

Digital

is the future of
Utilities' energy
settlement.

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The future of energy settlement is here and it's digital.

Over the last century, utilities have successfully built the infrastructures that deliver electric power. But market forces are up-ending the traditional utility business model and there are big implications for settlement operations. It's time for settlement teams to leverage the power of digital settlement.

3 drivers of change in the utilities sector

In my conversations with executives in the power industry, I repeatedly hear concern over three primary market trends that are driving changes at their companies.

The rise of renewables

Renewables are projected to be the fastest growing fuel source, supplying 25% of demand by 2030.¹ Utilities are already working to integrate distributed energy resources (DERs) and smart micro-grids. It's a shift from the model of owning assets and driving return on those assets to one that focuses on creating more products and increasing service volumes to create margins.

More data to manage

Clean energy demand and an increasingly diverse fuel mix will incentivize companies across all sectors to develop more products and entice new competitors to enter the market. At the same time regulatory policies will require increased reporting. This translates into more data – trading, scheduling and settlement information that must be reconciled, invoices that must be processed, compliance reports that must be generated, and insight that must be leveraged to manage cash flow.

The risk of cyberattacks

A recent article in [Forbes](#) acknowledged that an attack on energy infrastructure has the

potential to cross from the cyber realm to the physical world. As alarming as that is, business email compromise (BEC) is currently the most common form of corporate cyberattack.

The cost has grown from \$1 billion in total losses worldwide in 2016 to a projected growth of over \$9 billion in 2018.² Yet many utilities are exposing their companies to unnecessary [security risks by emailing invoices](#). Hackers can easily exploit email correspondence, sending electronic invoices from what appears to be a trusted counterparty. The banking information and payment instructions, even on a PDF invoice, can be effortlessly changed, and the payment diverted.

Considering the monumental changes taking place in the utilities sector, settlement teams using legacy processes will be hard-pressed to keep pace. The volume of information, more complex regulatory reporting, an expanding universe of counterparties to manage, and the imperative to keep data secure could overwhelm settlement teams.

An increasing number of utility executives recognize that digitalization can not only help settlement teams respond to the changing market, but position them to support rapid growth. The digital settlement department settles more transactions, increases security, reduces risk, simplifies compliance reporting, and improves cash-flow management.

Defining the digital settlement department

[The Digital Utility](#)³ from McKinsey & Company confirms that digital optimization can boost profitability at utilities by 20 to 30 percent.

Results like these are possible when the settlement department is characterized by digitalization. By digitalization I mean the conversion of analog (paper-based processes) into business processes that leverage technology innovation. Here's a list of the key characteristics of the digital settlement department.

Standardized

Consistent workflows are followed on a single, cloud-based platform. Complex settlement information is organized and presented in a consistent format.

Transparent

Settlement progress and status is visible to all authorized users. A central repository of settlement data provides real-time visibility into invoices, payments, messages, disputes, adjustments, fees and supporting documents.

Collaborative

Internal and external stakeholders work together in real-time to reconcile settlement discrepancies and breaks. All counterparties can communicate, match with counterparties daily and share supporting documents until tie-outs are completed and payment is approved. Counterparty contact information is accurate and current.

Automated

Exception-driven process provides early warning on transactions where action is needed and automatically advances

transactions without discrepancies. Analysts receive real-time notification of counterparty activity.

Secure

Access is restricted to authorized users, an audit trail of all settlement activity is automatically created, and all documents, including invoices, are delivered and stored on an encrypted platform.

Analytical

Generate insight on cash flow exceptions across multiple commodities, accurately predict future cash flow breaks, track payment breaks and disruptions, and simplify audit and compliance reporting.

Future proofing settlement operations

If your settlement department is still working with manual, paper-based processes and exchanging emails with counterparties to settle invoices, you have a significant value creation opportunity. Aquilon's Energy Settlement Network is helping energy companies digitalize their settlement operations.

A story from one of our customers shows how quickly companies can realize significant value using ESN. A large energy provider wanted to simplify a manual workflow, reduce the stress of using manual processes to resolve discrepancies, and improve the quality of their analysts' work life. The company quickly recognized the value of having their counterparties, communication and documentation organized on a secure, collaborative and cloud-based network. They chose ESN to streamline their energy settlement operations.

During their first week on the network, the company received an exception notice from one of their counterparties. The company used ESN to document the exception, collaborate with their counterparty, and resolve the break.

A settlement process that would have typically taken days of elapsed time using a manual process was resolved in a few hours. The settlement team now has more time available to focus on higher value tasks, adding more value to the company.

Digital tools, like ESN, are helping utilities optimize their settlement processes, simplify compliance reporting, and secure the tsunami of data that's coming their way. Now's the time to embrace digital and future-proof your settlement operations.

Endnotes:

¹ [BP Energy Outlook](#) 2018

² [Trend Micro](#) 2018

³ [The Digital Utility](#) 2016

About the author

[Jeffrey Wagner](#) is the CEO and Founder of [Aquilon Energy Services](#).

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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