



# Outlook for the US Utility Industry for 2007

Trends that will affect Credit & Collections  
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# Presentation Outline

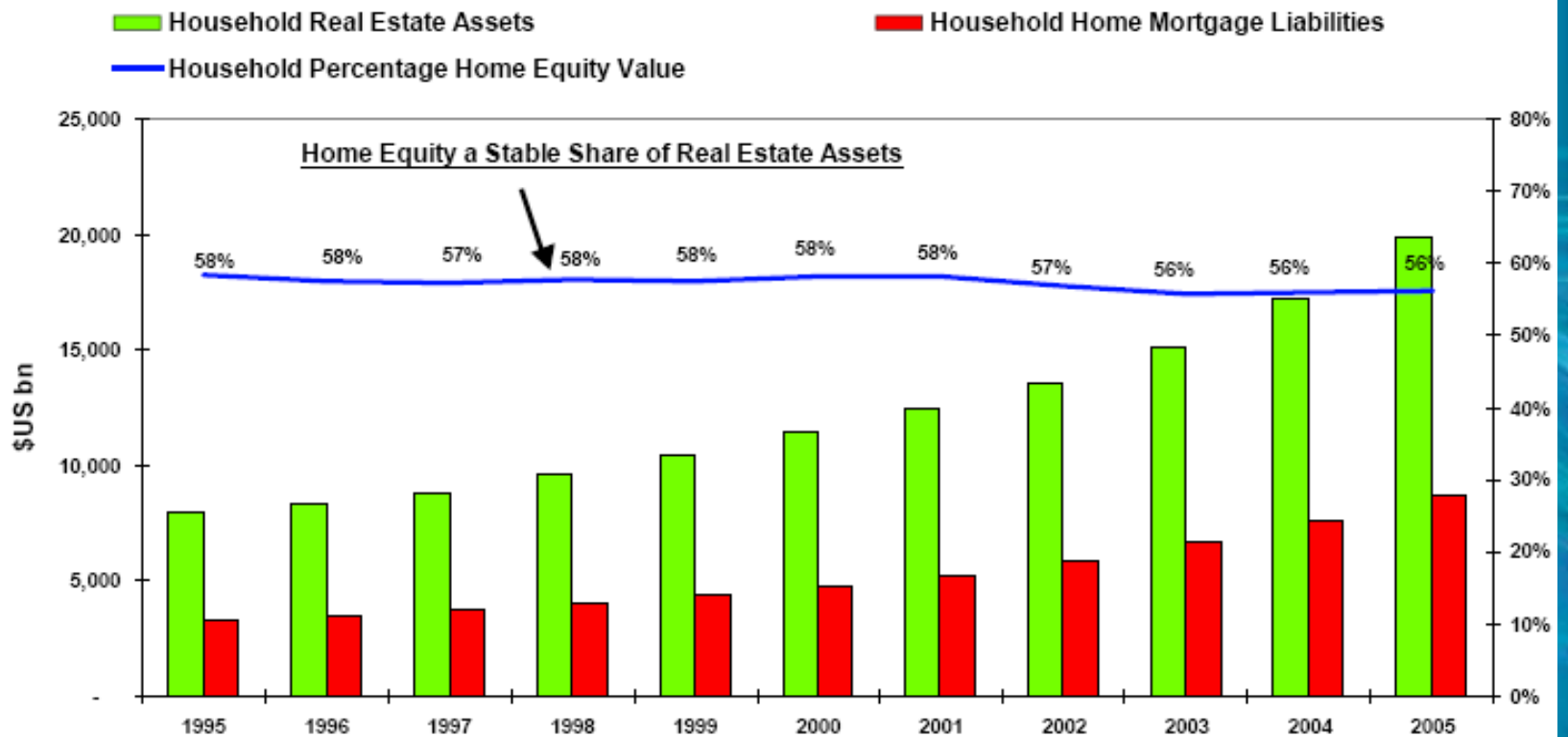
- U.S. Economic Outlook
- U.S. Utility Industry Outlook
- Three Key developments affecting Credit & Collections
- The Road Ahead

# U.S. Economic Outlook

- According to the Federal Reserve Bank of Chicago, the US economic picture is only modestly improving:
  - GDP growth will increase from 2.4% to 3.1%
  - Unemployment will edge up from 4.6% to 4.9%.
  - Inflation is expected to decrease from 3.0% to 2.5%
  - Oil prices are forecast to flatten out from \$60 to \$59 per barrel.
  - Long-term interest rates are expected to rise slightly from 4.80% to 5.00%

# Real estate value as a % of debt is remaining constant

## US Household Sector Real Estate Assets and Home Mortgage Liabilities, 1985-2005

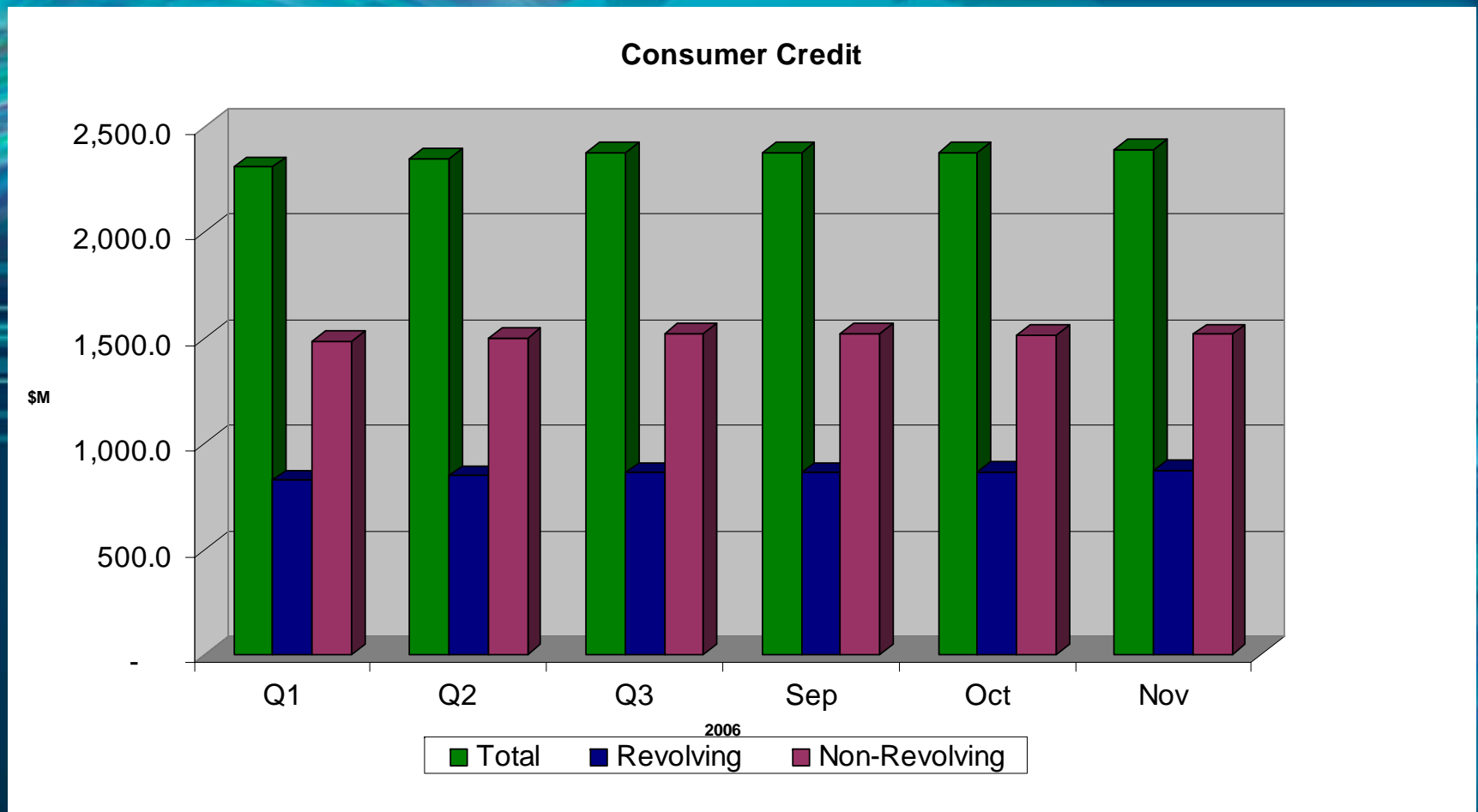


Source: Federal Reserve Flow of Funds Accounts



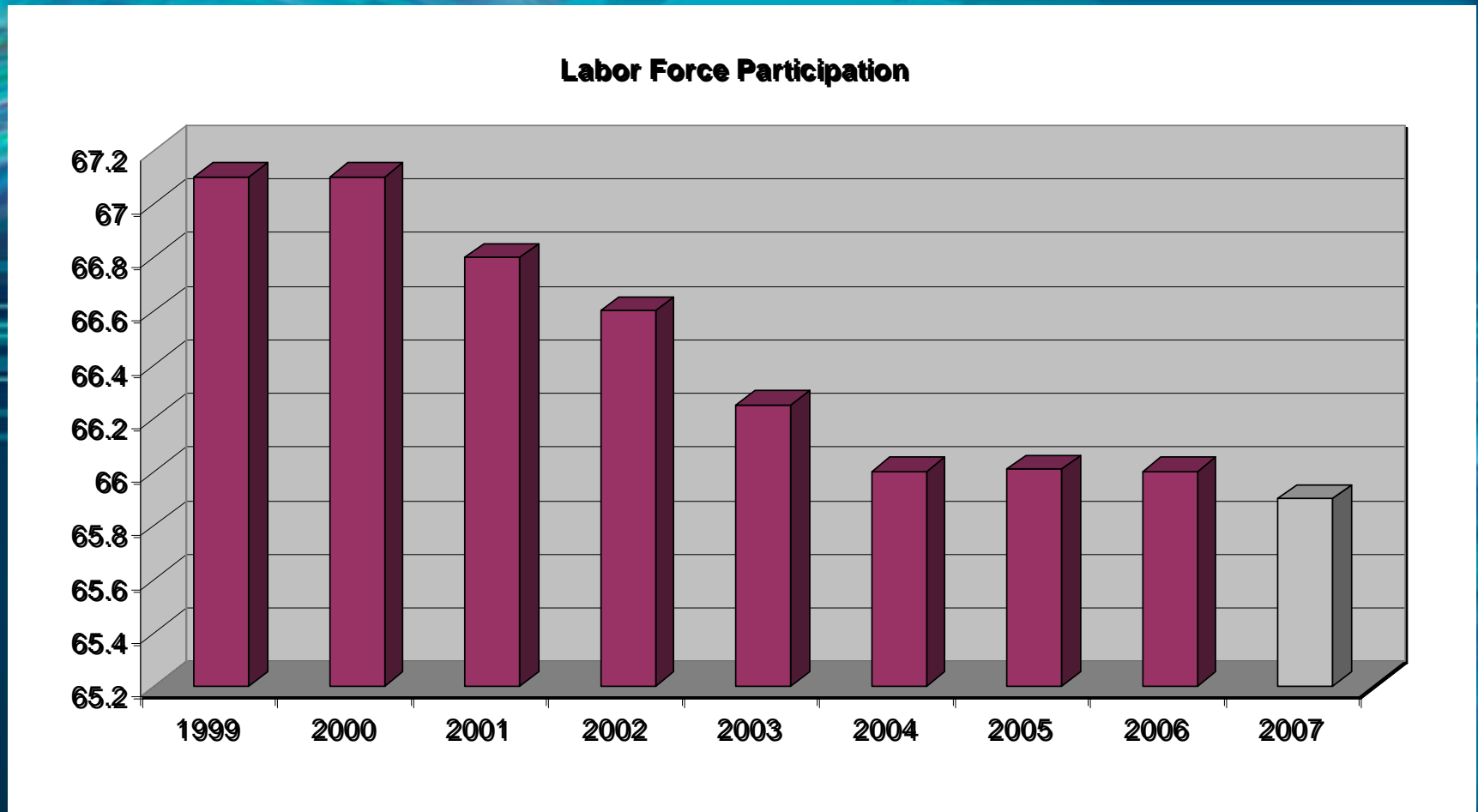
Source: Institute for International Economics, July 2006

# Consumer credit continues to increase



Source: Federal Reserve Statistical Release, January 8, 2007

# Labor force participation rates are declining



# Summary of the Economic Outlook

- With unemployment and long-term rates expected to rise, creditors will be under pressure to stay on top of marginal and high-risk accounts.
- A slow-down in growth in the value of real estate predicts a tightening of available consumer purchasing power
- Growth in outstanding consumer credit may lead to adverse payment behaviors
- An aging and shrinking labor force will pressure employers to be more operationally effective

# U.S. Utility Industry Outlook

- What will 2007 bring?
  - Regulatory actions will take center stage
    - Base-load generation growth will continue to fall short of anticipated demand predicting wholesale price increases
    - Rate case activity will continue as distribution companies face a backlog of delayed capital investment
  - Most of the financial uncertainty is behind the industry
    - Utility focus on the core business has stabilized balance sheets
  - However, overall focus on costs will continue due to rising inflation, costlier financing, infrastructure replacement and rising fuel prices

# Utilities will foster regulatory innovation

- Companies will need to find ways to produce financial results while satisfying regulators that customer interests are being protected.
  - Focus will be capital investments in system reliability and information management

The industry will continue to transition from fixed costs to variable

- Rising costs across wholesale fuels, labor rates, and infrastructure replacement will place an emphasis on turning fixed costs to variable
  - Technologies will continue to focus on labor productivity and process automation
  - Large-scale outsourcing activity will increase

# Summary of the Utility Industry Outlook

- Utility executives will continue to seek ways to do more with less – dynamic leadership is being rewarded
- Regulatory scrutiny of larger, customer-affecting projects will be more intense
- Systems, technologies and service providers/partners will play a larger role
- New developments will open up a wide range of capabilities not available previously

# Three Key developments affecting Credit & Collections

- Revenue Assurance
- Predictive/Behavioral Modeling
- Business Process Outsourcing

# Revenue Assurance

- Recent developments in Advanced Metering (AMI) and Meter Data Management (MDM) are enabling utilities to perform diagnostics to identify revenue assurance opportunities
  - Identify consumption abnormalities (zero-usage meters, unknown users, etc)
  - Remote disconnect and reconnect minimizing field service costs
- RA opportunities are estimated at 5% to 7% of a utility's revenue stream
  - In addition to energy theft, other RA opportunities include
    - Administrative – unknown user, bad billing information, wrong rate,...
    - Operational – stuck meters, fast meters, bad meter multipliers,...

# Predictive/Behavioral Modeling

- Predictive or behavioral modeling is the technique of using statistical methods to predict the likelihood of an action.
  - For credit and collections, this includes whether an account will make a payment, reach a later stage of delinquency, or eventually charge-off or recover
  - The benefits of this approach are significant:
    - Helps when assigning work to scarce resources by identifying customer segments for treatment prioritization
    - Enables both increased recovery AND reduced operating costs
    - May be combined with contact modeling to determine the most effective treatment for a particular segment
  - Models can be built, bought or outsourced

# Business Process Outsourcing

- Utility management seeking to make costs more variable will look to outsource more.
  - New full service entrants such as IBM and First Data will pressure executives to consider large-scale BPO opportunities
    - IBM and NISource
    - CGEY and TXU

# The Road Ahead

- 2007 will be a year of fine-tuning the credit & collections strategy and testing of new capabilities
- It is imperative that a clear view of the overall process and underlying costs is gained before major initiatives are introduced
- Mergers and acquisitions in this industry is a fact of life, don't be distracted by the executives playing the dating game
- New tools are available to make you much more efficient and effective

Thank you

If you have further questions, please contact me at:

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