

The Energy Industry Collaboration Revolution

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THE INTERNET BROUGHT the promise of reducing costs through B2B commerce. However, the absence of protocols to enable secure and open communication has meant that the realisation of this promise has been a long time coming. Now the emergence of the Electronic Business eXtensible Markup Language (ebXML) standard has led to other industries - from automotive to retail to healthcare to finance - seeing the fulfilment of this and the consequent reduction in their operational risks and costs.

However, the wholesale energy markets have been slower to adopt this new technology, which has meant energy companies costs and risks are higher than they need to be. At last, new initiatives are underway that promise to deliver real cost savings to energy companies that choose to adopt them.

Currently in the wholesale energy business, the typical inter-company ('collaborative') processes from trade entry through to settlement is manual, labour intensive and involves insecure and error prone communications mechanisms such as faxing.

Other industries have eliminated these costs and risks from their business collaboration by using ebXML standards. ebXML standards were devised by the Organisation for the Advancement of Structured Information Standards (OASIS) and now form the industry standard ISO 15000.

Prior to the Internet, companies used EDI to exchange data: however, this proved expensive and difficult to implement. The main issues that confronted companies trading with each other across the Internet were essentially security and standards: security as the Internet is a public network; standards for integration between disparate trading entities. ebXML provides the security and standards so that organisations can collaborate across the Internet to create economies of scale.

Essentially, ebXML provides organisations with a common mechanism to transact business messages undertake trading relationships and exchange data in common terms as well as define and register business processes. It makes it simpler for companies to interact with others both inside and outside their industry, enter new markets with less effort than before and simultaneously reduce costs and streamline processes associated with traditional document exchange. In other words ebXML is a communication medium that supports industry wide straight through processing (STP).

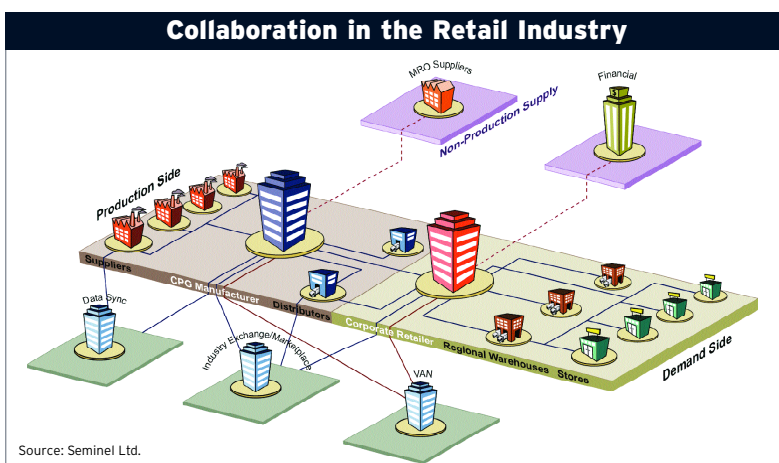
According to Derek Schwartz of Cyclone Energy, a company involved in the development and deployment of ebXML, "Companies such as General Motors, Volkswagen, T-Mobile, and BT are now realising the benefits of collaboration."

To date, these standards have not been widely adopted by the wholesale Energy business. However, with the risks and complexities involved in trading in a heterogeneous marketplace, as well as the risk of incurring some large scale losses due to errors caused by lack of collaboration (and these types of risks increase with market liquidity), initiatives are starting to emerge.

Amongst these is the European Federation of Energy Trader's (EFET's) Energy Confirmations and Matching programme (ECM). EFET has developed open standards for power and gas energy market confirmation processes. This is the first of a series of initiatives on which EFET intends to embark to help make the wholesale Energy business more efficient. They have also embraced the ebXML standard as the most cost effective and secure means for energy companies to do business.

According to Malte Moeller of RWE, who leads the EFET ECM initiative, "ECM will help to realise back offices' main objective to reduce operational costs and risks, because it will reduce manual work. Furthermore, ECM will change the role and work of back offices towards exception management and problem solving".

The peer-to-peer nature of ebXML also means that sensitive trading data does not have to be stored centrally, outside the collaborating organisations' firewalls.



Once EFET is successful with confirmations, there is still a long way to go. Processes including scheduling, clearing and settlement would all benefit from tighter collaboration. Michael Hepburn, CEO at energy trading and risk management software specialists Innovattix has observed, "Energy companies are finally now asking us for ebXML capabilities in our software. The benefits are clear and the implementation costs and timescales minimal."

There are also legal hurdles to be overcome and changes to EU law required before, say, settlement can be undertaken using ebXML. However, this does not prevent the electronic matching of such requirements even if the physical invoice still has to be produced. Additionally, the adoption of ebXML will not be immediate and universal. The first companies adopting ebXML will still have to maintain their legacy processes and systems (such as faxing) in parallel for communicating with those companies that are slower to adopt.

Nevertheless the energy industry collaboration revolution is underway. The only question remaining is: how long can organisations participating in the European wholesale Energy markets wait to join? ■