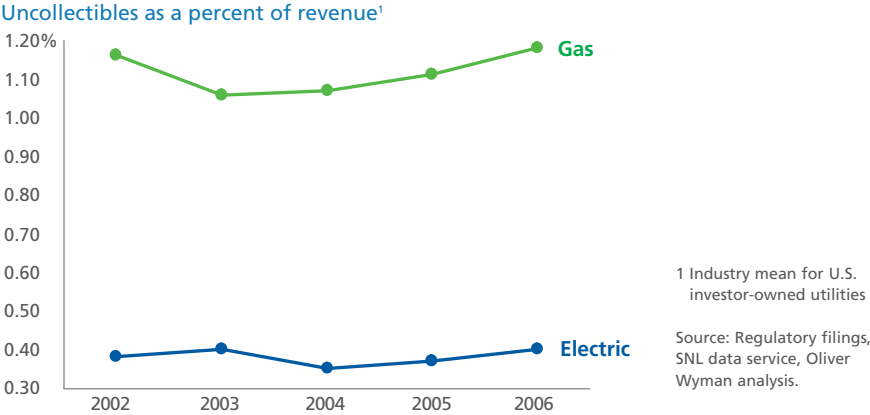


# Managing Meter-to-Cash Performance

## You Can Improve Collections Despite the Economic Downturn

Accounts receivable are climbing for many electric and gas utilities across the country, and rising commodity prices and seasonal cold weather are not the only culprits. A weak economy marked by sub-prime mortgage woes, slow growth, and more layoffs is also contributing to utilities' deteriorating collections performance.

Exhibit 1 **Rising uncollectibles levels**



Utilities with passive credit and collections policies, loose process discipline, and ineffective low-income-assistance programs are struggling. Even companies that are more assertive and effective in these areas are being challenged by today's economic conditions.

This is why a well-structured, comprehensive credit and collections strategy is vital for weathering difficult economic times. The strategy should include many functions, not just Customer Service but also Regulatory Affairs, and even Distribution crews. It should address both able-to-pay and low-income customers, and cover a customer's entire life cycle with a utility: from applying for service, to moving, to service disconnection. Ideally, the strategy should leverage utility personnel, external vendors or contractors, and other relevant outside organizations such as low-income-assistance or social services agencies.

# Meeting the Challenge

We have found that the most effective approach to addressing the credit and collections challenge is to act along three dimensions:

- **Process effectiveness** – get the most from existing collection practices, and find and close any process gaps
- **Customer segmentation** – allocate scarce collection resources, and target and time actions to maximize collection performance
- **Policy design** – revisit key policies to ensure that they encourage the right behavior among able-to-pay customers and provide maximum assistance and minimum churn among low-income customers

Exhibit 2 **Three-pronged approach for managing and improving collections performance**

Process effectiveness	Customer segmentation	Policy design
<ul style="list-style-type: none"> <li>• Raise the effectiveness of upstream work to improve downstream collections performance               <ul style="list-style-type: none"> <li>– Customer sign-up</li> <li>– Meter installation and reading</li> <li>– Billing</li> </ul> </li> <li>• Ensure process discipline throughout the organization               <ul style="list-style-type: none"> <li>– Positive ID and deposits</li> <li>– Payment arrangements</li> </ul> </li> <li>• Aggressively pursue able-to-pay customers               <ul style="list-style-type: none"> <li>– Collections</li> <li>– Disconnects and reconnects</li> <li>– Final bills and recovery</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Segment customers based on key demographic data in addition to behavioral, credit, and payment factors, for example:               <ul style="list-style-type: none"> <li>– Rent vs. own</li> <li>– Tenure as customer</li> </ul> </li> <li>• Assess, by customer group:               <ul style="list-style-type: none"> <li>– Response rates to various collection techniques</li> <li>– Most effective process timeline</li> <li>– Use and effectiveness of deposits</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Take full advantage of current regulation, including:               <ul style="list-style-type: none"> <li>– Timing of actions</li> <li>– Payment arrangement designs</li> <li>– Amounts required to avoid disconnect or be reconnected</li> <li>– Use of landlord-tenant rules</li> <li>– Aggressive collection from C&amp;I customers</li> </ul> </li> <li>• Leverage low-income-assistance programs and rates, and use of third parties</li> <li>• Explore longer-term changes to regulations that impede performance</li> </ul>

Let’s look at each dimension in more detail.

# Improving Process Effectiveness

We typically find three lines of inquiry to be especially useful in diagnosing performance issues and identifying changes to improve collection results:

- **Upstream root causes.** Poor upstream process effectiveness often contributes to collections problems. Look for symptoms like call center failures when customers are requesting service, meter installation and information issues, or prolonged estimated reads, which all adversely affect the ability to collect.
- **Process discipline.** Loose supervision, monitoring, and process adherence (often manifest in many improperly waived deposits or payment arrangements with low up-front payments) again

hurt collection results. More importantly, they set the wrong expectations with customers. Find out where you have good policies that are not being followed, in order to take action to raise process discipline and adherence.

- **Assertiveness of credit and collection practices.** Customer satisfaction is a primary objective of all utilities. Yet managers have to balance that goal with their financial responsibility. Identify where collections practices and policies seem passive and seek to understand if such practices are warranted.

Exhibit 3 shows typical questions that a manager can ask regarding credit and collections process effectiveness.

Exhibit 3 Collections process effectiveness – key issues and questions

Potential Customer	Customer	Customer	Ex-customer	Customer	
1) Sign up customers	2) Bill and monitor customers	3) Communicate and collect money	4) Sign off customers	5) Recover loss	6) Reconnect customers
<b>Call center</b>					
<ul style="list-style-type: none"> <li>• Are we effectively obtaining and verifying customer information?                             <ul style="list-style-type: none"> <li>– Positive ID</li> <li>– Credit scores</li> <li>– Amounts owed as prior customers</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Do we require deposits for all appropriate new customers?</li> </ul>	<ul style="list-style-type: none"> <li>• Are we effectively establishing payment expectations and reminding customers (outbound calling)?</li> <li>• Do we adhere to our payment arrangement criteria/requirements?</li> </ul>	<ul style="list-style-type: none"> <li>• Have we evaluated the potential to report charge-off customers to credit agencies; to increase our leverage?</li> </ul>	<ul style="list-style-type: none"> <li>• NA</li> </ul>	<ul style="list-style-type: none"> <li>• Do we develop “tough” reconnection payment and identification requirements (taking full advantage of regulations)?</li> </ul>
<b>Meter &amp; field services</b>					
<ul style="list-style-type: none"> <li>• NA</li> </ul>	<ul style="list-style-type: none"> <li>• Do we take aggressive action to read meters, especially for delinquent customers where missed reads hamper collections?</li> </ul>	<ul style="list-style-type: none"> <li>• Do we get maximum value from field collections, e.g., require “significant” payment at premise to avoid shut-off?</li> </ul>	<ul style="list-style-type: none"> <li>• Do we have sufficient field resources and credibility?                             <ul style="list-style-type: none"> <li>– High percent of eligible disconnect orders worked</li> <li>– Post-moratorium field capacity increased</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• NA</li> </ul>	<ul style="list-style-type: none"> <li>• Do we rigorously adhere to reconnection policies (e.g., same-day reconnection deadlines, use of overtime)?</li> </ul>
<b>Billing and collections</b>					
<ul style="list-style-type: none"> <li>• Do we require deposits based on credit and other segmentation criteria?</li> </ul>	<ul style="list-style-type: none"> <li>• Do we ask for deposits when customers become delinquent?</li> <li>• Do we apply partial payments in a way to maximize our overall collection leverage?</li> <li>• Do we have integrity of customer and billing data to support collections?</li> </ul>	<ul style="list-style-type: none"> <li>• Do we segment and target our efforts to get the most value?</li> <li>• Do we move quickly to start collection and termination actions?</li> <li>• Do we design “assertive” payment arrangements (taking full advantage of PUC regulations)?</li> </ul>	<ul style="list-style-type: none"> <li>• Are we able to effectively collect from “complex” accounts (landlord, medical, summary bills)?</li> <li>• Do we charge sufficient fees to cover collection and reconnection costs?</li> </ul>	<ul style="list-style-type: none"> <li>• Do we use internal and external resources to aggressively go after “final-ed” accounts?</li> </ul>	<ul style="list-style-type: none"> <li>• Do we charge collection and termination fees?</li> </ul>





