

## Market view

# EDI billing: a deal-breaker?

Only one water company currently offers EDI billing, but with multi-site organisations increasingly stipulating this in their water tenders, other suppliers ignore this at their peril, says Paul Martin.

If, as we are led to believe, the price reductions and cost savings following Water Reform in April 2017 may be as little as 1 per cent, electronic data interchange (EDI) billing is likely to be the priority and the key driver in selecting a water supplier, in contrast to electricity and gas deregulation in the 1990s, when cost savings were much larger, and clearly the main priority.

Multi-site organisations are already including EDI billing as a prerequisite in their water tenders and it is likely that government procurement bodies such as the Crown Commercial Service will too.

This may come as a shock to any water supplier that isn't listening to its business customers, because it could miss the opportunity to tender for a water supply contract that may not be tendered again for two or three years.

Just like in the 1990s with electricity and gas deregulation, competition is a wonderful opportunity for organisations to get what they have been asking for from the water suppliers for many years – in other words, best practice in water billing.

EDI invoicing is commonplace now. Almost all electricity and gas companies can provide this capability (see Table 1), but only one water company can – Yorkshire Water. To its credit, it has been providing this facility since 2003.

Currently, multi-site customers such as retailers, banks and even housing organisations obtain their electricity and gas invoices through EDI. For water, most have to trawl through paper invoices or occasionally receive CSV files; each supplier has a differing format that can change without notice and therefore break the process.

It's important to know that EDI billing isn't a spreadsheet, CSV file, posting a PDF on a website, or even XML files despatched electronically. It's also a myth to think this is something only for large companies.

EDI is the computer-to-computer transfer of invoices between two organisations using an agreed industry standard. HM Revenue and Customs accepts EDI as a "bill", but other forms are merely "billing information"

## Key points

- ▶ Electronic data interchange billing is the computer-to-computer transfer of invoices between two organisations using an agreed industry standard.
- ▶ EDI billing could be a key driver in selecting a water supplier when the market opens in April 2017.
- ▶ BT was a pioneer of best practice in utility billing following deregulation and privatisation of electricity and gas sectors in the 1990s.
- ▶ EDI processing can streamline the invoicing process, reducing administration costs for the utility company, and ensuring compliance with HM Customs and Excise requirements.
- ▶ Nearly all gas and electricity suppliers offer EDI invoicing but only one water company, Yorkshire Water, currently provides this facility.
- ▶ An EDI billing capability can be a useful tool for water companies to attract new customers as well as retaining existing ones.

and hard copies are required to satisfy tax requirements.

## Introduction of best practice

So where did it all start and what lessons can be learnt from electricity and gas competition?

We have BT to thank for leading the way in bringing best practice into utility billing.

Privatisation and deregulation brought with them competition, which resulted in consumer power and the ability to stipulate to a utility what they wanted. The power was shifting from the state-owned monopoly to the customers, which were keen to enjoy the process efficiencies they already enjoyed

partnering with suppliers in other business sectors. With an eye to the future competitive market, in 1993, BT invited the electricity companies to produce electronic bills.

The problem for the telecoms provider was it had more than 36 people processing hundreds of thousands of paper invoices for its 6,500 sites from all the regional utility companies. The information within the invoices was entered into its software system for validation, checking and forwarding for payment. It was also BT's energy management database, from which it was able to carry out benchmarking, exception reporting, waste detection, financial reporting, budgeting and accruals.

In 1995, BT invited all the electricity companies to a meeting. It explained what requirements would be in their forthcoming tender, why it was asking for them, and said it would work with the electricity suppliers to provide it.

The aim was to remove all paper billing and replace it with one consolidated bill for all BT's sites. It should be HM Customs and Excise compliant, to an industry standard format, and contain sufficient detail such that all elements of the bill could be checked through BT's software system.

Three electricity companies were successful. Manual bill entry that took two days to input was now processed in 20 minutes. The data processing function was consolidated in Reading and personnel reduced from 36 people to 12, then halved again after gas companies provided EDI billing in 1999.

The lessons from electricity and gas competition are that water suppliers need to break away from any complacency engendered from a monopoly position, listen to their customers, embrace change and be quick to implement best practice.

## How does EDI billing work?

The utility company tags the individual invoices that belong to a customer. There are then typically two choices to generate EDI bills:

- 1) the utility company builds the capability into the core billing system.

TABLE 1: COMPANIES THAT ALREADY PROVIDE ELECTRONIC DATA INTERCHANGE INVOICING

Utility company	Electricity	Gas	Water
Business Stream			✓
Centrica	✓	✓	
Corona Energy		✓	
Dong Energy	✓	✓	
E.ON	✓	✓	
Engie	✓	✓	
Haven Power	✓		
Mobile Gas		✓	
npower	✓	✓	
Opus Energy	✓		
Severn Trent			✓
Scottish and Southern	✓	✓	
Scottish Power	✓		
Smartest Energy	✓		
Three Sixty			✓
Total	✓	✓	
Yorkshire Water			✓

Correct as of 30 Nov 2016

**KEY NUMBERS**

**1.2m**  
Number of eligible businesses and other non-household customers.

**£200m**  
A competitive water market is expected to deliver more than £200m of benefit to the UK economy.

**£200,000**  
Think tank Policy Exchange says one business customer who receives over 4,000 paper bills a year for its sites could save £80,000-£200,000 a year in administration costs.

2) the utility company uses a third party, virtually ‘off the shelf’ software.

The latter route tends to be favoured by utilities because it’s non-intrusive, inexpensive and quick to deploy.

The customer will usually receive the email message into their monitoring and targeting (M&T) software, which will automatically process it. M&T systems are commonly used by most multi-site organisations to check bills, detect energy waste and to build a database in support of many compliance activities, such as the Carbon Reduction Commitment.

After validating the bills, the software usually sends a file with reduced, but specifically defined information, to finance where it is loaded directly into the accounts payable system for payment – usually by BACS or direct debit. It is customary that the full EDI ‘parent’ bill amount is paid and any incorrect ‘child’ bills that the customer identifies are cancelled and rebilled in the next billing cycle.

Very occasionally a customer may stipulate that they want to pay only bills that are 100 per cent correct. However, this leads to complications from an HMRC point of view. The customer can protect themselves in their terms and conditions by rejecting the whole consolidated bill if ‘x’ per cent are found to be incorrect and ask for a correct consolidated bill to be sent.

Although it’s somewhat counter-intuitive to pay a bill where some individual bills are known to be incorrect, the alternative is fraught with problems.

So what are multi-site organisations likely to be stipulating in their tenders?

The four main elements, which are important to include in tender documentation so

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both parties understand and agree their obligation are:

- EDI message, operating procedures and protocols;
- Visibility of charges;
- Full cancel, re-invoice;
- Change control procedures.

**Slow progress in water billing**

The problem with water billing is that it hasn’t moved forward over the past 20 years. When there is a monopoly supplier, isn’t it supposed to be the regulator who protects the interests of the consumer?

Currently, only Yorkshire Water can provide an EDI billing capability. Seven water companies provide CSV files and the rest paper billing. Of the seven, all are in different formats, only one has any change control procedures, only half have a full cancel and rebill capability and the visibility of charges is mixed.

It seems likely that the new Kelda Water Services Retail (Yorkshire Water) will provide EDI billing; Business Stream and Severn Trent will have a capability in the third quarter of 2016; as would have Thames Water before it withdrew from the market. Water Plus we believe is committed, and others we know are likely to follow suit.

Interestingly, Welsh Water, which will not be part of the competitive market in 2017, may consider implementing EDI billing

because of pressure from the Welsh public sector and particularly the local authorities in South Wales, which have in turn been asked by the Welsh government to increase electronic payments and processing.

The energy manager of one local authority said: “Ninety per cent of our water is supplied by one water company. It takes us ages to go through their CSV files, check it, sort out their columns and formats before we can use it. It will cost us £50k to go out to tender and if we can only save 1 per cent, that’s £30k. If we can get them to provide EDI billing like we get for electricity and gas, we may not need to go out to tender.”

**Listen to what customers want**

An EDI billing capability is not only an acquisition tool to attract new customers in 2017 – it’s a retention one too, to keep existing customers in a company’s own area.

In addition, if water suppliers that have “opted out” of the non-household market to focus on the forthcoming household market do not provide EDI billing for housing associations, local authority housing, university halls of residence, and so on, who want it, and engage with them now to build relationships, then these customers may look elsewhere. They could be targets for predatory competitors who can provide the capability now.

The way forward seems pretty simple: listen to and hear what customers want. An EDI capability and compliant “best practice” billing systems could be the number one attraction for many multi-site organisations. The decisions made now by water utilities on billing could determine their success and destiny after April 2017.

**Paul Martin, managing director, TEAM**