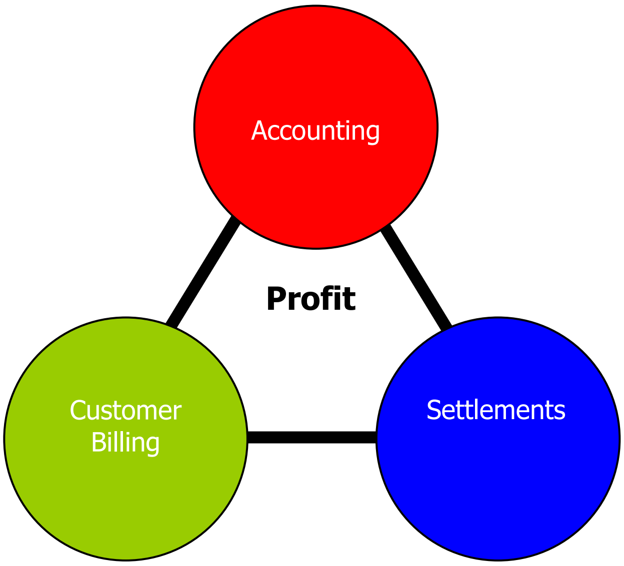
sohnassociates

The Billing Bermuda Triangle

Or the case of the disappearing profit



How might supply businesses be losing profit?

Throughout the latter part of 2003, energywatch was reporting on numerous billing complaints and in its Work Plan 2004 consultation document, it aims to "Identify and expose those suppliers who do not issue their customers with bills which are on time, accurate and easy to understand". Separately, the BSC Auditor qualified his report for 2002/03 due the quality of energy settlement.

These diverse subjects are all points on the "Billing Bermuda Triangle". That important element for a supplier – profit – is found within the three points of customer billing (revenue), settlements (cost of energy) and the accounting policies.

In many retail energy organisations, these issues will have been seen by different departments. Poor understanding of the issues or inadequate communication between departments will lead to uncollected revenue or overstated costs – and disappearing profit.

Looking at energywatch's recent report highlighting the increasing number of customer billing complaints, it is difficult to work out if the growth is a result of customers being more ready to complain or worsening performance by the energy suppliers. The cost of complaints to a supplier is high in terms of servicing costs and brand damage. Under the surface, though, there may be even greater costs arising from the root causes that give rise to the complaints.

Spotting the rogue bills amongst the correct ones is sometimes quite difficult. Most computer systems are designed to trap many problems before the bill is printed but these systems are not perfect and errors do appear on bills, especially when the manual review processes get overloaded.

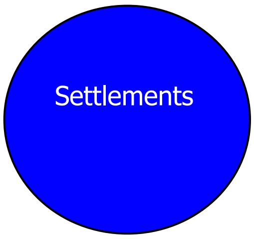
But why do suppliers get bills wrong?

There are four stages to raising a bill:

- i. Establishing the customer account details including name and address;
- ii. Determining the quantity used;
- iii. Applying the contracted unit price;
- iv. Calculating the bill.

Problems can occur at any stage in billing, in either design or operation of the business processes.

The most common difficulties come from not knowing who the customer is, or from getting the meter readings wrong. In the former case, the problems are registration difficulties or customer moves. In the latter case, meter changes or long term estimates are the main culprits. These causes also crop up as problems areas for electricity settlements.



The endemic issue of erroneous high annualised advances (AAs) and estimated annual consumptions (EACs) has caused post final settlement dispute runs. Some GSP Groups have proved to be worse than others but Elexon's monitoring and the Audit are only looking at the worst examples. Even so this amounts to a crystallised error of 75,000,000 kWh in the 2002/03 audit year (BSC Auditor's Report). Below that threshold there will be many more cases of consumption going into settlements that is significantly more than the customer's actual usage.

The Performance Assurance Board is also pushing suppliers and their metering agents to improve the on the percentage of Non Half Hourly metered energy settled at the final reconciliation run (RF), 14 months after the energy flowed. Modelling has shown that the liquidated damages target of 97% is achievable but very few suppliers have been able to maintain this standard for very long. The barrier to success is the vast number of customers who have not had 'firm' (as opposed to estimated) meter readings for considerable periods of time.

This article has focussed on billing and settlement in electricity. There are parallels and similar endemic problems in gas supply. For example, there have even been examples of programming errors in the systems which support billing, such as errors in the in the calculation of VAT and non-compliance with the Gas (Calculation of Thermal Energy) Regulations.

The finance department in a supply business is often the only place where energy sales are matched with energy purchases. Necessarily, the accounting process is complicated by unbilled energy because the quantity used by customers has to be estimated and priced in order that it can be accounted-for as accrued revenue.

In the busy month-end process, finance staff face major challenges in getting to grips with the various operational issues. Without a well-informed, diligent and co-ordinated approach to managing the billing, settlement and accounting issues, problems escalate, resulting in excessive unbilled energy or overstating of purchase costs.

More fundamentally, the finance team may not be producing the information required to challenge those in charge of operational activities. . Finance staff may unilaterally "write-off" apparently excessive purchased units even those some of those units resulted from erroneous high AAs and EACs. With close co-operation with operational colleagues it is possible to avoid the write-offs through actions designed to understand and correct the overstated purchases or overstated unbilled amounts of energy

The high AA/EAC issue is tending to overstate usage at the customer meter, inflating supercustomer DUoS bills and purchases (though the GSP Group correction factor will mop up average error).

Further costs come from balancing errors that arise due to demand forecasting being driven by inaccurate and volatile settlements data.

These are quality issues. Root causes need to be identified and dealt with. For example high write-offs of unreconciled energy units, and high level of customer complaints - managed by very different departments within a large energy business - may both be driven by something fundamental, such as poor meter reading data. .

These issues have an adverse effect on costs, brand and reputation of the business

Major investigations are required to identify the differences between purchases and sales. Some of this unbilled energy will result from failure to bill customers but a significant part will be down to settlements values being overstated.

Conclusion

Only by linking together the elements of customer billing, settlements and accounting will the potential for disappearing profit be minimised. Achieving the link isn't easy and requires:

- Good information systems
- A passion for data quality
- Effective communication between departments
- A thorough, company-wide understanding of the way the industry works