

UTILITY BILLING

The Utility Billing Error Guide

Utility providers bill based on complex tariff structures, estimated reads, and automated systems — and errors happen more often than most organizations realize. This guide covers the most common billing error types, how they compound over time, and what a proper audit process looks like.

3–8%

Of total utility spend is typically recoverable through auditing

18 mo

Average time errors go undetected in unaudited portfolios

40+

Distinct billing error types identified across commercial accounts

Why billing errors are so common

Utility billing is not a simple calculation. A single electricity invoice can involve dozens of tariff components — energy charges, demand charges, power factor adjustments, fuel riders, transmission fees, and more. When utilities migrate billing systems, reclassify accounts, or apply new rate schedules, errors frequently slip through. For a multi-site organization receiving hundreds of invoices per month, the chance of human-level review catching every error is essentially zero.

The other compounding factor: utilities don't proactively surface their own mistakes. The responsibility for identifying and disputing overcharges falls entirely on the customer.

The most common billing error types

Demand ratchet overcharges

Highest recovery value

A demand ratchet clause means your utility bills you based on your highest recorded peak — not your actual usage — for up to 11 months after that peak occurs. If the peak resulted from a one-time event (equipment fault, HVAC anomaly, construction load), you may be legally overpaying for nearly a year. Recovery requires proving the spike was non-representative and disputing the ratchet application.

Rate misclassification

High frequency

Utilities maintain dozens of tariff schedules for different customer types. Accounts are often placed on the wrong rate at inception — or never moved when usage patterns change. A manufacturing facility that qualifies for a large industrial rate may still be on a general service tariff years later, paying a materially higher unit cost. Utilities don't proactively move customers to lower-cost structures.

Estimated read errors

Common across portfolios

When a meter is inaccessible — due to locked access, AMI equipment issues, or missed reads — utilities bill on estimated consumption based on prior periods. If the estimate runs high and the true-up is missed or applied incorrectly, overcharges can accumulate across multiple billing cycles without anyone noticing.

Duplicate invoices

Post-migration risk

Utility billing system migrations are a common trigger for duplicate invoices — the same account billed twice, or a closed account continuing to generate charges. Multi-site portfolios with high account volumes are especially vulnerable, as duplicates can pass through AP processes undetected when staff assume the invoices are for different service periods or locations.

Power factor penalties

Manufacturing-specific

Industrial accounts running inductive loads (motors, compressors, welding equipment) can incur automatic power factor penalties when reactive power consumption falls below threshold. Many organizations don't know they're being penalized — and in many cases, simple capacitor bank installation eliminates the charge entirely. The penalty often appears as a small line item that goes unquestioned.

Billing period and proration errors

Systematic over time

Some utility providers calculate monthly charges based on billing days rather than calendar months. If billing periods are inconsistently applied — running 32 days one month, 27 the next — and daily rates aren't correctly prorated, charges may systematically run high. These errors are small individually but material across a large portfolio over time.

Taxes and fees applied incorrectly

Frequently overlooked

Sales tax exemptions, franchise fee caps, and regulatory fee structures vary by state, municipality, and account type. Organizations with tax-exempt status — nonprofits, manufacturers with eligible processes, certain government entities — are routinely billed taxes they don't owe. Recovery requires documentation but refunds are almost always granted once the exemption is demonstrated.

The compounding problem

A billing error that goes undetected for 18 months doesn't just cost 18 months of overcharges — it establishes the error as the "normal" baseline for future periods. Demand ratchets are the most extreme example: one spike event, if not disputed, can set an inflated billing demand for 11 consecutive months. Catching errors early limits both historical exposure and ongoing cost.

| What a proper audit process includes

A surface-level review of invoice totals won't catch most billing errors. A proper audit requires:

Tariff matching: Every account validated against the actual tariff schedule on file with the utility — not just against prior invoices.

Demand analysis: Peak demand history reviewed for anomalies, ratchet clause identification, and assessment of whether any peaks are disputable.

Rate benchmarking: Current account rates compared against available alternatives to identify misclassification and tariff switch opportunities.

Historical recovery: Most utilities allow retroactive recovery of billing errors for 2–3 years depending on state jurisdiction. Audits should always include a historical lookback, not just current-period review.

Dispute documentation: Any identified error requires a formal dispute with supporting documentation. Your audit provider should prepare and file that correspondence on your behalf.