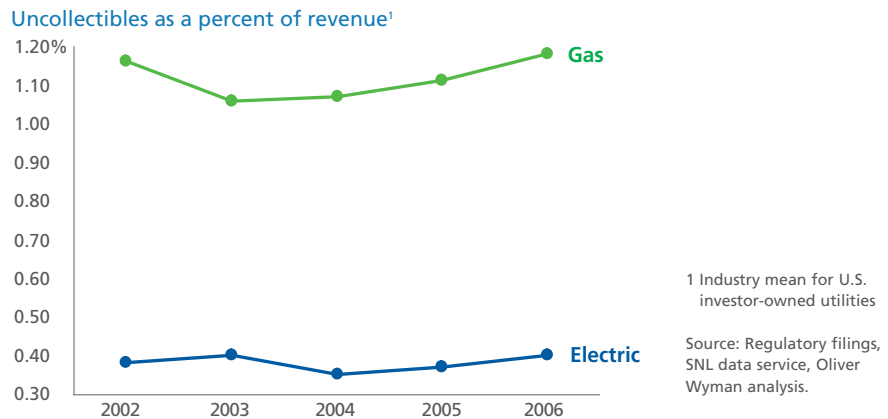


Managing Meter-to-Cash Performance

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

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

Leveraging Customer Segmentation

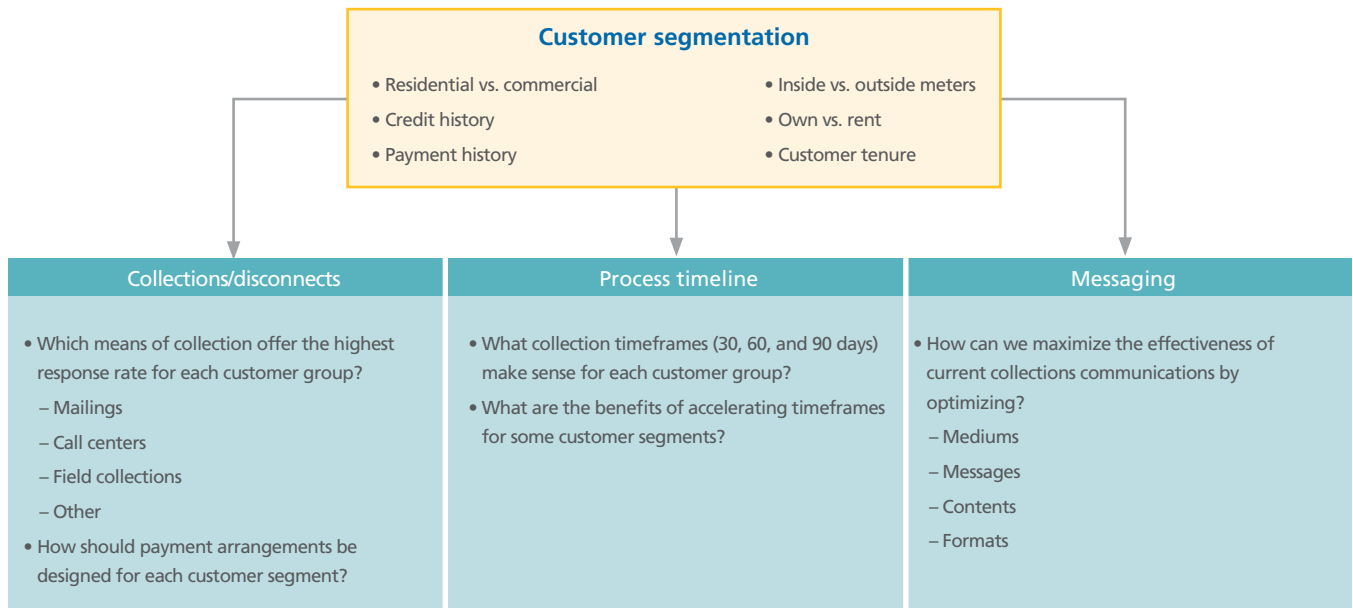
Customer segmentation and the tailoring of credit and collection actions should be designed to yield the greatest impact. Risk- and value-based customer segments can be used to allocate scarce collections resources, and target and time actions to maximize collections performance:

- Classify accounts into different risk groups

- Predict volumes for operational staffing issues
- Improve the forecasting of write-off rates
- Implement targeted strategies for each group

Exhibit 4 shows typical questions that a manager should ask regarding the effectiveness of customer segmentation.

Exhibit 4 **Customer segmentation – key issues and questions**



How do we maximize our overall hit rate without using more resources?

Rethinking Policy Designs

The design of credit and collections policies and approaches has a significant impact on receivables levels and charge-offs. We find that credit and collections policies vary widely across utilities, even among companies in the same state. Some utilities do not take advantage of existing PUC collections regulations, often being more passive or conservative than required by regulation.

Managers should 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 5 shows typical questions that a manager should ask regarding the effectiveness of credit and collections policies and external outreach efforts.

Exhibit 5 **Policy and outreach opportunities – key issues and questions**

Payment plan options	Reconnects	Infrastructure improvements
<ul style="list-style-type: none"> • How can we improve the design of payment arrangements to: <ul style="list-style-type: none"> – Encourage customers to keep the plans – Require high up-front payment after first plan is broken • What alternative payment plan options should we offer? 	<ul style="list-style-type: none"> • Can we require significant pre-payment from customers before they are reconnected? • What other actions can encourage customers to pay before they are disconnected, e.g., require: <ul style="list-style-type: none"> – Reconnect fees – Deposits 	<ul style="list-style-type: none"> • How can we increase our access to inside meters? • What other actions can we use to gain more leverage over customers who currently have inside meters? <ul style="list-style-type: none"> – Move meters outside – Auto/remote shut-offs – Cut at pole (leverage electric)
Regulatory solutions	Low-income programs	
<ul style="list-style-type: none"> • Are we appropriately interpreting current regulatory rules and restrictions and taking full advantage of current regulations? • What potential changes to regulations would have the highest positive impact on collections results and practices? 	<ul style="list-style-type: none"> • Are we getting our fair share of federal and state assistance funds? • Are low-income programs designed to encourage customers to stay current and pay their bills? How could they be better designed? 	

Questions for Managers

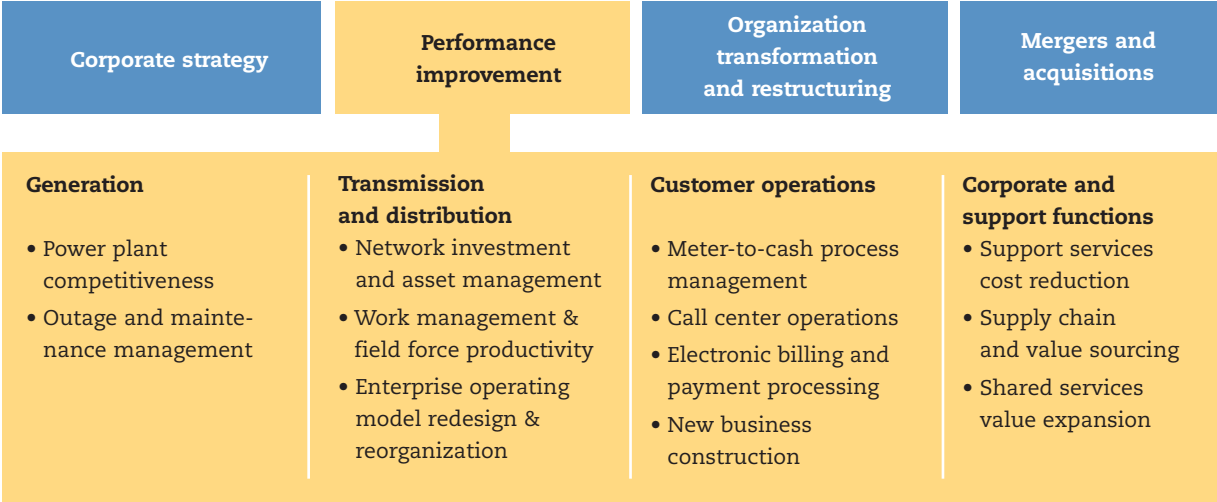
- Do we have a plan to address and improve collections performance?
- Are we taking the right actions to communicate with and set collections expectations for our customers?
- How many customers may move from being “able to pay” their bills to “unable to pay” because of energy cost and rate increases and the declining economy?
- How much credit do we extend to customers?
- Should we change our policies on deposits and payment arrangements to reduce our credit exposure?
- Are collections resources focused on the highest-credit-risk customers?
- Does our management team agree on how aggressive we will be on collections?
- Are we missing any opportunities to improve able-to-pay and low-income customers’ payment behaviors?

About Oliver Wyman

With more than 2,900 professionals in over 40 cities around the globe, Oliver Wyman is the leading management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm helps clients optimize their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com.

Oliver Wyman’s Meter-to-Cash and Collections Experience

Oliver Wyman’s recent work has centered on assisting electric and gas utilities in examining their meter-to-cash processes and developing and implementing new practices, policies, and customer segmentation to improve collections performance.



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