

A WNS PERSPECTIVE

# CAN ENERGY & UTILITIES SMARTLY NAVIGATE THE GRIDLOCK OF REGULATORY COMPLIANCE?



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Regulatory uncertainty is an ongoing challenge for the Energy and Utilities (E&U) industry. For most companies, industry regulations are the most significant compliance problem — far ahead of operational risks, customer

complaints and customer-facing processes. In the face of overwhelming levels of regulatory compliance, companies have to anticipate regulatory mandates and implement compliance cost-effectively. Designing

compliance programs without restricting innovative improvements is a delicate balancing act.

Here are some key areas where regulatory demands have a significant impact.



## Price Reporting

Both for regulators and providers, price reporting holds a significant interest. Transaction price information gives regulators visibility and insights into the market and how the prices are derived. For providers, it tells them how their business impacts the market at various locations.

Price reporting programs for regulators naturally give rise to the concern on how they will use the data, despite safe harbor rules. The question to ponder is: can collaboration between price reporting agencies and electronic exchanges that hold data on transactions help in designing

index creation models? Perhaps! The right systems, processes, controls and training could provide greater confidence to organizations' commercial teams regarding integrity in price reporting.





## Operational Safety

Asset infrastructure and management protocols of E&U companies are outdated. Growth in consumer demands and heightened scrutiny from regulators further add to the pressure. Subject matter expertise and increased use of technology (such as sensors, robots, smart pigs, automated leak detection and shut-off tools) will go a long way in mitigating operational risks.

Intelligent use of information systems can consolidate data

across multiple systems and create real-time visualizations.

Predictive analytics and machine-learning technologies will proactively prevent failures and better prioritize asset risk and replacement.

With regulators increasingly focusing on infrastructure reliability, safety and environmental accountability, companies should move away from traditional usage-based thinking to strategies that include:

- Detailed assessments to align with the latest standards
- Identification, collection and segmentation of relevant operational data
- Predictive analytics to improve quality of operations, maintenance and investments
- Strategic alignment of asset investment plans with business strategy



## Cybersecurity

U.S. utilities alone, according to research firm Zpryme, will spend USD 7.25 Billion on grid cybersecurity by 2020.<sup>1</sup> As mandatory regulations in cybersecurity operations and activities evolve, E&U companies will have to step up their voluntary efforts. They have to brace themselves for dynamic and additional regulations in the areas of cloud services, privacy and data protection, procurement, and third-party supply chains.

Strong governance structures, accountability frameworks and processes should be part of an integral and robust cybersecurity compliance program. E&U

providers should establish meticulous regulatory monitoring and change models, and be prepared for agile responsiveness.

Engaging all stakeholders is critical as regulations can cut across various business functions in the company.

### A Helping Hand in Cybersecurity

The following organizations support E&U companies with guidelines and research documentation to conduct cybersecurity maturity assessments. They also recommend security requirements:

- National Institute of Standards and Technology (U.S.)
- European Union Agency for Network and Information Security
- International Council on Large Electric Systems
- Department of Energy (U.S.)
- Department of Homeland Security (U.S.)
- Electric Power Research Institute

1. <https://www.greentechmedia.com/articles/read/report-u-s-smart-grid-cybersecurity-spending-to-reach-7-25b-by-2020#gs.E=nrwYI>



## Market Surveillance

New requirements such as MiFID II impose vigorous trade surveillance in the energy commodity markets. Exchanges and power system

operators are now active in overseeing trading by deploying automation and new technologies. The Intercontinental Exchange, for

example, uses NASDAQ's SMARTS trade surveillance system to monitor trading on its platform.



## Performance-based Regulations (PBR)

Regulatory frameworks are moving away from a 'cost-of-service' model (that focuses on reliability at affordable costs) to a 'value-of-service' model. This can enable companies, customers and society to meet individual goals. Such a regulatory approach incentivizes companies to modernize their operations and align customer

needs with company goals and regulatory policies. This creates opportunities to transition to higher efficiencies that are better distributed and environmentally responsible.

PBR also encourages E&U companies to innovate and save. As technology development

calls for substantial investments, such an incentive can be encouraging for companies. In fact, Public Service Commissions in some states in the U.S. have supported the development of customer energy-efficient programs.

### Reforming the Energy Vision in New York

New York proposes two mechanisms to implement a PBR model.

The first is the Earnings Impact Mechanisms that allows a company to earn higher returns if it fulfils key performance metrics of peak load reductions, energy efficiency, Distributed Energy Resources (DER) interconnection, customer engagement and information access, and affordability.

The second is a Market-based Earnings program where the utility provider serves as a Distribution Systems Platform. They charge for services offered on this grid platform, thus serving as a customer storefront.



## Turning Regulatory Challenges to Business Benefits

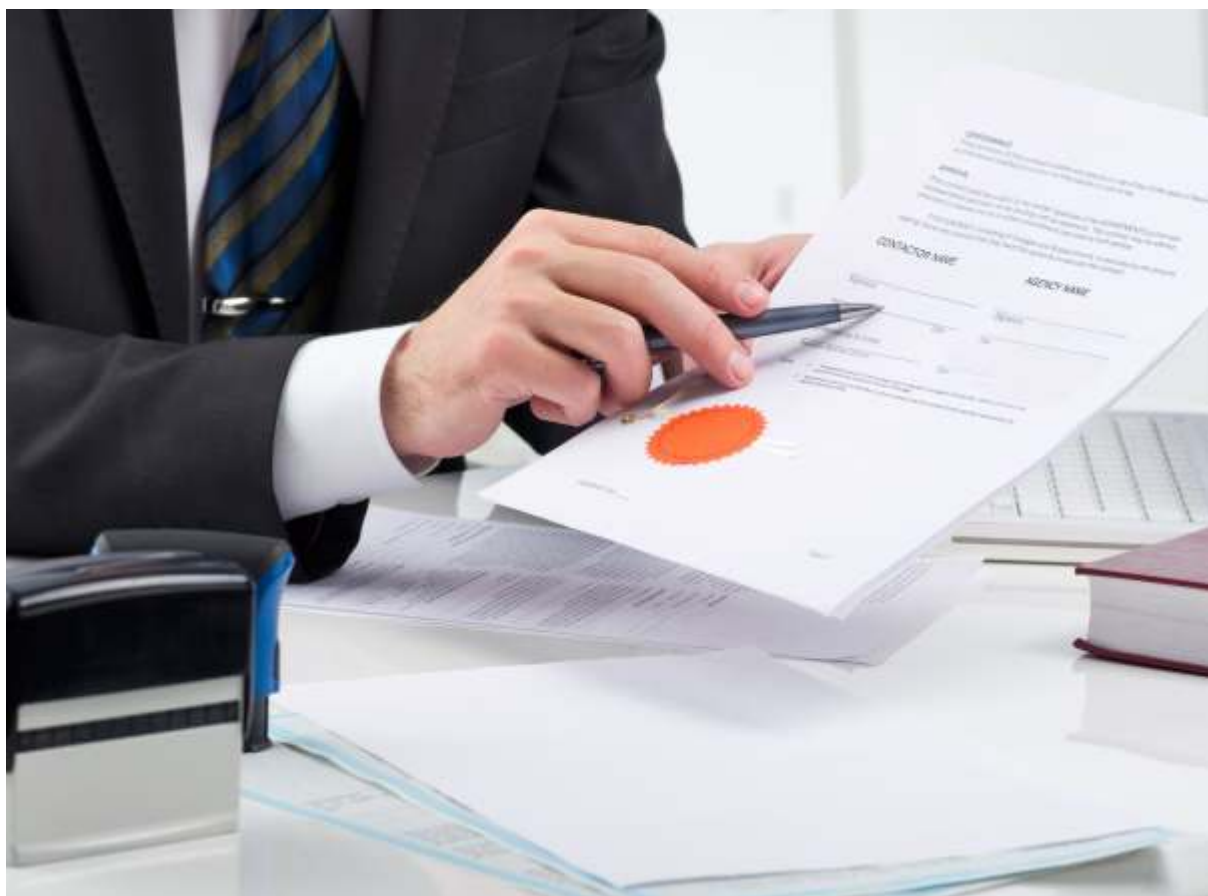
E&U companies need a collaborative relationship with regulators that entails a clearer understanding of the objectives, risk-driven actions, levels of monitoring and reporting among all stakeholders. This will enable them to retain the best interests of the customers without being burdened or strapped when sudden and unforeseen movements and changes rock the market.

Having the right people and processes is critical to building

an organization-wide compliance culture.

Companies should design compatible and compliant processes, systems and organizational structures that are scalable to evolving regulatory requirements. Technology can be a tremendous supporting partner for regulatory compliance. New-gen solutions address specific areas of concern — security, record management, risk management and business performance.

Companies should decisively take the next steps and pay attention to emerging developments. If looked as a change agent for both compliance and business value, regulatory mandates can enable effective risk mitigation and anticipation of future requirements at reduced costs. By being agile and flexible in making proactive changes aligned to business objectives, E&U companies can be confident about achieving positive outcomes.





## About WNS

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