

Four market forces that are changing energy settlement

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Over the past year the Energy Settlement Network® has experienced significant growth, with [over 500 companies](#) now settling energy transactions on the network. This growth signals a significant shift in the industry's approach to settling energy transactions.

New energy market dynamics

From my perspective, there are four primary forces in the energy market that are driving changes in the way that settlement departments operate.

1. A changing energy economy.

The demand for global energy continues to grow. [BP's Energy Outlook 2018](#) anticipates that the demand, driven by countries with developing economies, will be a third higher by 2040. While the timing is difficult to pinpoint, the Outlook also projects that renewables will be the fastest-growing fuel source – increasing five-fold to provide around 14% of primary energy.

The energy economy is also moving toward a diverse fuels mix, with oil, gas, coal and non-fossil fuels each projected to contribute around 25% by mid-century. Improvements in energy efficiency are prompting companies, including new players, to create a rush of new products to improve their bottom line and attract more customers. The products are offered globally, expanding across more and more geographies. This transition to greater diversity will directly increase the quantity of information flooding into settlement departments.

2. Increasing complexity and inconsistency.

Individual invoices can typically total tens of millions of dollars. Given the nature of the energy supply chain, there are often discrepancies that must be resolved before invoice payments can proceed. Compounding the challenge, invoices often arrive in different formats, with data presented in

varying ways, adding frustrating complexity to a manual process. Usually, analysts must sort through spreadsheets and piles of paperwork, including PDFs and emails, to identify exceptions. Only then, do analysts get to the point of working with counterparties to clear up any discrepancies.

Settlement analysts must also extract data from multiple source systems or files. With limited communication between trading systems and accounting systems, the analysts' information gathering is a manual effort, introducing the possibility of error – further complicating a complex process.

3. Proliferation of data.

The growth of renewable energy sources, which can see price fluctuations as frequently as every five minutes, is a contributor to the increase of data. But it's not the only factor. Consider that wholesale energy is bought, sold, and delivered around the globe, and it's driven by thousands of market participants. Add in the new products and new players, who are serving a growing customer base, and that adds up to an ever-increasing volume of data. Data that ultimately ends up as a stack of invoices on analysts' desks.

4. The drive to improve operational efficiency.

The changing energy economy that is driving a proliferation of new products, players, and consequently data, is also increasing the imperative on operational performance. Company executives are looking for innovative ways to become more competitive, to reduce operational costs, and increase efficiency.

Value from a new approach to settlement operations

With an understanding of these market dynamics, Aquilon collaborated with industry leaders to develop a platform that helps energy companies settle transactions more efficiently. From the beginning, the shared vision was that these industry leaders would, in turn, be counterparties who were also easy to tie-out with. So, instead of being a stand-alone solution, ESN was conceived as a new industry standard – a collaborative cloud platform that would automate wholesale energy settlement for the entire industry.

The growth of the network indicates the industry is recognizing the significant value that ESN offers to energy companies, introducing meaningful operational efficiencies into the settlement process. The efficiencies are manifested in three key areas:

- **Early identification of discrepancies**, resulting in an exception-driven process that prioritizes the resolution of breaks.
- **Real-time collaboration** with access to a secure centralized hub for all counterparty communication, documentation and invoices.
- **Built-in data security** that prevents fraud with traceability and transparency of all transactions, reducing the risk of lost or stolen data.

The vision was to also dramatically improve the work lives of individual analysts. Right now,

About the author

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About Aquilon Energy Services, Inc.

Aquilon Energy Services, Inc. develops innovative software and service solutions for the energy industry. The Aquilon team combines deep industry insights with advanced technology to bring reliable, collaborative solutions to the energy market. The company was named the 2017 Innovation of the Year by Energy Risk magazine. Contact Aquilon to learn more or request a demonstration:

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settlement analysts spend most of their time reconciling exceptions with their counterparty colleagues – important work but so time consuming that analysts have little time left for actual analysis. ESN gives time back to settlement analysts so they can perform other parts of their job, things like: cash-flow reporting, counterparty risk management, and data analysis.

A real-world example

A story from one of our customers shows how quickly companies can realize significant value using ESN. During their first week on the network, the company received an exception notice from one of their counterparties. The counterparty used ESN to document cuts to a deal. This allowed the company to do some quick internal research. They updated their file, uploaded it to ESN, and the break was resolved. A process that had taken days in the past was resolved in a few hours.

Instead of a needle-in-the-haystack search for the discrepancy, the break was identified on the ESN dashboard. With a standardized workflow, the nature of the analysts' work changed to an 'exception' model. Instead of looking at 'everything' to find a mistake, both analysts could see breaks displayed on the dashboard and focus their search on those priorities. The process went from complex to simple. From stressful and time-consuming to easy and effective.