For Board Members and Property Managers of Co-ops and Condos™

HABITAT ARTICLE ARCHIVE

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ABSTRACT Submetering – one of the most challenging projects a building can ever face, as well as an opportunity for shareholders to conserve energy and control their own electric bill's destiny.

ARTICLE TEXT

It's not hyperbole to say that one of the most challenging projects a building can ever face is submetering. Here's how it works: co-ops and condos are master-metered, direct-metered, or submetered. In master-meter buildings, electricity comes into the building and is run through a master-meter before the power flows into each individual unit. The whole building gets one electric bill and usually buys electricity at a cheaper, bulk rate. Residents pay with their monthly maintenance and are charged by the room or by another formula.

Many times surcharges are added for energy-gulping appliances. In direct-metered buildings, each unit has its own meter and each resident gets his or her own bill from Con Edison, paying for what they use. In this case, residents don't get the break of buying electricity in bulk. Submetering combines the best of both worlds. Power comes in through the master-meter but then flows into each unit, which has its own meter. Submeters can either be placed physically in each apartment or housed in an electrical closet or in the basement. That way, buildings can buy in bulk, but each resident only pays for what is used. Buildings often contract out to a meter reading company, which sends bills to the management office. It includes the charges in maintenance fees.

The very act of submetering is a social sea change – a board is asking shareholders to pay directly for something that they had previously received without paying for their actual usage (electrical costs have always been passed along through maintenance fees). Gung-ho boards, submetering companies, and energy consultants say there are several routine arguments they rely on to convince shareholders to tackle a submetering project: ultimate economic advantage, environmental consciousness, and the fairness of paying for what you use.

But are there other methods – more "outside-the-box" ways – to entice boards and shareholders to climb on the submetering bandwagon? Many experts think so. If the building is particularly flush, the board may even offer to pay residents' full electric bills for a few months if they agree to submetering, suggests Gregory J. Carlson, executive director of the Federation of New York Housing Cooperatives & Condominiums. "What you're talking about is how do I win over these shareholders? The greatest incentive is money," he says.

Carlson would like to go beyond economic incentives to submeter. (The New York State Energy Research and Development Authority offers submetering incentives under its Multi-Family Performance Program. For more information, see "Green Report: NYSERDA Primes the Pump," Habitat, June 2007.) "I say we should mandate submetering and there would be disincentives if you don't do it," says Carlson. Master-metered buildings typically get cheaper bulk rates; Carlson suggests that perhaps they'd have to pay full freight if they're not going to submeter.

Currently, in order to get a submetering project passed, the state Public Service Commission requires that a majority of voting shareholders approve the project. Carlson says he'd like to see a world where a board can decide unilaterally. "People have elected board members to make decisions," he says. "Once you take it from the board and put it to the shareholders it becomes a political issue." Carlson has brought up his ideas with the Public Service Commission but admits that no one is taking his ideas seriously. (Yet.)

One submetering carrot that most buildings use is to reduce the monthly maintenance by a certain amount to reflect the fact that shareholders are now paying directly for their apartment's electrical usage, says Lewis Kwit, president of the energy consulting company, Energy Investment Systems. Kwit gave this example: if a monthly maintenance bill is $1,500, say about $100 of that is electrical costs for the apartment and the common areas. Figure that $75 of the electric costs is attributed to the apartment. Then, consider that if a building goes to submeters, the board can also eliminate air conditioner (AC) fees, which often are about $20 per unit per month. If a family has three air conditioners, those two savings alone can whack about $135 off a shareholder's expenses each month. When it comes to reducing maintenance to reflect a submetering change, Kwit says, "Boards should be liberal about it."

But Kwit has other ideas, too. He is currently talking to several boards about submetering projects and one of the "sweeteners" he's suggesting is to offer enticements for energy-efficient appliances. If a building approves a submetering project, the board could work out a deal with appliance stores so residents can get special price tags on new energy-efficient appliances. The board could borrow money or use reserves to offer loans to shareholders so they can upgrade refrigerators, ACs, and dishwashers.

When it comes to talking shareholders into submetering, many people argue that it is a matter of fairness. The theory is that it is unjust for the energy miser to pay the same maintenance fee as the energy hog. But Kwit disagrees with that tack. “Getting up and talking about energy abusers is very polarizing,” he says, noting that when people bought their apartments, utilities were included in maintenance.

“When you’re submetering, you’re changing the deal,” Kwit says. Instead, he argues that boards should point out that if a building does not submeter, shareholders are losing out on a chance to save. Turn off the lights or AC in a master-meter building and your maintenance remains the same; do that when you’re submetered, and you see the savings.

When it comes to encouraging submetering, Kwit also says it is imperative that the full board be enthusiastic about the project. And he suggests that board members be armed with information to share with the residents. “It’s much easier to have people in the building that are knowledgeable sell it than [having] a consultant [do that],” he says.

Experts agree that education is a key element to getting shareholders to agree to submetering. Tom Sahagian, manager of the energy division at the energy-consulting firm Power Concepts, says he makes it personal when he talks to boards and residents by bringing in his own electric bills. Sahagian shows his electric bills from a time when he had an old refrigerator and used traditional lights and compares it to when he bought a new energy-efficient model and used compact fluorescent bulbs. “My consumption dropped by half,” he says. “It’s a pretty dramatic graphic.”

Jerry Fund is the president of the Automatic Meter Reading Corporation, a manufacturer of submeters that reads, bills, and makes collections as well. He says there have been some big changes in selling submetering since he started work decades ago. It used to be that it was hard to talk a board into a project, but now “boards are the movers and the shareholders are dragging their feet. It’s because of the cost.”

Once a building agrees to submeter, one of the ways to avoid sticker shock and make the transition run more smoothly is through what is known as shadow billing, says energy consultant Herbert E. Hirschfeld. After the submeters are installed and while shareholders are still paying for electricity through maintenance, they receive notices that indicate what they would have paid that month for their electrical usage.

“A lot of people who live in co-ops have never gotten an electric bill their whole lives,” he says. “It gives them an opportunity to become acquainted with the real world.”

Hirschfeld adds that shadow billing also gives building managers a chance to work out any potential kinks in the system, such as the rare instance where wiring problems lead to false readings. Hirschfeld routinely recommends at least two months of shadow billing and he advises boards to try to schedule submetering so residents don’t get their first bills in the summertime when ACs are running and costs soaring. “That scares the heck out of people,” he says.

Overall, shareholders at Clinton Hill Owners Corporation in Brooklyn were enthusiastic about submetering at the 1,221-unit co-op. (About 75 percent of the units are shareholder-owned with the rest occupied mostly by rent-stabilized residents.)

The idea was first raised around 1998 and the project was completed in 2002 and, as part of the process, board president John Dew says they did six months of shadow billing. The bills initially showed shareholders their average electrical use broken out from their monthly maintenance bills. Then, the shadow bills showed residents what they would actually be paying for their usage.

“I can tell you we got screamed at a lot by certain shareholders,” Dew says. But once the real bills started showing up, there was less outrage from the vocal minority. “Many shareholders began to practice certain forms of conservation,” he notes. “They didn’t leave the TV on all night, they were more conscious about turning off the lights. It gave the shareholders an opportunity to control their own electric bill’s financial destiny.”