



*Academy for Educational Development*

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**ARMENIA ENERGY TRAINING PROGRAM**

**Contract No. LAG-I-00-98-00011-00, Task Order Two**

**Technical Report**

***Course on Managing the Transition to a  
Privatized Distribution Utility***

June 9, 1999

Submitted to U.S. Agency for International Development

Submitted by the Academy for Educational Development  
with Hagler Bailly Services

**ARMENIA ENERGY SECTOR TRAINING PROGRAM**  
**Technical Report**  
**Course #5: Managing the Transition to a Privatized Distribution Utility**

USAID Strategic Objective 1.5	A more economically sustainable and environmentally sound energy sector
Intermediate Result 2	Increased economic efficiency in the energy sector
Participant profile	Armenia's energy companies, government ministries and regulatory entities with competence over the energy sector

**A. Course Purpose**

The objective of the AED seminar was to develop and deepen the efficient management of sector companies. The course focused on increasing the efficiency of power sector companies, emphasized the benefit from more transparent corporate structures and addressed how to safeguard power sector company profitability through better skills in legal, financial and economic disciplines.

**B. Dates/Trainers/Attendees**

The course was conducted May 3-7, 1999. Constance Irland served as the primary instructor. Joseph Moran also taught a section of the course.

**Table 1: List of Participants**

#	Name	Employer	May 3	May 4	May 5	May 6	May 7
1	Levon Varanyan	Ministry of Energy	✓	✓	✓	✓	✓
2	Marine Petrosyan	Ministry of Energy	✓	✓	✓	✓	✓
3	Nelli Harutyunyan	Ministry of Energy	✓	✓	✓	✓	✓
4	Tigran Gnuni	Energy Strategic Center	✓				
5	Arman Aharonyan	Energy Strategic Center		✓	✓	✓	✓
6	Svetlana Ganjurnyan	Institute of Energy	✓	✓	✓		✓
7	Mikayel Mikayelyan	Institute of Energy	✓	✓			✓
8	Khachik Shaboyan	Institute of Energy	✓	✓	✓	✓	✓
9	Svetlana Arakelyan	Energy Regulatory Commission	✓	✓	✓		✓
10	Hmayak Amiraghyan	Energy Regulatory Commission	✓	✓	✓	✓	✓
11	Radik Zohrabian	Central Distribution Company	✓				
12	Meruzhan Hovsepyan	Central Distribution Company			✓		✓
13	Kliment Khachatryan	Yerevan Distribution Company	✓	✓	✓	✓	✓
14	Arevik Karapetyan	Ministry of Finance and Economy	✓	✓	✓	✓	✓
15	Sargis Nasibyan	Ministry of Finance and Economy		✓		✓	✓
16	Aleksan Serchinyan	Ministry of Finance and Economy		✓			
17	Armen Martirosyan	Ministry of Finance and Economy			✓	✓	✓
18	Lusine Abrahamian	Armenergo	✓		✓	✓	✓
19	Nune Avanesyan	Armenergo	✓		✓	✓	✓
20	Robert Barseghian	Armenergo	✓	✓	✓		✓
21	Oleg Markosian	Ministry of Privatization	✓	✓			✓
22	Naira Manukyan	Ministry of Privatization	✓	✓	✓	✓	✓
23	Artak Abgarian	Ministry of Privatization	✓	✓		✓	✓
		<b>TOTAL</b>	<b>18</b>	<b>17</b>	<b>16</b>	<b>14</b>	<b>20</b>

### **C. Material Covered**

The objectives of this seminar were to develop and deepen the efficient management of the distribution companies, to draw benefits from a more transparent corporate structure, and to safeguard profitability of the power sector companies through better skills in operational, financial, economic, and legal disciplines.

The training was designed to teach managers how to manage a privatized utility successfully. It stressed the need to organize the company for the effective and efficient use of resources; to undertake strategic planning and setting goals and objectives; to manage the resources of the company for financial success; and to provide good customer service.

The target audience for this course was distribution company managers. Representatives from the Ministry of Energy, the Ministry of Finance & Economy, the Ministry of Privatization, and the Energy Regulatory Commission also attended the course. In total, 18 people completed the one-week course.

The course outline is attached (Appendix A).

### **D. Participant Evaluations**

- The course was well received by the participants. In an exit questionnaire all participants said that the training program was useful and 89.5% said that they could apply what they learned to their work.
- Participants gave the instructors high marks for the course. Most participants (89.47%) indicated that they have made arrangements to maintain contact with the instructors
- Several participants stated that the course was too short and that they would like further training on practical ways to solve the problems facing their companies that are specific to the situation in Armenia.

### **E. Anticipated Outcomes**

The seminar participants gained knowledge about the general changes that will be required to manage their utilities as private companies. Investors will insist on a return on their investment. This will require changes in financial management including budgeting and controlling expenses, managing capital structure, and ensuring collection of revenues from customers. New management techniques must be put in place that emphasize a more collaborative approach, better performance, and more efficient use of personnel. Customer service will become more of an issue as tariffs increase and customers begin to expect more reliable service.

### **F. Conclusions and Recommended Follow-up**

This training provided a general overview of each of the topics covered. Due to time limitations, no single topic could be addressed in detail. As a result, providing further training or advisory services would ensure that those managers who wish to implement the managerial and planning techniques that were introduced during the course can do so successfully. One very effective approach would be to offer to work with one or more distribution companies to provide similar training to the next level of managers. This training could include exercises that would lead to the development of a strategic plan or human resources management plan, for example. The training would be done in stages over the course of several months to allow time for gathering information and conducting analysis to form the basis of the plan. Instructors could facilitate the process and critique the plan during its development.

## APPENDIX A

### **Seminar Outline and Key Topics Covered**

Managing the Transition to a  
Privatized Distribution Utility

## Day One:

- A. Introductions
- B. Course Objectives and Overview
- C. Introduction to Corporate Organizations
- D. Types of Electric Utility Organizations
  - 1. Fully Integrated Utility
  - 2. Disaggregated Models – US, UK, Ukraine
- E. Industry Restructuring and Transition to Competition
- F. Public versus Private Ownership
- G. Utility Privatization Case Studies
  - 1. Georgia
  - 2. Kazakhstan
- H. Corporatization and Commercialization
- I. Organizational Structure of a Private Utility
  - 1. Board of Directors
  - 2. Senior Management
- J. Major Functional Areas of the Corporation
- K. Relations between a Private Utility and Stakeholders
  - 1. Government Agencies
  - 2. Regulators
  - 3. Shareholders

## Day Two

- A. Establishing a Corporate Vision
  - 1. Goals and Objectives
  - 2. Business Planning
    - a. The Importance of Planning
    - b. Elements of a Plan
- B. Load Forecasting
  - A. Customer Demographics
  - 2. Customer Services
  - 3. Maintenance Plans
  - 4. Capital Investment Plans
- C. Financial Planning
  - 1. Budgeting
  - B. Analyzing Capital Investments
  - 3. Operations and Maintenance
  - 4. Depreciation
  - 5. Taxes
  - 6. Earnings Projections
- D. Tariffs

- E. Reporting Your Financial Success to Shareholders and Regulators
  - 1. Financial Statements and Reporting
  - 2. Capital Structure
  - 3. Sources of Capital
  - 4. Dividend Policy

### Day Three

- A. Improving Collection of Revenues from Customers
  - 1. Revenue Cycle
  - 2. Meter Reading Policies and Procedures
  - 3. Customer Billing
  - 4. Preventing Collections Problems
  - 5. Collections Policies and Procedures
- B. Using the ABACUS system

*Demonstration at Komitas*

### Day Four

- A. Human Resource Management in a Privatized Utility
  - 1. Attracting and Retaining Qualified Personnel
  - 2. Compensation
  - 3. Benefits
    - a. Holidays and Vacations
    - b. Performance Evaluation
    - c. Career Development
    - d. Training
  - 4. Safety
  - 5. Union versus Non-Union Issues
  - 6. Managing Change
- B. Employee Communications

### Day Five

- A. The Importance of Customer Service
  - 1. Examples of Customer Service Programs
- B. Communicating with Customers
  - 1. Determining What Issues are Important to Communicate

2. Ways of Communicating Effectively
  3. Customer Opinion Surveys
- C. Setting Priorities for the Future
  - D. Review of Current Organizational Structures of Armenia Distribution Companies
  - E. Development of a New Organizational Structure for a Privatized Utility
  - F. Making the Transition

*Course Evaluation*

## Principal Topics

The principal topics for the seminar included:

- # *Steps to Privatization.* The steps to privatization, including commercialization, formation as a joint stock company, and sale to private investors, were reviewed.
- # *Defining a Successful Utility.* A successful utility has four basic elements: exceptional management, systems and procedures that ensure good performance, a highly qualified group of employees, and good customer service. Each of these elements were described and discussed in greater detail during the course.
- # *Exceptional Management.* Management skills, including various styles of management were reviewed. Participants learned the basis for strategic planning – establishing a vision statement and setting goals and objectives. The key issues of a long-range plan were also outlined.

Once the strategic plan is in place the utility can organize itself to carry out the plan. Participants reviewed the basic corporate structure required by the Armenian Civil Code and considered other organizational issues that are left to management's discretion. Corporate charters, by-laws, roles and functions of the Board of Directors and management were all outlined. A presentation on current restructuring of the electric industry in the U.S. was also provided.

This section of the course concluded with a discussion of effective communications between a privatized utility, government agencies, regulators, and shareholders.

- # *Systems and Procedures.* Various financial systems and procedures were reviewed. Participants reviewed the components of income statements, balance sheets, cash flow statements, annual reports and proxy statements. Capital structure, including tradeoffs between common equity, preferred equity and debt, and dividend policy were reviewed.

Participants became familiar with controls that can be used to ensure the wise and legitimate use of resources including financial audits, operational audits, compliance audits and management audits.

Revenue Billing was the final system that was presented. It included a discussion of metering reading practices, credit and collections procedures, and a demonstration of the customer billing software developed for the Armenian distribution companies and currently being used in both the Komitas and Ararat networks.

- # *Employees.* Various topics related to Human Resource management were presented including job placement, compensation, benefits, employee performance evaluation, career development and training, union relations, safety programs, employee communications.

- # *Customer Service.* A number of different topics related to customer service were addressed including market research and determining customer satisfaction, establishing a customer service department, and types of special customer service programs. Various ways to communicate with customers were reviewed as well.
- # *Setting Priorities for the Future.* Participants discussed how they could implement some of the ideas and procedures introduced during the week.

In addition, the participants completed the following exercises:

- # *Strategic Planning Exercise.* In this exercise, the participants drafted a Vision Statement, two Goals and two Objectives for each goal. Several of the drafts were reviewed and critiqued with the class.
- # *Performance Standards Exercise.* Participants drafted a performance standard for two of the following categories: Customer Service, Finance, Accounting, Reliability, Safety and Employees.
- # *Position Description Exercise.* Each participant filled out a Position Description form that included job responsibilities, key experience and qualifications, reporting and management responsibilities, and salary range.

*Employees' and Managers' Expectations Exercise.* In this exercise managers were asked to rank the importance of various factors related to job satisfaction and compare their ranking with the rankings given by a large group of employees

## APPENDIX B

### Seminar Materials

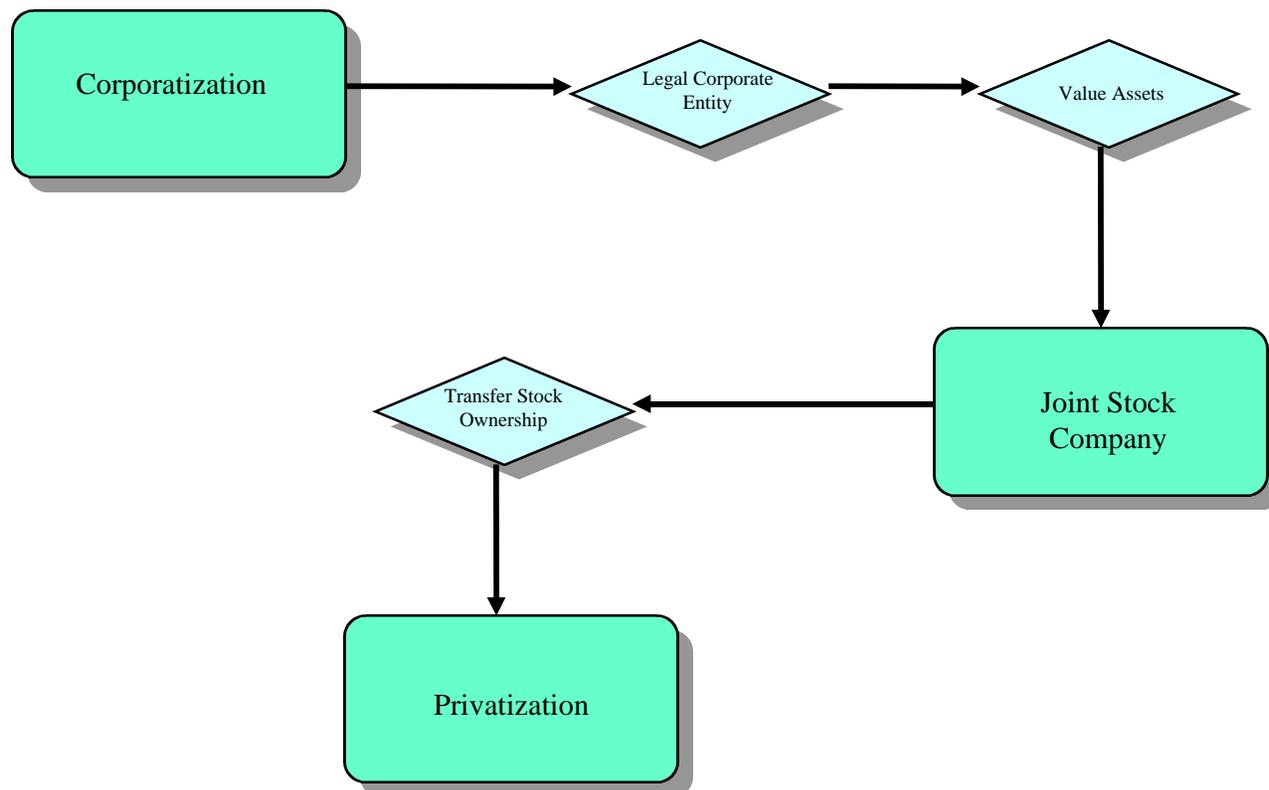
#### Managing the Transition to a Privatized Distribution Utility

# MANAGING TRANSITION TO A PRIVATIZED DISTRIBUTION COMPANY

Yerevan, Armenia

May 3 - 7, 1999

# Steps to Privatization



# Change is inevitable

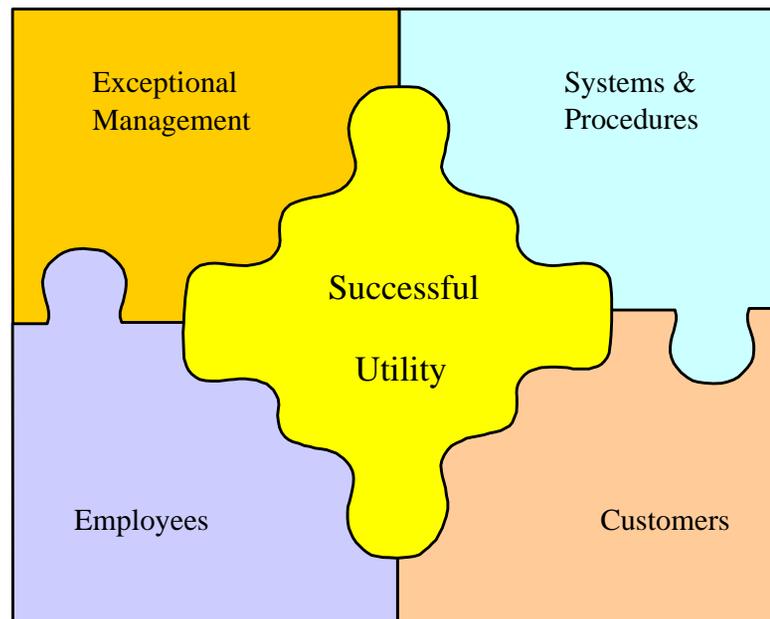
What are the most difficult problems  
facing you as a manager today?

# What does a successful utility look like?

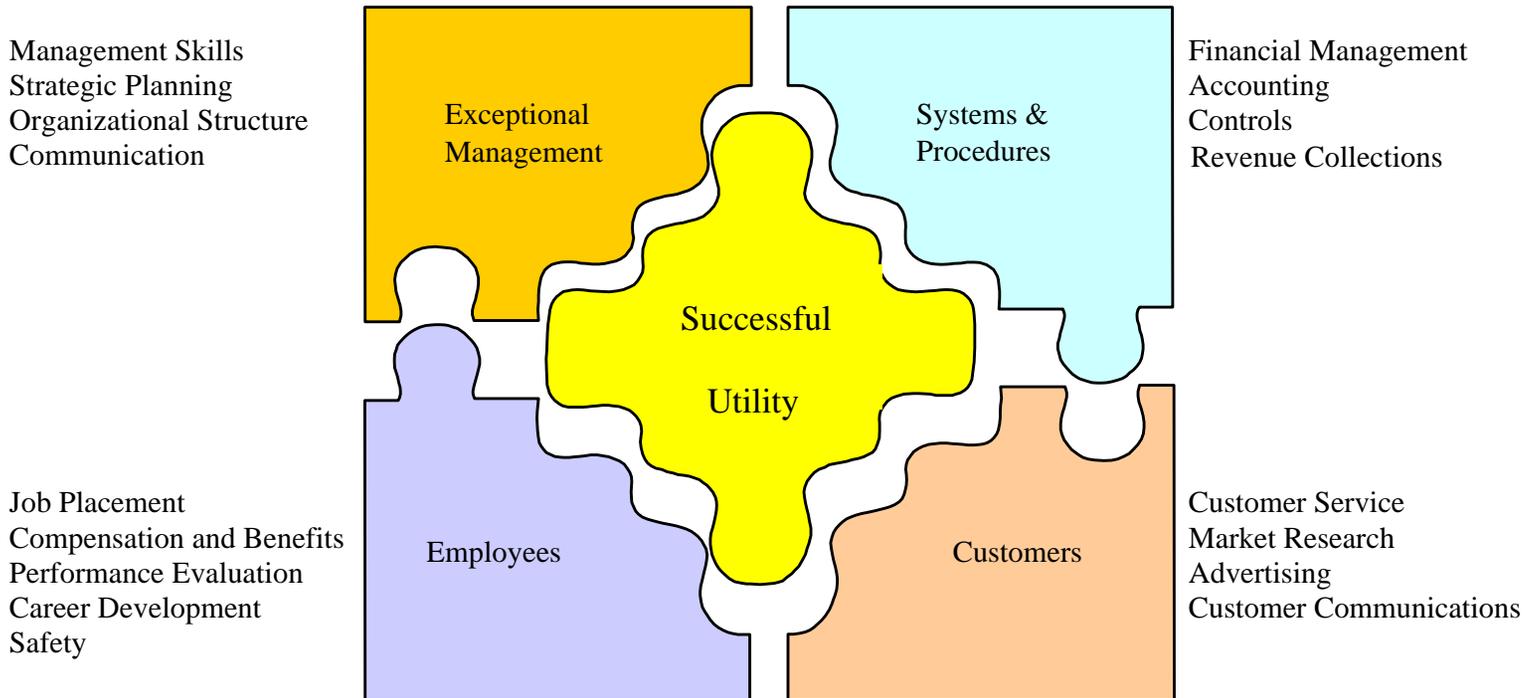
# Traits of a successful utility

- Earns a return for shareholders
- Provides reliable, cost-efficient electricity
- Complies with all laws and regulations
- Provides a good working environment for employees

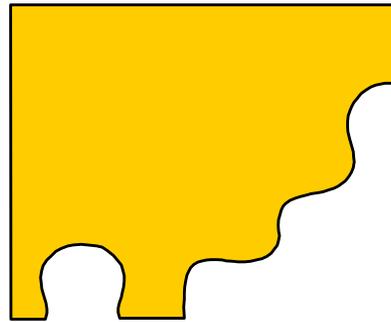
# What does it take to manage a successful distribution utility?



# What does it take to manage a successful distribution utility?



# Exceptional Management



Management Skills

Strategic Planning

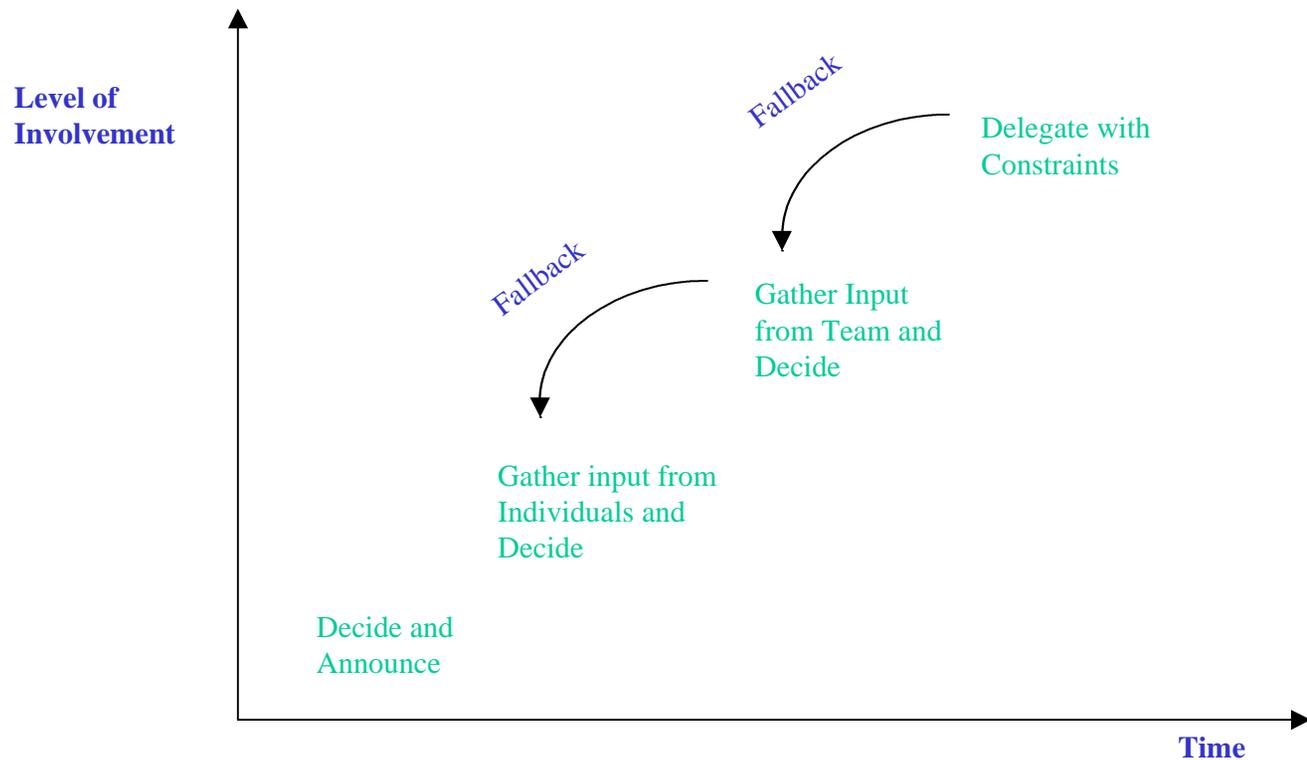
Organizational Structure

Communication

# Management Skills

What does a manager of a  
successful utility look like?

# Management Style



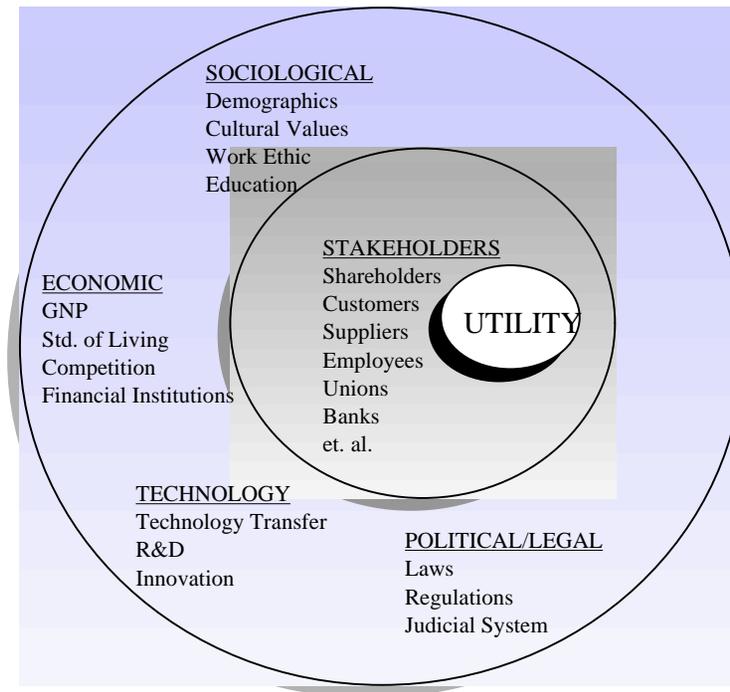
# Winning Management Styles

- Balances authoritative and participative approaches
- Accepts responsibility
- Communicates well with all stakeholders
- Shares information
- Delegates appropriately
- Treats employees as valuable resources

# Winning Management Styles

- Praises publicly, criticizes privately
- Acts as a role model
- Coaches subordinates
- Asks for help
- Shares in success
- Admits failures

# External influences on the utility



Manage the things under your control  
and plan for those things you can't  
manage

# Strategic Planning

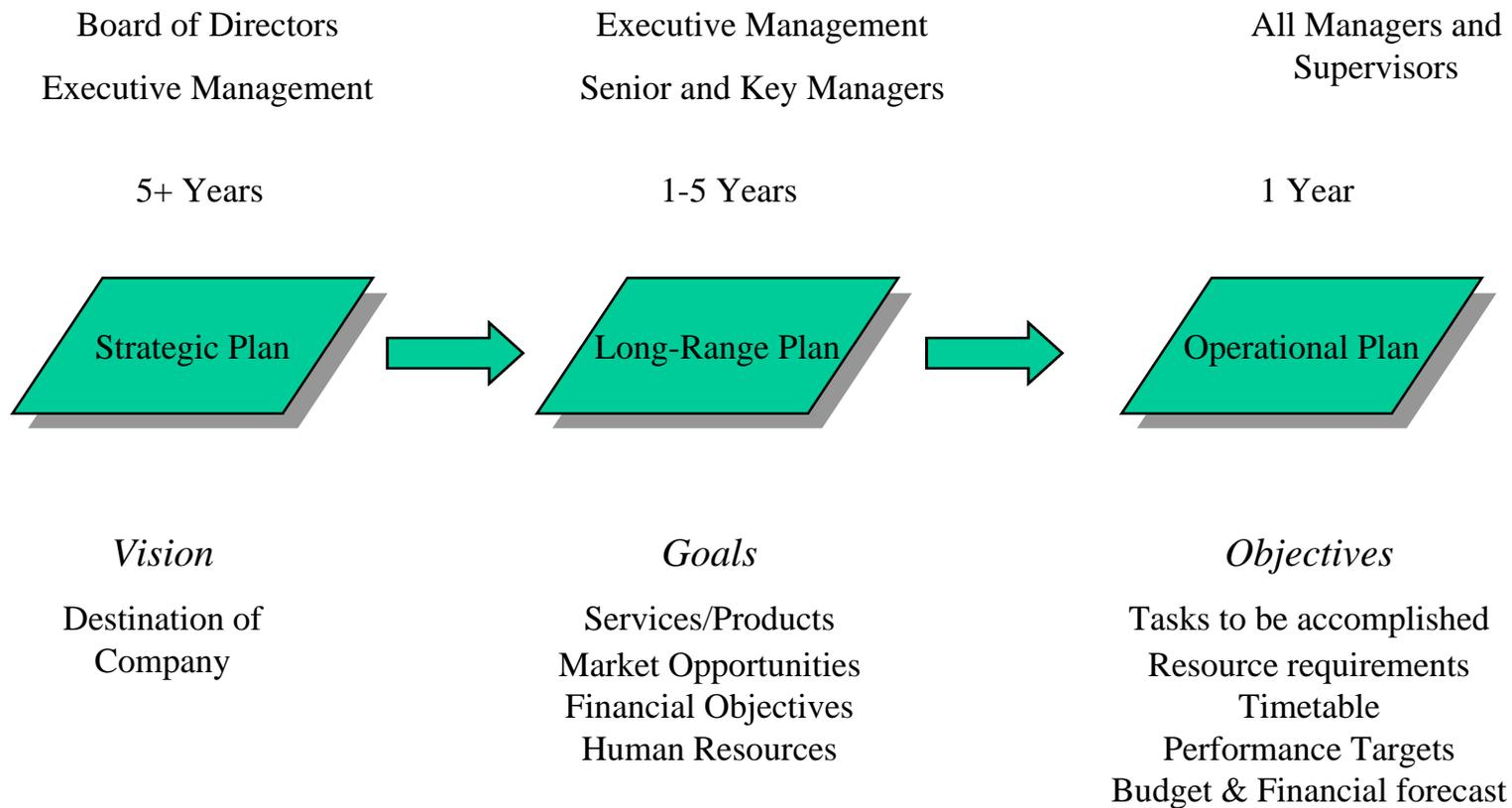
Where is your company today?

Where do you want it to be  
tomorrow?

# Overall Corporate Philosophy

- What are the guiding principles by which the company will operate?
- How does it document these principles and implement them?
  - Vision
  - Goals
  - Objectives

# Strategic Planning Process



# Why is Strategic Planning Important?

- Need to take a comprehensive look at the company periodically
- If you don't know where you are going, any path will take you

# Corporate Vision

- What do you want your company to look like in the future?
- What business will it be in?
- What particular characteristics will it be noted for?

# Corporate Vision Statement

- Be brief and clear
- Identify the type of business that your company plans to be in
- In general terms include all that company aspires to be and do
- Revise it periodically to recognize changes in company's situation

# Goals and Objectives

- “The glue that holds things together”
- Goals
  - What does the company want to accomplish over the long term
- Objectives
  - What actions need to be done to reach the goals

# Example of a Goal and Related Objectives

- Goal
  - Improve financial health
- Objectives
  - Increase collection of revenue from residential customers from 50% to 85%
  - Implement a budgeting system by the third quarter

# Goals and Objectives Process

- Customer focus
- Review and refine each year
- All employees should be familiar with these (“top down, bottom up”)
- All supervisory employees should participate in development of current year objectives
- Company budget should include money to accomplish the objectives

# Writing Clear Objectives

- Reasonable
- Understandable
- Measurable
- Believable
- Achievable

# Communicating the Vision, Goals and Objectives

- Putting these on paper is of no use by itself
- All employees should participate in the development process and be reminded regularly what the company's vision, goals and objectives are
- Each department of the company needs to have its own objectives which link directly to one of the overall corporate objectives. This assures that the *company's* objectives get accomplished.
- Communicate vision, goals, and objectives to regulators, customers and investors

# CMP 1999 Vision, Goals & Objectives

**Vision:** CMP's vision is to be the premier rural transmission and distribution utility. Our culture is driven by employees with a customer first attitude who work safely and think creatively.

**Strategy:** Our success depends on maximizing shareholder value by executing the following strategies:

- Expand and retain sales by providing reliable, efficient service
- Retain and invest in a highly skilled and motivated workforce
- Continuously improve the efficient delivery of T&D services

**1999 Goals:** CMP's goals support the vision and strategy of the business by focusing on *Customers, Finances, Employees, and Processes*.

**Customers:** Meet customers' needs

**Finances:** Earn competitive returns

**Employees:** Enhance the work culture

**Processes:** Continuously improve

# Developing Your Company's Vision, Goals and Objectives

- Prepare vision for your company or department
- Prepare two goals
- Prepare two related objectives for each goal

# Components of a Long-Range Plan

- Strategic Frame Work
- Company History
- Key Statistics and Information
- Focused Planning
- External Factors Influencing Operations
- Detailed Financial Forecasts

# Company History

- Brief summary on the formation of the company
- Document key dates and legal relationships

# Key Statistics and Information

- System map
- Company organization
- Customer demographics
- Description of facilities
- Current financial statements
- Customer Services
- Other

# Focused Planning

- Load forecast
- Operations Management
- Employee Management
- Technology Plan
- Environmental Compliance
- Capital Investment Plan
- Financial Plan

# External Factors Influencing Plans

- Inflation
- Economic growth
- Tariffs
- Government policies
- Interest rates
- Competition

# Load Forecasting

- Allows the utility to make informed decisions regarding the short, medium and long term operations of the company
  - Obligation to serve customers
  - Understand risks and opportunities
  - Better knowledge of customers' needs

# Capital Investment Planning

- Longer time frame (more than 5 years)
- Need for new facilities and equipment
- Energy needs from generators
- Analysis of long term investments
- Transmission and distribution improvements
- Metering upgrades

# Operational Plan

- Short term
- Task oriented
- Timetables
- Performance Targets
- Budget
- Financial Forecast

# Organizational Structure

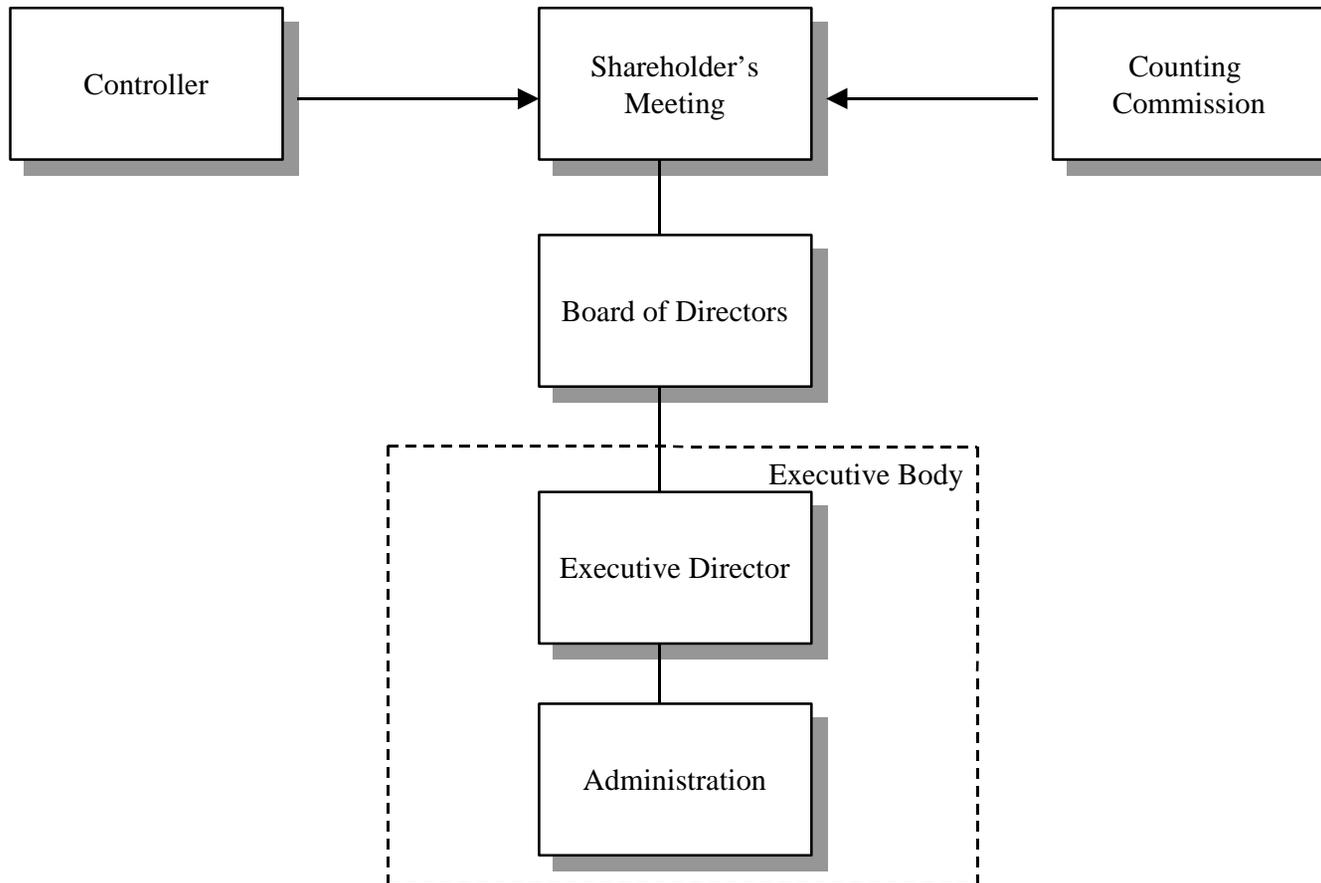
# Corporate Culture

- The sum of values, customs, traditions, and practices which make up an organization
- acceptable professional and personal behavior
  - ethical standards
  - commitment to competence
  - compliance to legal and regulatory requirements

# Adopting a new organizational structure

- Basic elements of the structure are outlined in the Armenian Civil Code
- Other elements of the structure will need to be determined by management

# Basic Organizational Structure



# What should you consider when determining the organizational structure of your company?

- Corporate culture
- Strategic Plan
- Customer Service
- Accountability
- Control
- Capabilities of key personnel
- Efficiency
- Willingness to delegate
- Effect on employees

# Principles guiding reorganization

- Managers should manage
- Management layers should be minimal and span of control should be broad
- Work should be concentrated on key activities
- Tasks that are dependent on each other should be grouped together

## Anticipating problems related to organizational changes

- Some employees fare better than others
- Treat everyone fairly
- Be sensitive to employee reactions
- Monitor the effect on customers
- Train employees to do different things and assume more responsibility

# Resolving Problems

- Good communication
- Recognition
- Incentives
- Comprehensive training
- Involve employees in change process

# Corporate Charter

- Name and address of corporation
- Broad statement of purpose of corporation
- Classes and amount of authorized stock
- Names of initial Board of Directors
- Dates of Annual Meetings of shareholders

# Corporate By-Laws

- Rules and procedures adopted by shareholders for the governance of the corporation
  - shareholder meetings
  - Board of Directors meetings
  - Standing committees
  - Capital stock
  - Dividends
  - Expectation of Executive Management

# Characteristics of the Board of Directors

- Company charter establishes role of Board
- By-laws define Board's responsibility
- Directors are elected to serve and act as a proxy for shareholders
- Expertise should be from various fields
- Terms are for specified time frames
- Chairman and Vice-Chairman are elected by Board members
- Meet regularly, 6-10 times per year

# Responsibilities of the Board of Directors

- Elect, evaluate and, when appropriate, dismiss Executive Management
- Ensure compliance with laws and regulations
- Approve major corporate policies, plans and actions
- Establish compensation for executives
- Appoint and oversee committees
- Recommend changes to charter or by-laws for approval by shareholders

# Responsibilities of Board of Directors

- Authorize issuance of additional stock
- Approve terms of borrowed money
- Approve material lease agreements
- Present assessment of financial situation and current state of affairs to shareholders
- Declare dividends

# Role of Management

- Balance needs of all entities:
  - Shareholders
  - Customers
  - Regulators
  - Employees
- Develop and implement corporate plans
- Measure and evaluate performance

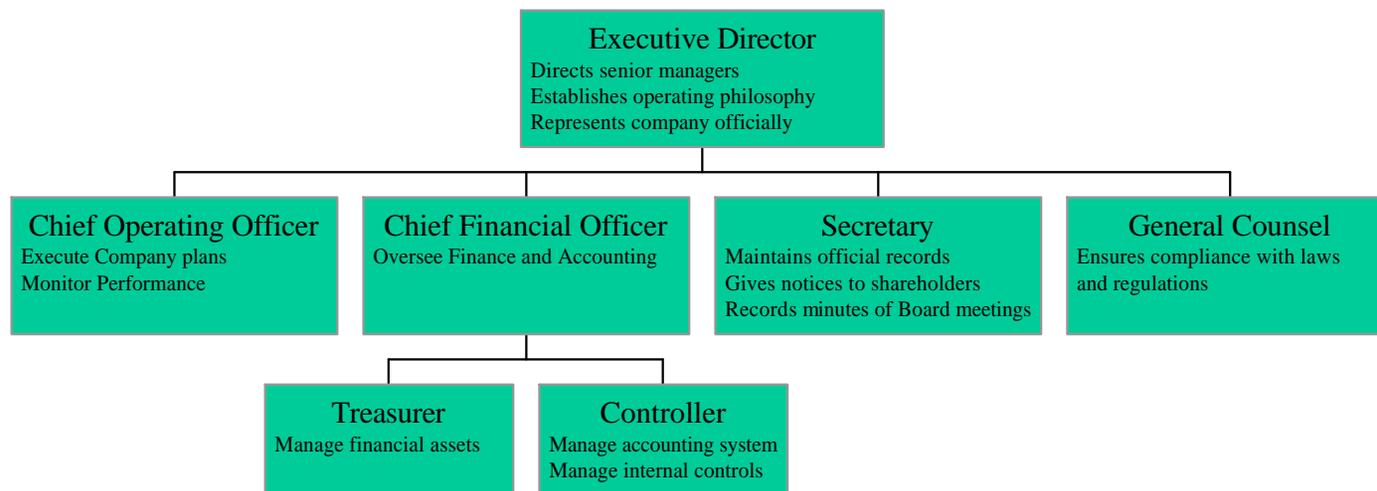
# Functions of Management

- Planning
- Organizing
- Directing
- Coordinating
- Controlling

# Role of Management

- Prepare budgets and oversee financial success
- Raise capital
- Lead, train and motivate employees
- Operate efficiently
- Report results

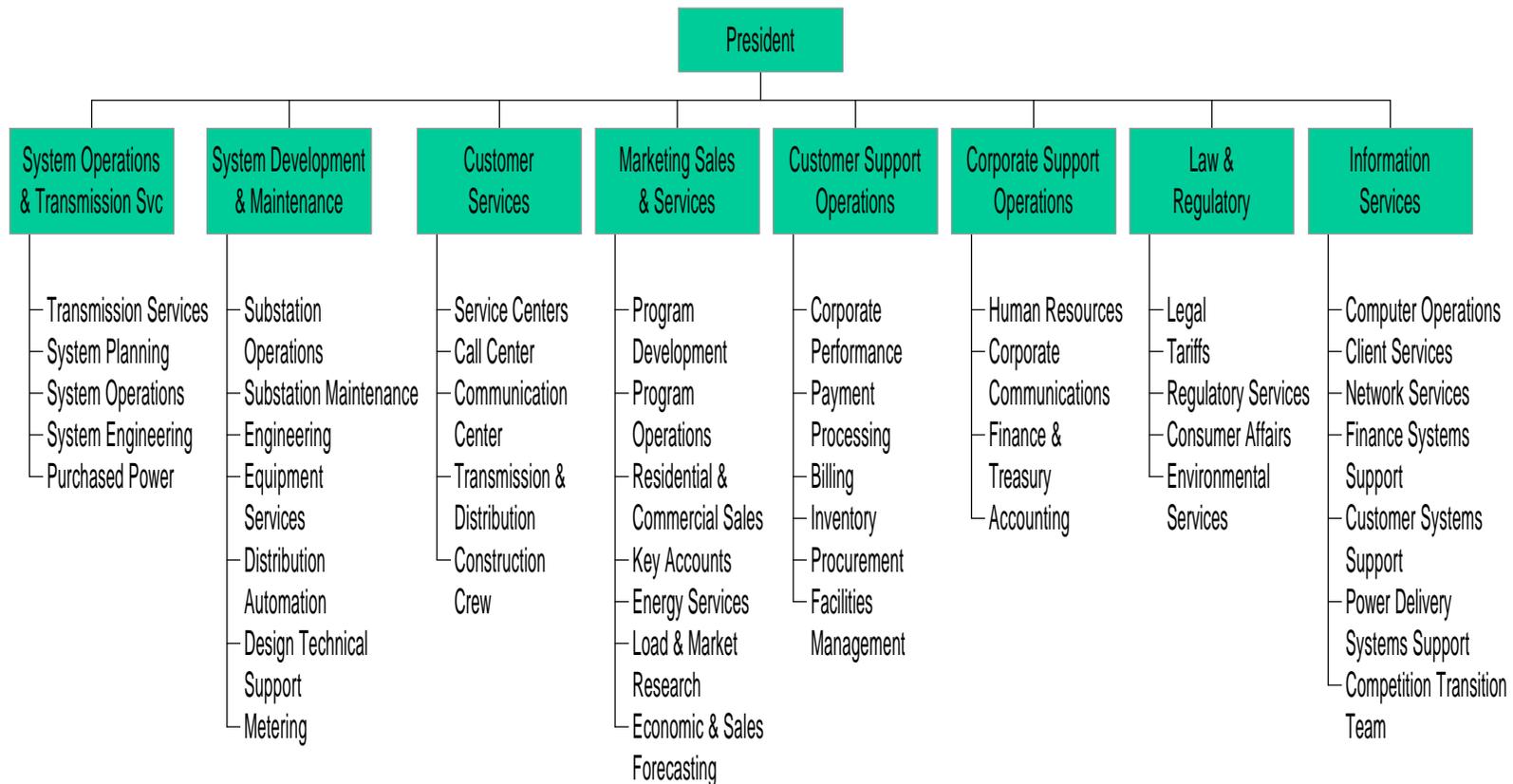
# Typical Structure of Executive Management



# Typical Functional Areas

- Finance and administration
- Customer service
- Power supply
- Sales and marketing
- Engineering
- Law

# Typical Distribution Company Organization Chart



# Restructuring in the United States

- Many utilities are in the process of restructuring their companies
- Historically, regulation served as a surrogate for competition
- Customers and shareholders were protected
- However...problems arose

# Problems

- Heavy handed regulation failed to protect some utilities from losses
- Some utilities were forced into bankruptcy
- Investors started to stay away from utilities
- Customers continued to experience higher rates
- Cooperation between utilities began to disappear

# Motivation for Restructuring

- There is an overwhelming preference for competition over regulation
- More and more industries are being deregulated
- Regulatory attitudes have shifted
- American utilities have seen success elsewhere
- Customers can have choices and access to lower cost energy

# Where does restructuring lead?

- Increases competition
- More customer choice
- Disintegration of vertical utility organizations
- Merger and acquisition

## Restructuring at CMP

- All generation was placed on the open market for sale to the highest bidder
- Emphasis was placed on the new organization to meet the changing needs of customers
- A customer retention group was established
- Employees were trained to work in a truly competitive environment
- Other departments were placed under the umbrella of the new holding company

# Restructuring at CMP

- Many unresolved issues had to be addressed:
  - Will customers have a reliable supply of electricity?
  - Who has responsibility for system reliability?
  - How will stranded costs be treated?
  - What businesses will be regulated?

# Communications

# Communications between a Private Utility and its Stakeholders

- Government agencies
- Regulators
- Shareholders
- Customers

# Government Agencies

- Ministry of Energy
- Gosenergonadzor
- Ministry of Finance and Economy
- Ministry of Environmental Protection
- Tax Inspection
- Ministry of Internal Affairs
- Fire Protection

# Energy Regulatory Commission

- Protect customers and settle disputes
- Substitute for competition
- Balance customer and investor needs
- Attract capital
- Ensure reliability of service
- Regulate earnings and rates
- Advance public policy

# Communicating with government agencies and regulators

- Establish areas of mutual agreement (reasonable rates, reliable service, etc...)
- Recognize that financially healthy company is good for customers as well as shareholders
- Attempt to minimize adversarial relationship
  - Government agencies should avoid “micro management”
  - Management must assume responsibility for making difficult decisions
- Maintain frequent communication-avoid surprises

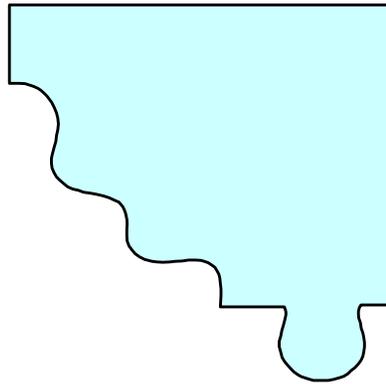
# Communicating with Shareholders

- Real owners of the company
- Return on investment is expected by shareholders
- Investors can be
  - Individuals
  - Institutions
- Utilities have historically attracted conservative investors
- Shareholders are more active today

# Communicating with customers

- Listen to customers
- Meet customer needs
- Treat customer as you want to be treated

# Systems and Procedures



Financial Management

Controls

Accounting

Revenue Collection

# Financial Management Topics

- Budgeting
- Financial Statements
- Financial Reporting
- Capital Structure
- Dividend Policy

# Budgeting

# Why budget?

- A formal process for proposing work and allocating resources to support goals
- Sets financial and resource priorities
- Requires collaboration among managers
- Tracks expenditures against targets
- Facilitates reallocation of resources to meet changing needs

# Overview of the budget process

## June - July

- Draft vision, goals and objectives
- Set high-level, multi-year spending targets
- Prepare forecasts
  - Economic forecast
  - Load forecast
  - Energy price forecast
  - Financial plan

# Overview of the budget process

## July

- Prepare budget instructions and send to departments

## August - September

- Departments prepare detailed budgets

# Overview of the budget process

## October

- Compile all budget data for management review, including
  - Operation and maintenance budget
  - Construction budget
  - Revenue forecast

## November

- Final budget approved by Board of Directors

# Budget Evaluation Criteria

- Regulatory
- Safety
- Environmental
- Reliability
- Economic
- Operating Performance
- Customer Service
- System Expansion
- Timing

# Organization of budget reports

- Management Projects
  - Routine Duty
  - Regulatory
  - Training
  - Construction
- Cost Elements
  - Labor
  - Supplies
  - Company Vehicles
- Cost Locations

# Example of a Cost Location Budget

Management Description		CURRENT MONTH			YEAR-TO-DATE			1999 TOTAL
Project		Actual	Budget	Variance	Actual	Budget	Variance	Budget
238510	Field Planning	874	1,500	-626	2,987	4,500	-1,513	20,000
238540	Line Inspection	2,768	3,000	-232	8,956	9,000	-44	24,000
238610	Line Production	3,989	4,000	-11	11,532	12,000	-468	68,000
238615	Trouble Calls	2,288	2,200	88	7,321	6,600	721	16,600
238630	Transformer Install-Rem	2,000	2,050	-50	5,783	6,000	-217	24,000
238710	Meter Reading	4,596	5,000	-404	15,352	16,000	-648	70,000
238730	Meter Install-Remove	2,711	3,000	-289	8,444	9,000	-556	36,000
247410	Credit + Collections	1,989	2,700	-711	3,657	8,875	-5,218	48,000
250010	Routine Administration	1,948	2,500	-552	5,126	7,500	-2,374	30,000
250030	Safety Activity	1,175	1,200	-25	3,677	3,600	77	14,500
290000	Training	2,221	2,475	-254	7,208	7,000	208	18,000
333620	Routine Maintenance	9,430	8,000	1,430	25,659	24,000	1,659	106,000
333655	Storm Related Maint	4,631	3,750	881	13,855	10,000	3,855	40,000
<b>TOTAL</b>		<b>40,620</b>	<b>41,375</b>	<b>-755</b>	<b>119,557</b>	<b>124,075</b>	<b>-4,518</b>	<b>515,100</b>

# Example of a Cost Location Budget

1999-03-31		Business Unit: 11						
		Report Request Name: BUD_CCE						
		Report Title: Resource Utilization Report						
		<b>Total by Cost Element</b>						
		<b>Cost Location: 441</b>						
C/E #	Description	CURRENT MONTH			YEAR-TO-DATE			Full Year
		Actual	Budget	Variance	Actual	Budget	Variance	Budget
001	Labor-Regular	24,988	25,000	-12	72,340	75,000	-2,660	300,000
005	Labor - Overtime	400	1,000	-600	3,155	3,000	155	20,000
015	Meals	30	100	-70	435	400	35	2,000
051	Company Vehicles	478	500	-22	790	1,500	-710	6,000
061	Personal Auto	20	50	-30	20	0	20	500
076	Inventory - Stock Code	1,590	2,000	-410	5,683	6,000	-317	30,000
080	Supplies	422	175	247	708	525	183	2,000
135	Outside Services	0	0	0	0	0	0	4,000
248	Small Tools	198	50	148	256	150	106	600
995	Labor Overhead	12,494	12,500	-6	36,170	37,500	-1,330	150,000
		<b>40,620</b>	<b>41,375</b>	<b>-755</b>	<b>119,557</b>	<b>124,075</b>	<b>-4,518</b>	<b>515,100</b>

# Key Performance Indicators

- Earnings
- Reliability
- Safety
- Station Availability
- Cost/kWh
- Number of employees
- Customer Service

# Financial Statements

# Primary Financial Statements

- Income Statement
- Balance Sheet
- Cash Flow Statement

# Purpose of Income Statement

- Measure level of income or loss from operations *in current period*
- Provide basis for management decisions
- Report financial status to investors and shareholders

# Components of Income Statement

- Revenues
- Operating expenses
- Depreciation
- Interest Expense
- Income taxes
- Net Income
- Dividends
- Earnings per share

## Consolidated Income Statement

Central Maine Power Company

(Dollars in thousands) As of December 31:

	1998	1997
<b>Revenues</b>		
Electric operating revenues	\$ 938,739	\$ 954,176
Other non-utility revenues	11,588	2,070
<b>Total revenues</b>	<b>950,327</b>	<b>956,246</b>
<b>Operating expenses</b>		
Fuel used for company generation	30,898	34,946
Purchased power - energy	369,411	419,144
Purchased power - capacity	85,321	112,810
Other operation	213,489	210,513
Maintenance	41,051	33,973
Depreciation and amortization	56,493	54,132
Taxes other than income taxes	27,783	28,303
<b>Total operating expenses</b>	<b>824,446</b>	<b>893,821</b>
<b>Operating income</b>	<b>125,881</b>	<b>62,425</b>
<b>Total other income expense</b>	<b>24,683</b>	<b>10,726</b>
<b>Interest charges</b>		
Long-term debt	43,276	44,346
Other interest	8,366	7,660
Allowance for borrowed funds during construction	(495)	(439)
<b>Total interest charges</b>	<b>51,147</b>	<b>51,567</b>
<b>Income before income taxes and preferred dividends</b>	<b>99,417</b>	<b>21,584</b>
Income taxes	41,698	8,162
Dividends on preferred stock of subsidiary	4,809	8,209
<b>Net income</b>	<b>\$ 52,910</b>	<b>\$ 5,213</b>
<b>Weighted average number of shares of common stock outstanding</b>	<b>32,442,685</b>	<b>32,442,752</b>
<b>Earnings per share of common stock (basic and diluted)</b>	<b>\$ 1.63</b>	<b>\$ 0.16</b>
<b>Dividends declared per share of common stock</b>	<b>\$ 0.90</b>	<b>\$ 0.90</b>

# Purpose of Balance Sheet

- Measure financial status *at a point in time*
- Provide basis for management decisions
- Report financial status to investors and shareholders

# Components of Balance Sheet

- Assets
- Liabilities
- Stockholders' Equity

## Consolidated Balance Sheet

Central Maine Power Company

(Dollars in thousands) As of December 31:

	<b>1998</b>	1997
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 30,540	\$ 20,841
Accounts receivable, less allowance for uncollectibles of \$3,136 in 1998 and \$2,400 in 1997		
Service - billed	81,169	84,323
Service - unbilled	53,296	46,807
Other accounts receivable	13,753	15,247
Fuel oil inventory, at average cost	5,879	5,390
Materials and supplies, at average cost	13,126	11,779
Funds on deposit with trustee	1	61,694
Prepayments and other current assets	10,268	9,110
<b>Total current assets</b>	<b>208,032</b>	<b>255,191</b>
<b>Electric property, at original cost</b>	<b>1,750,837</b>	<b>1,674,876</b>
Less: accumulated depreciation	694,410	634,384
Electric property in service	1,056,427	1,040,492
Construction work in progress	19,538	15,105
Nuclear fuel, less accumulated amortization of \$9,316 in 1998 and \$9,035 in 1997	1,147	1,157
Net electric property	1,077,112	1,056,754
<b>Investments in associated companies, at equity</b>	<b>71,880</b>	<b>76,509</b>
<b>Net electric property and investments in associated companies</b>	<b>1,148,992</b>	<b>1,133,263</b>
<b>Total deferred charges and other assets</b>	<b>905,860</b>	<b>910,512</b>
<b>Total assets</b>	<b>\$ 2,262,884</b>	<b>\$ 2,298,966</b>
<b>Total current liabilities and interim financing</b>	<b>451,419</b>	<b>383,657</b>
<b>Total reserves and deferred credits</b>	<b>891,857</b>	<b>921,693</b>
<b>Long-term debt</b>		
Mortgage debt	117,683	259,563
Other long-term obligations	228,598	141,360
<b>Total long-term obligations</b>	<b>346,281</b>	<b>400,923</b>
<b>Redeemable preferred stock</b>	<b>18,910</b>	<b>39,528</b>
<b>Stockholders' equity</b>		
Common stock	162,213	162,214
Other paid-in capital	285,835	277,168
Reacquired common stock	(827)	-
Retained earnings	71,668	48,212
Preferred stock	35,528	65,571
<b>Total stockholders' equity</b>	<b>554,417</b>	<b>553,165</b>
<b>Total stockholders' equity and liabilities</b>	<b>\$ 2,262,884</b>	<b>\$ 2,298,966</b>

# Purpose of Cash Flow Statement

- Show change in current period in cash position of company
- Identify reasons for change

# Components of Cash Flow Statement

- Net income
- Non-cash items
- Changes in current asset and liability balances
- Construction expenditures
- Financing
- Dividends

# Financial Reporting

# Purpose of Financial Reporting

- For management information needed to operate company
- To retain shareholders
- To meet regulatory requirements
- To attract new investors

# Reports to Shareholders

- Quarterly statements to shareholders
- Annual report to shareholders
- Annual proxy statement

# Components of Annual Report

- Summary of statistics about the company
- Executive Director's letter to shareholders
- Management discussion and analysis
- Financial statements and notes
- Detailed statistics about the company
- Names of company executives and directors
- Recent price and dividend data

# Components of a Proxy Statement

- Nomination of Board members
- Financial report
- Amendments to charter or by-laws

# Capital Structure

# What is Capital Structure?

- Capital structure is the total of all funds that have been invested in the business, categorized by type
- Typical components include *debt* (long and short term) and *equity* (common and preferred stock)

## Definition of Debt

- *Debt* is an obligation to pay back borrowed amounts at a specified interest rate (or type of interest rate, if variable) within a specified time period
- Examples of types of debt include loans, bonds, leases, commercial paper, medium term notes, etc..

# Characteristics of Debt

- Investors have no voice in management of company
- Have first claim on company assets in event of bankruptcy
- Fixed rate of interest normally
- May have special features such as being callable, convertible

## Definition of Equity

- *Equity* has at least 2, and sometimes 3, components
  - Common stock
  - Preferred stock (optional)
  - Retained earnings

# Common Stock Equity

- *Common stock equity* includes funds paid by investors for the purchase of shares of stock as well as earnings retained by the company from operations

# Characteristics of Common Stock Equity

- Investor becomes an owner of the company
- Investor may vote on issues brought up at shareholders meetings
- Investor can sell owned shares on open market
- Company does not have to repay investor for amounts invested
- Company *may* pay dividend on shares (not required)
- Dividends are not tax deductible
- Investors have last claim on company assets in event of bankruptcy

# Preferred Stock

- Normally, shares of preferred stock have no voting privileges on issues that are brought before the common shareholders at their annual meeting
- Dividend rate is usually a fixed %
- Dividend must be paid before any dividend is paid to common stock shareholders
- In the event a company becomes bankrupt, preferred stock shareholders have rights to a claim on company assets before common shareholders do

# Example of Capital Structure

<u>Component</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
			<u>%</u>	<u>%</u>
Debt	702	52.4	7.0	3.7
Common Stock	491	36.7	12.0	4.4
Preferred Stock	<u>146</u>	<u>10.9</u>	8.0	<u>.9</u>
Total	\$1339	100.0		9.0

# General Comments on Capital Structure

- Combined cost of capital is 9%
- It is a function of amounts and rates
- Opportunity to manage company's capital structure to obtain optimum levels
- Diversification of capital sources is favorable
  - Need to maintain a “balanced” capital structure

# Investor Risk

- Higher equity = lower risk
- With lower risk comes the ability to
  - Minimize cost rates
  - Preserve ability to raise more capital
  - Expand your business, or replace inefficient or old facilities, at reasonable cost

# Capital Structure Development Considerations

- Current and projected company retained earnings
- How much and when do you need funds-need financial plan
- Current and projected costs of funds
- What is normal structure for the industry and location
- Income tax effects
- Availability of property for mortgage bonds
- Price and marketability of stock - and effect on existing shareholders

# Managing Capital Structure

- Capital structure can be managed for best results
- Company that is well run should have lower investor fund costs
- Companies need to pay attention to optimizing their capital structure and related costs as well as to the costs of normal company operations

# Dividend Policy

# Why is dividend policy important?

- It is part of shareholder return
- It may impact the price of stock
- It directly impacts retained earnings

## Goal of a dividend policy

- Appeal to the greatest number of shareholders over the long term
- Balancing needs
  - Paying dividends
  - Retaining cash for the company

# Pay dividends or keep cash?

- Depends on
  - Financial strength
    - Weak companies may not be able to pay dividends
    - Strong companies may not need cash
  - Corporate life cycle
    - Start up companies need much cash
    - Growth companies need cash
    - Mature companies have less need for cash

## Reasons for retaining earnings

- Retained earnings don't incur financing costs
- Investors can decide if they need cash (sell some of their stock)
- Company may have a high need for cash

## Reasons for paying dividends

- Dividends are certain - stock appreciation is not
- Some investors require dividends to buy stocks
- High yields during tough times may help bolster stock price
- Steady dividends can help stabilize stock price as earnings fluctuate

# Examples of Loan Sources

- Multilateral Development Banks (MDB)
- Other banks
- International Monetary Fund
- Private investors
- Insurance companies

# When should you consider issuing debt?

- When pre-tax earnings as a % of assets is more than proposed interest rate % charged on new debt
- When future appears to show stable or increasing earnings
- When % of capital structure that is debt does not increase financial risk to unacceptable levels

# When should you consider issuing stock?

- When debt is high % of capital structure
- When market price of stock is at or above book value
- When seeking higher credit rating
- When company's capital structure is significantly different from other comparable utilities

# When should you seek equity investors?

- When other alternatives are not available
- When company can offer investor attractive terms
  - reasonable assurance of return of investment
  - attractive return on investment or share of profits
  - possibly a position on Board of Directors

# What are investors looking for?

- Good return on funds loaned
- Lowest possible risk of losing invested funds
- Good company management
- Favorable sales and income prospects for the future
- Favorable regulatory climate
- Strong current financial position
- Minimal threat from competition

# Maintaining good Investor Relations

- Satisfy all regulatory disclosure requirements
- Identify ways to work with investors so that investing in your company is made as simple as possible
- Identify opportunities for you to instill confidence in investors about information provided about your company

# Developing an investor relations plan

- Identify plan objectives to
  - Maintain existing investor satisfaction
  - Attract new investors
- Using financial plan, identify
  - Amounts and timing of need for new funds
  - Whether to add more debt or more equity
- Tailor the plan to your company's needs

# Communicating with investors

- Employees who talk to investors need to be informed about company events immediately
- Develop process to answer investor questions
- Management team should schedule visits to major investment companies and provide information about the company and future plans
- Management should stay in contact with brokerage companies and promote the sale of its stock
- Required financial reports are issued on time to regulators and to investors
- Financial reports are sent to potential large investors

# General Accounting Principles

- Revenues minus expenses = net income
- Assets minus liabilities = stockholders' equity
- Capital versus operations and maintenance expenses

# Adoption of International Accounting Standards

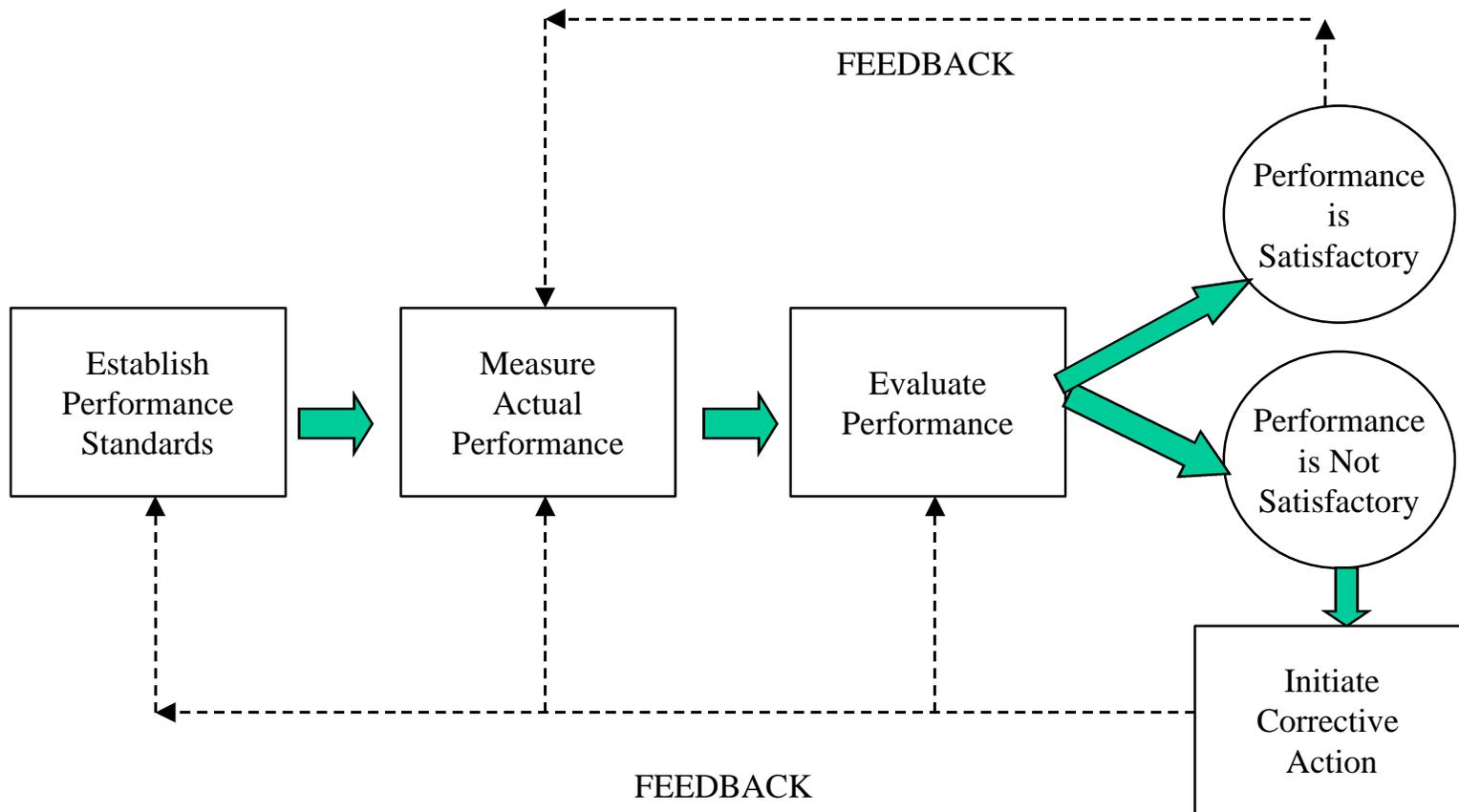
- Armenian energy companies must adopt 10 international accounting standards by 31/12/98

# Controls

# Establishing Management Controls

- Control is necessary to measure and evaluated the company's performance
- Control is dynamic and an on-going process
- Effective control requires the involvement of all facets of the organization

# Management's role in the control process



# Setting Performance Standards

Standards must be

- realistic
- behaviorally oriented
- measurable
- quantifiable

Standards can be compared to

- past performance
- industry performance

# Drafting your own performance standards

- Pick two areas of performance
  - Customer Service
  - Finance
  - Accounting
  - Reliability
  - Safety
  - Employees
- Draft a standard and describe how and when it will be measured

# Auditing as a control function

## Audits can take several forms

- financial
- data processing
- operational
- compliance
- managerial

## Purpose of a financial audit

- Verify that disbursements are actually going where the records indicate
- Ensure that adequate controls and safeguards are in place to avoid fraud and theft

# Purpose of a data processing audit

- Ensure the security and accessibility of company data, computer hardware and software
- Safeguard confidential information from unauthorized access

## Purpose of an operational audit

- Ensures that company policies and procedures are being met
- Ensures compliance with laws and regulations

## Purpose of a managerial audit

- Determines whether the operations of the company are being conducted efficiently and effectively
- Usually done by an outside consulting firm
- Uses a pre-agreed on set of criteria against which the company is evaluated

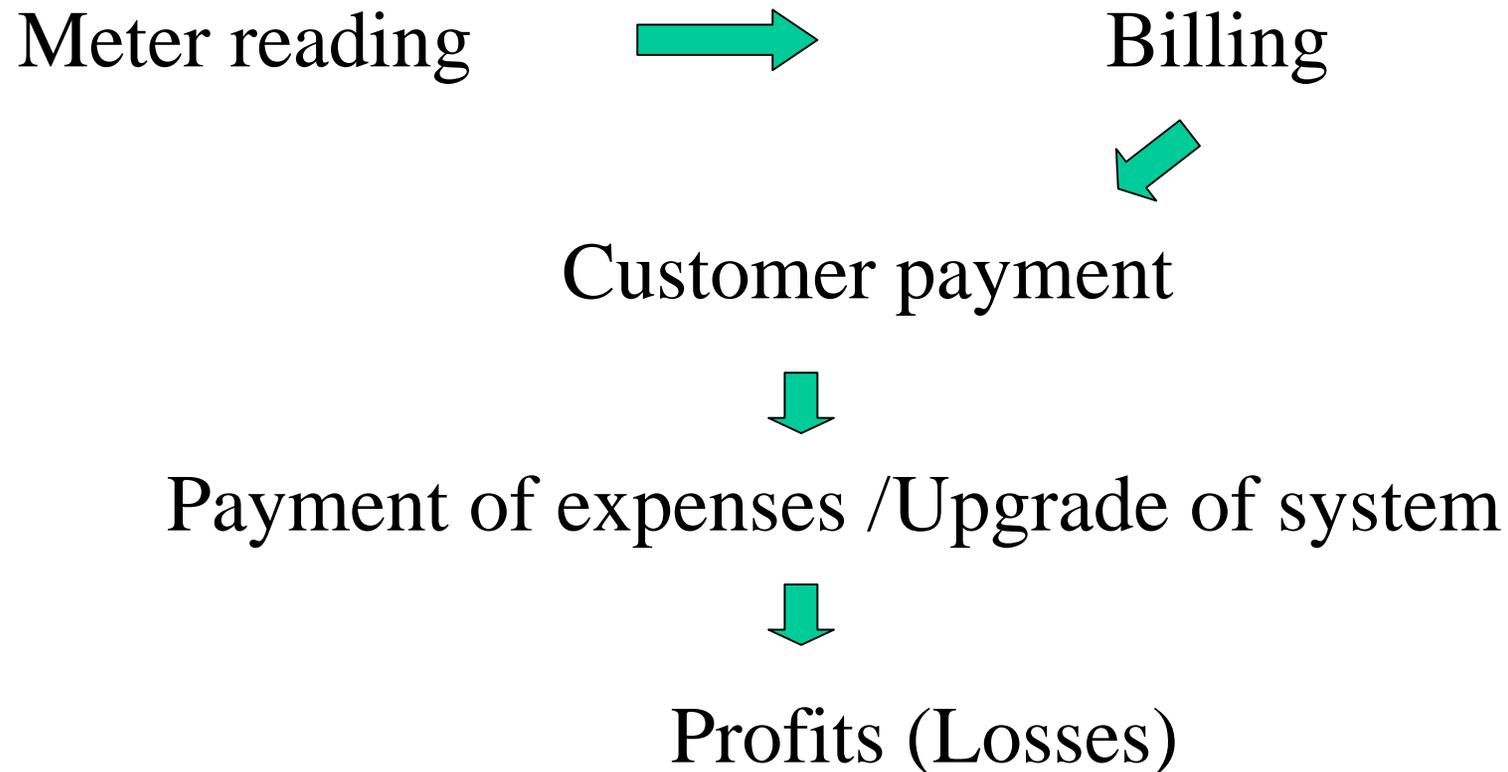
# Improving Collection of Revenues from Customers

## Using ABACUS Software

# This training session will address -

- Meter reading policies and procedures
- Customer billing
- Collections policies and procedures
- Using the ABACUS system
- Recommended next steps

# Revenue Stream



# Approaches to improving bill collections

- increased support from government
- better management of the process
- new technologies and equipment
- new payment methods
- better communications with customers

# Meter Department

- Separate meter department into two functional areas
  - Meter reading
  - Meter technical operations

# Meter Reading Personnel

- Meter Readers
  - Read meters on assigned route
  - Check meters for broken seals or other easily noticed theft

# Meter Technical Operations Personnel

- Meter Inspectors
  - Meter installations
  - Meter tests
  - Theft Investigation
  - Collections
  - Disconnection for non-payment
  - Reconnection

# Using meter personnel efficiently

- Divide customers into 20 cycles
- Divide each cycle into routes based on -
  - number of customers that can be read by one meter reader per day
  - geographical and system considerations

# Meter reading

- Check for theft while reading meter
- Reward employees who discover theft
- Rotate meter routes among meter readers

# Controlling theft

- Company should own all meters
  - new customers pay a connection fee equal to cost of meter and installation
- Meter sealing and inspection programs
- Testing meters for accuracy
- Procedures for dealing with customers who are caught stealing electricity
- Providing incentives for employee and the public to report theft
- Distinguish between technical and non-technical losses

# Dealing with customers caught stealing

- Disconnect the customer immediately
- Discuss the situation with the customer
- Check number and type of appliances in order to estimate consumption
- Estimate amount owed at current tariff
- Add penalty equal to amount times three
- Customer pays penalty or sets up a payment arrangement
- Reconnect customer

# Using the ABACUS System for Meter Operations

- Prepares cycle/route lists
- Records meter readings
- Flags high/low readings
- Stores meter information
- Tracks meter testing
- Assists in theft detection through a metering tree

# Preventing collections problems

- New customers
- Existing customers

# Preventing collections problems with new customers

- Obtain a positive identification
- Do a credit check
- Require a deposit

# Obtaining customer deposits

- When to request a deposit
  - all new customers
  - existing customers who are reconnected after disconnection for nonpayment
- Deposit amount
  - For residential customers, two highest consecutive months
  - For commercial customers, two highest billing periods within 12 months
  - if usage is unknown, will be estimated by advisor

# Obtaining customer deposits

- Deposit interest applied monthly
- Methods of paying
  - Cash
  - Third party guarantee
  - Irrevocable letter of credit
- Payment options
  - pay deposit in full
  - pay in 3 equal installments

# Obtaining customer deposits

- Refund
  - Account is closed
  - For residential customers, 12 consecutive months of good credit
  - For commercial customers, 3 years of good credit
- Customer default
  - Do not apply deposit to debt without disconnecting the customer

# Using ABACUS for customer billing

- Calculates bill accurately using current tariff
- Records customer bills and payments
- Reduces the delay between reading the meter and billing

# Ensuring timely receipt of customer payments

- Be sure paying bills is as convenient as possible for the customer
- Consider providing incentives
  - early pay discounts
  - raffles
- Late payment penalties

# Ensuring timely receipt of customer payments

- Levelized payment plans
  - equal monthly or weekly bills based on estimated annual use
  - reconcile at the end of the year
  - pay interest on money collected over actual use
  - check halfway through year to see if estimate is reasonable
  - helps solve meter reading problem

# Dealing with customers who do not pay

- Debt collection policies must always balance business interests and public service obligations.
- The goal of a debt collection program is to collect the greatest amount of revenue, at the lowest possible cost, without jeopardizing public health or safety.

# Improving debt collection

- Set up a special Collections Department
- Develop targeted debt collection strategies
  - customers who can't pay
  - customers who won't pay
  - residential Vs non-residential customers
  - prioritize account by amount owed and number of payment missed

# Training a special collections staff

- Training topics
  - responsibilities of a special collections staff
  - collection strategy
  - payment arrangement terms
  - reconnection rules
  - government rules and regulations
  - measuring performance

# Improving Debt Collection

- Establish written collections procedures and train your staff
- Intervene to work with customers on debts at a reasonably early and fairly consistent point
- Have consistent follow through
- Be sensitive to customer complaints
- Work with the regulatory commission, local governments, charitable organizations

# Residential Debt Collections is a Progressive Process

- Bill
- Default notice
- Contact Customer
- Disconnection

# Getting the customer with debts to pay his bill

- Payment arrangements - allow the customer to pay overdue balances over time
  - Conditions of payment arrangements
  - Tracking payment arrangements
- Payment arrangement types
  - Regular Arrangements
  - Special Arrangements

# All payment arrangements should be reasonable

- customer's ability to pay
- size of the overdue amount
- customer's payment history
- whether disconnection would present a danger to health of the customer or occupants of home
- amount of time and reason why the overdue amount is outstanding
- use management discretion

# Regular Payment Arrangements

- Customer must pay current bill and a portion of past due balance
- Usually, past due balance is paid over same number of months as it was accumulated

# Special Payment Arrangements

- Eligibility
  - income
  - paying bill will deprive customer's household of other basic necessities

# Special Payment Arrangements

- Customer must pay current bill or an agreed upon amount
- Amount is affordable in winter months
- Payments increase during the summer
- Goal is to eliminate past due balance before the winter period

# Dealing with customers with special needs

- Low income customers
  - lifeline programs
  - government subsidies
  - donations from other customers
- Customers with medical emergencies
- Working with government assistance agencies
  - State
  - Oblast
  - Charitable organizations

# Commercial/Industrial Collections

- Customer may be offered a payment arrangement
- All debts must be paid by October 1
- Take a business to business approach
  - commercial and industrial customers must pay for your product the same way they pay for other materials and services

# Customer can prevent disconnection by -

- Paying past due amount
- Agreeing to a payment arrangement
- Filing a dispute with regulators
- Declaring a medical emergency

# When all else fails - When should customers be disconnected?

- Minimum amount past due
- Length of time past due
- Seasonal considerations
- Broken payment arrangement
- Residential/Industrial considerations

# Procedures for reconnection

- Payment of past due amount
- Deposit
- Payment arrangement
- Reconnection fees
- Current limiting devices

# Managing receivables

- Tracking past due receivables against total billed revenue
- Tracking number of customer accounts with past due balances
- Dealing with receivables on inactive accounts
- Policies for writing off uncollectible bills

# Example of an aging report

[insert example from ABACUS]

# Writing Off Uncollectible Debts

- Some debts the company will never collect
- When should debts be written off
  - do not write off if account is still active
  - final bill is 120 days old
- Collect write offs if customer sets up new account
- Who pays for uncollectible debts
  - surcharge on all bills
  - oblenergo

# Customer Rights

1. Right to a reasonably affordable payment plan
2. Referral to financial assistance agencies
3. Offer of conservation services
4. Right to appeal a disputed matter to the regulatory commission
5. Right to declare a medical emergency

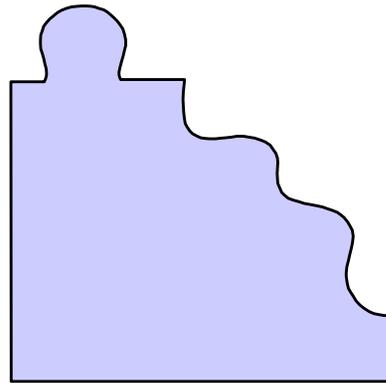
# Using ABACUS to Collect Debts

- Ages accounts and applies late fees
- Tracks non-paying customers
- Provides work lists of customers who should be disconnected
- Provides an overview of collections efforts for managers

# Other ABACUS Features

- Monthly kWh Reports by customer class
- Expected Revenue Calculation Report
- Maintains up to date information on metering, billing and collections for all customers

# Managing Employees in a Privatized Utility



Job Placement

Performance Evaluation

Compensation and Benefits

Career Development

Safety

# Employees are the Company's most valuable resource

- The men and women employed by utilities are ultimately responsible for its success or failure
- Companies must attract, train, support, develop, retain, and fairly compensate their employees

# The Elements of Human Resource Administration

- Job Placement
- Compensation Administration
- Benefits Administration
- Employee Performance Evaluation
- Career Development and Training
- Union Relations
- Safety Programs
- Employee Communications

# Job Placement Administration

It takes a variety of skills and experience to run a utility:

- Engineering
- Finance and Accounting
- Computer Operations
- Power Plant Operation
- Business Management
- Electrical & Electronic Technology
- Environmental Sciences
- Line Construction & Maintenance
- Automotive Maintenance
- Law

# Getting the right people for the right job

- Employees represent a wide array of skills, and are recruited from universities, technical schools, and the military
- Many of the employees hired by the utility come with excellent skills which are then turned into specific applications
- All positions should be filled by workers based on their qualifications

# Creating position descriptions for each job classification

- Describe the tasks to be performed
- Outline the interactions the position has with other departments
- List the education and experience required
- State the title of the position reports to
- State the number and classification of employees who report to the position
- State the salary range

# Compensation Administration

- Employees may be paid on an hourly or salaried basis
- Hourly employees are paid overtime after 40 hours of work in any week, usually at 1.5 times their regular rate of pay
- All employees must be paid at competitive levels
- Internal and external wage comparisons must be made at regular intervals

# Compensation Administration

- Most pay levels are graded from entry level to the most experienced levels
- Different positions may fall within the same salary range
- Pay is often controversial
- Compensation is an art not a science!

## Focusing on Pay for Performance

- The time one spends in an assignment should not be the basis for pay
- Pay increases can be made on specific dates as established in the corporate plan
- Pay can change if an employee changes jobs, and it can go up or down

# Rewarding Excellent Performance

- Incentives are an important part of compensation
- Characteristics of Incentives
  - cash, stock, material goods or other tangible products
  - long or short term
  - paid to people who perform beyond expectations and usually achieve mutually agreed upon targets
  - extra pay and not part of salary

# Goals of Incentive Pay

- Motivate and reward performance
- Align management and employee goals and measures
- Focus on department goals
- Create link between company, department and individual goals

# Benefits Administration

- Utilities offer comprehensive benefits to employees
- Some benefits are provided when there are no national programs such as medical or retirement programs
- Benefits can be provided directly by the company or through an outside provider

# Types of Benefits Offered

- Retirement Income Plan
- Medical Plan
- Savings and Investment Plan
- Dental Plan
- Life Insurance
- Long Term Disability
- Workers Compensation
- Stock Purchase Plan

# Types of Benefits Offered

- Holidays - 12 in USA
- Vacations with pay based on years of service up to a maximum of 5 weeks
- Educational assistance
- Leaves of Absence
- Child Care Leave
- Bereavement Leave
- Other miscellaneous benefits

# Employee Performance Evaluation

- All employees receive an annual performance evaluation
- The manager serves as the employees' coach
- The results of the evaluation are weighted heavily in determining pay

# Evaluating an Employee's Performance

- Review performance against agreed upon goals and objectives
- Focus on objective, job-related behaviors
- Make it a two-way form of communicating
- Give constructive feedback
- Interim evaluations may be required
- All evaluations are placed in the employee's file

# Career Development and Training

- All employees must be included in these activities in order to develop their potential to the fullest
- Ensures smooth efficient operations by competent employees
- Broader or more diverse assignments can be beneficial to the employee and the company

# Why is Career Development important?

- To retain valuable employees
- To allow the employee to his/her potential and provide quality services to the company
- To develop skills that will aid the employee's ability to perform
- To provide training that is consistent with the employee's personal career goals

# Developing an Corporate Training Program

- Coordination is accomplished through a corporate training group
- Managers must inventory all employees' skills and provide development as necessary
- Each functional area has specific needs
- Accurate records must be maintained
- Training should be interactive, with questions and answers, challenges, and opportunity for realistic case studies
- Recognition of successful trainees is critical
- Training never ends!

# Assessing an Employee's need for training

- May identify unknown employee skills
- May also identify significant weaknesses
- Both must be addressed!

# Using the right method of training

- In-house training
- Lateral moves
- Commercially available courses
- Apprenticeships
- Educational assistance

# Unions Relations

- Unions were formed because working conditions were poor
- Unions represent many utility employees
- Skilled or craft workers are those in line, substation, garage, meter operations, etc.
- Professional and technical people can be unionized too
- Union people are often the customers' only contact with the company

# Changing Role of Unions

- Role has changed recently
- Less combative - more cooperative
- Unions share in the company's success and its failures
- Active involvement on committees
- Politically active

# Union Negotiations

- Issues negotiated include
  - wages
  - work rules
  - seniority and promotions
  - position classification
  - benefits
  - grievance procedures
- A formal contract is signed
- Both parties agree to abide by the contract
- Disputes are resolved through the grievance process
- Labor relations in the US are greatly improved

# Working with Union Employees

- Many union problems are created by management
- Many supervisors come from the union's ranks
- Often the rank of all employees is transparent which is tribute to both sides
- A strong union is preferred over a weak one
- In 100 years, CMP had only one strike

# Safety Programs

- Utilities have a solemn obligation to provide safe electrical service to customers and a safe work environment for all employees
- Employee receive continuous training on working safely
- All facilities, vehicles and equipment must meet certain standards and be checked regularly
- There can be no safety shortcuts

# Communicating Safety Issues to Customers

- Customers regularly receive safety information
- School programs for students
- Electricity can and does kill people
- Contractors must work by company safety rules
- Safety also applies at home
- Better safe than sorry

# Employee Communications

- Communications can be the lifeblood of the company
- Reinforces employee support of company goals and objectives
- Extremely important during difficult periods
- Maintains management credibility
- Leads to improved customer service
- Communication must be two ways

# Ways to Communicate with Employees

- Employee newsletters
- Videos
- Executive briefings
- Surveys
- Posters on company progress
- Direct supervisors briefings
- Regular feedback and updates
- Direct mailings (broadens audience)

# Establishing an effective Employee Communications Program

- Strive to inform all employee first
- If the above isn't possible, explain why
- Never allow employees to hear important news from an outside source
- Inform everyone about good news
- Be even more timely to give bad news
- Be accurate, thorough and explain the impact of changing scenarios
- Manage communications - not lives!

# Downsizing

- Determine what services will be provided
- Identify the skills required to meet the needs
- Look for comparable organizations to establish a reference point
- Communicate the process throughout the organization

# Downsizing

- Assess all employee skill to match needs with expertise
- Make no assurances to employees to avoid future problems
- Choose key people first, then include them in the process
- The initial organization will not be final

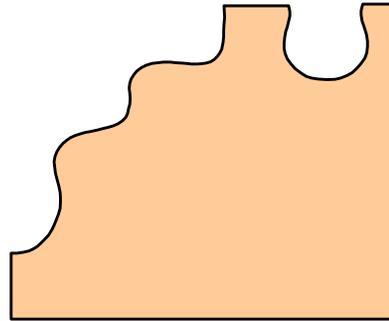
# Downsizing

- Adjust staffing as necessary, but not too quickly
- Give the new organization a real test
- Clearly communicate goals and objectives and measure all activities

# Downsizing Approaches

- Staff Reductions
- Attrition
- Reallocation of Staff
- Sale of Some Business Units
- Insure compliance with all laws and contractual obligations
- Timing - immediate or phased approach

# What is Good Customer Service?



Customer Service

Advertising

Market Research

Customer Communications

# Every Message and Every Contact Leaves an Impression

# Employees have the most communication with customers

- Need training on how to communicate well with customers
- Need training on company policies and issues
- Must understand that good customer service is their responsibility

# Customer Satisfaction - What do customers want?

- Safe, reliable service
- Reasonable rates
- Prompt emergency response
- Direct and helpful answers to inquiries
- Simple billing and payment processes
- Energy efficiency information
- Courteous, competent employees
- Flexibility and problem solving

# Customer Service Programs

- Safety information material
- Service guarantee programs
- Budget payment plans
- Special needs programs
- Power quality assistance
- Utility contact information

# Organizational Changes in Customer Service

- Customers will demand better customer service
- Organizational structure should foster good customer service

# Establishing a First-Class Customer Service Department

- Appoint a Director with customer service experience
- Have the Department report directly to the General Manager
- Establish market research, advertising, and customer representative functions
- Implement a Customer Information System

# Responsibilities of the Market Research Group

- Track customer demographics
  - Number of residential, commercial and budget customers
  - List of largest customers
- Determine new trends in energy usage
- Develop new products and services
- Conduct customer satisfaction surveys

# Responsibilities of the Advertising Group

- Develop advertising campaigns
  - Television
  - Newspapers
  - Other

# Responsibilities of the Customer Representative Group

- Handle all aspects of customer's questions on the company's service, products, policies and operations
- Establish operational procedures for handling customer requests and complaints
- Provide training to employees on the elements of good customer service
- Track all customer contacts using a Customer Information System

# What Are the Goals of Customer Communications

- Listen to customers
- Meet customers' needs
- Treat customers as you would want to be treated

# Why Communicate with Customers?

- Sell products and services
- Build customer loyalty
- Create a positive image

# Types of Communication

- Customer brochures and sales pieces
- Customer inquiries
- Customer complaints
- Media opportunities
- Advertising
- Corporate citizen opportunities
- Employee contacts
- Principle of the magic moment

# Why Do Customers Contact Us?

- Payments
- New services
- Tenant changes
- Billing inquiries
- Complaints
- Outage reporting
- Payment arrangements
- Usage concern

# Ways customers interact with the Company

- Mail
- Telephone
- In-person

# Changes in Customer Communications

- Prior to 1990
  - All customer contact occurred at 15 district offices
  - No online customer database (daily batch updates and reports)
  - All customer service representatives were generalists

# Changes in Customer Communications

- 1990 - 1994
  - 3 Telephone call centers created
  - Sophisticated telecommunications network established
  - Online customer database; real time transactions
  - District offices still provide walk-in service

# Changes in Customer Communications

- 1995 - present
  - District offices closed to walk-in customers. In-person contact by appointment only.
  - Calls centers consolidated; most customer contact by phone
  - Separate credit and collections center established

# Trends in Customer Communications

- Increased use of technology to improve efficiency
- More specialization

# Customer Reactions?

Some negative reaction to automation and technology initially

# Levels of Communication

- Corporate
  - Advertising
  - News media
  - Bill Inserts
  - Public policy making processes

# Levels of Communication

- Customer Specific
  - Bills/Bill messages
  - Letters/Publications
  - Telephone contact
  - Personal contact
  - Customer research

# Ways to Communicate with Customers

- Safety presentations
  - Talk with customers about safety issues
  - Target schools, businesses, emergency response crews
  - Economical program
  - Bring in visuals - Safety City

# Ways to Communicate with Customers

- Newspapers / magazine articles
  - Use media to generate stories
  - Pitch timely topics
  - Place pre-written stories
- Bill Stuffers
  - Information distributed with bill
  - Opportunity to target customers
  - Low cost, but not everyone will read

# Communicating Safety to Customers

- Builds corporate image
- Protects company from liability
- Provides an opportunity to communicate

# Resolving Customer Complaints

- Customer complained about repeated power quality problems
- Customer complained to Company and regulators
- Employee assigned to resolve the complaint

# Resolving Customers Complaints

- Month later, received letter from customer:  
“You both exceeded every expectation, and I will sing CMP’s and the PUC’s praises to anyone who will listen.”  
Signed, “a very satisfied customer”

# Listening to Customers

- Implemented alternate-month meter reading
- Conducted research, well planned, extensively tested
- Notified customers well in advance; multiple communications mediums
- Reduced staff, fleet, rerouted schedules

# Alternate-month meter reading

- Made the switch in October
- Letters jumped from 420 in October to 1061 in December to 1648 in January
- Customer calls jumped from .8% of customers in October to 3% in December to 4.8% in January

# Alternate-month meter reading

- Nasty letters published in newspaper around the state
- Customers hated estimated bills - very dissatisfied customers

# Response to customer complaints

- In January, President announced a review of the program
- Conducted more research to find ways to satisfy customers
- Found nothing we could do
- Returned to monthly meter reading in April

# Results of Dropping the Program

- Communications efforts emphasized that we listened to customers
- Repeated that customers are more important than savings
- Letters and call dropped
- Customers responded positively to news - satisfied customers
- Research since shows that Company's favorability rating increased

# Central Maine Power - Customer Service Guarantee

- Guarantee scheduled appointments
  - If can't keep appointment, will advise at least 4 hours in advance
  - If we don't notify customer, CMP will give them \$25 credit

# Central Maine Power - Customer Service Guarantee

- Guarantee that bills are accurate
  - If there is a mistake, we'll correct it
  - Will give a credit up to \$10 for bringing the problem to our attention
- Guarantee new service connection date
  - If CMP doesn't connect, the customers first bill is free (up to \$250)

# Customer Service in Armenia

- What do customer's complain about most?
- What can your company do to improve customer service in this area?
- How will you measure success?