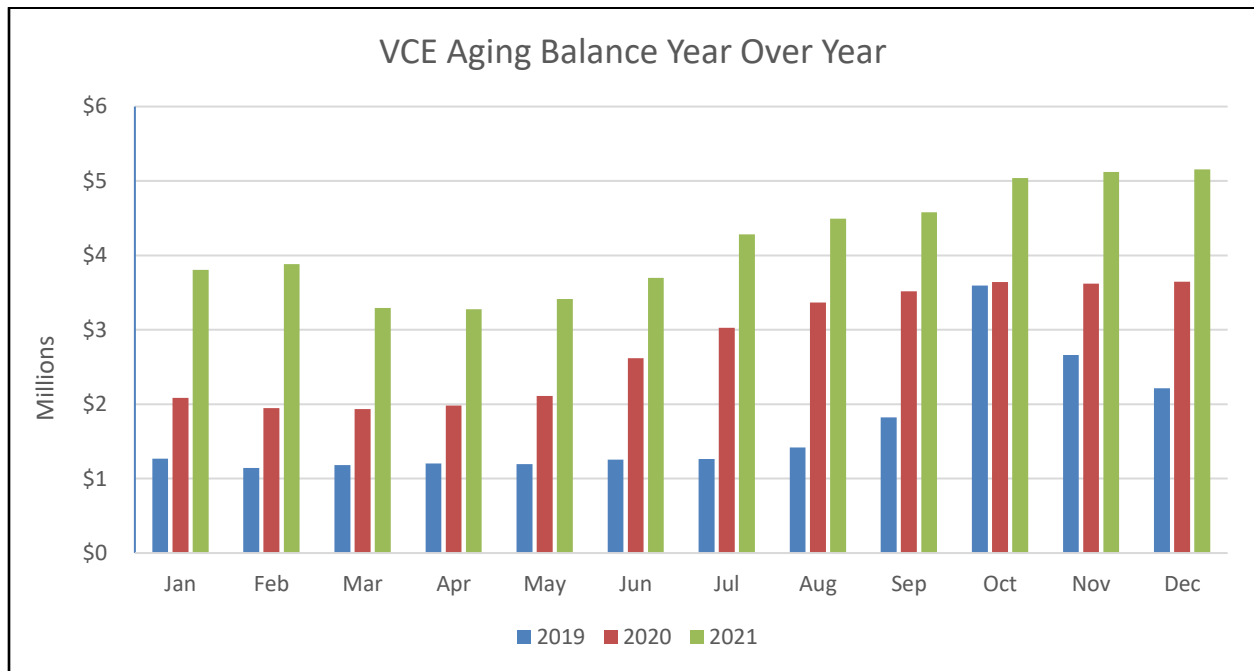
The CPUC policy decisions described above and collections by PG&E have resulted in an increase of \$1.4M for account balances greater than 120 days to \$2.9M, as shown in Table 1. below. VCE currently has a reserved balance of \$1.9M for uncollectable accounts, leaving a balance of approximately \$1.0M. The state has allocated \$1B in which VCE has received preliminary approval of over \$800K. The allocation of the funding by the state and the reserve account is helpful, but the lack of collections during COVID has cash impacts on the organization.

TABLE 1 Year Over Year – Aging Amounts by Days

| Year | 0 - 30 Days | 31 - 60 Days | 61 - 90 Days | 91 - 120 Days | > 120 Days |
|--------|-------------|--------------|--------------|---------------|------------|
| 2020 | 2,863,604 | 437,576 | 224,517 | 174,858 | 1,429,223 |
| 2021 | 3,095,400 | 1,071,500 | 656,100 | 786,700 | 2,892,900 |
| Change | 231,796 | 633,924 | 431,583 | 611,842 | 1,463,677 |

In addition to the impacts of COVID-19 on our account receivable balances, rising power costs have contributed to the amounts accumulated year over year. Chart 1 shows the year-over-year growth in receivables balances. The growing receivable balance is partly driven by delaying the annual true-up process of the receivables and the allowance of doubtful accounts. The delay was driven by the allocation from the funding from the state and planned with the Audit for FY2021-22 (6-Month).

CHART 1



To manage receivable balances effectively in the future, Staff has developed the draft collections policy. If adopted by the Board, Staff plans to establish and define internal collections processes in consultation with selected collection agent(s). Some of the issues that will be determined through the development of these operational processes include:

- Collections practices based on the total outstanding balance
- The minimum threshold below which it is not cost-effective to attempt to collect
- Conditions in which customer non-payment will be reported to a credit rating agency
- Criteria to identify customers experiencing hardship and are unable to pay in which VCE would not pursue collections for these accounts.

The customer accounts have been grouped below in Table 2 and Table 3 based on amounts and age that would be evaluated during the internal process development.

TABLE 2 – Quantity of Accounts - Aging by Days

| Bill Amount | 0 - 30 Days | 31 - 60 Days | 61 - 90 Days | 91 - 120 Days | > 120 Days |
|---------------|---------------|---------------|--------------|---------------|---------------|
| \$1,000> | 302 | 133 | 75 | 45 | 518 |
| \$100 - \$999 | 1,978 | 656 | 757 | 812 | 4,109 |
| \$50 - \$99 | 3,838 | 1,635 | 2,067 | 1,744 | 1,735 |
| \$25 - \$49 | 13,291 | 3,284 | 2,208 | 1,540 | 1,548 |
| \$0 - \$24 | 27,118 | 7,994 | 2,734 | 1,664 | 3,235 |
| Total | 46,527 | 13,702 | 7,841 | 5,805 | 11,145 |

TABLE 3 – Value of Accounts - Aging by Days

| Bill Amount | 0 - 30 Days | 31 - 60 Days | 61 - 90 Days | 91 - 120 Days | > 120 Days |
|---------------|------------------|------------------|----------------|----------------|------------------|
| \$1,000> | 1,449,600 | 586,000 | 237,900 | 81,600 | 1,339,800 |
| \$100 - \$999 | 564,900 | 181,000 | 161,600 | 149,900 | 1,339,100 |
| \$50 - \$99 | 250,700 | 108,300 | 144,600 | 123,200 | 124,800 |
| \$25 - \$49 | 458,900 | 117,300 | 81,400 | 56,800 | 55,800 |
| \$0 - \$24 | 371,300 | 78,900 | 30,600 | 375,200 | 33,400 |
| Total | 3,095,400 | 1,071,500 | 656,100 | 786,700 | 2,892,900 |

Note: amounts listed the 0-30 days are currently due amounts and are normally paid in the normal course of monthly billing cycles.

VCE plans to contract with a collection agent or agents with experience collecting electric utility bills. VCE will evaluate potential collections agencies based on customer approach and financial effectiveness. Collections agencies that have demonstrated a customer-centric approach (e.g., displaying compassion and a helpful attitude toward customers in arrears) would be given preference. At present, customers whose receivables have been returned to VCE do not have charges appearing on a current PG&E bill, are not informed that they have outstanding balances with VCE, and are not offered a method to pay VCE charges. The collection agent would provide the following services:

- Inform customers of past due amounts owed to VCE consistent with the Fair Collections Practices Act and any other laws or regulations governing collections.
- Provide methods of payment and collect past due funds from customers
- Provide reporting of amounts collected and uncollectable balances to VCE and SMUD to accurately report accounts receivable balances
- Provide customer call center services and provide customers with final VCE charges

If approved by the Board, collection activity could begin in the second quarter of 2022 with the sending of pre-collections notices to customers whose accounts receivable have been returned by PG&E. Customer outreach strategy will be similar to sister CCAs:

- VCE's customer service representatives (CSRs) would receive training on VCE's collections policy and be given direction to handle collections questions with extreme sensitivity.
- VCE's Late Payment Notification would be appropriately branded and give clear direction to customers on how they can resolve their late payments.
- The Late Payment Notification and CSR training will reference the financial resources available to customers, including programs such as payment plans available through PG&E, the Arrearage Payment Plan, and the California Arrearage Payment Plan.

CONCLUSION

If adopted, the proposed Collections Policy is expected to have a positive fiscal impact and reduce any additional impairment by reducing accounts receivable and bad debt expense and increasing cash receipts.

Attachment:

1. Collections Policy Draft

VALLEY CLEAN ENERGY

DRAFT COLLECTIONS POLICY

I. PURPOSE

- a. This policy establishes Valley Clean Energy (VCE) rules governing late payment and pre-collection notifications to customers, and the process by which a third-party collection agent will collect past due VCE charges on VCE's behalf.

II. COLLECTIONS

- a. All customers must pay all outstanding VCE charges for the period in which the customer received service from VCE.
 - i. Customers should be returned to Investor Owned Utility (IOU) services for account balances greater than 90 days and no payment plan arrangements with Pacific Gas and Electric (PG&E).
 1. Customers that fail to remain current with payment plans will be returned to IOU services.
- b. Late Payment Notifications
 - i. Customers may be sent additional late payment notice to a customer's last known mailing address or if customer consented to receive electronic notices or electronic bills, at customer's last known e-mail address if the account has a VCE balance that is 90 days or more past due and the customer is not on a payment arrangement with PG&E.
 - ii. Late payment notices will indicate that an outstanding balance is overdue and that failure to pay VCE charges to PG&E or to enter a payment arrangement with PG&E may result in being referred to a collection agent designated by VCE.
- c. Collections Criteria
 - i. Except as provided in Section b.ii, any customer account with an outstanding VCE charge that is not subject to collection by PG&E may be referred for collections to a collection agency designated by VCE.
 - ii. Customers enrolled in the California Alternate Rates for Energy (CARE), Family Electric Rate Assistance (FERA), or Medical Baseline programs at the time PG&E returns a receivable to VCE are not subject to the collections criteria in Section c.i. if the balance is \$500 or less.
- d. Pre-Collection Notification
 - i. Any customer account that meets the collections criteria specified in Section II.c. may receive a pre-collection notice informing the customer that charges owed to VCE are outstanding and that the customer's account is collectible through a collection agent designated by VCE.
- e. Collection Agent
 - i. VCE may engage one or more collection agents to collect past due funds from VCE customers on VCE's behalf (Collection Agent).
 - ii. Once VCE sends a customer account to the Collection Agent, the customer must work directly with the Collection Agent to resolve outstanding charges owed.

VALLEY CLEAN ENERGY DRAFT COLLECTIONS POLICY

- iii. The Collection Agent retained by VCE shall comply with all laws and regulations relating to consumer protection, credit reporting or monitoring, debt collections, customer confidentiality, or other similar laws or regulations.
 - iv. The Collection Agent is prohibited from selling information provided by VCE to the Collection Agent.
 - v. On no less than an annual basis, VCE shall review the practices and results of the Collection Agent and shall take immediate action to address any performance concerns.
 - vi. VCE may authorize the Collection Agent to reach settlements with customers that result in the recovery of past due funds. Negotiated settlements with a customer in the amount of \$2,500 or more must be approved by the Interim General Manager or the Interim General Manager's designee. Negotiated settlements with a customer in excess of \$50,000 original balance must be approved by the Board of Directors.
 - vii. No VCE interest, penalties, or fees will be assessed on any customer account.
 - viii. If customer has not paid within 180 days following the initiation of the collections process, the Collection Agent may file credit reporting information on the customer with all applicable credit monitoring agencies.
 - ix. Collections Agent is authorized to pursue legal action on behalf of VCE consistent with the Fair Collections Practices Act and any other laws or regulations governing collections.
- f. Executive Director Discretion.
- The Interim General Manager or the Interim General Manager's designee may, in their discretion, cancel, recall an account from the Collection Agent, or otherwise deviate from the collection process specified in this policy for reasons including but not limited to cases of unforeseeable events, exigent circumstances, or customer hardship for amounts less than \$2,500.