

The Winter of Discontent

Strategies to contain the damage of higher commodity prices

This winter could have severe consequences for many utilities and their customers. Higher commodity and fuel prices will likely cause rates to rise as much as 40% in some U.S. regions. That is certain to provoke widespread anxiety among customers, particularly those in lower-income households, as well as outrage among some legislators and media outlets. In turn, utilities may also see their own costs rise sharply.

As a result, utility executives will have to contend with an unusual set of performance, cost, and earnings challenges:

- **Spikes in billing inquiries** as “rate shock” causes more customers to question their bills and contact utility call centers, demanding an explanation or appeasement. More and longer calls could drag down call center performance.
- **More collections-related activity** such as inquiries, special payment arrangements, and disconnects will generate additional work throughout customer service operations as middle- and low-income customers find it more difficult to pay their bills.
- **More field activity** as some customers refuse to be satisfied with phone explanations and demand on-premises meter tests.
- **Increased efforts to solve complaints filed with public utility commissions** as customers’ dissatisfaction with their bills leads to more formal complaints.
- **Lower revenue (net of commodity or fuel costs) and operating margin** as some customers lower their thermostats to reduce electricity or gas usage.
- **Increased interest among consumers and regulators in Low Income Home Energy Assistance and similar programs**, with possible political repercussions when these programs are not able to assist everyone.

Utilities that don’t adequately anticipate and plan for these scenarios could find themselves caught in a public relations debacle that erodes customer satisfaction, cost structures, and the goodwill that they need for future rate requests. Their predicament could turn worse if enough customers are left without heat during the winter.

A thoughtful and coordinated crisis strategy, by contrast, presents utilities with an opportunity to maintain or even improve customer satisfaction if customer concerns are dealt with promptly, fairly, and consistently. The strategy should anticipate the responses of consumers, regulators, the media, investors, and other stakeholders. It should involve several functions—not just the Customer Service function but also Corporate Communications, Regulatory Relations, and Demand-Side Management, in order to minimize the impacts on costs, earnings, and customer satisfaction.

Which customer touchpoints will matter?

To develop an integrated strategy, utility executives should first evaluate all customer touchpoints to discern where potential issues might arise, as shown in the exhibit below. Identifying the touchpoints that matter will help managers pinpoint where to establish response and mitigation plans.

Exhibit **Points of pain**

Customer touchpoints	Potential issues	Operations affected
Request new service	Customers complain to new service representatives	New service delivery
Receive reliable power	Decreased customer patience with service interruptions and outages	Call center, distribution troubleshooters and crews
Outage and restoration	Increased demand for faster restoration	Call center, distribution troubleshooters and crews
Receive bill	Increased number of bills going through exception processing	Billing – exception management
Understand bill (e.g., consumption, charges)	Customer confusion around drivers of higher charges increases call volumes	Billing, customer communications, media relations, energy management programs
Call with questions or complaints	Increased call volumes from customers requesting explanation of charges Training customer service representatives around issues behind increased call volumes	Call center, customer communications, media relations
Pay bill	Increased late payments, delinquencies, and write-offs	Billing, credit and collections
Determine payment arrangements	Increased number of payment arrangements requested	Billing, credit and collections, call center, energy management programs
Call to PUC or senior executive to complain	Increased number of complaints	Customer relations
Increase interest in payment assistance programs	Limited financial flexibility to assist, escalated complaints	Customer service and customer relations

Next, managers should estimate the implications of each issue on customer satisfaction and company finances. For example, changes in call volumes and durations, delinquencies, charge-offs, and field service workloads will have various impacts on utility operations.

First stop: The call center

The call center tends to be the first place where utilities experience issues with rising utility bills. More calls regarding high bills, more payment arrangement calls, and eventually more reconnect or payment calls can swamp utilities that have not adequately prepared. Increased call volumes can amplify the peaks and valleys of typical call patterns, making it more difficult to efficiently schedule and manage staff.

Well-prepared utilities will put in place a strategy to predict, monitor, and adjust to the call volume impacts. Such a strategy will likely address several components:

- **Interactive voice response (IVR) systems.** An IVR system can serve as the first line of defense for price-related calls. Communicating the issues to customers early in the IVR structure or providing special queues for these inquiries can help manage the volume of calls that reach representatives.

- **Customer service representative preparation.** With reps handling more calls, they must be well-prepared, since callers will likely be those most affected and agitated by rate increases. Special call scripts coupled with ample training will allow a call center to weather the storm.
- **Policies to deal with customers appropriately.** Much of the increased volume will consist of customers who pay their bills late or “work the system.” Utilities must move up the customer’s list of payment priorities. Becoming more firm with payment arrangements, developing more robust credit scoring criteria, or forcing customers to use the IVR for credit calls may help mitigate the effects of more calls.

Second step: Credit and collections

Credit and collections is another vulnerable area. Higher fuel prices and rates will increase a utility’s credit exposure; assuming that consumers maintain the existing payment cycle, the balance of receivables will also rise, squeezing cash flow.

Anticipating this problem, some utilities are reviewing deposit coverage guidelines and forming plans to respond to a higher volume of requests for payment assistance or installment programs. This involves allocating scarce resources to a much larger collection effort. For example, some collection departments are stepping up marketing of electronic payment options. Utilities will need to act on these customer requests quickly in order to optimize levels of working capital, uncollectibles, and collection costs.

Credit and collections questions

- How much credit do we extend to customers? What is our policy regarding deposit coverage? Should we increase it to reduce our credit exposure?
- Are collection resources focused on the highest credit-risk customers? When do we take action on delinquent accounts, and if delinquencies rise, what will this do to work volumes?
- How can we move higher in the customer’s payment priorities?
- Do our payment plans both satisfy customers and keep administration to a minimum?
- Do we have consensus on how aggressive we will be on collections? What reviews are in place to ensure that we don’t disconnect someone at risk?
- What is the financial impact from increased carrying costs and collection activity?

How will your actions be perceived?

Perception can be as important as reality, since it drives customer satisfaction measures. In addition, media characterizations of a utility in its home service territory—greedy monopoly or caring corporate citizen—will influence future rate increase requests.

During a period of sharply rising utility bills, targeted communication to customers is especially important. The goal is to build or repair goodwill with customers and offer potential solutions to those who have difficulty paying. There are fairly inexpensive ways to communicate the utility’s position:

- **Use existing channels.** Additional messages and information through bill inserts, on the bill itself, IVR systems, or the company Web site can inform and influence customers at a minimal cost.

- **Tailor the message.** Some customers may be satisfied with a simple explanation of the realities of current energy markets and how price increases affect electric or gas bills. Explaining how the utility has little control over fuel prices, buys energy at competitive prices, and therefore cannot control bill increases, may be enough for these customers. Others may require a more sophisticated or detailed response, and utilities may want to offer advice about how customers can reduce their electric bills and improve the energy efficiency of their homes or businesses. Utilities may also want to promote collections and payment programs.

Before the chill winds blow

The time to marshal resources is before December and January bills go out. Setting expectations among stakeholders for how and why bills will rise, and building awareness (if not agreement) about the causes and issues, could temper the erosion in satisfaction and limit the surge of calls. It's also critical to muster employees and prepare them for the additional workload. The window of opportunity for utilities to get ahead of the coming storm is closing soon.

Questions for managers

- Who are the stakeholders that will be most affected by increasing fuel prices and how will they react?
- Do we have adequate plans in place to manage these reactions effectively and efficiently?
- Are we missing any opportunities to help customers deal with this problem? What can we do to improve perceptions of our efforts?
- Are our plans well understood by internal stakeholders? Is our organization on point and ready for execution?
- Where are opportunities to redeploy resources within Customer Service?
 - Areas of process inefficiency
 - Activities that drive work volume out of proportion with the value produced
 - Opportunities to change customer behavior in ways that eliminate work

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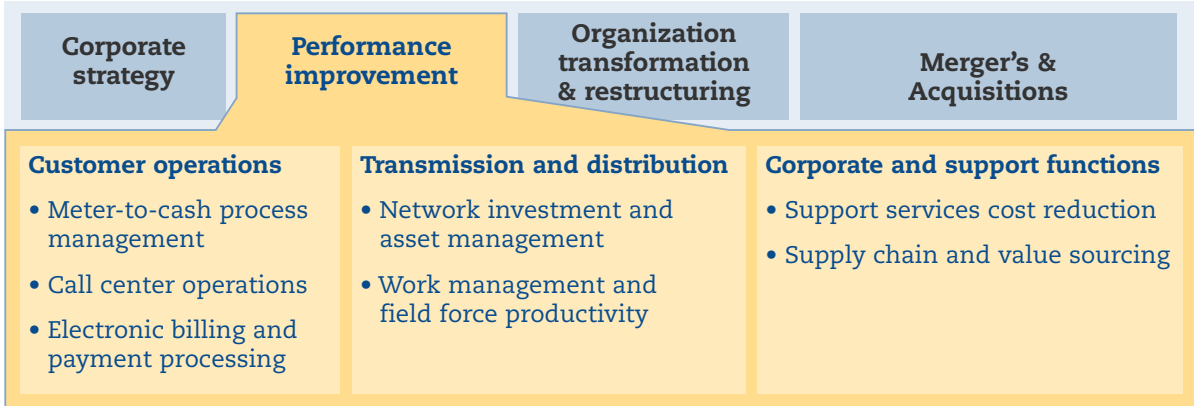
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