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Energy Services, Inc.

7 Common Questions Regarding eSM

An interview with
Randy Wilson
Chief Executive Officer
Aquilon Energy Services



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The Energy Trading and Operations Technology Summit, Europe's primary gathering for back office and IT professionals in energy trading, recently published an interview featuring Aquilon CEO Randy Wilson. The interview focused on the challenges and progress around implementing eSM (electronic settlement matching).

As you may have surely noticed by the plethora of articles about it; eSM (electronic settlement matching) is high in demand. Although we at Commodities People aren't market participants ourselves, even our monthly financial reconciliation processes are uniformly regarded as the worst jobs on the list. So it's no surprise that the European energy community is very motivated to come together and make things like eSM work.

Speaking of making it work, Randy Wilson is CEO at Aquilon Energy Services. The company operates a full settlement network in North America, and so he knows a thing or two about the matter. Ahead of Randy's participation at ETOT, we got the chance to ask him a few very interesting questions on all things eSM.

From your perspective, how is the standardisation journey going in terms of the European energy trading sector (to enable eSM at its fullest capability)?

eSM is a major change for the European energy trading community. For years, invoicing and settlements have been processed using a manual process, or in a semi-automated way using proprietary interfaces between ETRM and ERP systems. While the value creation element of eSM is clear to almost all companies, it is always hard to get a diverse group to agree on standards – especially given legacy investments in infrastructure and contract negotiations.

From my perspective, the progress on standardisation and eSM is going to pivot around three key elements. First, the readiness of energy trading companies' systems to adopt a digital process for invoicing. Second, the ability of eSM providers to offer efficient and effective eSM services whilst ensuring interoperability between the each other. And third, the creation of customer pools at a provider level to ensure immediate value creation for the eSM adopters.

Aquilon has been successfully providing a similar service in North America for several years. Based on that experience I think the path forward must allow companies to:

- Interact with the official EFET eSM process in a variety of ways, for example click and settle, consume and settle to full integration.
- Continue to collaborate with counterparties regardless of their ability to implement new technology.
- Realize the benefit of eSM adoption without the requirement for IT investment and process redesign.

What kind of questions often arise from those looking to implement it?

Aquilon has been an active participant in the discussion of electronic settlement for some time. In our discussions with both EFET and members of the European energy trading community, the topics have ranged from discussing industry adoption at a macro level to individual companies asking about granular questions regarding their own approach for adoption.

Typical questions include:

1. What is the scope of eSM? Will eSM also handle settlements matching for crude oil, natural gas, refined products, renewables, coal, or emissions trading?
2. What companies will most likely be the first adopters of eSM?
3. At what point does it make most sense for our company to use eSM?
4. How could we accelerate the speed of adoption?
5. What is the approach to help smaller players get on board?
6. Given the importance of this process, how can companies ensure they maintain a sufficient level of control?
7. Will major changes be required to the underlying EFET Master Agreements that companies already have in place with each other?

We have had many similar discussions with members of the North American energy trading community, and I think the European community can benefit from this experience. For example, the current service in North America has deeper capabilities than what is required under eSM and therefore can help accelerate capabilities in a European platform as the eSM standard expands. We have also successfully grown participation to around 1000 companies, many of which are smaller players. So, we have a proven approach for helping companies of all sizes adopt an electronic settlement standard.

The title of the panel you'll speak on at ETOT talks of the "next major industry standardisation" - when is that?

The industry is on the verge of the next major standardisation and the time is now. The first industry standardisation was more than 15 years ago, electronic Confirmations Matching (eCM). The next was 7 years later, electronic Regulatory Reporting (eRR). The European energy trading community is now entering the next phase of industry standardisation: electronic Settlement Matching (eSM).

The invoicing process is probably one of the most important processes in the energy trading value chain that has not yet been standardised and automated. Invoicing settlement ticks all the boxes as an ideal candidate for standardisation: high volumes, high operational risk, high data quality requirements, and a high requirement for scalability. From a credit risk and cashflow perspective, this standardisation can foster more optimal management of credit limits and cash exposure.

The pressure for standardisation and eSM directly arise from the growing friction between industry trends that are driving a higher number of transactions and a larger amount of data, and the mandate for settlement operations to support business growth without increasing back office costs.

Do you see regulation in any way as holding back progress?

Not really. The EU regulation for e-Invoicing, applicable to public sector procurement activities, has been in place since 2014. The deadline for EU countries to transpose e-Invoicing Directive 2014/55/EU into their national laws and comply with the European standard on e-invoicing was 18 April 2018. Public authorities across the EU should now be able to process e-Invoices respecting the European Standard. Whereas several EU countries are in a different implementation stage, it is to be expected that the EU will broaden the application of e-Invoicing soon to all corporate settlements.

I don't think a lack of progress has ever been a regulatory issue – the industry resists change as standardisation can eliminate the asymmetry of information flows which in turn impacts trading strategy/arb opportunities. I actually consider regulation in this area as more as an enabler.

This interview was first published on the Energy Trading Operations & Technology Summit blog.

About Randy Wilson

Randy has over 25 years' experience working with energy companies to improve processes and enhance capabilities through the introduction of new technologies. Prior to Aquilon, he was a Partner and leader in a global consulting firm's digital risk practice where he served some of the largest and most complex commodity traders.

Throughout his career, Randy has been responsible for serving leading energy, industrial and financial services companies through the execution of focused initiatives to identify and resolve complex issues in the areas of working capital/liquidity management, trading/hedging strategy, risk management, treasury, IT, accounting, valuation and credit. He has global commodity market experience having worked and lived in Houston, London, Geneva and Singapore.

Randy was also his firm's energy and resources blockchain leader. In this capacity, he acted as the strategy advisor to one of the largest non-financial services blockchain consortia providing guidance on defining new markets, developing the entity's revenue model, engaging with broader market participants, performance measurement, and on-boarding and integration strategy.

About Aquilon Energy Services

Aquilon Energy Services, Inc. is a software company with offices in Houston and Chicago. Its innovative, award-winning Aquilon Energy Settlement Network is the first and largest network for settling wholesale energy transactions. More than 35 million transactions have been processed on ESN since the platform launched in 2015. More than 1,000 companies settle energy transactions on the network, including many energy majors and multinational financial institutions. ESN is the industry standard for wholesale energy settlements processing.