



How Customer Satisfaction Drives Return on Equity

2012
**SERVICE
EXCELLENCE
SUMMIT**

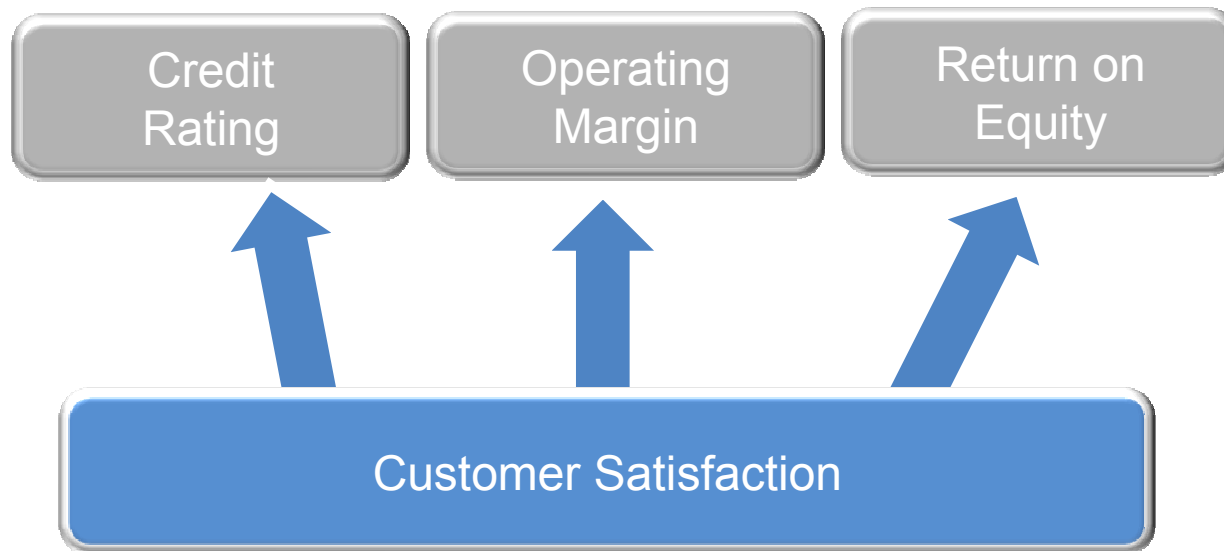
March 14, 2012
Andrew Heath
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Energy Practice

Agenda

- Background
- Methodology
- Findings



Three Key Measures Impacted by Customer Satisfaction



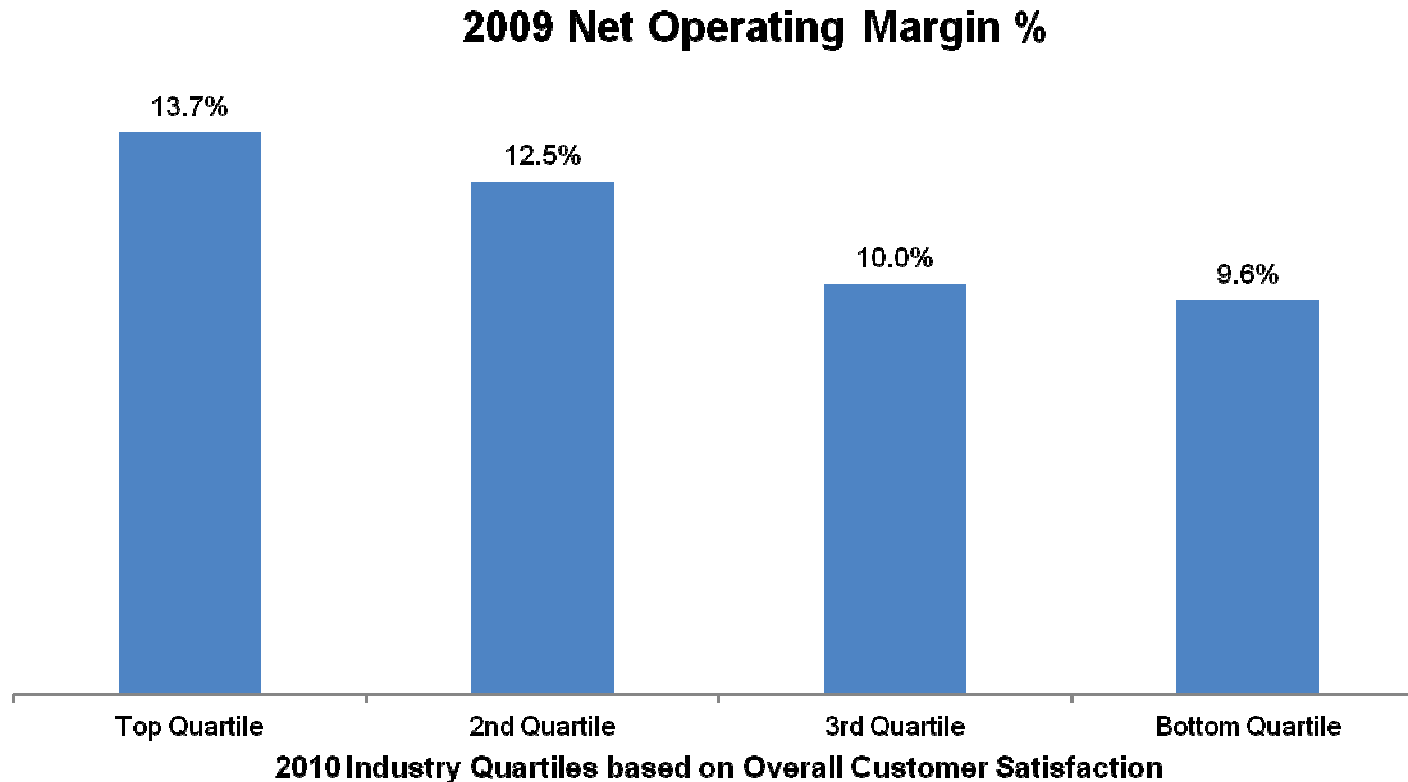
Three Key Measures Impacted by Customer Satisfaction



Improved levels of customer satisfaction contribute to improved credit ratings, and operating margins for regulated US electric utilities.



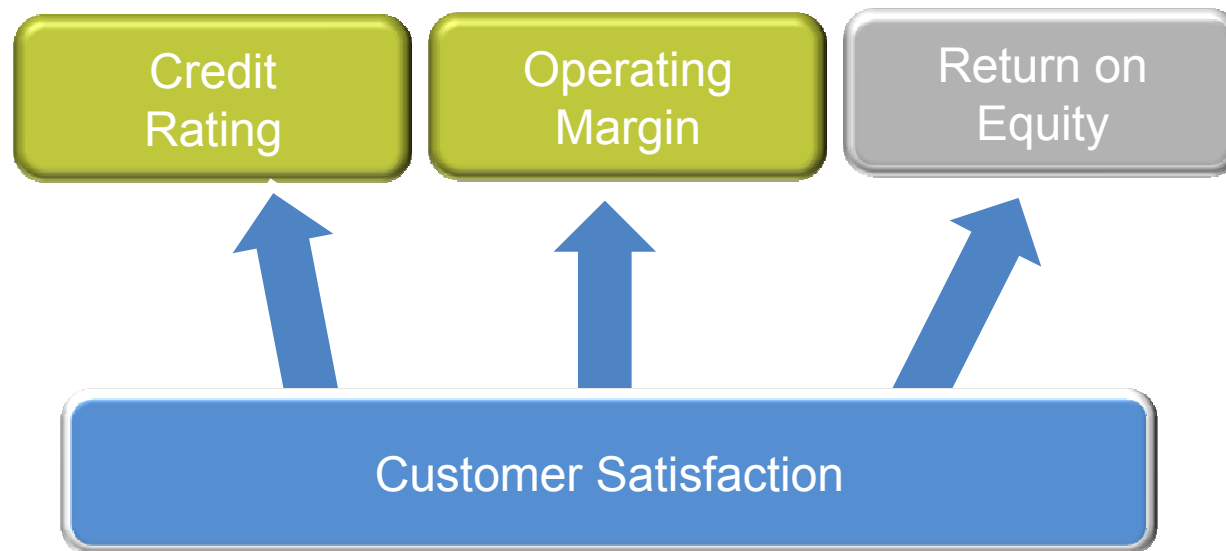
Profitability is Higher for Utilities with Higher Customer Satisfaction



Regulated US electric utilities with the most satisfied customers report the highest rates of net operating margin to FERC. On average electric utilities with the most dissatisfied customers reported profit margins 4% less than the top performers.



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Background - Research Scope

The research scope for the analysis was as follows:

- all rate cases in the last 12 years – 2002 to 2011. Most of the rate cases included in the analysis are from the period 2006-2011. The rate cases are restricted to traditionally regulated electric utilities.
- the final analysis uses national not regional data.
- financial metrics that are modeled against customer satisfaction are allowed return on equity and the difference between the requested and allowed amounts.
- customer satisfaction data is based on the J.D. Power and Associates electric residential customer satisfaction studies.



Background - Methodology

The research methodology for the analysis was as follows:

- data was gathered from SNL's RRA database and the Public Utilities Fortnightly database of regulatory requests and outcomes.
- source data was collected for 400 rate cases, after data cleansing the final number of rate case data points used in the analysis was 197. Each data point is unique by brand, state, and year.
- customer satisfaction data was normalized to the current online scale using the 1,000 point index.
- correlations were then calculated against a series of available metrics – 88 potential metrics from the JD Power databases were considered.
- for ROE and the difference between approved and requested amounts the average outcome data points were calculated for every 5 point range in CSI using the 1,000 point JD Power Index scale.



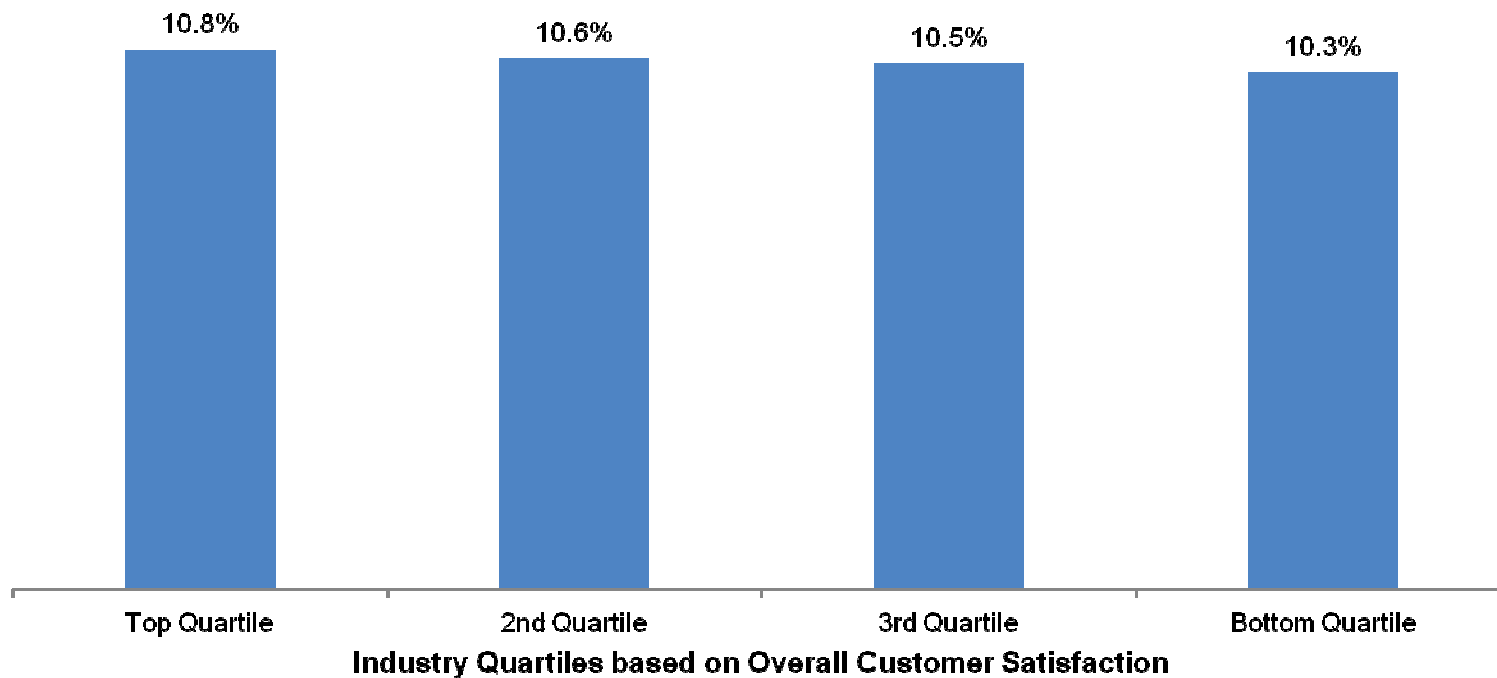
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Return on Equity by Index Zone of Satisfaction

Approved Return on Equity

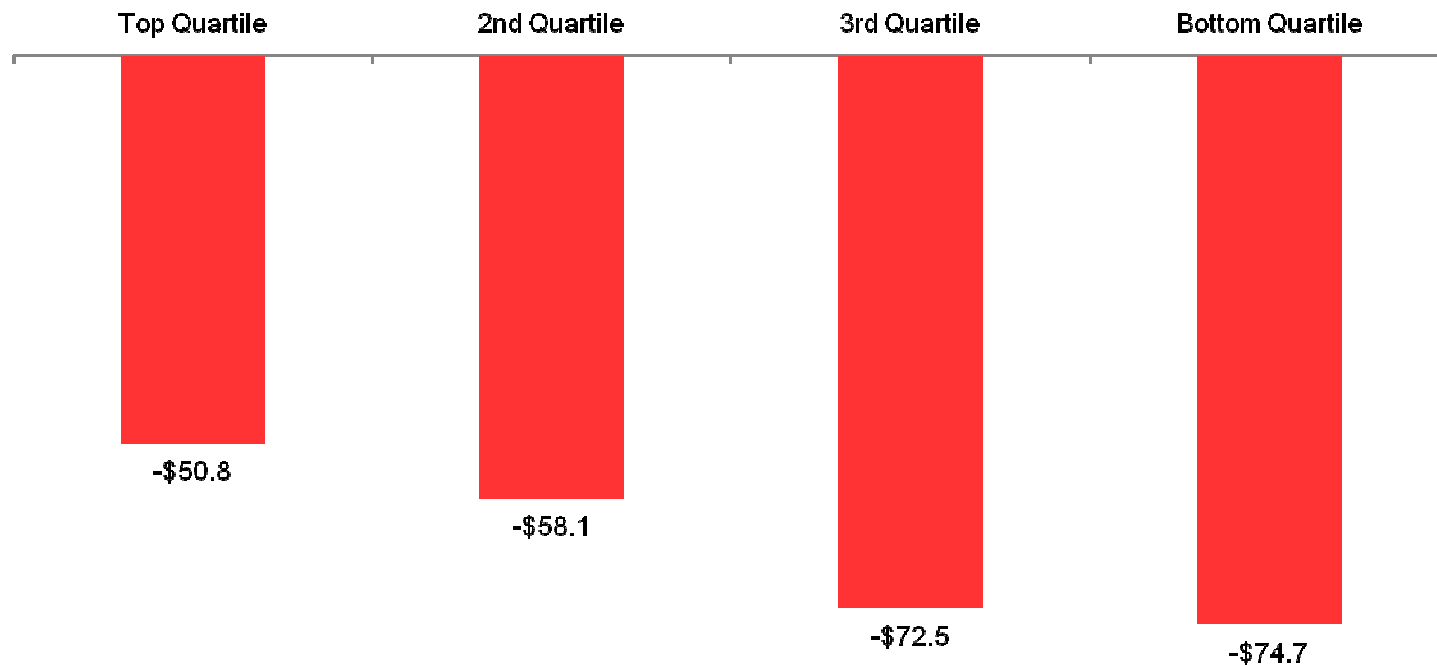


When utilities are categorized into "zones of satisfaction", higher levels of customer satisfaction one year prior to a rate case lead to higher returns on equity.



Gap Between Requested and Approved Rate Increase by Index Zone of Satisfaction

Gap Between Requested and Approved Rate Increase (\$m)

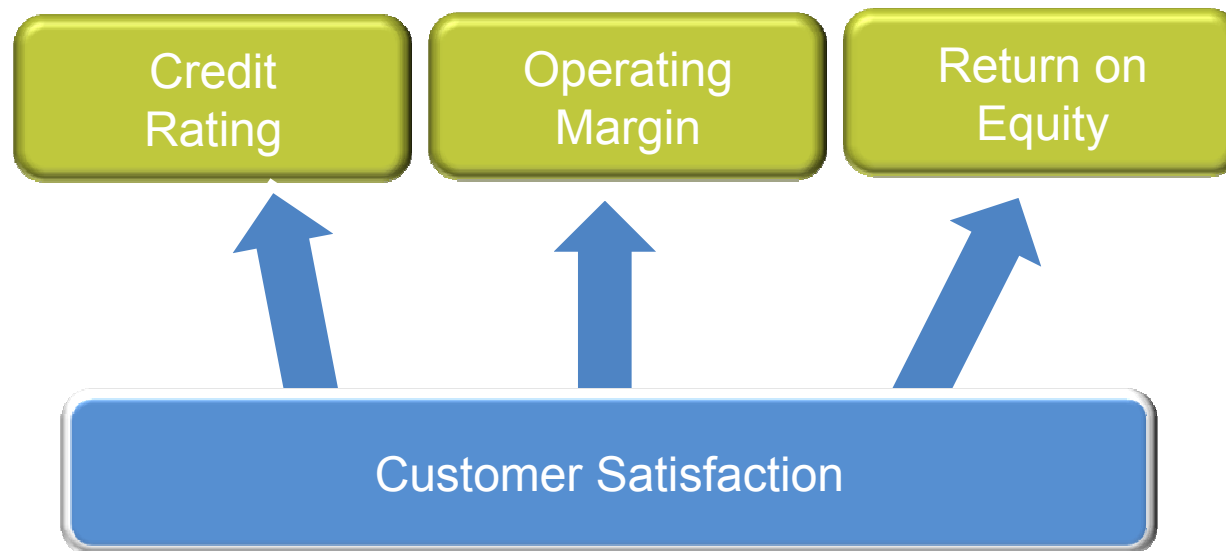


Industry Quartiles based on Overall Customer Satisfaction

On average, all regulated electric utilities received less than they asked for during rate cases in the last ten years. However, utilities with the most satisfied customers received rate increases closer to their requests than utilities in the bottom quartile.



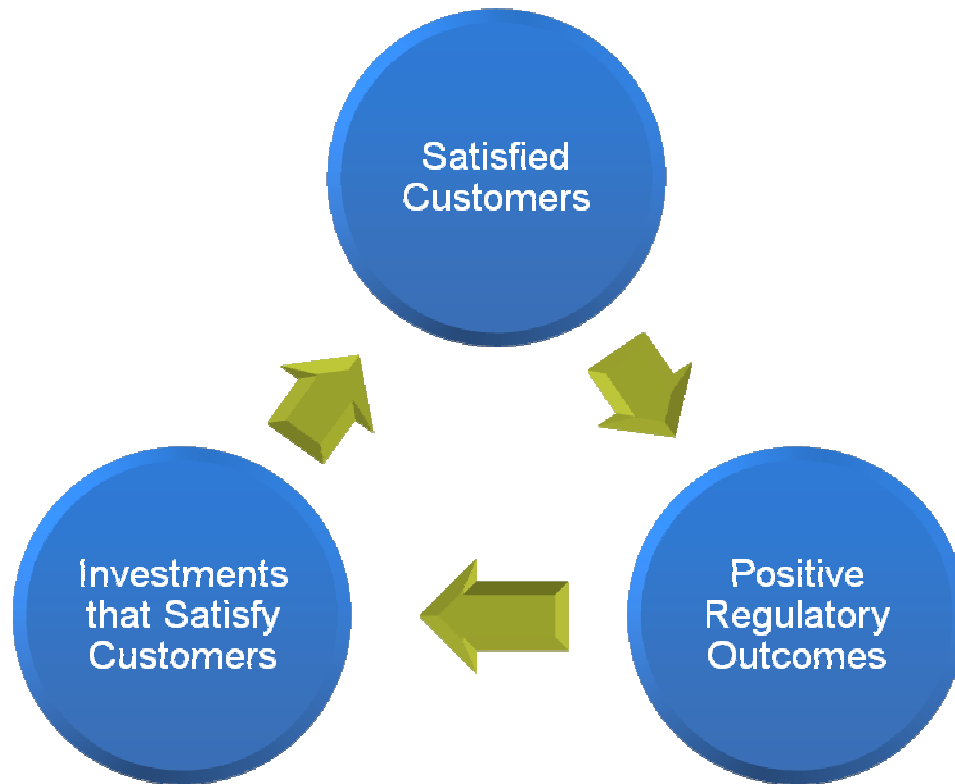
Three Key Measures Impacted by Customer Satisfaction



Improved levels of customer satisfaction contribute to improved credit ratings, operating margins and return on equity for regulated US electric utilities.



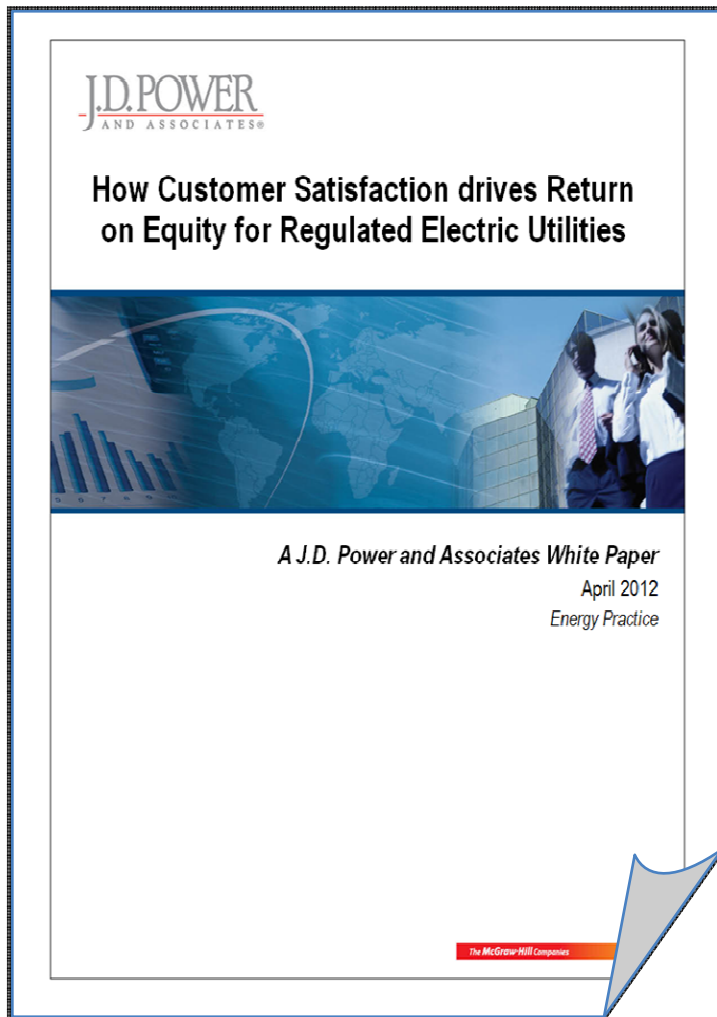
Customer Satisfaction, Regulatory Outcomes and Investments can Reinforce Each Other.



Positive customer satisfaction creates positive regulatory outcomes that in turn support further investments to promote customer satisfaction. Conversely, customer dissatisfaction may constrain a utility's ability to secure the funding needed to resolve the causes of dissatisfaction.



How Customer Satisfaction Drives Return on Equity for Regulated Electric Utilities



J. D. Power and Associates
White Paper to be published
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