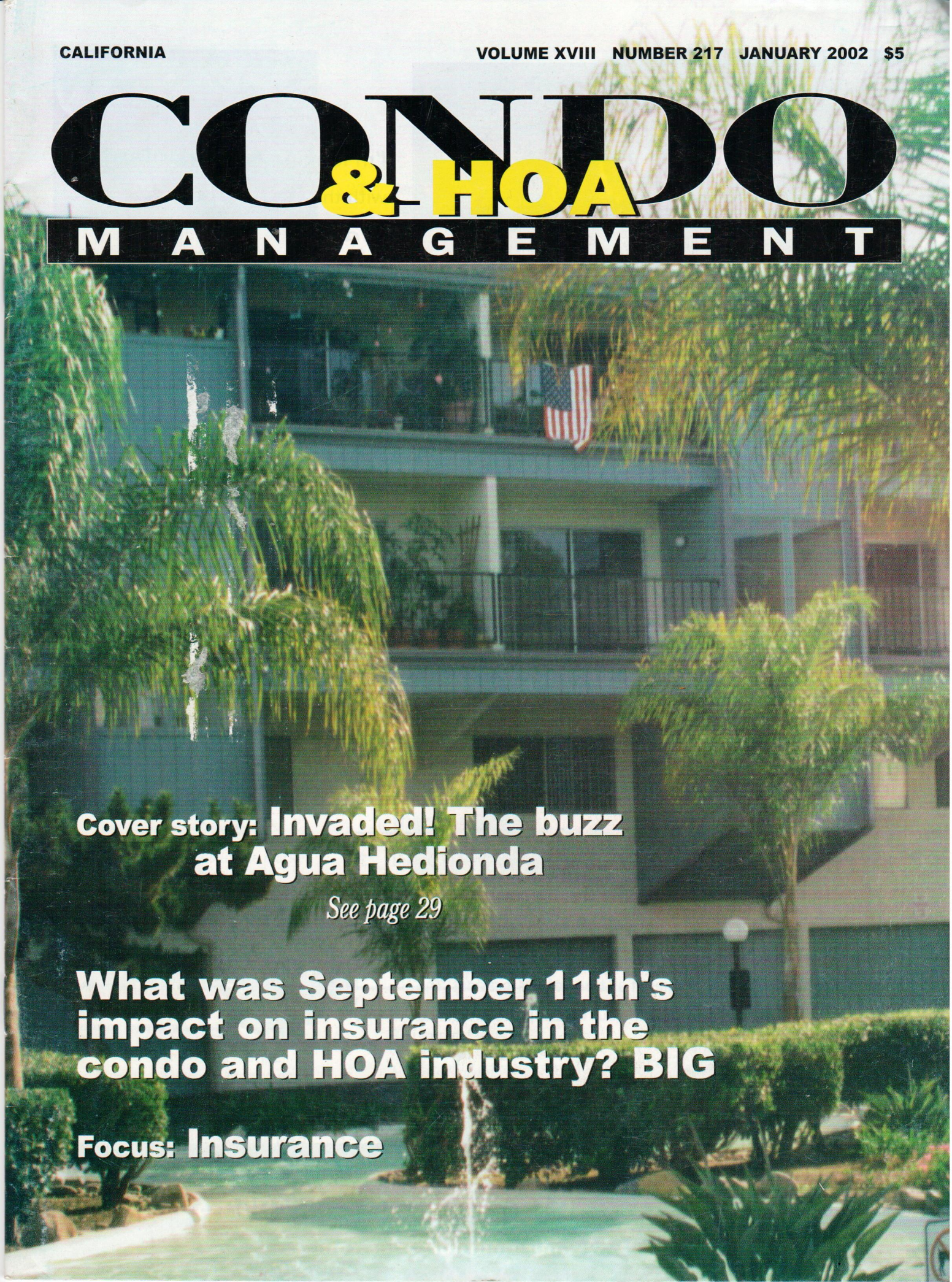
CALIFORNIA VOLUME XVIII NUMBER 217 JANUARY 2002 $5

CONDO & HOA MANAGEMENT



Cover story: Invaded! The buzz at Agua Hedionda

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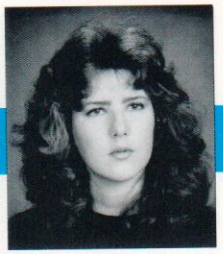
What was September 11th's impact on insurance in the condo and HOA industry? BIG

Focus: Insurance

Throwing money away on utility bills



BY ERIN KELLY

Believe it or not, the vast majority of associations pay their utility bills largely by guesswork. Since these services are vitally essential to your operations, you assume the need and pay the asking price without question. In so doing, you are probably paying considerably more than you should. This fiscal carelessness stems from three misconceptions.

Believe it or not, the vast majority of associations pay their utility bills largely by guesswork. Since these services are vitally essential to your operations, you assume the need and pay the asking price without question.

Misconception No. 1 — State public service commissions establish utility rates and compel the utility companies to see that customers receive the lowest rate – and that such action is enforced. The fact is that for all practical purposes utilities actually establish their own rates. State public commissions recognize the fact that the initiative for making and changing rates lies with the utilities themselves. Utilities are subject to varying degrees of regulation in most states. However, in actual practice, the interpretation and application of rates by utility companies are given broad latitude and vary greatly. In the final analysis, state public service commissions are fundamentally concerned with the overall picture of rates — and then only with respect to the total annual revenue yielded–by a utility company.

Most state commissions declare their policies regarding rates as follows: "This"commission does not require that utility companies guarantee to commercial or domestic or industrial consumers the lowest available rates for a given operation. When two or more rate schedules or types of service are available, it is the customer who must make the final decision as to which type of service they desire. If the customer guesses wrong as to which rate schedule or what type of service will be most economical, the utility cannot be required to reimburse them for their mistakes."

Misconception No. 2 – The–Federal Power Commission exercises direct authority over utility rates. The fact is that the Federal Power Commission has no control over your local gas or electric rates. The Public Utility Act of 1935 gave the Federal Power Commission regulatory powers over interstate wholesale rates of electric utilities. The Natural Gas Act of 1938 broadened regulations by the Federal Power Commission to include transportation and sale of natural gas in interstate commerce. Sounds good, doesn't it? But you do not buy utility services on an interstate basis. Therefore, the Federal Power Commission has no jurisdiction over your area.

Misconception No. 3 —Utility companies automatically give customers the best rate obtainable. The truth of the matter is the power companies themselves state the selection of rates is the customer's responsibility. Since the full facts are often not available to the customer, the selection of the lowest rate is commonly a matter of guesswork for anyone but skilled analysts with unlimited rate information.

This may be alarming news to many of you and should be explained. The answer lies simply in the fact that a utility may have as many one hundred or more rates, and many utilities are serving in excess of one million customers. This is particularly true in the electric industry, which has progressed from the light bulb to the multitude of uses for electricity. With the advent of each new use, many utilities created new rates especially designed to encourage and promote that use.

With the advent of new rates, optional rates, special class rates, etc., the utilities are quick to point out that they are serving thousands of customers and that it is physically impossible for them to police the uses to which their services are put after it passed through their meter. On this premise, your utility company does not guarantee to the individual customer the lowest and best rate they might offer. Their wording is usually as

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UTILITY BILLS

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follows: "The Company does not guarantee that customers will be served under the most favorable rate at all times and will not be responsible for notifying the customer of the most advantageous rate."

What can you do about it?

If you have been shocked by the knowledge that the responsibility for the selection of rates lies squarely on your shoulders, then maybe you should do something about it.

The best answer to the problem of technical audit and selection of utility rates lies in the availability of competent, professional utility rate consultants who specialize in this field. After all, would you perform your own surgery, represent yourself in court, or fix your automobile without the extensive education and experience required in each of these areas? A utility audit is no different! The good news is that it costs nothing up front, and any utility savings garnered for the association is split with the utility auditor *after* the utility savings are realized by the association!

■ Erin Kelly is Director of Operations at Pacific Utility Audit Inc. in Markleeville, California. They operate in California, Nevada, Oregon, and Washington.