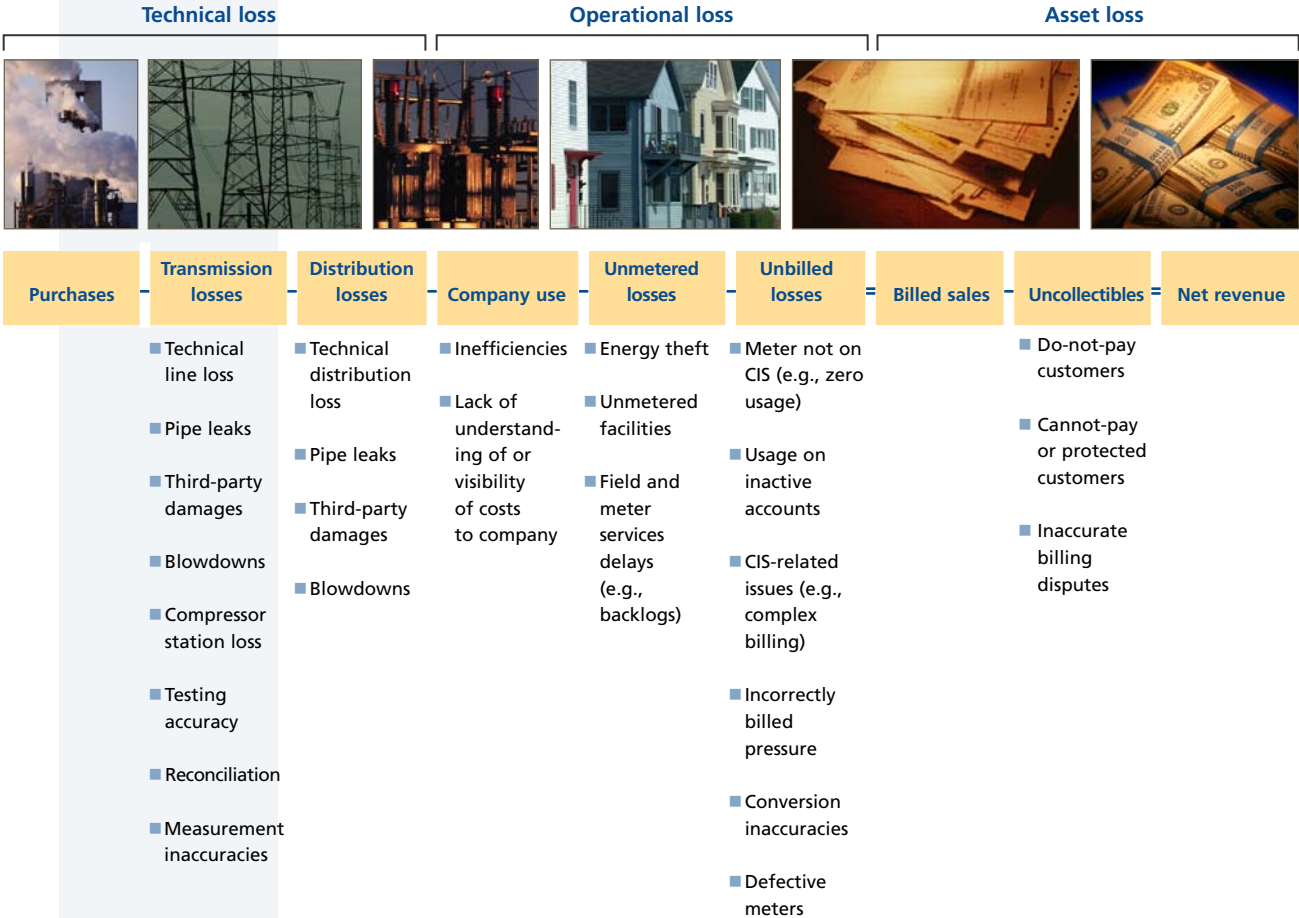


# Reducing Revenue “Leakage”

For most utilities, leaked revenue from theft, meter errors, uncollectibles, and other issues can amount to tens of millions of dollars per year. This problem exacerbates the financial challenges caused by increased competition and customer choice, heightened regulatory scrutiny, and the slow growth or decline in household energy consumption, as well as the earnings pressure caused by shifting commodity prices.

Addressing revenue leakage serves to increase cash flow and improve operational efficiency. This *Perspective* helps utility managers understand and minimize the problem, which occurs throughout the steps shown below.

Typical revenue leakage for a gas and electric utility



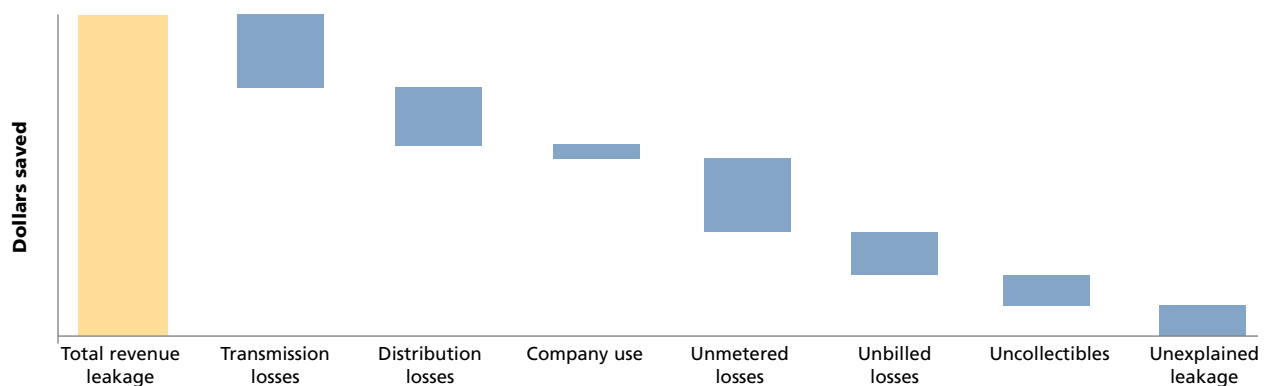
## Elements of a plan

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Industry surveys estimate that between 3.5% and 7% of revenue is lost because of theft, fraud, tampering, and meter errors. The first step in reducing revenue leakage is to discover where it exists in your operation, size the various sources, and then estimate potential savings. Oliver Wyman has developed several methods to accomplish this step quickly. Examples include:

- Reducing the backlog of new service orders linked to revenue
- Mapping of the billing system process to understand and reduce billing exceptions
- Sampling of accounts with unbilled usage
- Implementation of gas leak measurement pilot programs
- Sampling of defective meters

Sample output: revenue leakage and potential savings (illustrative)



## Opportunity examples

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*Uncollectibles* – One client found a \$50 million opportunity (equal to 1% of an average utility’s revenue) to decrease uncollectibles. We uncovered what drives uncollectibles by using customer segmentation and metrics such as external credit scores, time as a customer, credit codes, and meter locations, and then targeted those customers most likely to be charged off for early collection action.

*Unbilled losses* – For a gas distribution company, we found that large rotary meters dramatically lose accuracy when flow falls below 1% of maximum throughput. Investigating its four largest meter types, the company found that more than half of these meters averaged less than 1% of maximum throughput for at least one month per year. An initial sample of more than 100 such meters resulted in a roughly \$2 million opportunity.

*Unmetered usage* – One client had almost 15,000 requests for new construction power service where meter readers noticed a meter fitting receiving power without a meter (a condition common during service revisions). In about 40% of these cases, the account was inactive and not being billed yet was receiving power. The remaining 60% of cases were receiving an estimated bill that in many cases only captured a portion of the actual usage. These problems represented millions of dollars in uncollected revenue annually.

*Transmission and distribution losses* – Small problems can add up to a large opportunity. A gas LDC client found that small meter inaccuracies caused by poor maintenance and infrequent calibration accounted for lost gas valued at over \$25 million. We identified ways to reduce this lost gas by 20%—a \$5 million opportunity.

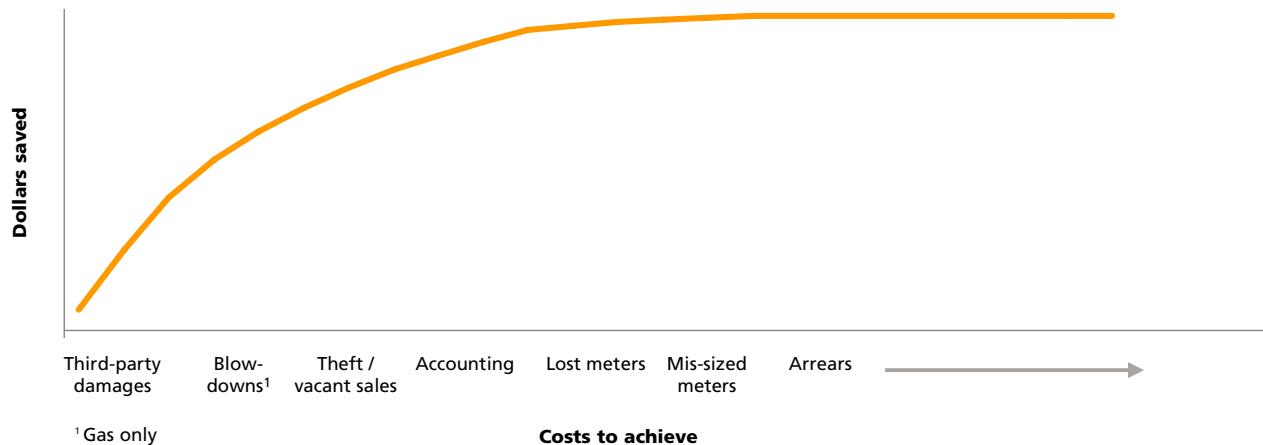
## Several potential solutions can minimize sources of revenue leakage...

Transmission and distribution	Company use	Unmetered	Unbilled	Uncollectibles
<ul style="list-style-type: none"> <li>■ Improve meter maintenance</li> <li>■ Bill for lost energy in third-party damages</li> <li>■ Leak repair<sup>1</sup></li> <li>■ Capitalize/reduce blowdowns<sup>1</sup></li> <li>■ Compressor station leak repairs<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>■ Identify known unmetered company or other facilities</li> </ul>	<ul style="list-style-type: none"> <li>■ Improve tamper-proofing</li> <li>■ Improve theft detection software</li> <li>■ Implement or evaluate theft hotline</li> <li>■ Improve theft detection training</li> <li>■ Implement or evaluate meter finding incentive</li> <li>■ Identify lost meters through billing system queries</li> </ul>	<ul style="list-style-type: none"> <li>■ Focused effort to improve billing input accuracy</li> <li>■ Review conversion processes</li> <li>■ Improve vacant sales detection training</li> <li>■ Eliminate improper pressures through training</li> </ul>	<ul style="list-style-type: none"> <li>■ Implement customer segmentation to target actions</li> <li>■ Conduct credit or behavioral scoring</li> <li>■ Accelerate termination of customers where appropriate</li> </ul>

<sup>1</sup> Gas only

## ...but should be prioritized on a cost/benefit basis.

Diminishing marginal benefit to initiatives (illustrative)



### Questions for managers

- Is there an explicit company objective to manage and reduce revenue leakage? Are there clear performance metrics and accountability associated with this objective?
- What are the key drivers of the leakage, and are these prioritized based on associated opportunities and costs to achieve?
- Do we have a continuous improvement program in place to manage revenue leakage in the future?

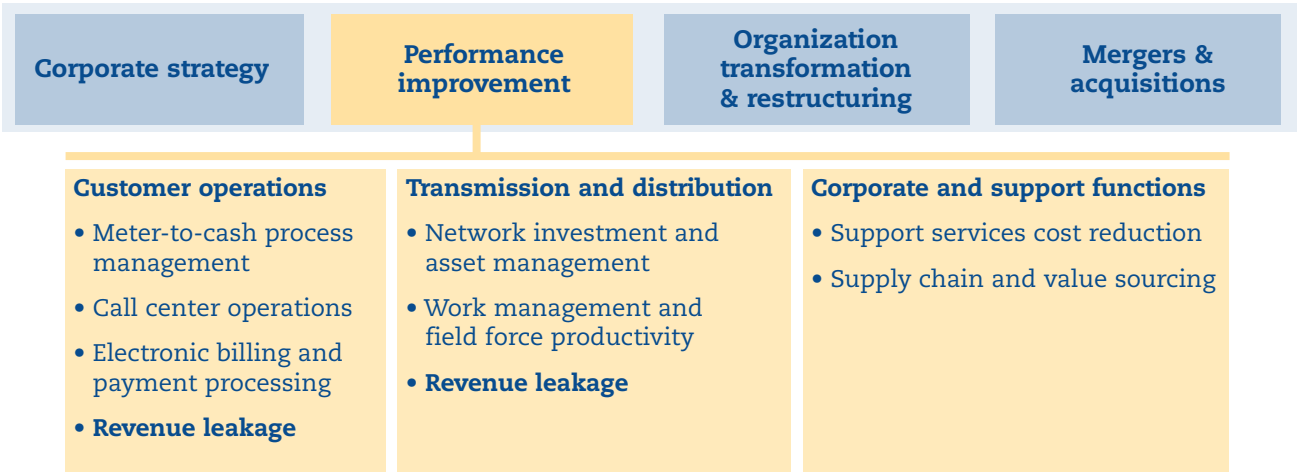
## Oliver Wyman

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.

## 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.

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