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**STRENGTHENING
THE ACCOUNTS RECEIVABLE FUNCTION
AT AB LIETUVOS ENERGIJA**

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Introduction

Lithuanian Power Company ("LPC" or "the Company", formerly Lithuanian State Power System) is a limited liability company registered in the Republic of Lithuania on December 4, 1995 as the successor of the prior Board of Production Energetics and Electrification which was established in 1940 and reorganized into Lithuanian State Power System on March 27, 1991 following the restoration of Lithuania's independence. The Government of Lithuania owns 90.8 percent of the Company and the remaining 9.2 percent is owned by the public, mainly employees of the Company.

LPC is a vertically integrated electricity and heat generation, transmission and distribution company, with both business lines covering the whole territory of Lithuania. LPC purchases all the electricity produced by the Ignalina Nuclear Power Plant which operates as a separate state-owned entity and currently produces approximately 90% of the total electricity output in Lithuania.

At present, LPC comprises 4 thermal power stations, one hydro power station, one hydro-pumping power station, 7 electricity distribution entities, 6 heat distribution entities, 12 auxiliary service entities, as well as the headquarters of LPC.

The Company has been operating with a loss during 1994, 1995 and up to date, where inadequacy of tariffs and collectability of receivables have been among the major issues causing continuous losses.

As a consequence of the changes that have taken place in Lithuania during the recent transition from a planned to a market driven economy, the payment abilities of businesses and the residential sector have declined dramatically. Furthermore, payment for utilities is not by many seen as a priority. Such negative trends have strongly affected the collection process of the Company. The amount of receivables outstanding at the LPC is constantly growing, which in turn creates cash flow problems.

The previous system for collection and monitoring of accounts receivable was developed in a planned economy and was no longer appropriate after the transition to a market economy. Therefore, the LPC had to develop new strategies and procedures in order to improve the rate of collections and adapt to the new environment. The management of the LPC concluded that immediate effort has to be put into strengthening/developing the accounts receivable function. It was decided that this should be done with the assistance and support of consultants with a first-hand knowledge of how a sound accounts receivable system operates in Western utilities.

The project was financed by US Agency For International Development. The main contractor for the project was Bechtel Corporation which accordingly hired Arthur Andersen as a subcontractor.

LPC considered that the timing for the project was very good, as we were actually able to take part in developing the system rather than just comment on an already existing one. We would like to express our gratitude to the Energy Sales Department of the LPC, in particular Mr Vazgela (head of the department), Mr Murauskas (head of the electricity division) and Mr Daunoravicius (head of the heat division) for their extensive cooperation and involvement in the

project. It was through their assistance that we were able to acquire a full understanding of the current situation and of the expectations of the LPC for this project.

Our work focused on providing LPC with as many practical and realistic suggestions as possible within the given time frame, while imparting the option of involving our assistance in the practical implementation of these suggestions. Consequently, since our objective was to provide a "hands-on" experience and advices, and not to try one more time to indicate deficiencies in the system, this report mainly includes the "programs" or "suggestion packages" resulting from our work, and does not set forth the day to day contacts, discussions, etc., all of it including a very valuable know-how transfer, highly appreciated by all LPC personnel.

Our work started with the number of meetings with LPC's Energy Sales Department in order to identify the major issues faced in accounts receivable area and methods currently utilized to solve these issues. Simultaneously, we have performed a review of the "Global Best Practices" database in order to determine what methods and practices used in other utilities could be of help to the Company. This resulted in identifying a number of things, e.g. use of systematic collection process, structured customer files, cut-off procedures, timely legal actions against delinquent customers, etc. At the end of the above work we have compiled a preliminary set of suggestions on how to solve these major issues identified.

In order to verify that our recommendations are suitable for the LPC, we have visited most of the LPC's electricity and heat distribution networks (branches), where we have discussed all major practices currently utilized by the distribution networks in debt monitoring and collection area, including staffing levels, meter reading practices, use and availability of operational information, use of computer systems, current collection practices, loan granting procedures, etc. Further, we have had detailed discussions on how the preliminary suggestions raised could be put into practice. Also, during branch visits we have discussed and recorded some additional recommendations raised by LPC.

This stage was particularly valuable for us, as we were able to discuss our suggestions with the people who were actually performing the monitoring and collection process and who are able to evaluate the practical implementation of the proposed methods. During these visits we have also given a number of practical suggestions to the personnel of regional accounts receivable departments on the number of issues related to increasing efficiency and effectiveness of receivable monitoring and collection efforts.

Following the branch visits, we have continued our work closely with the Energy Sales Department and have developed a final set of suggestions, including a set of procedures, forms, etc. included as Appendix 1 to this report. Also, we have performed a review of the legal background for implementing the suggestions, which was included into the final set of procedures. We have discussed in detail each of the proposed suggestions with the personnel of the Energy Sales Department who have been very satisfied with our assistance, and who have now taken the ownership of the procedures and committed themselves on their implementation. Furthermore, the procedures proposed have been presented to the top management of LPC who have expressed their appreciation of the work performed and results thereof.

At present, LPC's Energy Sales Department is working on the implementation of the recommendations, and we will be available for any on-call assistance during the next half a year or so.

We believe that the suggestions for improvement of the present procedures and implementation of the new procedures which were developed during this project will have a noticeable effect on improving debt monitoring and collection practices. These suggestions are at the same time a reliable foundation for continuing to build a strong accounts receivable function at the Company in the future.

Very truly yours,

ARTHUR ANDERSEN

BECHTEL INTERNATIONAL, INC

By

Per Møller

Miljenko Bradaric

Programs for strengthening the accounts receivable function

1 Incorporate improved business practices based on the customer risk

1.1 Differentiate the customers based on their individual risk in order to trigger appropriate sales and collection treatment

Approach

The underlying idea of customer differentiation based on their individual risk is to assign each customer to the high or low risk group, based on the probability that customer will not be able to repay the bill for energy consumed

LPC has three main groups of customers

- 1 industrial, commercial,
- 2 state/municipal funded organizations,
- 3 residents

Classification by risk level could be applied to the first group - industrial and commercial customers. State/municipal funded organizations and residents however, are separate customer groups of distinct nature, therefore other collection and monitoring methods should be used with respect of these groups. The issues related to state/municipal funded organizations are covered in program Nr 5 and issues related to residents in program Nr 2. Nevertheless, the matters covered in this program could be utilized for dealing with other two groups of customers as well, depending on the circumstances LPC will face in the future.

Benefits of risk classification approach

- Mitigates the risk of extending supplies to companies that will not be able to pay invoices
- Minimizes collection personnel costs
- Directs efforts and resources in the most effective and efficient way

As a general rule, risk classification investigation should answer 4 questions

- 1 Does the customer have an underlying desire to pay?
- 2 Does the customer have the funds for payment when the invoices come due?
- 3 Does the customer have sufficient long-term assets to assure payment?
- 4 Are assets available in case the customer does not pay the obligation in a timely manner?

While risk classification models can help identify high and low risk customers, they tend to produce a large group of companies with very mixed ratings that fall between low and high risk. In these instances, the main factors (in case the non-repayment term is not a decisive factor) should be

- 1 Industry position (a customer may have relatively weak financial characteristics, but may be very strong compared with others in the same industry),
- 2 Need of customer's business,
- 3 Product profitability,
- 4 Character of management,

5 Years in business

Risk classification models are useful only when there is a systematic approach to customer monitoring, identifying the deterioration of payment abilities of existing customers and determining appropriate action should the accounts become delinquent

Risk classification process

The risk classification process could be organized in the following way

- 1 All industrial, commercial and agricultural customers (whether new or already existing customers) will be required to complete a risk classification form when applying for renewing or installing a new service
- 2 Information provided will be used to determine the risk of each customer for LPC
- 3 Information obtained will include at least
 - a) Legal name of the customer
 - b) Type of business organization (i e , limited liability company, partnership, sole proprietor, state organization, municipality, etc)
 - c) Type of energy supply
 - d) Bank reference (i e , name and address)
 - e) The list of main shareholders of the customer and their respective holdings
 - f) Contact name and phone/fax numbers Name and address of president/CEO, location of the customer and date of registration
 - g) For partnerships, additional requirements include name and address of the general partner
 - h) An estimate of the customer's average monthly bill should be calculated and recorded
 - i) If the new customer reported a prior service history with LPC, prior payment history should be researched

This information should be maintained for future reference in collection situations and should be stored in the debtors file (see section 1 5 below)

- 4 Risk classification must be established for each new and existing customer in order to minimize LPC's losses due to non-payment of bills caused by transfer of business ownership, bankruptcy, deteriorating financial conditions or other reasons
- 5 The risk classification for existing and new customers may be established using one or more of the following methods
 - a) Equity - By having a substantial equity (i e 1/3) in the real estate of the business to be served Value of personal property or fixtures should not be included
 - b) Similar Service - By having been a customer of record operating a similar type of business with a satisfactory payment records and the highest monthly bills were at least 50% of that estimated for the new service

- c) Guarantee - By furnishing a guarantee satisfactory to LPC which guarantees payment of bills for an amount equal to twice the applicant's estimated average monthly bill
- d) Letter of Credit - By furnishing an acceptable letter of credit for an amount equal to twice the new applicant's estimated average monthly bill
- e) Deposit - By making a cash deposit equal to twice the new applicant's estimated average monthly bill
- f) Obtaining Outside Information - By having rating established through investigation with banks, suppliers or other resources satisfactory to LPC. The results of the investigation should reflect that the new applicant has demonstrated the capacity to pay bills in the anticipated amounts and in a prompt manner

Where obtaining a cash deposit/sufficient guarantee/letter of credit in the amount required is not possible for the customer, reasonable alternatives acceptable to LPC will be considered including regular advance, weekly or monthly payments for utility service

Re-establishment of risk classification

Re-establishment of an existing customer's risk will be considered when one of the following three conditions exist

- 1 The customer has failed to pay bills in a timely manner resulting in a loss of credit standing with LPC. For the purposes of this condition, "timely manner" will be considered to be customer's failure to pay bills in full on more than two occasions in the past 12-months after having received a "past due" notice for non-payment of bills and having not paid in-full within _____ days of the issuance of the "past due" notice
- 2 Conditions under which service was originally established have materially changed in the opinion of LPC. Examples of situations where conditions have materially changed could include verified deterioration of customer's financial condition, nature/type of business has changed, etc

Re-establishment of the customer's risk classification will require the customer to pay any unpaid bills for previous service and provide a cash deposit/sufficient guarantee/letter of credit equal to twice their estimated monthly utility bills and, pay future bills when regularly due

Utility service will be discontinued if a cash deposit/sufficient guarantee/letter of credit is requested and payment is not received after the request and a notice of "past due" issued to the customer for this request has expired

Deposits, interest and returns

Cash deposits will be paid annual interest at the rate of _____ percent annually. Deposits will be retained until the customer has demonstrated the ability to pay bills in a timely manner by having received no more than 2 "past due" notices during the past 12 months and having not had utility service discontinued for non-payment

Deposits will be returned with interest, less any unpaid bills, when customer requests discontinuance of service through transfer of ownership or other similar reason

1 2 Treatment actions based on a customer risk classification

Approach

The action steps for delinquent accounts should be based on customer risk category and total customer account exposure

The treatment timeline should be customized to reflect differences in customer risk. Sending tough collection letters to a well-established, low-risk customer who is late for the first time is obviously inappropriate, however the reminder should be sent out promptly to prevent the customer becoming the habitual late payer.

A very good approach is to contact customers just a few days after a missed payment date. Many companies in Western practice have even begun to call customers 10 days before payment is due to confirm that customers have received the invoice and no misunderstanding exist. The goal is to resolve any barriers to payment before they create problems.

Regardless of whether customers receive a call or a letter, the collection technique requires that LPC invoice customers very shortly after the billing date so that customers have the invoice in hand when the company follows up. LPC should develop the practice already used in few branches, where the bill is issued to the customers the same day the consumption report is delivered.

To prevent future delinquency, LPC should ask for payment on both past due balance and current balance during collection calls. Asking for only past due balance often leads customers to becoming habitual late payers, paying only what is asked for and only when asked. Studies have shown that direct phone contact with the customer is the most effective collection technique.

LPC should take corrective action with persistently delinquent customers

- 1 Renegotiate sales contracts and payment terms,
- 2 Put delinquent customers on advance payment basis only,
- 3 Require letters of credit, guarantees, securing that the bill will be repaid,
- 4 Perform the energy cut-off

In order to assist the accounts receivable personnel in collection process the currently developed billing system Oracle will have to perform the following steps

- 1 Automatic identification of delinquent accounts,
- 2 Automatic prioritization of accounts for collection activity,
- 3 Automatic querying of accounts for collection calls,
- 4 Automatic preparation of reminder letters,
- 5 Immediate notice of changes in risk classification

1 3 Planning and allocation of appropriate collections resources

Approaches

Typically, 80 percent of a company's receivables are generated by 20 percent of its customers

The Commercial Law League (US) indicates that an account less than one month overdue has a 93 percent chance of being recovered, if it goes to three months past due, the chances drop to 73 percent, and at six months, the figure goes down to 57 percent. In addition, there is an opportunity cost associated with the tied-up funds, which decreases the value of the receivable.

The following methods provide the possibility to direct the collection efforts in the most efficient and least time and labor consuming manner:

- 1 Direct effort at the 20 percent of customers comprising 80 percent of receivables
- 2 Direct collection efforts at the largest group of receivables zero-to-30 (60)-day balances, and of those, focus first on those with the largest account balances

When the Oracle billing system is operating LPC should establish criteria for delinquent customer monitoring; the system will be programmed so that it constantly issues the "watch lists" containing the names of the customers to be monitored, based on the balance unpaid, days past due and other criteria LPC would find important. Such monitoring would allow to prioritize the most urgent problems.

- 3 Assign each major account to one collector or to an account team who will be responsible for all aspects of servicing the account
- 4 When making assignments of collectors, LPC should consider location and assign collectors who are a good match for the customer in terms of skill, language, and understanding of local business customs
- 5 Collectors should be trained to determine when the cost of continued collection activity is higher than the amount the customer is willing to pay

Tailoring collection procedures based on specific account payment patterns and history will ensure that high-risk accounts are contacted early and sufficiently often, and stable accounts only in case of occasional late payment.

1 4 Matters to consider in an Energy Supply Contract

The standard Energy Supply Contract should contain the following information and provisions:

- 1 Customer name, personal number/passport number (if applicable)/company code, address and telephone number
- 2 The customer is responsible to pay bills by the prescribed date. It is his responsibility to inquire of his balance and settle just the same even in case of non-receipt of the monthly invoice.

- 3 Terms of providing the service and making payments (including advance payments, deposits, letters of credit) based on risk classification This would make possible to sign different contracts with different types of customers, e g the risky customers would be required to include into the contract the commitment of advance payments or to provide a guarantee securing LPC the compensation for energy supplied
- 4 LPC reserves the right to totally or partially disconnect the customer with or without notifying him in the case of non-payment of the invoice/advance payment, not providing sufficient guarantee, or exceeding certain credit limit Also, since LPC is a single legal entity providing both electricity and heat to its customers, LPC reserves the right to disconnect electricity to the customer who did not pay his heat bills or vice versa
- 5 LPC reserves the right to totally or partially disconnect the customer with or without notifying him in case his payment document is dishonored
- 6 The customer may not transfer his access to service to a third party without the prior approval of the LPC
- 7 LPC's right to check customer meters at any time
- 8 The tariffs and LPC's right to change the tariffs
- 9 The customer should inform LPC of any change in his address, telephone number, management, etc immediately

1 5 Debtors file

The debtors file should be established for the major LPC's clients which in total generate approximately 80% of LPC's income Most likely it will be industrial and commercial customers and state/municipal funded organizations

Establishment of such file would allow to monitor customers more consistently and identify potential problems in collection area before they occur The information gathering process itself would warn the customers that LPC is seriously concerned about customer monitoring

The debtors file should contain

- 1 Legal name of the customer
- 2 Type of business organization (i e , corporation, partnership, sole proprietor, state organization, municipality, etc)
- 3 Type of energy supply
- 4 Bank reference (i e , name and address)
- 5 The list of main shareholders of the customer and their respective holdings

- 6 Contact name and phone/fax numbers Name and address of president/CEO, location of the customer and date of registration
- 7 For partnerships, additional requirements include name and address of general partner
- 8 An estimate of the customers average monthly bill should be calculated and recorded
- 9 Quarterly financial statements
- 10 Business plans in the case the customer is planing to change the course of business
- 11 The forecasts and projections for the future prepared by the customer
- 12 The documented decision on risk classification, including the payment history, summaries of discussions with the customers, site visits, correspondence, etc
- 13 Agreements, contracts of the customer which could have an impact on LPC's business
- 14 Documented court cases with the customer (if any)
- 15 Other relevant information about the customer such as articles in press, news on TV, etc

2 Establish uniform collection policy

Electricity supply disconnection procedure for the indebted customers and customers who have infringed the contract for energy supply

2.1 Residential customers

- 1 Residential customer's bills for utility service are "due" upon presentation
- 2 Residential customer's bills for utility services are considered "past due" _____ days after they are "due"
- 3 Upon becoming "past due", residential customers' bills with the exception of those customers whose account records are noted as "sensitive" or otherwise require special handling, whose "past due" amount exceeds _____ Litas will be sent a written "past due" notice informing the customer of the amount "past due" and providing _____ additional days for full payment to be received by LPC to avoid discontinuance of the service "Past due" notices bear the name of the deputy Head of EDN Accounts Receivable department
- 4 Customers whose account records are noted as "sensitive" or otherwise require special handling will be processed according to special individual account procedures
- 5 "Past due" notices will not be issued to customers who have a pending complaint with LPC about their bill
- 6 "Past due" notices will urge customers who are unable to pay the amount in full to contact LPC immediately to make reasonable arrangements for full payment A record of such an arrangement made with LPC will be maintained and followed-up on
- 7 Upon expiration of the time allotted for payment by the "past due" notice, customers who have not either 1) contacted, made and kept arrangements or 2) paid at least 2/3 of the amount owing on the "past due" notice or 3) reduced this "past due" amount to less than _____ Litas, will be scheduled for discontinuance of service on the following day
- 8 The disconnection work is organized by senior inspectors, inspectors-engineers, inspectors who control/supervise the customer
- 9 Customers requiring collection in the field will be assessed a _____ Litas field collection fee
- 10 Field representatives of LPC will reasonably attempt to make contact with an adult at the customer's residence in order to make reasonable arrangements for future full payment If arrangements are made, a record of such arrangement will be made and followed-up on No arrangements will be made for customers with a history of earlier broken payment arrangements
- 11 If customer is not present and/or is unable or unwilling to make reasonable arrangements for future full payment, utility service will be disconnected

- 12 Where both electricity and heating services are provided, electricity service will be disconnected
- 13 Utility service will not be disconnected if
 - a) conditions on the premises exist which in the judgment of the field representative indicate that services should not be shut off, or,
 - b) current or imminent severe weather conditions exist which would create an unreasonable risk to customer's health or well being
- 14 Before leaving the customer's premises, the field representative will leave a written notice to the customer that service has been disconnected and the amount to be paid before service can be restored. In addition, the notice will inform the customer of the nearest location where payment can be made and the phone number of the serving LPC office
- 15 Service will never be disconnected on Saturday, Sunday, public holiday or at any time the serving LPC business office is not open to the public
- 16 In situations where both electricity and heating services are provided and the electricity service has been disconnected, if after 3 days the customer has not paid in full or made reasonable arrangements for future full payment, heating service will be disconnected
- 17 Five (5) days after disconnection is requested, head of EDN will request a written explanation from districts for each customer requested to be disconnected who has not paid, made arrangements for full payment and still has not been disconnected

2 2 Industrial, commercial, agricultural sector

- 1 Bills for industrial, commercial and agricultural customers are "due" upon presentation
- 2 Industrial commercial and agricultural customer bills for utility service are considered "past due" _____ days after they are "due"
- 3 Upon becoming "past due", industrial commercial and agricultural customers will be sent a written "past due" notice informing the customer of the amount "past due" and providing _____ additional days for full payment to be received by LPC to avoid discontinuance of service. This notice will additionally inform customers of the potential requirement to re-establish risk classification if service is discontinued or if repeated late payment habits continue
- 4 In addition to sending the written "past due" notice, LPC personnel will call the contact name at the customer's place of business, which was identified at the time service was established, in an attempt to expedite payment
- 5 Customers who are unable to pay the amount in full are encouraged to contact LPC immediately to make reasonable arrangements for full payment. A record of such an arrangement made with LPC will be maintained and followed up on

- 6 Upon expiration of the time allotted for payment by the "past due" notice, customers who have not either 1) contacted, made and kept arrangements or, 2) paid at least 2/3 of the amount owing on the "past due" notice or 3) reduced their amount "past due" to less than _____ Litas, will receive a "courtesy reminder" if their previous payment history is satisfactory and no record of discontinuance of service exists
- 7 All "sensitive" or major industrial/commercial customers will receive a "courtesy reminder" allowing _____ additional days to pay
- 8 All customers not receiving a "courtesy reminder" will be referred to field representatives for discontinuance of service the following day
- 9 Upon expiration of the time allotted for in the "courtesy reminder" customers with the exception of "sensitive" or major industrial/commercial customers, who have not paid in full or made arrangements for future full payment, will be referred to field representative for service discontinuance the following day
- 10 Collection for "sensitive" and major industrial/commercial customers
 - a) For these exceptions, "sensitive" or major industrial customers' service will be scheduled to be discontinued in 2 days
 - b) During that 2 day period, the following will take place
 - ◇ Key LPC personnel will be notified of the impending service discontinuance of a "sensitive" or major industrial/commercial customer
 - ◇ Public relations department will be notified to prepare for, and defend LPC, in the event of any negative publicity regarding the discontinuance
 - ◇ Where possible, attempts will be made to collect through the use of contacts by designated influential LPC personnel, through government agencies or through commercial associations
 - ◇ A specific utility service location is identified which will be the first service location where customers' utility service will be discontinued Preferred choice would be a key administrative location as opposed to a service location which would disrupt a manufacturing process
 - ◇ A letter is prepared and hand-delivered to the customers' executive office, signed by an LPC manager, informing the customer of the scheduled date, time and location of service discontinuance if payment is not received In addition, the letter will inform the customer of the potential for re-establishment of risk classification if service is reestablished
 - ◇ Where safety precautions should be undertaken by the customer in the event of discontinuance, the letter should remind the customer of such precautions (i e , have elevators brought to ground floor to avoid personnel being stuck in elevators)

- ◇ Where deemed necessary local public health/safety agencies should be copied on the letter
- ◇ After the expiration of the 2-day period, if payment attempts by all methods have proven unsuccessful, field technical representatives should be assigned to discontinue the identified service on the designated date and time
- ◇ If payment or acceptable payment arrangements are still not made after discontinuance of the initial service, all other services should be discontinued 3 days later

3 Anti-theft program

3.1 Hire a former law enforcement professional

Professional Characteristics

- Former (preferably retired) law enforcement career
- Strong investigative background, detective, supervisor or higher
- Excellent connections in law enforcement community
- Training experience
- Experience in establishing new programs and/or procedures
- Leadership experience
- Excellent career references

Personal Characteristics

- Excellent written and oral communication skills
- Able and willing to speak in front of groups
- Commands respect
- Leader of others
- Willing to learn about aspects of the energy business
- Easily establishes relationships
- Willing to travel throughout Lithuania
- Willing to take on something new and challenging
- Strong belief in objectives of LPC's anti-theft efforts
- Knowledge of principles of electricity (preferred)

Job Responsibilities

- 1 Develop training materials on 1) gathering and maintaining evidence, 2) investigative techniques, 3) interviewing techniques and 4) documenting cases for prosecution
- 2 Provide classroom and field training to LPC employees on subject areas for which training materials have been developed
- 3 Contact appropriate local law enforcement officials (police and prosecutors) and inform them of LPC's plans to utilize laws to combat theft through intensified detection, investigation and prosecution
- 4 Establish and maintain sound working relationships with the police and prosecutors
- 5 Assist LPC investigative employees in investigating, documenting and presenting to law enforcement agencies major or sensitive cases of theft
- 6 Ensure local police provide prompt assistance to LPC employees encountering hostile customer situations by continually managing excellent relationships with local police

- 7 Regularly travel to LPC business locations to 1) ensure LPC investigative personnel receive necessary legal assistance, 2) communicate to LPC office and field personnel about LPC's actions to combat theft
- 8 Act as a liaison to LPC's legal staff
- 9 Personally perform investigations of suspected theft by LPC employees

3 2 Publicize new anti-theft emphasis and amnesty program

As LPC is training its field employees on new techniques and is otherwise preparing to intensify its efforts to combat theft, a publicity campaign is being prepared to notify customers of these efforts and of the introduction of a new amnesty program. Initially this would take place in a single pilot location, perhaps Vilnius. After the program is fine-tuned, it would be expanded to all areas. The reason behind an amnesty program is that probably most customers who steal are not really hard core thieves, but probably DON'T KNOW that theft from LPC is illegal, or DON'T THINK that anybody will do anything about it or are just stealing because it seems like almost EVERYBODY ELSE IS, perhaps even their neighbors.

An amnesty program can give customers a break by treating them fairly. LPC's ultimate objective should be to STOP THEFT, not just CATCH THIEVES, there is a subtle but important difference.

In order to get the word out to as many customers as possible, an article would be printed on the front page of the newspaper Lietuvos Rytas, with their cooperation. An example of an article is as follows:

- Lietuvos Rytas-

LPC TO START BIG CRACKDOWN ON ENERGY THEFT

Lithuanian Power Company (LPC) today announced a major program to stop theft by its customers. At the center of this new program is a limited amnesty program which will provide a window of time during which customers who are stealing can pledge to stop energy theft in return for a promise of no restitution or legal action by LPC. According to Mr. _____ Vazgela, Director of the Energy Sales Center of LPC, theft levels have been increasing in recent years to unacceptable levels. "Theft now amounts to approximately _____ % of our 1996 revenues," said Mr. Vazgela. "The theft of energy causes all customers costs for energy to rise since the value of energy lost due to theft is passed on to all other customers through increased tariffs. In addition, theft of energy presents a danger of fire, or electrocution to even those who don't steal", Mr. Vazgela further states.

To stop theft, LPC will be utilizing laws which make theft of energy a criminal act to seek criminal prosecution for customers found to have stolen energy. "We've hired former law enforcement personnel to train our employees and establish better working relationships with local police and prosecutors to facilitate our efforts to deal with thieves", says Mr. Vazgela.

According to the law, penalties for theft can include full restitution to LPC for the full amount stolen, fines, and possible imprisonment.

"We realize that our customers may not be familiar with these laws," says Mr. Vazgela, "so to be fair we've decided to offer for a limited time only an amnesty program for customers who have been stealing energy from LPC."

Here is how the amnesty program will work. Customers who are currently stealing energy are urged to come forward and report themselves to LPC. In return for coming forward, and for their pledge not to steal again, LPC will agree not to take criminal action against the customer and will further agree not to seek restitution from the customer for past energy stolen. This amnesty program will extend from now until _____ (date) _____, when aggressive efforts by LPC to detect and prosecute thieves will begin.

"I strongly recommend that customers who are stealing energy now, take advantage of this amnesty program at once. The consequences of being caught stealing energy after the conclusion of this amnesty program can be quite severe", warns Mr. Vazgela.

3.3 Solicit customer leads

At this point the amnesty program has ended. Now LPC begins a program to solicit energy theft leads. Utilizing a new article in *Lietuvos Rytas*, LPC requests people who have knowledge of others who steal energy to report them to a centralized location at LPC. They will be able to anonymously report suspected thieves by using forms set up at counters of Savings Bank, or to a centralized phone number established at LPC. Material incentives will be provided to persons who have provided successful leads.

3.4 Aggressively combat energy theft

At this point, LPC has given customers a break, and warned them about the steps LPC is going to take, LPC's employees are better trained, and LPC probably has a lot of leads on potential theft. Now they investigate the leads they have received from citizens and others they have identified themselves according to new procedures and relationships established with law enforcement, they prosecute and get convictions.

3.5 Publicize convictions

When they obtain convictions they publicize them in newspapers and through other means and the whole process snowballs to the benefit of LPC.

4 Bad debts cleaning program

4.1 *Amnesty program for delinquent customers*

Target groups for the program

- industrial customers,
- commercial customers,
- budget organizations,

This should be a program clearly stating to the customers

- 1 The need and purpose of this program (e.g. bad debts as per audited financial statements, continuous losses, need to purchase fuel, etc.),
- 2 That LPC is doing this only once. The success of the program is directly related to the LPC's ability of proving the customers that such program will not be repeated again,
- 3 That this is the last and very good chance for delinquent customers to settle their debts and be reconnected to the heating and electricity supply system and thus escape from the painful and long suing process,
- 4 That customers having overdue debts who do not settle their accounts by now would be pursued after, using the strictest means which LPC intend to apply continuously to all its overdue debts after the amnesty period is over

The amnesty for delinquent customers means

- 1 That LPC would accept a portion - e.g. 50%, of the outstanding debt as of a certain date recording the payment received as covering the whole debt balance,
- 2 The program should last not longer than one or two months. The best timing would be to start at the beginning of the month and finish at the end,
- 3 All delinquent customers should be informed a month in advance before the program starts through media, contacting them directly or through other means. The information provided to the customers should contain the explanation of the program and its consequences if the customer fails to repay the debt,
- 4 The LPC will make an agreement with Government that the difference not paid by the budget organizations should be compensated by Government

The reasoning for the program

- LPC would strengthen its cash flow,
- the delinquent customers will have a chance to settle their debts,
- the program would show willingness of LPC in front of the public and the Government to improve the current situation,
- the program would allow to reduce the number of delinquent customers to manageable level,
- the commitment of the Government to repay the remaining part of the receivable from budget organizations would make a substantial amount. Assuming the Government's commitments to the Word Bank it is the right time to make an agreement for compensating the unpaid amount,
- LPC may try to arrange for the Government to compensate the industrial receivables as well as reasoning that the Government is the most concerned about the survival of large but

almost bankrupt enterprises and that the debts of the budget organizations is primarily because of insufficient state financing

4.2 Writing-off/selling bad debts

Targets for the program

- industrial customers,
- commercial customers,
- already closed former budget organizations,
- residential debts which will not be recovered

The program of writing-off/selling bad debts described below is mainly targeted to reduce the currently existing large amounts of bad debts, however, the ongoing procedure for bad debt write-off and the mechanism of debt selling to appropriate institutions should be established and maintained, as well

Purpose of the program

There is no use of having the debts which can hardly (or not at all) be recovered in the books of LPC for a number of years, because they only boost up the receivable balance by this worsening the receivable turnover ratio

In case the Amnesty program is not run, an adequate agreement with the Government should be signed to compensate the receivable amounts from budget organizations not recovered by LPC

The usefulness of the program would be the following

- the reduction in days' sales in receivables ratio as required by the World Bank,
- the improving cash flow of LPC,
- the reduced number of problematic customers allowing to allocate more time to current issues

Issues - writing-off bad debts

Lithuanian accounting legislation requires companies to state receivables at their net realizable value, i.e. to record a provision for doubtful accounts and to make bad debt write-offs. The accounting laws do not indicate any terms or restrictions on how and when the debt can be written-off. Therefore, from the accounting perspective it is up to the company to decide on this

According to the current Lithuanian tax legislation bad debt write-offs are not deductible for tax purposes, except for the banking industry which has its special regulations

Presently, a new law is being prepared which would allow companies to deduct bad debts from the taxable profit if the debtor has been liquidated/went bankrupt. VAT, charged on the debt amount, is not expected to be refunded. However, assuming the unclear timeliness of this new law, we would recommend LPC not to wait until the law is published and to start the bad debt write-off process now

Furthermore, according to the Civil Code, an entity has the right to a claim within 3 years after providing some goods or rendering some services to the other entity. If the claim is not settled within 3 years, and the debt was not confirmed by the court, according to the existing tax laws, the claiming entity has to write-off the debt which is not tax-deductible.

However, since most Lithuanian companies still concentrate on tax accounting more than on financial accounting, very few of them record provisions for doubtful accounts and make bad debt write-offs before the 3-year period has ended.

Therefore, since the 3-year period for legal claim and writing-off bad debts in the financial accounting are two different things, we suggest LPC to follow a procedure for periodic review and evaluation of customer debts, and consequently recording the provision for doubtful accounts and making bad debt write-offs. Moreover, since LPC is obviously making losses this year, the bad debt writing-off will not "consume" profit and this will give a good starting position for the improvements next year.

Since the bad debt problem will be present in the future as well, an adequate ongoing procedure of write-offs should be established, containing

- 1 Allocation of each customer to risky or non risky groups,
- 2 Review of customers which appeared in the lowest credit groups,
- 3 Separating the customers whose balances are overdue for more than e.g. one year and collection attempts including court cases were unsuccessful,
- 4 Sending the application to the Ministry of Finance for repaying debts of budget organizations,
- 5 In case the above steps were unsuccessful the debts should be written-off.

Issues - selling bad debts

Selling of the bad debts or utilizing a collection agency to collect the debts are the methods used in the Western practice and currently not yet used in Lithuania. We list them as opportunities for the future and also recommend LPC to initiate the establishment of such organizations or utilizing the existing ones.

- 1 Sell the bad debts to the newly established Assets Bank (former Aurabank, which went bankrupt and has been reorganized into a special purpose bank dealing with bad loans) by this immediately recovering part of the debt. As of today it seems that the Assets Bank will initially only overtake and manage bad loans of the commercial banks, however, LPC could start negotiations with the management of the Assets Bank and the Government that LPC would also be able to sell its bad debts to the Bank.
- 2 Utilize services of collecting agencies which are skilled and experienced in financial and real estate markets. At present, however, such agencies are not yet set up, but LPC should immediately start using them after commencement of their activities.

5 Allocation of funds to budget organizations

Expenditure budgets of municipalities and state budget organizations for the coming year, are usually insufficient to compensate the real energy consumption

Moreover, because of the lack of information (how much funds are exactly needed for different districts in Lithuania), Ministry of Finance is not able to allocate funds proportionally, so that district using more energy would receive more funds

Because of such inefficient planning LPC loses cash inflows and debts of budget organizations seem to almost be planned in advance

In order to solve this issue, two ways are available

- 1) To provide Ministry of Finance with real estimates of budget organizations energy consumption costs for the coming year It would help to allocate funds which will fully compensate real energy consumption of budget organizations
- 2) Utilize limitation program - knowing the limit of funds available to each budget organization LPC will discontinue the services, when organization overdraws this limit

5.1 Presentation of real estimates of budget organizations energy consumption costs to Ministry of Finance

- 1 Every branch of LPC, for each budget organization (municipality and state owned) calculates energy consumption costs for the coming year, using previous years' historical energy consumption and assuming the changes in organization which could influence energy consumption

These calculations would not be precise, but would be still close to actual (Possible increase in tariffs is evaluated in 4th paragraph below)

- 2 These calculations should be presented to the budget organizations for confirmation. Organizations would be interested to confirm their actual energy consumption as it would increase the possibility of sufficient fund allocation and assure that energy supply would not be disconnected

At this stage it is very important that planned energy consumption presented to Ministry of Finance is not overstated. Such cases could create a precedent for coming years and Ministry of Finance would start using its old planning methods because of not trusting presented figures

- 3 Calculations of energy consumption costs for the coming year should be coordinated between LPC and each budget organization (confirming the agreement by organization seal and signature of person in-charge) and collected in LPC's head office and presented to Ministry of Finance (may be done even with presence of representatives from the Ministry of Energy)

- 4 The opportunity of tariff increase during the coming year should be considered in the presented documents as well and appropriate calculations of how much and when additional funds should be provided in order to compensate increase in energy tariffs
- 5 After the presentation of the documents, LPC should ask the Ministry of Finance to present final documents disclosing the funds provided to each budget organization
- 6 If funds provided are insufficient, LPC should inform Ministry of Finance that limitation program will be utilized and give instructions to the branches to be prepared for implementation of this program

5 2 Limitation program

The meaning of this program is that LPC, knowing that funds allocated to budget organization to compensate future energy consumption are not sufficient, establishes energy consumption limit based on the amount of funds provided. When a customer reaches this limit, the energy supply is disconnected.

- 1 LPC should receive documents from the Ministry of Finance disclosing all budget organizations and funds allocated to each of them to settle the coming year energy consumption bills
- 2 Concluding that part of budget organizations will exceed their consumption budget, LPC has to inform the Ministry of Finance and require that additional funds are provided. If additional funds are not provided the limitation program will be started. Moreover, the organizations, subject to the program, should be informed about the program implementation
- 3 If additional funds are not provided, LPC has to inform each budget organization how much funds were provided by the Ministry of Finance and their forecasted energy consumption (calculated together with organization). The document sent to the customer should include the information which month the energy supply could be disconnected in case this financial problem is unsolved. In addition LPC could indicate that it is not tend to implement such a program, however, has to do that, because otherwise, there will be no funds available to purchase fuel for energy production
- 4 Public and regulatory institutions have to be contacted before the implementation of the program in order to eliminate "political" barriers when the program is launched. LPC's motivation should be that LPC's purpose is not to limit budget organizations' consumption of energy (even though this limitation might encourage budget organizations to save energy) however, LPC wants the funds provided, to cover the energy consumption of budget organizations and that their debts are not be planned in advance

6 Establish communication with other utilities

Potential partners for communications

- Lithuanian Gas,
- Lithuanian Telecom,
- Water utilities

At present, companies working in different segments of the utility industry of Lithuania including gas, electric and heat utilities, water utilities, telecommunication companies, etc , are not periodically and systematically communicating among the segments, but only inside their own segment

However, certain business issues, such as customer debt collection and pursuing the new legislation being among major ones, are common to all companies working within the utility industry

The following is a description of two beneficial examples of such communication

To present strong ally to lobby in the Government

All utilities recognize the need for some new legislation or changes to the present one. However, the Government sometimes is unwilling to discuss these issues with the individual utilities. Therefore, acting together would strengthen the efforts and increase the effect when trying to pursue the new legislation. Also, it will most likely save the time to be invested into the process.

To acquire additional information about the customers and share experience

Customer debt collection problem is the key issue for all utility entities. However, at present individual utilities deal with this issue on their own, and information and experience are not shared among them.

Since having adequate information is vital to monitor customer debts, it is essential that it is utilized in the best possible way. Due to financial, administrative and technological issues, currently it is very hard to have every utility supervise all of its customers properly and on a timely basis. Further, this is not cost effective. If a timely exchange of customer information could be executed between utilities, it would enable them to take adequate actions in advance and not on a crisis basis.

Also, various utilities have different experiences in monitoring customer debts, and it would be very useful if the experience could be shared among all the entities in the industry and some issues solved jointly.

Therefore, in order to utilize the mutual benefits, it is suggested to increase the communication between various utilities within the industry, by, *inter alia*

- establishing a formal customer information sharing procedure, e.g. common database including the constantly updated customer information, or periodically sharing lists of troublesome customers,

- establishing the experience sharing process which can include periodic training and seminar sessions, joint groups for working on the particular business issues, etc

7 Internal suggestion program

- 1 Suggestion forms should be readily available to employees in locations throughout LPC's operation
- 2 The employees should be informed about the program
- 3 Employees who desire to submit a suggestion will complete the first half of the attached suggestion form and submit it to a person who is responsible for the suggestion program (in each branch a person at the level of deputy director will be appointed, responsible for evaluation and implementation of suggestions His duties will be to appoint the competent persons to evaluate suggestion and assure that these suggestions forms are not "lost")
- 4 Suggestions should be submitted for ideas which may represent benefits to LPC in the form of
 - a) reduced cost,
 - b) improved financial results,
 - c) improved service to customer,
 - d) improved working conditions/morale, safety of work environment,
 - e) increased efficiency by performing other newly proposed procedures
- 5 The responsible person provides a quick review of each suggestion and either
 - a) rejects them and notices originating employee with reason for rejection,
 - b) returns them to originating employee for more information,
 - c) forwards them to individual reviewers in each functional department who are responsible for in-depth evaluation of suggestions affecting their organization
- 6 Each designated individual reviewer should perform an in-depth evaluation of each assigned suggestion within 30 days of receipt This evaluation includes a complete review of the suggestion, its stated benefits, its potential for implementation and the scope of possible implementation, either local or company wide
- 7 Based on this evaluation the suggestion is either
 - a) accepted with an intangible award given or a tangible award equal to ____% of the suggestion's annual benefits,
 - b) referred to another location for further evaluation,
 - c) declined with reason for decline being provided to the originating employee
- 8 The evaluation is reviewed and approved by the finance director
- 9 The completed suggestion form, after evaluation, is returned to the originating employee Any award to the employee will follow within 30 days from suggestion form returning day or from suggestion's implementation final day
- 10 A copy of the suggestion form is forwarded to each LPC's subsidiary or department which can benefit from its implementation
- 11 The responsible employee will follow-up in 90-days on whether the suggestion was implemented to the greatest extent possible

- 12 Funding for monetary awards will be from a specially allocated fund approved by LPC's Board of Directors. If monetary incentives are not possible, recognition could be expressed in the form of a "Certificate of Achievement" or any other form of incentives.

Suggestion form

First part

Date

Employee (first name, second name)

Work location (department)

Title of suggestion

Detailed description of suggestion

Description and calculation of evaluated benefits

Description and calculation of the necessary resources

Second part (for department managers' discussion)

Suggestion number

Date of acceptance for evaluation

Results of evaluation

a) Accepted,

b) Referred to _____

c) Declined-reason _____

Evaluation comments

Recommended award

Evaluated by

Approved by

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