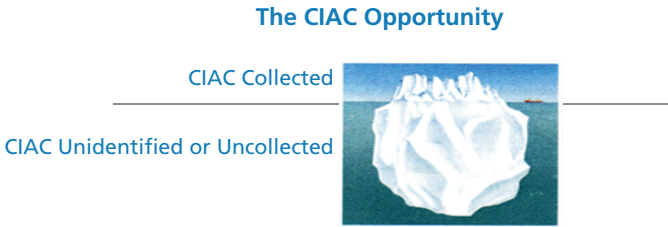


Reinventing the New Business Construction Organization (Part 2)

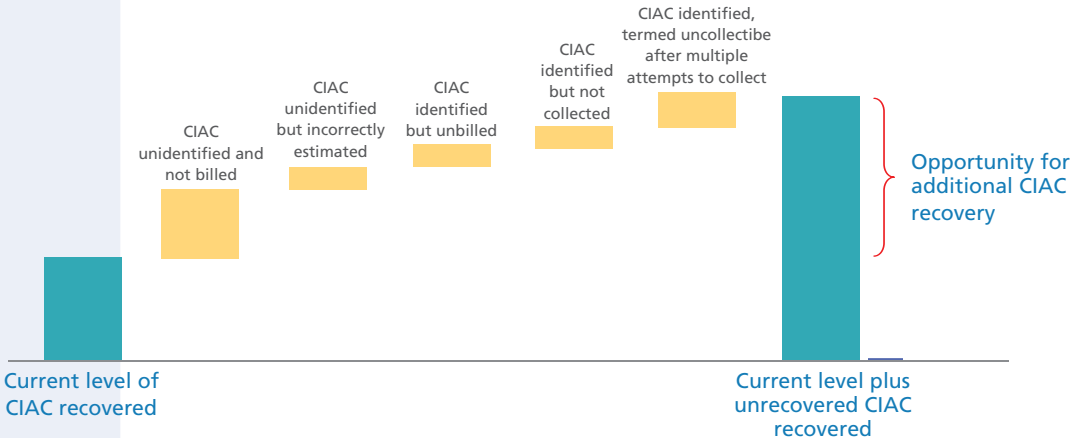
Free Money: Uncovering CIAC Opportunities to Increase New Business Profitability and Reduce Regulatory Risk

For many utilities, missed opportunities to collect the appropriate amount of new business contribution in aid of construction (CIAC) funds can amount to millions of dollars being **left on the table**.



Based on our experiences, Oliver Wyman believes there is an opportunity to increase **CIAC collections, minimize the utility’s potential for disallowances, and reduce customer complaints associated with inconsistent treatment and the economics of cross-subsidization**. Sources of this opportunity are illustrated in Exhibit 1.

Exhibit 1 Sources of unrecovered CIAC



Two critical questions should be considered by new business construction leadership teams:

- What are the **drivers** of this CIAC opportunity?
- What **solutions** will effectively capture these opportunities?

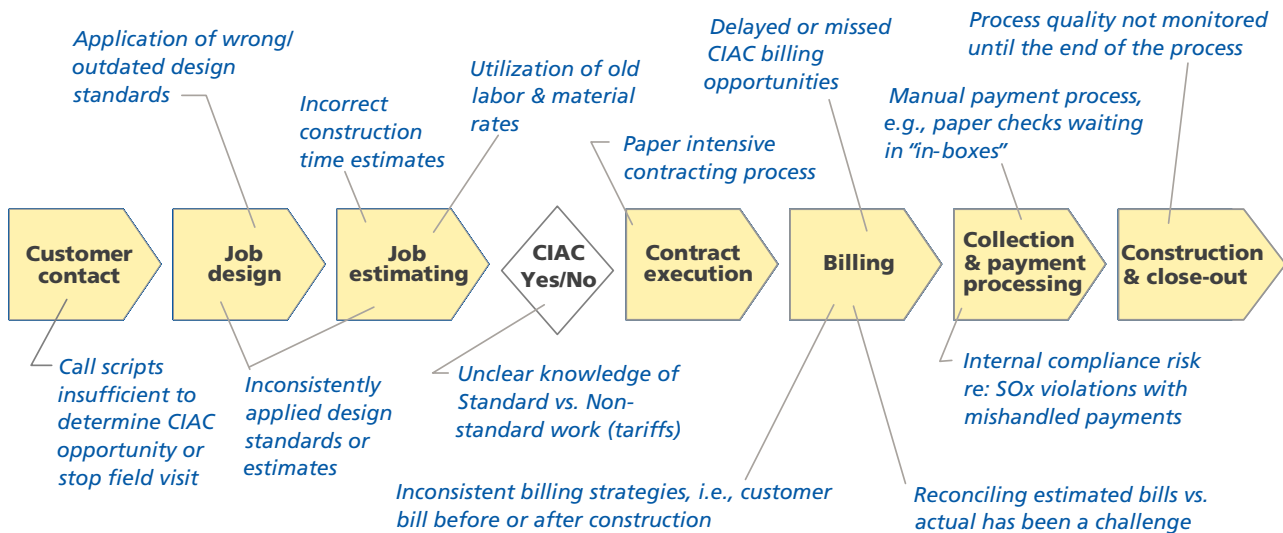
Challenges with CIAC

New business organizations provide the building community with new electric and gas service, relocations, voltage upgrades, overhead-to-underground migration, and other services. These services, in many cases, are supported by customer cash injections based on specific regulatory guidelines and standards. Drivers that hinder the appropriate and complete recovery of CIAC are:

- **Design quality:** Utilization of antiquated design standards and inaccurate labor rates and construction completion times can create inaccurate estimates and missed opportunities.
- **Inaccurate identification of CIAC:** Complex or unclear procedures to identify non-standard work causes some CIAC projects to go undetected.
- **Unwillingness to charge customers:** Designers and field crews can feel uncomfortable asking for CIAC fees.
- **Inefficient processes:** Manual activities, ownership questions, and lack of management attention create a need for redesign of the billing and collection process.

Oliver Wyman has identified some of the more critical root causes that contribute directly to the need to overhaul the CIAC recovery process (Exhibit 2).

Exhibit 2 Issues associated with the CIAC recovery process



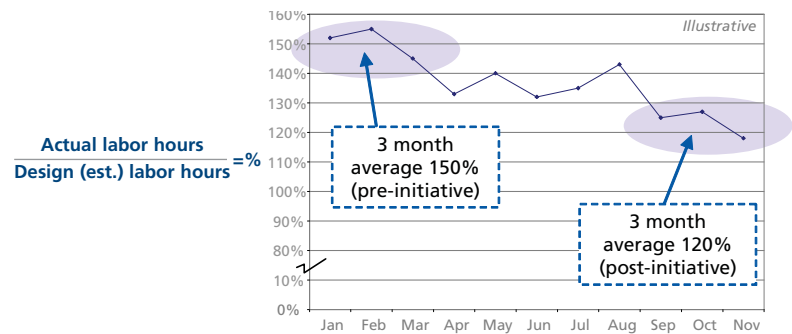
In our work with new business leadership, common themes we have identified include inconsistent treatment of customers across various regions and an inability to treat CIAC as an end-to-end process with clear ownership assignment. These challenges can introduce the risk of customer satisfaction impacts, rate recovery disallowances, SOx violations associated with collections, or other potential legal actions.

Best Practice Observations in CIAC Collections

We believe **leading companies are executing better** across a number of key elements:

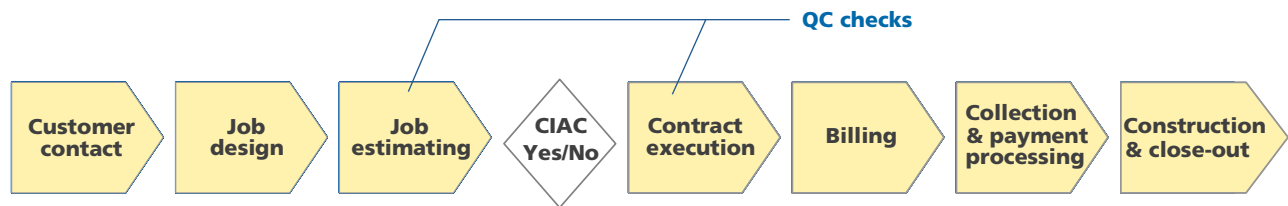
1. Design accuracy: Leading companies possess a passion for accurate project designs and associated cost estimates, and have a keen focus on continuous quality improvement. They update their design standards frequently, offer training to interpret the design standards and estimating toolkits, and actively monitor compliance. One client found that after analyzing, then identifying the source of the accuracy problems, it was able to dramatically improve design estimates versus actual “as-built” (Exhibit 3).

Exhibit 3 Client example: actual labor hours as compared to estimated hours



2. Effective use of quality control “checks”: Leading companies are able to embed quality reviews early in the process. These reviews focus on design completeness, design accuracy, design efficiency, and revenue capture (Exhibit 4).

Exhibit 4 Quality control checks must be placed early in the process



3. Identification of non-standard work: Leading companies are able to accurately and consistently identify standard versus non-standard work, often via extensive training for designers and other field support. For one utility, of the projects we sampled, 40 percent of those reviewed did not correctly identify non-standard from standard work.

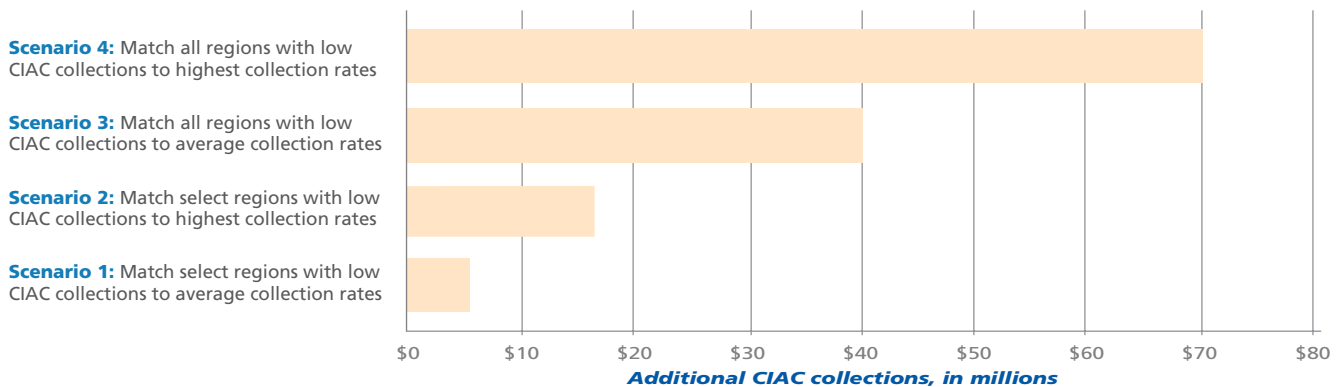
4. Timing of billing activities: Leading companies select a billing method that ensures prompt and accurate billing while minimizing downstream collection risk. One client’s strategy was to bill up front, based on accurate estimates, and then if necessary “true-up” after project close out. This minimized write-off exposure and drove “proper” behaviors from the builder community.

5. Collections discipline: Leading companies aggressively manage the payment collection process to reduce working capital and bad debt exposure. One client identified inconsistencies in payment terms and collections practices across a sample of projects (e.g., a hospital project was billed and collected halfway through construction). This drove the implementation of a new policy that standardized collections and introduced “customer payment” control points.

Opportunity Scenarios for Increased CIAC Recovery

The potential opportunity associated with unrecovered CIAC can be difficult to estimate. One approach involves statistical sampling across projects to establish a proxy for a go-forward business case. One utility estimated the potential improvement in collections by creating and validating a series of scenarios, with its conservative case suggesting a \$5 million opportunity (Exhibit 5).

Exhibit 6 Opportunity scenarios for increased CIAC



Summary

Missed opportunities to collect the appropriate amount of contribution in aid of construction (CIAC) funds can amount to tens of millions of dollars, and opens up the door to potential regulatory risk associated with non-recovery of capital invested. Improvements to CIAC collections come from examining both the end-to-end process (top down) and individual projects (bottom-up).

- Process analysis will uncover bottlenecks, manual activities, handoffs, etc.
- Strong fact based, data driven analytical view will uncover opportunity areas and root causes
- Organization review can re-establish accountability and realign the new business leadership team's goals and objectives
- Quality review "pilot" can secure rapid results

Opportunities for Managers

- Do you have an opportunity to increase CIAC collections?
- Do you know where the opportunity is within the process?
- Do you understand the root causes of the CIAC shortfall?
- Is your company aligned on the action plan ... the "fix?"
- Is there clear accountability and ownership for CIAC improvement?

To read **Reinventing the New Business Construction Organization (Part 1)**, please click [here](#)

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Oliver Wyman is building the leading global management consultancy, combining deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm works with clients across a range of industries to deliver sustained shareholder value growth. We help managers to anticipate changes in customer priorities and the competitive environment, and then design their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities.

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Our dedicated consultants have significant experience in the energy and utilities sector. Previous clients include more than 75 electric and natural gas utilities in North America and Europe, as well as a range of unregulated service providers to energy companies and utilities.

Corporate strategy	Performance improvement	Organization transformation & restructuring	Mergers & acquisitions
Generation <ul style="list-style-type: none">• Power plant competitiveness• Outage and maintenance management	Transmission and distribution <ul style="list-style-type: none">• Network investment and asset management• Work management & field force productivity• Enterprise operating model redesign & reorganization	Customer operations <ul style="list-style-type: none">• Meter-to-cash process management• Call center operations• Electronic billing and payment processing• New business construction	Corporate and support functions <ul style="list-style-type: none">• Support services cost reduction• Supply chain and value sourcing• Shared services value expansion

Practice Director

David Hoffman
617.424.3414
david.hoffman@oliverwyman.com

Performance improvement

Jeff Elliott
312.902.7971
jeff.elliott@oliverwyman.com

Marty Jacobsen
212.345.2135
marty.jacobsen@oliverwyman.com

For additional information, visit our website at:
www.oliverwyman.com