



UTILITIES COMMITTEE
AUGUST 16, 2017
4:00 P.M.
COUNCIL CHAMBERS

1. **WATER LEAK ADJUSTMENT PROCEDURES**
TROY WOO, FINANCE DIRECTOR
(STAFF REPORT ATTACHED)



UTILITIES COMMITTEE
August 16, 2017

SUBJECT: Water Leak Adjustment Procedures

RECOMMENDATION: Review current water leak adjustment procedures and practices.

STAFF CONTACT: Scott Spence, City Manager *SS*
Troy Woo, Finance Director *TW*

ORIGINATED BY: Troy Woo, Finance Director
Kristy Wolf, Accounting Manager *KW*
Stephanie Tonelatto, Customer Services Supervisor *ST*

ATTACHMENTS: 1. [Utilities Committee Staff Report dated May, 1, 2000](#)
2. [Internal Staff Report dated February 5, 2001](#)

FISCAL NOTE:

PRIOR REVIEW: None

BACKGROUND:

The current City of Lacey utility leak adjustment policy and procedures have been in practice since May 2000. At that time, the Utilities Committee reviewed and approved the leak adjustment policy. A change was made in February 2001 that allowed staff some discretion relating to the policy, which limits the leak adjustment to one billing cycle. This change allowed staff to grant adjustments beyond one billing cycle when customers made timely and conscientious efforts to repair leaks.

A recent utility customer leak situation prompted a review of the policy and procedures. This residential leak was quite large and involved some unique circumstances. The review included surveying other municipal water utilities' leak adjustment policies and reviewing Lacey's history of water leak adjustments.

It was found that Lacey’s policy is consistent with other municipal utilities. Below is a comparison of leak adjustment policies of nearby municipal water utilities.

	Lacey	Olympia	Tumwater	Centralia	Woodinville
Number of Utility Accounts	24,946	20,173	8,000	11,000	14,000
Repair Documents Required	Yes	Yes	Yes	Yes	Yes
Adjustment Form Required	No	No	Yes	Yes	Yes
Dollar Limit	None	None	Three Consecutive Months	Two months	\$ 2,500
Adjustment Frequency Limit	1 every 5 years	1 every 3 years	1 for lifetime of residence	No limit	1 every 5 years
Adjustment Methodology	50% reduction to leak consumption	Previous year's billed amount or last 3-month average	Previous year's billed amount or last 3-month average	Case-by-case basis	50% reduction to leak consumption plus \$75 administrative fee
Required Repair Period	30 days if discovered by City	One year	No time limit	No time limit	30 days

Upon review of the City’s leak adjustment history, leak adjustments have a significant impact on the utility’s revenues. Although the water from leaks may not be consumed directly, the water is produced, treated, and delivered. Therefore, the utility incurs expenses whether the water is used directly or not. Expenses related to leaks that are not recovered by the individual customer are redistributed to the entire rate base. The table below represents 2016 and year-to-date 2017 leak checks and the amount of leak adjustments granted.

	Leak Checks Performed	Total Adjustments
2016	375	\$ 52,150.56
YTD 2017	207	\$ 107,594.78

The table above includes leak adjustments from both residential and commercial accounts. The adjustments are not tracked individually, so specific data is not available. For reference, residential leaks can be significant, some residential leak adjustments have exceeded \$2,500.

Leak adjustment policies and procedures are challenging to establish and enforce. With leaks, conflicting interests and goals can exist. For example:

- Municipal utilities take a cost recovery approach to rate setting, so the customer equity principle of rate setting and property owner responsibility conflict with the write-off of water consumed in a leak scenario.
- Leak adjustments can be in direct conflict with the City’s water conservation efforts. Without strong leak policies, situations exist where there is little or no incentive to fix a leak.

The information is provided as a review of the administrative process relating to Lacey Municipal Code (LMC) chapters relating to the collection of utility revenues.

Date: May 1, 2000
To: Utilities Committee
From: Greg J. Cuoio, City Manager
Blaine L. Martin, Finance Director
Subject: Water Billing Adjustments – Leaking Pipes

A request has been made to review the City's policy regarding adjustments to water bills following the discovery of a leak. The following is the background and history on how the City handles this issue.

At the close of 1990, the Public Works Department adopted a policy relating to water billing adjustments. This policy designated that an *arbitrator* would be appointed (staff member) to hear customer complaints and to make determinations as appropriate. The arbitrator operates within the following parameters: 1) Water consumption, including surcharge, must be over \$100.00 in a two month billing cycle to be eligible for adjustment; 2) A one time adjustment would be made with the City absorbing 50% of the water consumption cost; 3) The leak must be repaired in a reasonable time; 4) No adjustment will be authorized if it is determined that a significant portion of the leak was due to leaky appliances, fixtures, etc. inside the structure; 5) Commercial accounts may be given a reduction in the sewer portion of their bill due to sewer charges based on water consumption; and, 6) Each circumstance will be reviewed on an individual bases. This policy focuses on the impact of leaks discovered in the service line from the water meter to the structure.

For the past several years, Finance Department employees have been administering this policy and acting as arbitrator. Customer service functions once performed by Public Works staff regarding customer water line leaks are now the responsibility of Finance personnel. Meter reading staff are usually the ones to discover service line leaks when meter readings exceed normal consumption parameters and/or by physical evidence. When a potential leak is discovered during meter reading, the property owner/resident is notified by hanging a notice on the front door. If the leak is not evident to the meter reader, the billing system software will print out an exception report that identifies accounts that have higher than normal consumption readings. Upon review and field inspection, property owners/residents are notified by hanging a door tag.

Utility customer service representatives, with the assistance of meter readers, work with the property owner/resident to determine the potential location and nature of the leak. They are also authorized to approve payment plans requested by the customer where they are not able to pay the adjustment amount at one time. It has also been our experience to see insurance companies paying their policyholder's consumption cost due to the leak.

We must keep in mind that the City's responsibility for waterline maintenance and repair only extends to and through the water meter. Generally speaking, upon explanation of the City's policy, customers express satisfaction and gratitude for the reduction in their bill and the assistance provided.

Staff Report

Date: February 5, 2001

To: Greg J. Cuoio, City Manager

From: Blaine L. Martin, Finance Director
Tim McGuire, Finance Manager
Kae Barker, Customer Services Supervisor

Subject: Customer Account Adjustment – Leaks

Objective:

To revise the guideline for adjusting customer accounts upon detection and resolving water loss do to a waterline service leak.

Present Situation:

Since the time Rich Cobb was Public Works Director, the City has operated on the standard that upon discovery of a service leak (on the customer's side of the meter), the City would reduce *one* bill, reflecting the impact of the leak, by fifty percent. However, the water charge had to total more than \$50 or \$100 for a bimonthly bill in order to be eligible for adjustment.

Generally speaking, the leak is discovered by a meter reader or through the bill calculation process. (A notice is hung on the front door to notify the occupant of the suspected leak.) It is amazing how many customers do not respond to minor leaks and seem willing to pay the bill as opposed to hiring a plumber. On the other hand, significant leaks add up to a lot of money very quickly, especially if the meter is read every other month. Under these conditions, a customer's response is more timely. Once the repair has been completed, the adjustment is made to their bill or to one of their bills if there has been more than one billing reflecting the impact of the leak.

Proposal:

It is proposed that the guiding standard for adjusting water leak adjustments should be based on the customers timely and conscientious effort to resolve the problem regardless of the number of billing cycles impacted by the leak. The adjustment will remain at fifty percent of that amount exceeding the normal consumption for the customer's account history.

Advantages:

1. Provides greater flexibility to address the individual circumstances of the customer and the amount that can be adjusted.
2. A more responsive and "caring" customer service attitude.

Disadvantages:

1. A very minor reduction in water sales revenue.