

PAST DUE

A poor economy means unpaid utility bills, but there are strategies to improve collections.

by Nancy Spring, managing editor

It's becoming a serious struggle for many people to pay their bills, fill their gas tanks and feed their families. Home foreclosures and high fuel prices have created an economic strain that is being felt across all sectors, even into the middle class. Some economists are predicting the loss of hundreds of thousands of jobs, and with credit tight and few new employment opportunities, things are likely to get even worse.

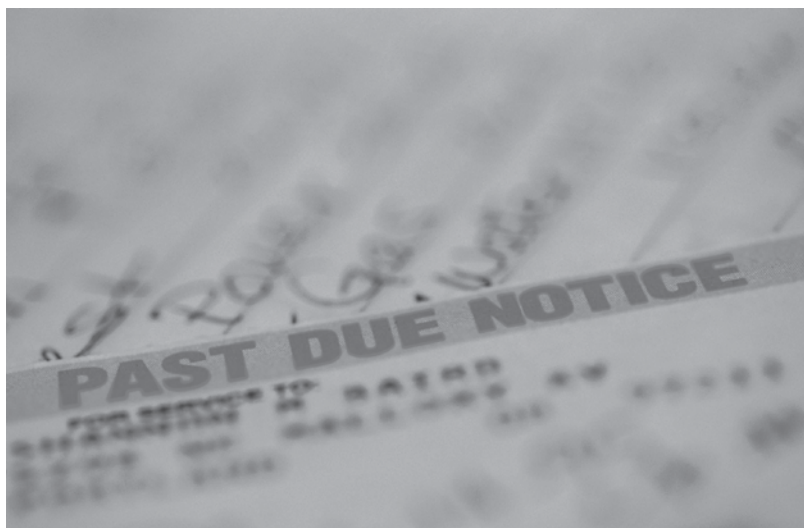
For the utility industry, this poor economy does not bode well. Utility bills are almost always the last to be paid by consumers when budgets are pinched. According to the 2008 Energy Costs Survey released in June by the National Energy Assistance Directors' Association, 60 percent of low income households, 49 percent of moderate-income households, and 42 percent of middle-income households said that it was more difficult for them to pay their energy bills this year than in the previous year, and even after sacrificing on food and medicine, many low- and moderate-income households were still unable to afford their energy

needs. Twenty-nine percent of low-income and 20 percent of moderate-income households said that they skipped paying their home energy bill or paid less than the full bill; 8 percent of low-income and 8 percent of moderate-income households said they had their electricity shut off; and 12 percent of low-income and 4 percent of moderate-income households said they had their natural gas shut off.

All across the country, the poor economy has already caused a major increase in the number of people behind on their bills and a record number of shut-offs. According to articles in *U.S.A. Today*, Xcel Energy disconnects 600 to 650 customers a day; Duke Energy is averaging 11,000 shutoffs a month, 14 percent above last year; and in Iowa, \$40 million was owed to rate-regulated utilities in May. On June 28, a *UPI* article reported that 56,000 homes in Arizona Public Service Co. and Salt River Project service territories had power disconnected in the first five months of the year because of unpaid bills—40 percent higher than in 2007. *The Times-Tribune* in Scranton, Pa., reported that from January through May, PPL “pulled the plug” on 13,327 residential customers, more than double the number it cut off in the same period in 2007.

Shut-offs may grab the headlines, but utility professionals know shutting off the power is the absolute last resort. “Cut-offs are the most expensive action to take,” said Penni McClean-Conner, vice president of customer care at NSTAR, during her presentation at the CS Week Conference Executive Summit in May, “New Strategies and Technologies for Credit and Arrears.”

Managing this situation is tantamount, because



“at the end of the day, someone has to pay.” Write-offs cost the prompt-paying customers because they have to shoulder the burden for those who don't pay when rates are raised. Utilities try very, very hard to collect the money from those who owe it before they pass it on. Another concern: at some point, regulators may not allow recovery.

Here are a number of good strategies utilities can use to improve collections during these extremely difficult economic times.

Review your credit policies. Recognizing the likelihood of continued erosion of the economy, McLean-Conner recommended preparing for higher and higher write-offs. “Review your credit policies now, because the full impact will be seen and felt shortly.”

Offer full credit reporting, which can be a benefit for low income customers trying to improve their credit scores. Get as much customer information as you can—and keep it up to date. According to Bruce Gay, Monticello Consulting Group, six months is the life of customer information. Use behavior-based scoring. And be aware that fraud detection is becoming more of an issue every day.



Offer different payment options. Paying online is popular and surveys show that customers appreciate any kind of self-service option. E-pay adoption rates are up while the use of paper checks is declining. According to Randy Vyskocil, director, utility vertical markets, Western Union Payment Services, utilities are at the forefront of electronic payments. “They were the first to grasp e-bills, for instance,” he said. “In the next two to three years, SMX Text Messaging will probably become an important payment option for those customers who want to pay via cell phones.”

The walk-in payment is still an option in some utility service territories and it’s growing in popularity, not shrinking, according to Vyskocil. “Unbanked” is the term for those utility customers who choose to pay their bills this way, and Vyskocil said Western Union fills the gap for them when utilities have to close walk-in centers.

Value billing, like frequent-flyer programs, gives the paying customer something in return for his or her prompt utility bill payment. A “carrot” program like this tied to the utility bill could make the difference when your customer is trying to decide which bill to pay.

Pre-pay is working well for gas utility customers with less-than-perfect credit scores and is an option worth exploring.

Provide energy assistance outreach. Utilities provide many different payment option programs for customers who have financial emergencies or special medical needs. A low-income discount rate can help those struggling to pay their bills, for instance, but the trick is getting the customer to contact the utility to sign up. Utilities report that customers often miss good opportunities to get help in paying their bills. Communication strategies that increase participation levels will help your bottom line.

“Pay your current bill, and your arrears will be forgiven.” If your utility offers arrears forgiveness, be sure you have regulatory approval for recovery. And be prepared for the next development, said McClean-Conner, which could be automatic arrears forgiveness.

Try new technology. Automated voice messaging for debt recovery is working very well. “Statistics show that people who owe money react better to a recorded outbound call instead of a ‘live’ person,” said Vyskocil.

When you have exhausted every avenue to collect and you’re at the point of pursuing legal collections by using a collections agency or selling bad debt, McLean-Conner said it’s best not to waste time. With each day that goes by, the likelihood of collection diminishes. **FP**



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