

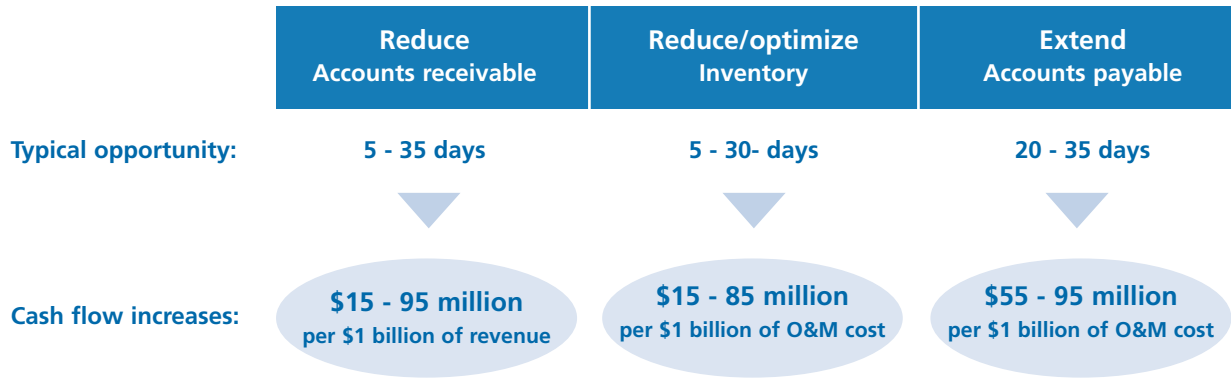
Working Capital Management

As companies look to improve earnings in their core businesses, we at Oliver Wyman believe that a significant opportunity exists for most utilities to more aggressively manage their working capital and cash flow. In particular, our experience has shown that:

- High variability in performance exists among utilities, with some companies operating at up to seven times the working capital levels of their peer group
- Beyond just improving the balance sheet, addressing the root causes of excess working capital can streamline day-to-day operations and improve earnings

Our clients have been impressed with the savings—up to 50% of working capital and 5-15% of related expenses (e.g., infrastructure, labor and financing).

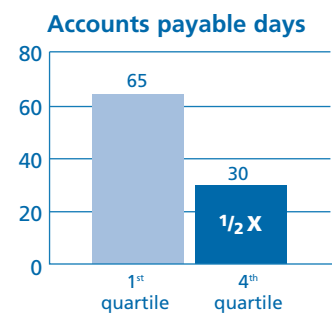
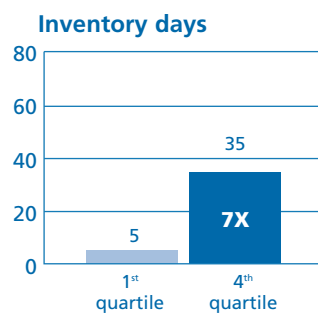
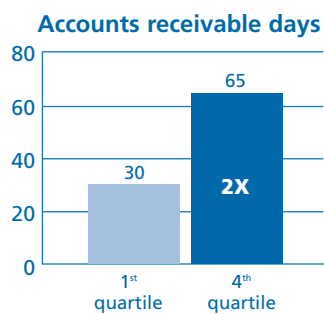
Many utilities have a significant opportunity to improve cash flow by reducing working capital.



Eliminating excess working capital can also boost earnings by reducing related infrastructure, labor, and financing costs.

Action	Earnings impact
Reduce accounts receivable	<ul style="list-style-type: none"> • Reduce bad debt through accelerated collections • Lower labor costs as receivables become more current (collections, terminations, etc.) • Lower interest expense as cash flow increases
Reduce/optimize inventory	<ul style="list-style-type: none"> • Decrease warehouse space • Reduce obsolete inventory • Lower staffing levels • Lower interest expense and depreciation
Extend accounts payable	<ul style="list-style-type: none"> • Optimize price/terms/discounts tradeoff • Lower potential interest expense as payment terms are renegotiated

There is a wide range in performance among utilities, offering significant improvement potential for many.



Oliver Wyman's approach to working capital management produces fact-based, timely, and durable results.

Elements of Oliver Wyman approach:

- **Short diagnostic** phase to size the opportunity and align improvement efforts with areas of greatest potential
- Identification and realization of **"quick-hit" opportunities** to build momentum and produce near-term benefits
- **Holistic review** of processes, versus organizational (silo) view
- Focus on **effects of upstream activities** on downstream activities and results
- Development of **ongoing performance measurement** practices and incentives
- Transfer of knowledge to staff through joint working teams
- Leveraging of **Oliver Wyman's experience** and knowledge of critical leverage points
- Application of relevant **benchmarks and best practices**

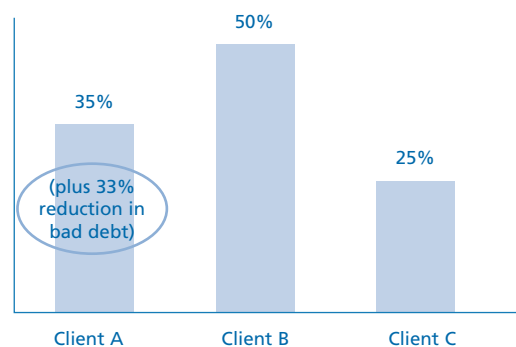
▶ **Fast results**

▶ **Lasting results**

▶ **Informed solutions**

Our clients have realized significant benefits.

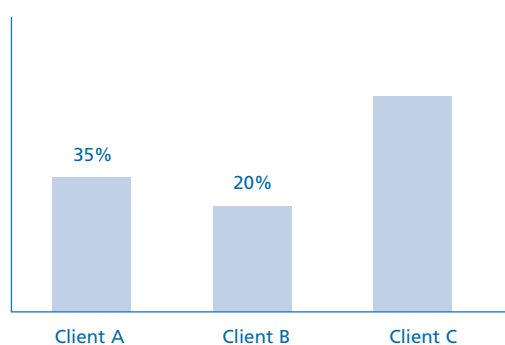
% reduction in accounts receivable



A/R reduction strategies

- Greater "upstream" focus on account initiation and validation
- Improved invoice accuracy
- Segmented, redesigned collection process
- Improved termination process
- Rigorous work-down of outstanding balances

% reduction in inventory



Inventory reduction strategies

- Integration of supply and demand planning
- Redesign of supply chain strategy
- "Pull-based" replenishment model
- Reduced cycle times

Questions for managers

What are current performance levels?

- By category (A/R, Inventory, A/P)
- In aggregate

What are targeted performance levels?

- Comparison with benchmarks
- Incorporation of best practices

What is the value of the opportunity?

- Cash flow
- Earnings
- Other

What is the plan to realize the value?

- Timeline
- Actions
- Resource needs

To learn where your company stacks up in Oliver Wyman's Working Capital Benchmarking Database, contact Jeff Elliott in our Utilities practice at (312) 902-7971.

Oliver Wyman

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.

www.oliverwyman.com

Oliver Wyman's Energy Practice

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.

Practice areas include:

Corporate strategy

M&A (targeting, synergy analysis, and post-merger integration)

Performance improvement

- In-Market Experimentation
- Working capital
- Marketing
- Organization and staffing
- Wholesale and delivery
- Supply chain
- Support services

Practice Director

David Hoffman, Managing Director
617.424.3414
David.Hoffman@oliverwyman.com

Customer Service

Jeff Elliott, Director
312.902.7971
Jeff.Elliott@Moliverwyman.com