

Beyond the hype

What is the value of customer satisfaction to a regulated utility?

April 2015



Beyond the hype

What is the value of customer satisfaction to a regulated utility?

The “traditional” customer-utility model is rapidly evolving as a result of new technology, competition, an evolving smart grid, and an increasingly tech-savvy consumer class. Across industries, businesses are being told that customer satisfaction should be a priority, and that it’s not only good for customers, it’s good for business. However, do happier customers translate into real value for utilities, especially regulated monopolies with a captive customer base? This question has been difficult to answer with certainty—even as these same utilities dedicate significant resources to play catch-up in providing a superior experience that can increase customer satisfaction.

To get to an answer that goes beyond the hype, we’ve conducted research focused specifically on answering “what is the value of customer satisfaction to a regulated utility?” The short answer is: **Customer satisfaction does translate into real and tangible value for power and utility companies in a number of ways and is indeed better for business.**

Overview of key findings:

- **Customer satisfaction is clearly an important factor in regulatory outcomes.** While our analysis does not point to a direct cause-and-effect relationship between customer satisfaction levels and higher authorized returns on rate base, maintaining a minimum level of customer satisfaction appears to make a difference when regulated utilities seek a rate increase.
- **Customer satisfaction as a competitive differentiator can be instrumental for utilities seeking growth via new unregulated services and products, or protecting their core business from disruptive entrants.** Higher levels of consumer trust and confidence can raise the barriers for market entrants creating disruption and discourage your customer base from making a change to an unknown and untried service provider.

- **Utilities are investing in customer experience and the baseline customer satisfaction level is rising.** There appears to be a race among utilities to deliver the best experience within the industry and the bar for staying in the top quartile of customer satisfaction keeps getting reset—and higher.

To keep pace with the “changing customer”, utilities should create the foundation for a superior experience by simplifying complex interactions, personalizing interactions through the application of advanced analytics to customer data, and proactively seek opportunities and take actions that drive customer loyalty. Now is the time to act: because consumers today are more engaged with their energy consumption and do so through various technology tools and mediums, utilities have an enviable opportunity to shape the customer experience in ways that may not have been previously possible.

In the sections to follow, we’ll explore further what it “means” to have satisfied customers drive value for your business, and offer recommendations on the actions to take to get the greatest value from customer experience investments.

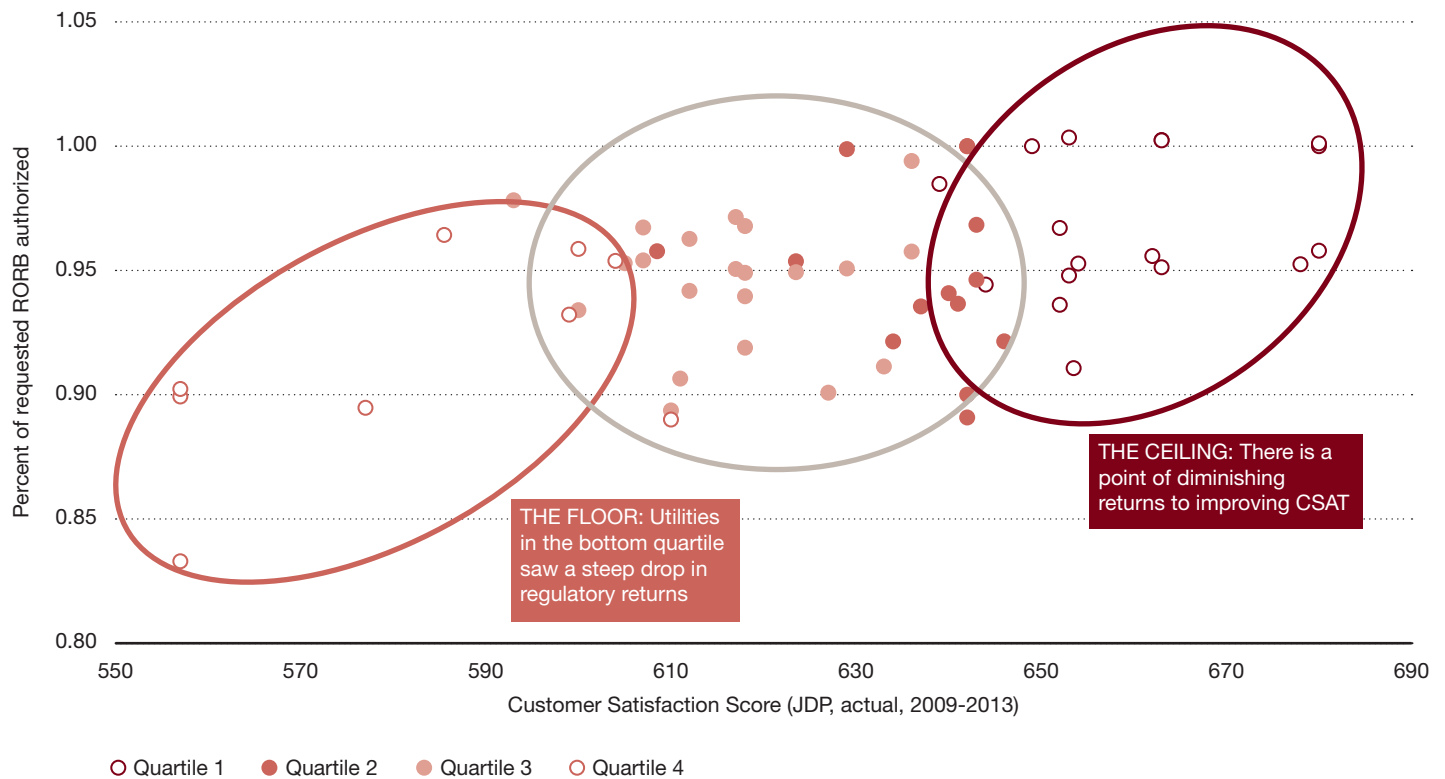
What are the tangible benefits to having “Satisfied Customers”?

Customer satisfaction is a measure of the positive experience customers have when interacting with a company and thus can be viewed as an outcome of a positive customer experience. **Maintaining at least a minimum level of customer satisfaction appears to make a difference in the rate case process when regulated utilities seek**

to establish the return on their rate base. Our analysis suggests there is a relationship between the customer-satisfaction metric developed by J.D. Power and Associates and the outcomes of these regulated utilities’ requests for rate increases. Utilities with a lower score in the customer satisfaction metric appear less likely to receive a high portion of their requested return on rate base.

Although there are many factors that influence regulatory outcomes, we found that utilities with lower customer satisfaction than their industry peers were less successful in rate negotiations. Specifically, utilities in the bottom quartile of customer satisfaction were granted a lower percentage of the requested rate of return than utilities in the top quartile (see Figure)

Utilities with higher customer satisfaction achieved better regulatory outcomes
Utility rate case success compared to Customer Satisfaction (CSAT)



The debt component of return on rate base is based on interest rates of outstanding debt and often has a smaller delta between requested and authorized amounts. Thus, the benefits of higher customer satisfaction would contribute primarily to the negotiation over the equity component of return on rate base.

*Percent of requested Return on Rate Base calculated as the ratio of requested RORB and actual RORB for each case of rate adjustment published in SNL Rate Case History reports. Customer Satisfaction score in each year corresponding to rate request is plotted to the ratio. Source: JD Power Gas Utility

Industry reports (2009, 2010, 2011, 2012 and 2013); SNL Industry reports and Rate Case History, data obtained 11/01/2014

Note: Companies represented in each plot may vary, according to available information and data

Customer satisfaction is a measure of the positive experience customers have when interacting with a company and thus can be viewed as an outcome of a positive customer experience.

While our analysis has not found a direct cause-and-effect relationship between customer satisfaction levels and authorized rate of returns, customer satisfaction is clearly an important factor in regulatory negotiations.

Customer satisfaction levels often receive higher attention from regulators in the aftermath of widespread reliability issues, such as following major storms, or when customer satisfaction is consistently low or has recently declined. In such contexts, utilities can expect heightened regulatory scrutiny of their customer-service performance. For example, after a utility experienced a decline in customer satisfaction levels over a two year period, the State Public Service Commission required an audit of this utility's customer-service practices. The audit report attributed the decline to aggressive cost cutting, a failed implementation of a new online customer channel, and a lack of commitment to customer service. In response, the utility made an investment to improve customer service, particularly through digital channels. The utility invested capital and increased operating expenses to shore up the customer

service function and regain customer satisfaction which ultimately eroded the cost savings they had originally achieved.

How do I capture the full benefits of customer satisfaction?

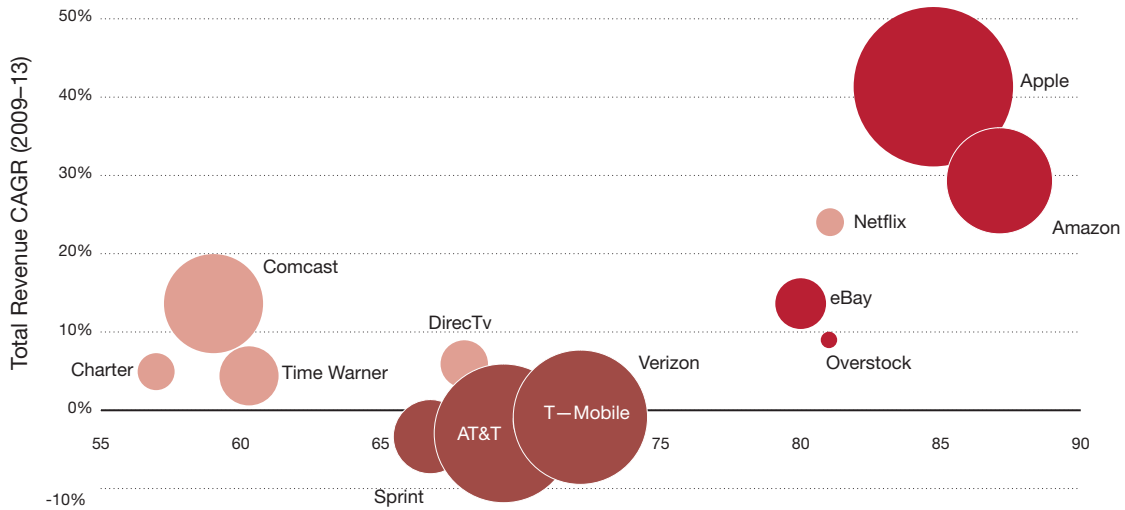
To capture the full benefits of customer satisfaction, utilities need to regard themselves as incumbents in their core business and, potentially, as entrants into new service areas. In each role, they will have specific opportunities to make investments in customer service and operations that promote customer satisfaction and help to differentiate them from the competition. Higher levels of consumer trust and confidence can raise the barriers for market entrants creating disruption and discourage your customer base from making a change for an “unknown” and “untried” service provider. Our analysis suggests that utilities in general “agree” as investments in customer experience along with baseline customer satisfaction levels are rising. And, the bar for staying in the top quartile of customer satisfaction keeps getting reset—and higher as the race among utilities to deliver the best experience within the industry is intensifying.

When exploring new services or products, utilities should consider the experience that incumbents deliver and the corresponding level of customer satisfaction. A new entrant must deliver a superior experience and exceed current customer expectations to grab market share and grow revenue. On the other hand, to defend their core business against innovative, disruptive entrants, utilities need to maintain their focus on customer satisfaction through continual improvements in customer service and innovative product and/or service offerings.

Certain industries have been disrupted by new entrants that deliver especially high customer satisfaction. Netflix, Apple, and Amazon are some companies that are harnessing technology to deliver impressive customer experiences and consequently are achieving high customer satisfaction levels and revenue growth, as shown below.

Revenue growth compared to CSAT

Across industries, companies delivering higher customer satisfaction levels have also seen significant increases in revenue CAGR.



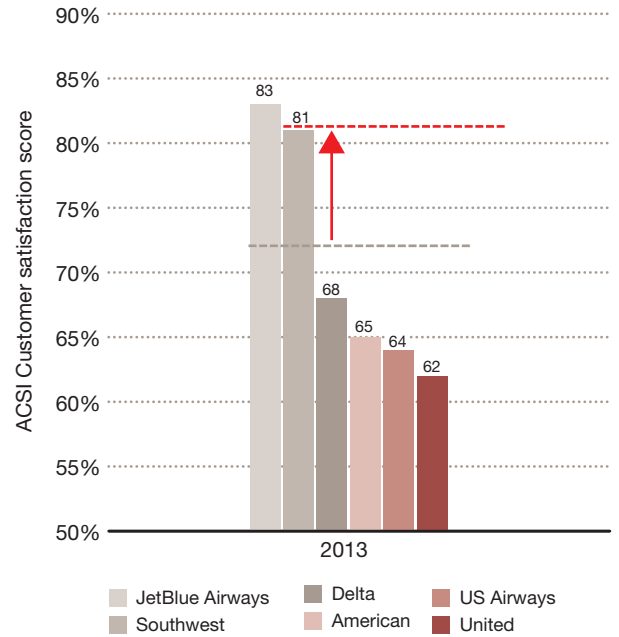
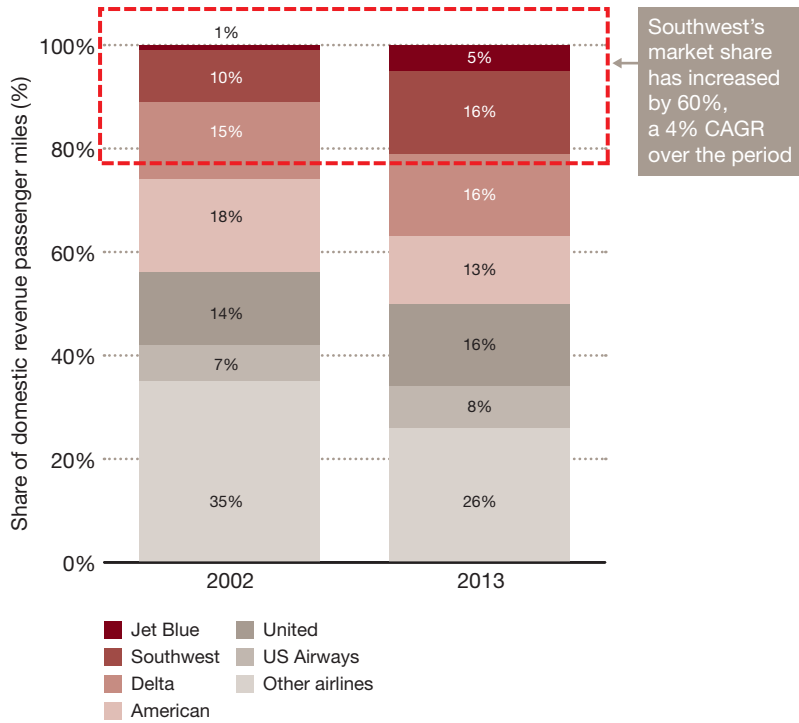
Average customer satisfaction score (ACSI, 2009-13)

Size of the bubble based on 2013 revenue

*Source: ACSI Customer Satisfaction by company; Financial data sourced from SNL Company snapshots

The airline industry provides another example where higher customer satisfaction can have an impact on market share growth.

Airline Industry—Market share vs. CSAT



*Source: United States Department of Transportation, Bureau of Transport Statistics, http://www.transtats.bts.gov/Data_Elements.aspx; ACSI Customer Satisfaction index for airline industry

Utilities have traditionally taken pride in providing “safe, reliable, and affordable” energy and this promise should continue to lie at the heart of their value proposition.

In these examples, high customer satisfaction is clearly not the only driver of revenue and market share gains. However, it is difficult to ignore the high customer satisfaction achieved by companies such as Netflix or Southwest, as a leading indicator of the differentiated customer experience and its role in capturing market share.

How do I keep up with evolving customer demands and create a superior customer experience?

Solar panels and energy management devices, among other technologies have opened up a new world of energy supply and control possibilities for customers. As a result, some customers are becoming more attuned to their energy consumption and thinking about their energy and the relationship with their utility in new and different ways. For the incumbent utility, the increased penetration of advanced metering infrastructure (AMI) and “behind the meter” devices has created more potential interactions between customers and their energy utilities. **This means there are more opportunities to please—or displease—customers with the service they receive.** Moreover, customers are demanding multichannel access to utilities through call centers, web sites, mobile apps, and walk-in centers. They want the convenience and availability of digital technology, including mobile and social media, to enable easier and simplified use of services, get information from the utility and other customers, and express their opinions.

To meet these evolving customer demands for digitally supported interactions, utilities should:

- 1. Create the foundation.** To simplify complex interactions and create enjoyable experiences, utilities should focus on their highest-volume interactions—billing, field service, and outages. The start-service experience should be the highest priority, so that new customer relationships begin with a positive first impression. Utilities should segment the start-service experience into each of its components, from receiving the request and initiating service to providing the first bill, and strive for excellence throughout the end-to-end process.
- 2. Personalize interactions.** Today’s consumers expect personalized interactions, which means that utilities must take a more fine-grained approach to providing products and services than traditional customer segmentations allow for. Fortunately, by applying advanced analytics to increasingly available customer data, utilities can gain insights into customer preferences on an individual level and tailor products and services accordingly—offering them at the right time and through the right channel. Understanding the preferences of self-service customers is critical. In addition, timely and personalized communications about outage events can work to ease customer dissatisfaction during uncertain and emotional situations.

- 3. Add value.** When designing a personalized customer experience, it is essential that utilities maintain a sharp focus on providing value-added products and services. This value-added focus will require a significant mindset shift for utilities that have spent generations providing commoditized products and services to ratepayers. The ultimate aspiration should be to motivate customers to proactively pursue new and different ways to engage with a utility, in contrast to customers regarding such interactions as a necessary inconvenience.

For many utilities, the starting point on the journey to providing a value-added customer experience will begin with applying this new mindset to customer service and operations. Utilities can apply advanced analytics to anticipate customer behavior and take proactive steps to resolve situations before they become bigger problems. For example, analyses of customer inquiries can be used to proactively address area-wide service problems and resolve issues before most customers contact the utility. The mobile and social media strategies included in the foundation of the customer experience are essential elements of a value-added approach to service and operations. Utilities should strive for mobile and social interactions that enhance service and operations and provide measurable outcomes.

Beyond value-added customer service and operations, utilities that provide a truly superior customer experience will offer innovative products and services that meet “customers” evolving needs. Achieving this goal will require building capabilities to identify what customers really want based on analyses of consumption and behavior. Utilities may also want to accelerate the speed of product development to keep pace with rapidly changing trends and demands.

As incumbents, utilities should take advantage of their position to become the “go-to resource” for meeting customers’ evolving energy needs. Success will require creating an ecosystem of partners to serve broader customer wants and expectations, such as connecting customers with ancillary energy services—including solar providers, water heater installation, and energy efficiency products.

What can I do now?

A utility should take three steps to begin its journey to providing a superior customer experience and promoting world-class levels of customer satisfaction. Utilities that fail to master any one of these steps are likely to fall short of their customer-experience goals.

First, utilities should define a customer experience that is aligned with their brand promise. Utilities have traditionally taken pride in providing “safe, reliable, and affordable” energy and this promise should continue to lie at the heart of their value proposition. However, some utilities may wish to expand their brand promise, striving to become customers’ “go to” energy adviser. For example, Powershop, a New Zealand company, has achieved world-class customer satisfaction ratings by defining itself as an electric utility

“where you make the rules.” Customers can instantly access their energy usage and costs, pay in advance or as they use energy, and take advantage of frequent discounts.

Utilities should conduct a formal maturity assessment to understand their current performance in each of the five attributes of customer experience.

For some utilities, this assessment will reveal areas of strength for which continued investment will create a valuable source of competitive differentiation and brand building. However, most utilities are likely to find one or more attributes requiring additional investments to reach the levels expected by today’s demanding consumers.

Five attributes of customer experience.



Second, utilities should take an inventory of all projects, programs, and committees that are trying to move the needle on customer experience and satisfaction, such as website redesign or social media strategy definition. These efforts are often dispersed throughout an organization and conducted without central oversight. Once a utility has identified “who, what, when, and where” for each of these initiatives, it should seek to centrally coordinate them and give them executive-level oversight and exposure. To build momentum and seize opportunities to innovate, all initiatives should aim to achieve small, agile improvements at a fast pace and allow for continual refinements along the way. In today’s rapidly changing environment, big capital projects related to customer experience are at risk of obsolescence before they can deliver results.

Finally, utilities need to transition to a culture in which employees are focused on the customer experience and prepared to design and support innovative approaches that raise customer satisfaction. Customer experience programs will not deliver their intended results without such a supporting culture. Transitioning from an engineering culture to a customer-centered culture is a significant change and will require training and new organizational enablers.

Utilities that apply these insights and define a robust customer-experience strategy can be better positioned to weather the challenges of evolving customer demands and a changing customer-utility business model. Utilities successful in securing satisfied customers stand to gain tangible business benefits that go beyond simply having “happy customers.”

***To have a deeper conversation
about how this subject
may affect your business,
please contact:***

Jim Curtin

PwC | Principal

+1 (281) 794 2698

james.m.curtin@us.pwc.com

Geoff Plese

PwC | Managing Director

+1 (678) 419 1585/+1 (678) 428 3876

geoffrey.e.plese@us.pwc.com

H. Austin Clark

PwC | Senior Manager—Lead Power &
Utilities Analyst

+1 (401) 419 4035

austin.clark@us.pwc.com