Staff Report Item17

TO: East Bay Community Energy Board of Directors

FROM: Howard Chang, COO & Treasurer

SUBJECT: **Accounts Receivable Reporting and the Uncollectable Revenue Rate Update (Informational Item)**

DATE: July 15, 2020

Recommendation

Receive information on EBCE accounts receivable reports and approve a staff recommended increase in the uncollectable revenue rate for April, May, and June of 2020 from 0.5% of revenues to 1.5% of revenues.

Background and Discussion

EBCE utilizes PG&E provided reports as well as reports based on internal reconciliation completed with the assistance of SMUD as our data management & billing vendor. These reports track information on late payments, unpaid accounts, and other delinquencies. Collectively these are known as Account Receivable Reports, or AR Reports, and the accounts are referred to as "aging" accounts.

Historically, EBCE has included AR aging information from PG&E's Utility Direct Customer (UDC) AR report in the quarterly Treasurer's Report. The UDC report includes active customers, as well as closed accounts that are within PG&E's collection window of 35 days following termination. PG&E's policy allows it to disconnect or terminate an account as early as 17 days after payment due date if the customer continues to be delinquent.

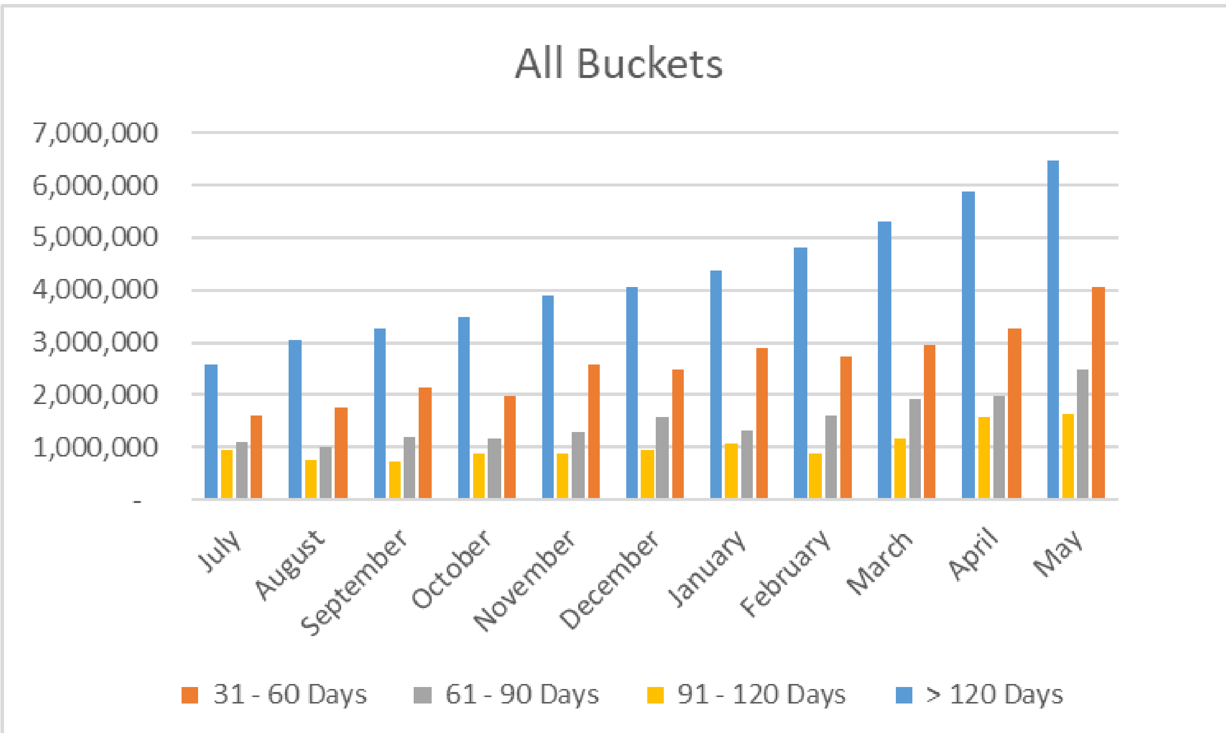
Beginning with this fiscal year ending June 30, 2020 fourth quarter presentation of the Treasurer's Report, EBCE will be presenting two improvements to the Customer Delinquency section. The first is the addition of a fourth aging bucket of 120+ days, and the second is the inclusion of terminated account balances.

Aging accounts receivable will be presented in four buckets of 30-day increments past the payment due date. The earliest bucket will be 31-60 days, and the oldest bucket will be 120+ days past due. Most outstanding balances in the 0-30 day bucket are generally resolved within that timeframe and not much of an indicator of true account aging.

In addition to the bucket change, EBCE will begin including terminated accounts in the total dollar values. As stated earlier, PG&E's UDC report did not carry forward uncollected balances on closed or terminated accounts beyond 35 days and the addition of these dollar amounts will increase the aging amounts materially. There were other non-material changes to the AR reporting process to reconcile differences between billing dates and other reporting definitions.

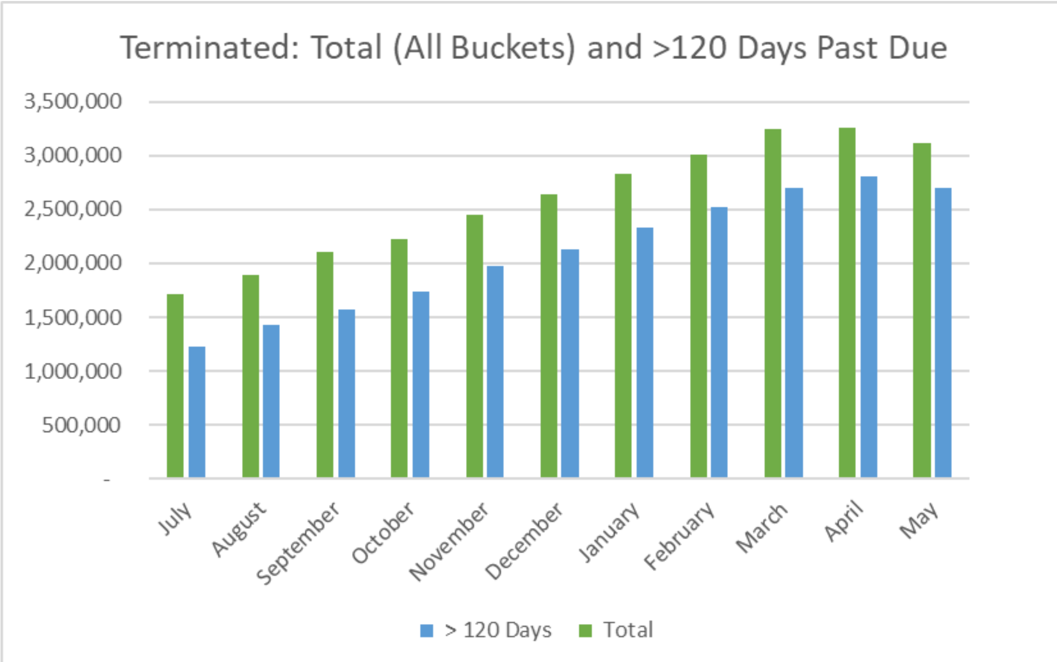
Staff believes that this is a more accurate reflection of AR aging and more appropriate since budgeted uncollectables have not yet been officially written off as collections policies are pending. Adding these changes adds more value to the Treasurer's Reports on aging balances by increasing transparency in reporting an aspect of the business not previously reported, and ties these amounts to the values estimated with the uncollectable balance in the budget and aspects of the financial statements.

With the updated reporting methodology, the AR aging data is as follows:



We see a steady growth in the >120 days bucket. The bucket is largely made up of terminated accounts. These accounts can include customer initiated account closings as well as disconnected customers by PG&E. While it is difficult to predict the probability of payments, this aging bucket represents the highest risk for write-offs. All other buckets show an upwards trend, but month to month may increase or decrease, which reflects continued payments by customers.

We do see a noticeable increase in April and May in the 31-60 and 61-90 days aging buckets. It is believed that this is due to the current moratorium on disconnections and economic impacts of COVID-19. Historically, EBCE has budgeted 0.5% uncollectable revenue in a non-COVID-19 environment. This totals approximately $4.3 million from EBCE inception through June of 2020. Total terminated accounts balance is just over $3.1 million in that same timeframe, with about $2.7 million in the >120 days bucket. At this time it is difficult to determine how much will ultimately be uncollectable and written off, particularly in light of our suspended collections policy.



With the new fiscal year budget, passed by the Board in June, the uncollectable estimate was updated to 2.5% of revenues for the new fiscal year in anticipation of COVID impacts In light of the increase in aging buckets in April and May, Staff is recommending an increase in uncollectable revenue for April, May, and June (Q4) to 1.5%. This adjustment will increase the uncollectable balance by about $1,060,000, which will carry through to an equal reduction in net revenues in the fourth quarter financial statements. Total uncollectables since inception would then total approximately $5.4 million.

With actual revenues through May already known, Staff is estimating approximately $10.3 million in net position for the fourth quarter, and about $62 million for the fiscal year, under the current 0.5% uncollectable assumption. Staff believes that increasing our uncollectables by an additional $1 million in light of COVID is a responsible measure. This would reduce our estimated 2019-2020 net position to approximately $61 million. If EBCE does not actually see uncollectables increase in this manner, then additional revenues would simply accrue to the 2020-2021 fiscal year.

Despite the recommended increase in % of uncollectables, staff is taking measures to mitigate this risk. This includes engaging with the CPUC on payment plan requirements, proactive enrollment in CARE/FERA, and evaluation of collections methodologies.

Fiscal Impact

Approving the increase in uncollectable revenue estimates from April, May, and June from 0.5% to 1.5% is expected to have a $1,060,000 decline in Fiscal Year 2019-2020 net revenues.