

Energy Settlement: Going Digital

An interview with
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Digital Energy Settlement: From North America to Europe?

In the energy trading industry today, finding ways to improve efficiency and productivity around post-trade processes, including settlements, has claimed back its place as top priority for companies, eager to reduce costs.



We were honoured to have a chat with Jeffrey Wagner, CEO at Aquilon Energy Services, who told us more about his views on going digital with transaction settlements and on his general insights on the energy markets.

Aquilon's Energy Settlement Network has seen major uptake in North America – can you briefly explain the concept and why it has been so positively received?

The Energy Settlement Network is much more than a concept or vision, it is an enterprise grade platform for post-trade processing that has been in production since 2015. More than 1,000 companies – ranging from electric utilities and multinational oil and gas companies to Fortune 500 financial institutions – now settle energy transactions on ESN. In the past year alone, ESN membership more than doubled and network transactions more than tripled. Since the network launched in 2015 members have processed more than 25 million transactions.

The driver behind ESN's rapid growth is the strategic value it delivers to its members by digitalizing and automating the energy settlement process. ESN members have seen 30% to 40% productivity improvement in net energy settlement operations. This performance comes from creating a secure network powered by digital technology. The digital settlement department is defined by 6 key characteristics:

1. Secure. Access is restricted to authorized users. An audit trail of all settlement activity is automatically created. All transactions, documents, communications and invoices are delivered and stored on an encrypted platform.

2. Collaborative. 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 payment is approved.

3. 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.

4. Real-time. 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.

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

6. 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.

Do the conditions exist in the European energy markets for similar efficiency gains to be made in digital energy settlement?

Absolutely. The benefits of digital settlement directly address challenges arising from both energy market trends

and the current state of settlement operations. These challenges are not unique to North America.

In my conversations with executives in the energy industry, I repeatedly hear concern over three primary market trends.

- A changing energy economy. The global energy market is 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 new products to improve their bottom line and attract more customers.
- More data to manage. The transition to greater diversity is increasing the quantity of information flooding into settlement departments - 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. Business email compromise (BEC) is currently the most common form of corporate cyberattack, and losses from BEC are projected to increase. BEC hackers easily can intercept email correspondence, alter banking information and payment instructions in order to defraud the real counterparty.

The challenges raised by the market trends are compounded by the current state of net energy settlement operations, which are characterized by manual and paper-based process. Settlement teams that continue to operate using legacy processes will be hard-pressed to keep pace.

What are you looking to get out of your involvement with ETOT 2018?

I am looking forward to connecting with the delegates at the summit and discussing the business challenges they

face with post-trade processing. Many of the delegate's companies have North America operations, and there is an immediate opportunity to leverage digital settlement to improve those operations.

I am also looking forward to exploring how the benefits of ESN can be extended rapidly to the net energy settlement process in Europe.

This article was first published on the [Energy Trading Operations & Technology Summit blog](#).

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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