

# Improve credit and collections operations

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We know utilities.

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# Agenda

- Employment, income, and debt recovery
- Credit risk and payment behaviors
- Areas of focus
- Industry practices and perspectives
- Questions and discussion

# Employment, income, and debt recovery

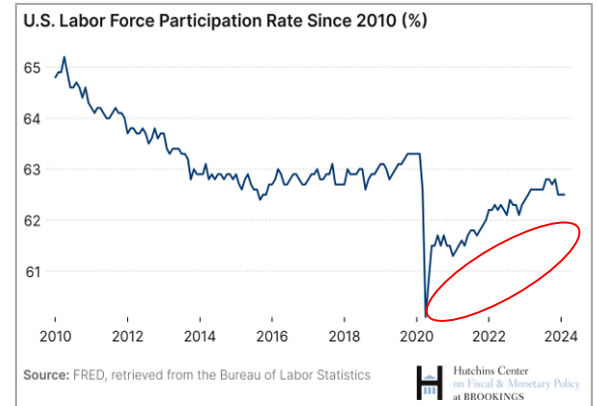
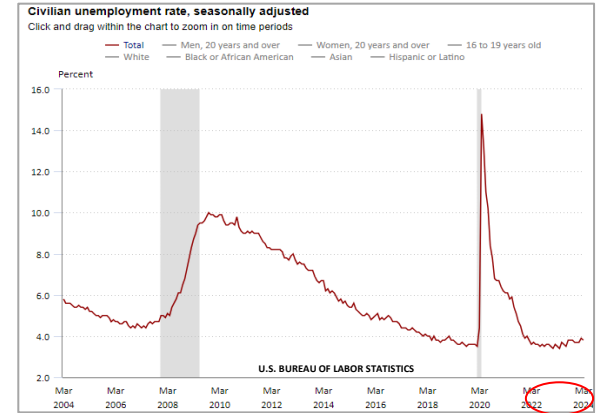
# Employment view

- **2.1 million Americans** applied for unemployment in April 2024
- Unemployment rates have stabilized since April 2022:

Apr-19	Apr-20	Apr-21	Apr-22	Apr-23	Apr-24
3.7%	14.8%	6.1%	3.7%	3.4%	3.8%

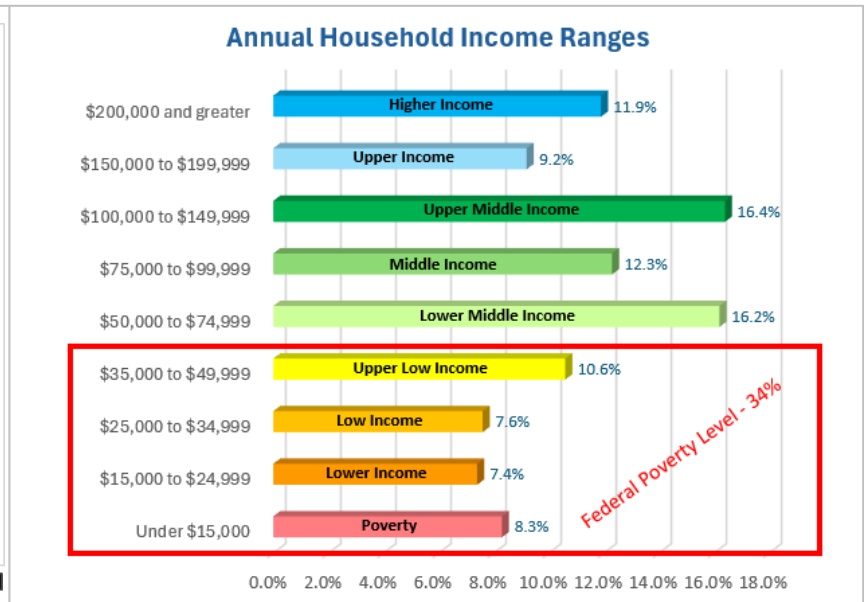
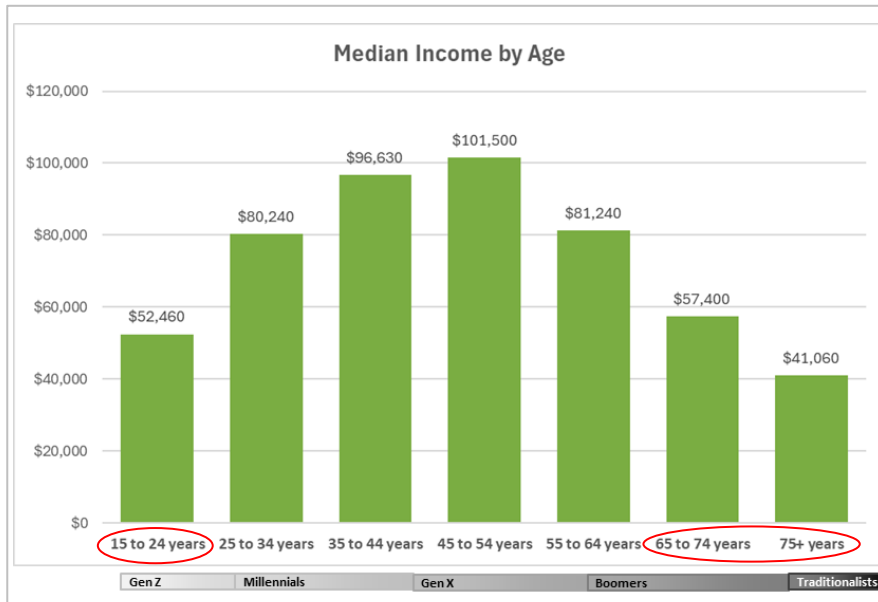
- **50%** of the American population is in the workforce
- **30%** are eligible to work, but not in the workforce
- **Over 16%** of the workforce is part-time

Total US Population 336.3		
Excluded from Labor Force 68.4	Eligible, not in Labor Force 100	In Labor Force 167.9
61.9 - Under 16 years old	40.6 - Retired, not working	134.3 - Employed full-time
1.3 - Active Military Duty	25.4 - Disabled	27.2 - Employed part-time
1.8 - Prison inmates	17.3 - Stopped looking for work	6.4 - Unemployed
1.3 - 65+ in nursing homes	10.3 - Full-Time Students	
2.1 - Other institutional care	5.2 - Searched for work	
	0.5 - Family care, training, illness	
	0.7 - Other	



# Income view

- Over **30%** of US households fall under the Federal Poverty Level guidelines
- **Gen Z** (up to 27 years) and **baby boomers** (over 65 years) have the greatest financial challenges
- Total median income has declined by over **5%** since April 2020



# Debt view

- **Gen Z is continuing with the COVID hangover** and are the most challenged to keep up with their bills
- The **lower the credit score, the greater the debt**, but the growth change in this segment is significant
- According to Forbes Advisor, **6% of households in the US are unbanked** in 2024

**Total Average Debt by FICO® Score Range**

Score Range	2021 – 2022 Change	2022 – 2023 Change
300 to 579 - Poor	8.3%	20.5%
580 to 669 - Fair	5.1%	4.1%
670 to 739 - Good	3.9%	-0.2%
740 to 799 - Very Good	4.2%	-1.7%
800 to 850 - Exceptional	9.1%	4.6%

Experian 02/2024 Study: Average U.S. Consumer Debt and Statistics

**Total Average Debt by Generation**

Generation	Change from 2021	Change from 2022
Generation Z (18-26)	24.3%	15.4%
Millennials (27-42)	14.7%	8.0%
Generation X (43-58)	5.8%	1.9%
Baby boomers (59-77)	0.5%	-1.3%
Silent Generation (78+)	-1.3%	-1.9%

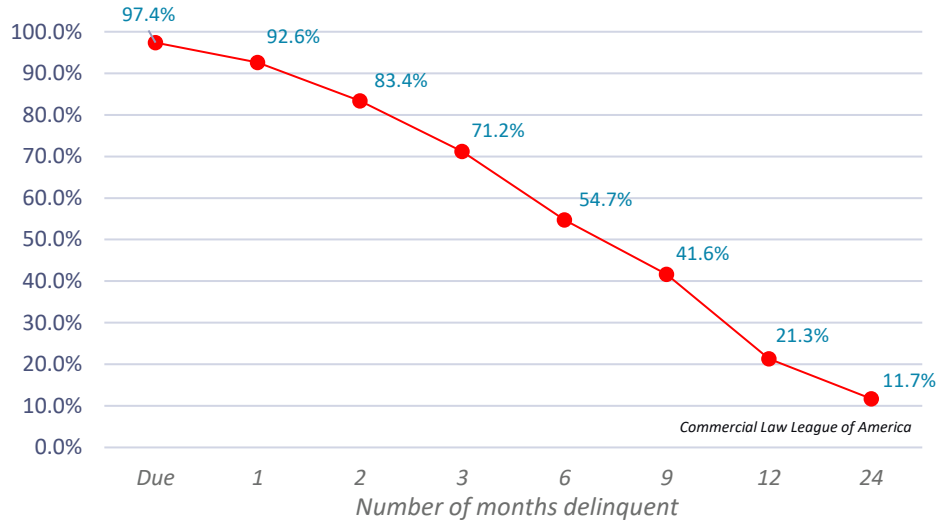
Experian 02/2024 Study: Average U.S. Consumer Debt and Statistics

- Score your customer base and segment by risk score and age groupings for payment and collection strategies

# Debt recovery view

- **30%** of households earning less than \$50,000 per year have **not fully paid** utility bills
- **5%** of low-income households indicate they **owe more than \$500** on utility bills
- **40%** of low-income households are **concerned about staying current** on utility bills
- **38% of customers** either **have difficulty** or can't pay all their bills
- **25% report being past due** on utility bills
- **84%** of consumers were more likely to pay a bill first if it had **late fees**
- **64%** would prioritize a payment if there was a **threat of disconnect**
- **48%** would take **credit score** risks into consideration

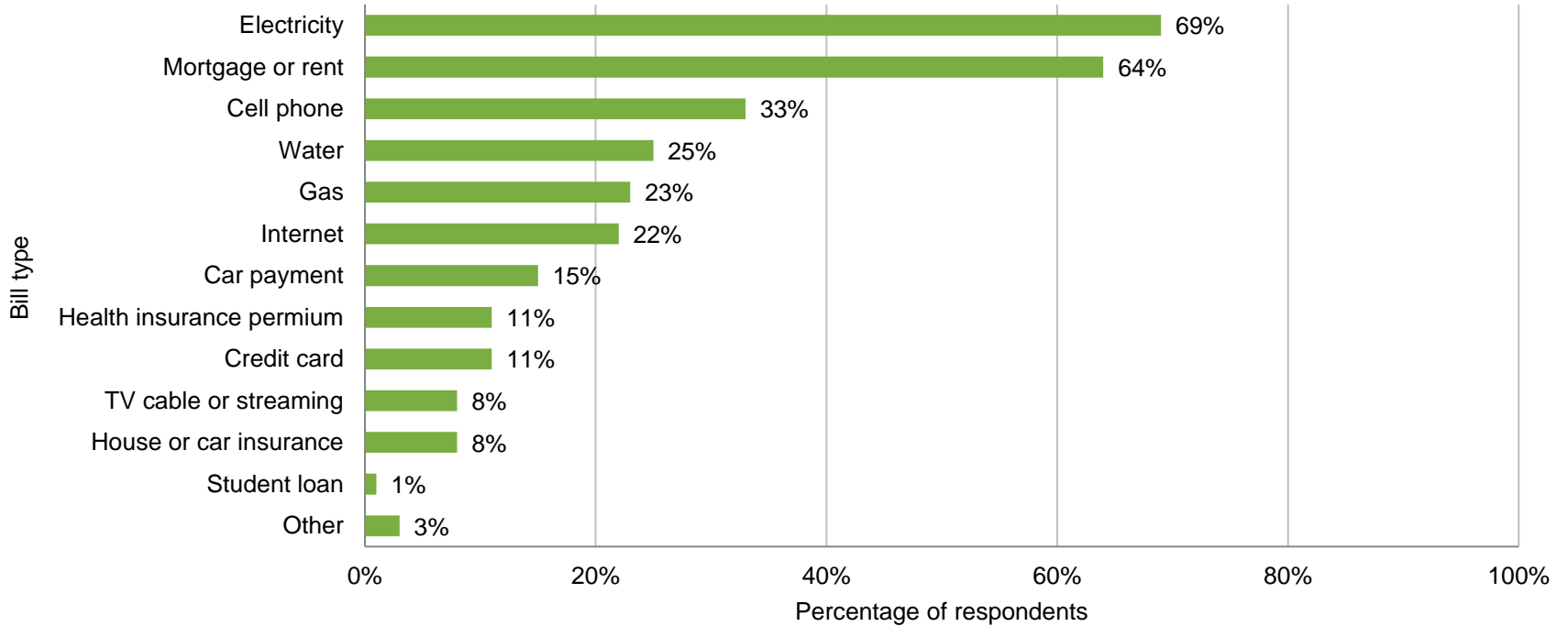
## % Collectability over time



Age of Debt	Current	30 Days	60 Days	90 Days	6 Mths	9 Mths	1 Year	2 Years
Uncollectible %	2.6%	7.4%	16.6%	28.8%	45.3%	58.4%	78.7%	88.3%
Recovery %	97.4%	92.6%	83.4%	71.2%	54.7%	41.6%	21.3%	11.7%

# Payment view

Payment priorities for struggling customers

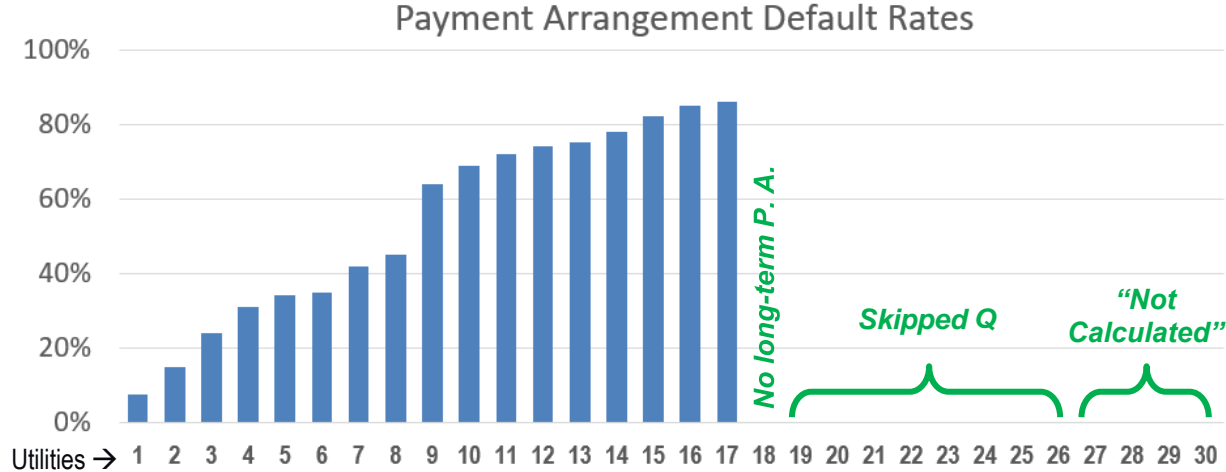


© E Source; data from Fiserv [2021 Expectations & Experience: Consumer Payments](#). **Question:** If you could only afford to pay three bills next month, which would you choose to pay? Select up to 3 responses below.



# Reported default rates of payment arrangements

A high percentage of payment arrangements fail (arithmetic mean is 57%)



© E Source. "Utility Payment Arrangements: Survey Findings and Analysis" Utility Customer Research Consortium Contingency Planning Research Project. Presented to DEFG's Utility Customer Research Consortium. Survey question Q16. Based on your response to the previous question, what was the default rate for long-term, pre-COVID residential customers attempting to complete a standard payment arrangement? (Define your terms and the base for the calculation. If you track more than one, please provide those you track.)

# Credit risk and payment behavior

# Credit risk life cycle

## Portfolio Maintenance



- Update/Cleansing/Linking of data
- Payment performance assessment, baseline scoring, risk segmentation / dimensioning
- Arrears inventory assessment/ reduction

### Account Initiation

#### Credit Screen & Evaluation

- ID validation
- N&A, contact verification
- Fraud check
  - false positives, premise DNP
- Trailing debt investigation
- Scoring/Credit evaluation
- Deposit assignment
- Baseline risk score
- FACTA/Red Flag compliance

#### Securitization/ Deposits

- Policy adherence
- Deposit payment options
- Deposit billing/notification
- Deposit payment collection
- Deposit adjustments & reassessments
- Bond/Certificate monitoring

#### Customer Service

- Risk monitoring/updates
  - internal and external
- Segmentation
- Risk-based treatments & contact routing
- Call handling & negotiation skills
- Automation & self-servicing
- Maintain current information
- Continual status calibration

### Account Management

#### Payment Options

- Mail/Remit processing
- Cash – Walk-in, 3<sup>rd</sup> party, kiosk, drop box
  - bank, grocery, retail pay
- Credit/Debit card
- Realtime payment processing
- Autopay with ACH & card
- IVR/Web/Mobile/Text pay
- PayPal, Venmo, Google pay

#### Preventative Treatment

- Alerts & notifications
- Social media
- Payment assistance options
  - rate plans
  - budget/level billing
- Energy assistance
- Re-securitization & updates
- Returned mail processing
- Credit reporting

### Final Billed Collections

#### OCA

- Collection agency placements/recalls
- Agency audits & management
- Non placed debt management
- Collection optimization
  - techniques to reduce inventories
  - small balance collections
  - settlements & legal actions
- Reporting & reconciliation

#### In House

- Work low risk collections
- Leverage automation
- Returned mail processing and skip tracing
- Balance transfer to active account
- Pre Agency placement letters

#### Severance

- Field Service prioritization
- Shut-Off “last gasp” notification
- Risk segment updates
- Reconnect criteria
  - usage on off meter
  - failure to sign for service
- Note risk of account and voluntary/involuntary status

### Active Collections

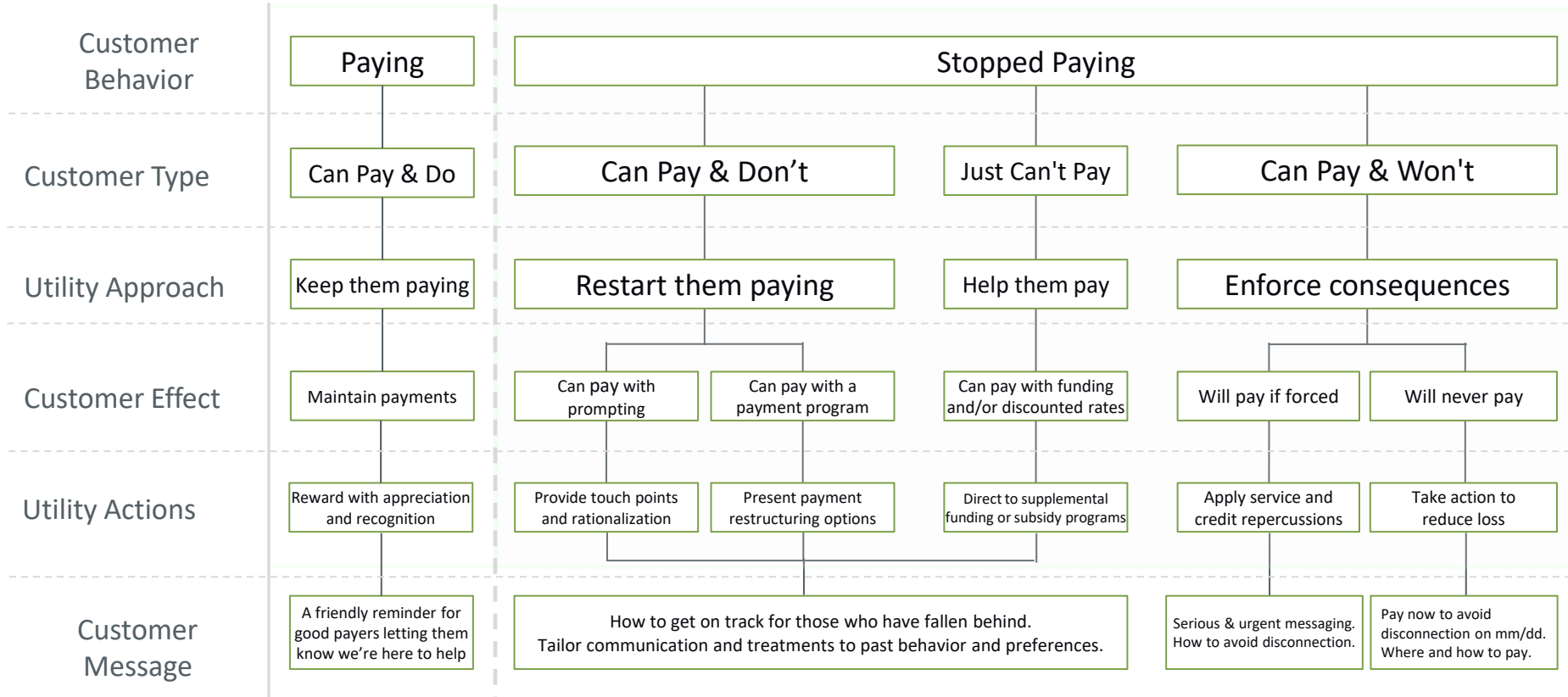
#### Late Stage

- Disconnect notices and prevention campaigns
- Letters/Calls/Notifications
- Landlord/owner review
- Door hangers

#### Early Stage

- Segmented/Tailored programs, communication, & treatments
- Letter/call/email/text notification
  - by customer preferred channel
  - outreach and self-service channel
- Affordable pay arrangements
- Payment options/processing
  - financial aid
  - deferrals
  - flat rate
  - bill credits
- Engagement commitment

# Driving Customer Behavior



# Key takeaways



**16% of the workforce is part time**



Over **30% of US households** fall under the Federal Poverty Level guidelines



**Gen Z and baby boomers** require the greatest financial assistance



Since 2021, **median income has dropped 5%** while the **cost of living has risen 3.5%**



**38% of LMI customers** either have difficulty or can't pay all their bills



**Gen Z** has the greatest amount of debt



Debt for credit scores below 580 has **increased by 250%** since 2022



The probability of collecting debt **decreases rapidly with age**



Assess all **components of your credit risk life cycle** for key performance



**Segment your customers** based on payment behavior and risk profile



**Evaluate deposits** for accounts >90 DPD



Include **number of months billing in write-off** as a collection's metric



Check for **fraud and trailing** debt at account initiation

# Areas of focus

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## Customer engagement:

- Keep customers **engaged monthly**
- Create **targeted** offers, communications, and outreach **campaigns**
- Make **monthly notifications** a requirement for payment program enrollment
- Evaluate and revise program **terms and conditions**

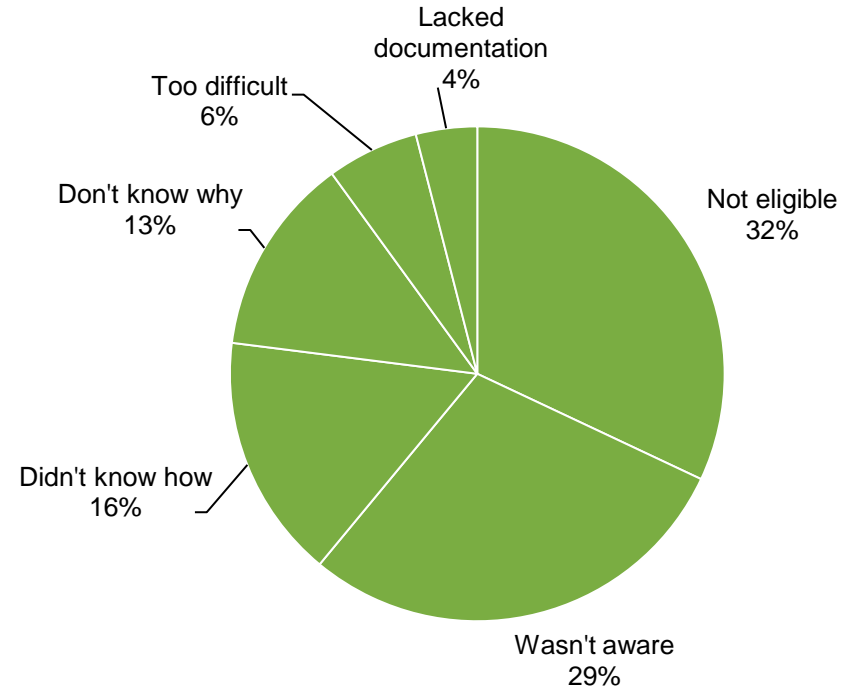


# Areas of focus

## Payments and loss:

- Financial assistance—**community outreach and partnerships**
- Payment and credit—**waive** card fees and **report** to credit bureaus
- Mitigate loss—**arrears** and write-off **offsets**
- Operational—**update contact** information and **channel parity**

Reasons for not applying for financial assistance



© E Source (Low Income Energy Issues Forum, February 2024)



# Areas of focus

Affordability and sustainability to **keep current**:

- Budget billing—**payment distribution**
- Financial assistance programs and payment arrangements—**afford to pay back**
- Rates—**afford to pay**
- Prepay—**manage usage**
- Weatherization—**manage usage**

WHEN YOU CAN'T  
AFFORD TO PAY THE  
UTILITIES



# Key takeaways



Assess delinquent accounts for **returned mail**



Update your customer **contact information**



Create **affordable** payment plans



Perform a collection **agency audit**



**Only send notices** to customers that will be disconnected



Consider a form of **forgiveness** for old debt



Keep customers engaged monthly



Leverage all contact channels for notifications and alerts



Have notifications a condition of payment programs



Waive credit card fees for debt payment



Consider write-off for old active debt



Assure change management and cross channel alignment

# Industry practices and perspectives

# Do you know ...

**Who is calling you? - 65% of all calls** to the contact center are billing related

Over 35% of these billing calls are delinquency related 16% are repeat calls “shopping” for a better deal!

## Your residential credit risk profile?

- 65% are low risk and <2% will go to write-off
  - ◊ Represents 5% of your total write-off
- 24% are medium risk and 18% will go to write-off
  - ◊ Represents 30% of your total write-off
- 11% are high risk and 48% will go to write-off
  - ◊ Represents 65% of your total write-off

## Who should have a deposit?

- Every customer with debt **over 90 days past due** should be reviewed for a deposit

40% of customers that were assessed a deposit at account setup didn't need one!

Less than 20% of accounts in write-off had a deposit

## Who keeps their Pay Plans?

- **65% of all payment plans** are broken
- Over 75% of affordable pay plans are kept!



## Who reconnects after shut-off?

- **85% of residential customers** reconnect service after shut-off for nonpayment

Premises and customers that don't reconnect should be scrutinized at time of account setup to avoid fraudulent sign-ups

## Who pays their past due final bills?

- 85% of low-risk residential customers will pay within 6 months of final billing
- Only 36% of medium risk and 7% of high risk will

## Who will go to write-off?

- **10% of residential customers** 90+ days past due
- **3% of commercial customers** + days past due

## How much is your write-off?

- The average amount of write-off for a residential customer equals 5.5 months of billing
- 3.5 months is top quartile

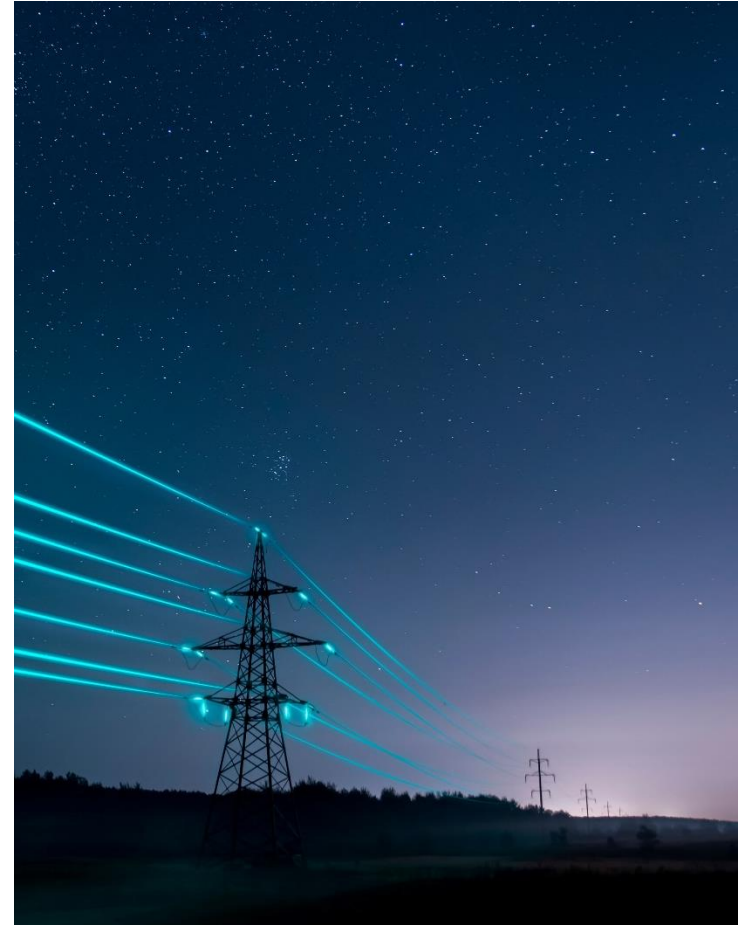
# Industry Practices

- One metric – **months of billing in write-off**
- Escalate action for > 2 payments past due
- Delivering the bill – **work returned mail**
- Know how to **reach your customer**
  - Obtain full customer information at account initiation and closing bill (*e.g. In case of emergency, credit refund, etc.*)
  - Verify name/ID and phone/address on every call
    - Automate ID verification and contact info
    - Invalid contact numbers and returned mail are major red flags
- **Proactive messaging** for bill and payment status
- **Self-servicing** for payment management (*including pay arrangements*)
- Disconnect meter for **inactive with use**



# Industry Practices

- Creation of **affordable payment arrangements**
- Implementation of **segmentation** and **tailored treatments**
- **Pre-pay** capabilities and options
- Revitalization of **collection agency performance management** and oversight
- Identification of **trailing debt** and linkage of customer accounts
- Maintain **low risk** final billed accounts **in house**
- Only send **disconnect notices** to who you actually **intend to disconnect**
- Deployment of **door hangers** for secondary disconnects
- Effective **outreach campaigns** in the right channel at the right time



# Payment Programs – Create affordable payment arrangements

No “down payment” – payment arrangement begins with next bill

- **Tier One** – All Customer Service CSRs

Customer Type	Number of Installments	% of Average Bill
Financial assistance • Low income, life support, elderly & disabled	2-4 years: 24 to 48 installments	25% of average bill
Residential	2-4 years: 24 to 48 installments	50% of average bill
Multi-residential & COM/IND	1 year: 12 installments (COM/IND)	75% of average bill
Post Severance	1 year: 12 installments (Res) .5 years: 6 installments (COM/IND)	100% of average bill

Average bill = \$125

	6 MPD	12 MPD
	0%/24	0%/48
Past Due	\$750	\$1,500
\$ Down	\$0	\$0
\$ per mnth	\$31	\$31
<b>Tot mnth</b>	<b>\$156</b>	<b>\$156</b>

- **Tier Two** – Escalation to Customer Service Team Lead or Supervisor

Customer Type	Number of Installments	% of Average Bill
• Financial assistance • Residential – low risk	4 years: 48 installments	25% of average bill
• Residential – medium risk • Multi-residential – low risk • COM/IND – low risk	2 years: 24 installments	50% of average bill
• Residential – high risk • Multi-residential – medium risk • COM/IND – low risk	2 years: 24 installments (Res) 1 year: 12 installments (COM/IND)	75% of average bill
• Residential – post severance • Multi-residential – high risk • COM/IND – medium-high risk	1 year: 12 installments (Res) .5 years: 6 installments (COM/IND)	100% of average bill

Risk Category	Collects Based Qualifier	Last Payment Qualifier	Bills in Arrears Qualifier
Low Risk	0-2 times in Collections	0-60 days	1 bill
Medium Risk	3-4 times in Collections	61 to 120 days	2 to 3 bills
High Risk	5+ times in Collections	121+ days	3+ bills

## Results

60% to 85% of all payment arrangements are kept

# Debt forgiveness & arrears management programs

## Debt forgiveness programs covered by ratepayer base







- California AMP (Arrears Management Program) (on financial assistance, at least \$500 in arrears, and 90+ days past due)
  - Forgiveness of 1/12 of arrears balance for every on-time payment up to \$8,000 per year
- National Grid Rhode Island and Massachusetts Forgiveness Program (on financial assistance, \$300+ in arrears, 60+ days past due)
  - Make payments on time, a portion of your past-due amount will be forgiven, up to \$1,500 per year.
- Maine AMP
  - For each month that you pay your current bill, your electric utility will wipe out 1/12 of what you owe them on your back bill

## Debt forgiveness programs covered by shareholders

- ComEd Illinois
  - One-time bill credit of up to \$500 for residential customers while \$9 million funding lasts
- Puget Sound Energy (Crisis Affected Customer Assistance Program qualified customers)
  - Receive a credit up to \$2,500 on past-due balance while \$11M funding lasts
- Xcel Energy Minnesota (on financial assistance, pay current bill on-time, covers up to 75% of arrears)
  - Receive up-front 25% credit on arrearage with 50% of balance issued in equal monthly credits for on-time payments
- Evergy Missouri (on financial assistance)
  - \$65 monthly credit for 12 months



# Key takeaways

-  Assess delinquent accounts for **returned mail**
-  Update your customer **contact information**
-  Create **affordable** payment plans
-  Perform a collection **agency audit**
-  **Only send notices** to customers that will be disconnected
-  Consider a form of **forgiveness** for old debt

# Questions



# Contact us



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