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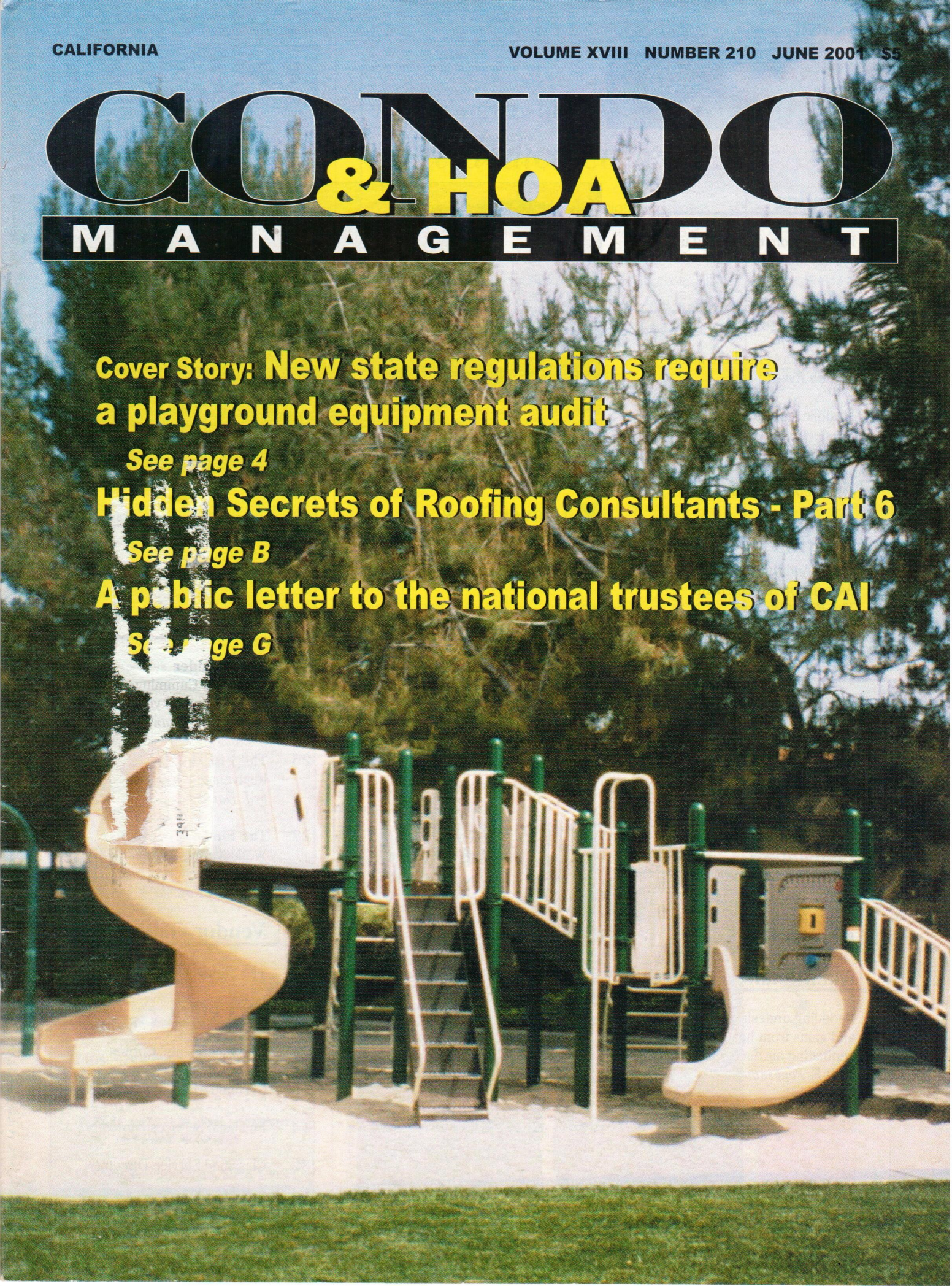
CONDO & HOA MANAGEMENT



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UTILITY AUDITING & ASSOCIATION MANAGEMENT

The Bill of Wrongs

BY ERIN KELLY

Mention the word "audit" to most people and you'll likely get a grimace in response. Most individuals think of audits as something that costs them money. But did you know that there's a type of audit that can actually save you money? It's a utility audit, and its goal is to save you money on your utility bills.

During the drought, water became a commodity for the first time in history. Then, recycling of trash became mandatory due to statewide legislation. Trash removal providers became franchised, leaving the consumer with no choice of vendors, enforced recycling of trash and the highest trash pick-up rates in history. Sewer and storm drain fees were the next utility to skyrocket in cost due to increased development and the need for more sewage pumping and processing stations. Finally, due to the deregulation of both gas and electricity, we are now or will shortly be paying the highest gas and electricity prices in history. Do you see a trend?

While every association depends on electricity, refuse, telephones, gas, and water to make its common areas functional, most associations believe that there is little they can do to lower the cost of these services. Some associations manage to lower utility consumption by improving conservation practices. Others control costs by limiting the range of common-area services they use. Most associations pass the costs on to their homeowners. Yet *most* associations simply pay their utility bills without challenge!

Few boards of directors or property managers understand the details that make up an association's utility expenses. Utility bills are confusing and cryptic. And they're getting more complex, which means they are more prone to error, whether computer-, system- or human-induced. If any association is paying more than it should for the utilities it uses, that money is coming straight out of its operating and reserve monies, which ultimately come straight out of the homeowners' pocketbooks!

Mention the word "audit" to most people and you'll likely get a grimace in response. Most individuals think of audits as something that costs them money.

A utility audit can help end this waste. It's not a classic audit where accountants scour your books looking for errors, then charge you outlandish fees. The utility auditor has one goal: to save you money. They make sure their customers are paying only what they're supposed to pay, in the manner they should be paying it, at the promised price, and at the best price. Utility auditors examine monthly utility bills, searching for overcharges, improper rates, incorrect billings, unused services, and overlooked tax benefits. When the auditors find utility billing errors, they help clients get refunds.

Sounds simple. But if you think this job could easily be handled in-house by a board member, property manager, maintenance personnel, or homeowner, think again. Individuals who haven't studied the technical side of utility billing could be getting in over their heads. It is possible that they could alert the utility companies to a utility *undercharge* without the proper knowledge. Not only does this cost the association even more money in future utility expenses, the association will receive a *retroactive bill* to cover the utility billing undercharge. Auditors bring technical knowledge and experience to the job that will more than likely produce greater savings than any in-house individual could, not to mention the fact that they can discover utility billing undercharges without alerting the utility companies, then let their clients know about these utility undercharges discreetly. Also, because utility auditors usually operate on a commission-only basis, you pay nothing unless the utility audit results in refunds, credit adjustments and/or reduced utility bills.

Where do these utility savings come from? Here are a few things a utility auditor knows that you may not know:

- Utility companies are not required to give any customer the lowest possible rates; it is up to the customer to ask for it. To do that, the customer must know that lower rates exist and what are those rates.
- Your association may be paying for utility services it doesn't use. These could be duplicate accounts of services it does use or simply unnecessary services.
- The utility company may not be obeying all state regulations. As a result, it may apply rates or collect taxes

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BILL OF WRONGS

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that are contrary to state rules and regulations.

- There may be cheaper ways to obtain the necessary utility service. The auditor can recommend other sources that could provide the same service at a lower rate.

The auditor's success depends on a thorough knowledge of rates, codes, utility regulations and billing procedures. To this technical foundation, very experienced auditors add statistical techniques to locate abnormalities in the client's data, on-site inspections of all client meters, and legal expertise in negotiating with the utility company or city to get a refund for the client.

One often misunderstood concept of utility auditing is that only a local utility audit company can perform the auditing service. Often, clients feel that unless a utility audit company is local, the auditors will not be familiar with their utility company's billing procedures and/or location. In fact, a utility audit company that works in several states has a much better perspective of various utility rate and billing applications and a much better database of clients. This helps the client tremendously because that expanded knowledge, experience and perspective are the keys in any negotiations or litigation with the utility company. When the utility company or city is shown that they way they are applying or interpreting a rate, billing procedure, or tax is not consistent with hundreds of other utility companies throughout several states, they are often forced to admit that they overcharged the client. This can only happen if they utility auditors have this multi-state data, experience and knowledge – not just local expertise! Additionally, on-site inspections should be performed by all utility auditors, whether local or not, so again, location of the utility auditor is not a primary concern.

A utility audit benefits an association in two ways. The immediate benefit, of course, is the refund check or credit adjustment. Money unnecessarily paid to the utility company is back where it belongs – in the association's reserve funds. But while refunds and credit adjustments are nice, the real benefit lies in future utility savings. The association is now paying less for its utilities and is in control of its utility expenses. With greater control of these expenses, the association can plan better for future budget requirements.

A utility audit is no-risk and requires minimal effort. Good business sense says that if the service is available, you'd be silly not to use it.

The **Summit at Pacific Palisades Association** received a total of $30,669.49 in credit adjustments issued to the association from the Department of Water and Power, as well as a reimbursement check of $4,013.34 from one of their sub-associations. The master association's annual utility budget has been reduced by approximately $5,250 in sewer service utility costs, $25,000 in water utility costs, and $2,437.44 in electric utility costs – a grand total of $32.687.44 in annual utility cost savings that will continue indefinitely into the future! These actual utility cost reductions are the result of simple corrections of utility billing errors for twenty of the association's water/sewer accounts.

The **Sierra Heights Homeowners Association** received a refund check of $22,497.52 issued to the association from the City of Riverside. The association's annual utility budget has been reduced by approximately $7,500 in water utility costs. This actual cost reduction is the result of simple corrections of utility billing errors for five of the association's water accounts and gives the association an annual utility bill savings of $7,500.

The **Rancho Santa Margarita Landscape and Recreation Corporation (SAMLARC)**, which is comprised of many parks, street medians and homeowners associations, has received a total of $63,560.73 in refund checks from their various utility companies, a private party (where SAMLARC had been inadvertently paying for one of their electric meters), an adjoining property owner (where SAMLARC had been inadvertently paying for one of their water meters). In addition to this $63,560.73 refund, SAMLARC's annual utility budget was reduced by approximately $17,823.15 in water costs, $7,743.09 in gas costs, $78

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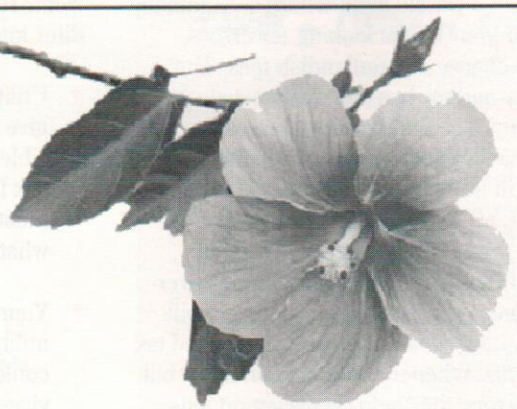

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HEAT LOSSES

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wrapped around circular ducts or cemented to surfaces of rectangular ducts.

Testing methods

The effectiveness of thermal insulations for heating and ventilating air ducts is determined primarily by an ASTM test denoted as C-335. In essence, the insulation system is affixed to an electrically heated tube of significant length. Thermocouples are affixed to the inner and outer surfaces of the insulations. After the system has been thermally activated and equilibrium has been reached, temperature and heat addition data are taken, from which thermal R values are determined.

Specifically, heat losses and gains through walls, roofs, and windows receive prime attention because these losses and gains are usually of significant magnitude.

There is an additional test method that can be performed in-situ. Specifically, air temperature measurements along the length of heating and cooling ducts are made and air flow rates measured. From such information, one can determine the effectiveness of the insulation surface heat losses or gains for the insulation system under evaluation.

Conclusion

The building architect and heating and ventilating engineer have significant choice from the different kinds of duct insulation materials available in the marketplace. It is recommended that test results be requested for a given system being considered, as well as information on the installation of the insulation system. The reason for making this recommendation is that insulation performance should be verified and installation care taken so that performance surprises do not occur after the insulation has been installed.

■ H.F. Poppendiek is the president of Geoscience Ltd. in San Diego, California.

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in telephone costs, and $19,182.46 in electric costs – a grand total of $44,826.70 in annual utility cost savings! These actual utility cost reductions are the result of either the correction of utility billing errors or the placement of several of SAMLARC's utility accounts on less expensive utility rate schedules.

The **Villa Seville Homeowners Association** received a total of $6,365.68 in refunds issued to the association from the City of Port Hueneme. The association's annual utility budget has been reduced by approximately $4,800 in sewer utility costs and $3,600 in electric utility costs, which comes to a grand total of $8,400 in annual utility savings. These actual utility cost reductions are the result of either the correction of utility billing errors or the placement of several of the association's accounts on less expensive utility rate schedules.

The **West Colony Homeowners Association** received a total of $8,011.07 in refund checks issued to the association from the City of San Bernardino and Southern California Edison Company. The association's annual utility budget has been reduced by approximately $2,263.32 in electric utility costs – a grand total of $10,274.39 in utility cost savings. These actual utility cost reductions are the result of either the correction of billing errors or the placement of several of the association's accounts on less expensive utility rate schedules.

Combined, these five associations have uncovered $200,125.80 in the form of refunds, credits and/or adjusted utility bill savings – all thanks to utility audits. Also, these five associations will see a combined savings of $103,688.53 in their annual utility costs – a savings that continues indefinitely into the future. What kind of savings can your association achieve?

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