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Are Energy Companies Capturing All of Their Revenues?

World Energy® *interviews* *Protiviti Managing Director James Gibson and Associate Director Rafael Hernandez*

People often talk about cost management or cost containment as areas of focus to increase operating income. However, revenue leakage can also be a significant problem. This situation is exacerbated when energy prices rise as dramatically as they have over the past year. World Energy *interviewed experts at Protiviti to discuss this problem.*

World Energy: How can revenue leakage occur within the energy industry?

Gibson: The complex pricing and contracting structures inherent in the energy industry make it challenging for even the best-controlled company to consistently capture, record, bill and collect all revenue. Complex distribution processes that are spread out across the world further compound the problem. The recent increase in energy prices only serves to heighten the need for companies to ensure that their processes, controls and systems throughout the revenue cycle are optimized and consistently functioning.

World Energy: What are some of the specific risk factors and opportunity indicators used to evaluate whether an energy company might be experiencing revenue leakage?

Hernandez: Problems are more likely to occur where you have large numbers of transactions, customers or delivery locations or when activities are being combined. Examples include:

- Multiple party ownership in oil and gas exploration activities that drives apportionment of revenue between parties.
- Multiple and/or manual systems used to track consumption, maintain pricing or coordinate billing.
- Multiple pricing programs for classes of customers.
- Complex pricing structures.
- Frequent changes in pricing.
- Improper tracking and reconciliation of imbalances.
- Joint-venture arrangements.
- Division of interest and royalty processing.

World Energy: Clearly, many energy companies face these issues. What can be done to address them?

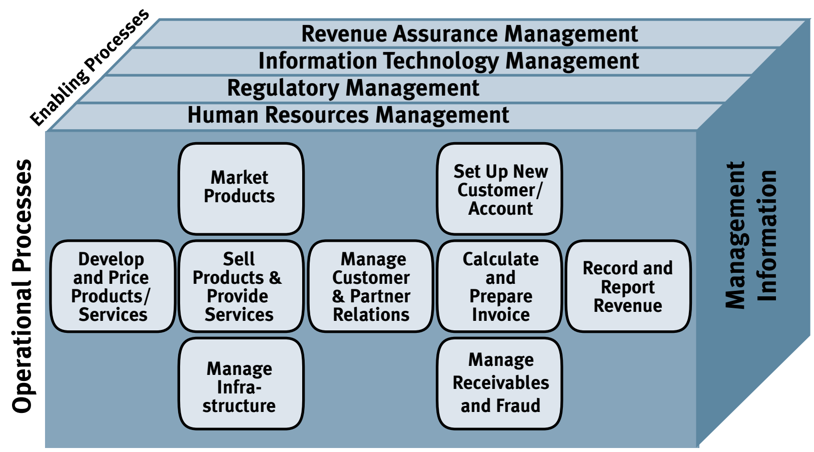
Gibson: Revenue assurance consists of a series of activities that ensure the business processes, controls, organizational structure and information systems related to the revenue cycle (consumption capture, pricing, billing and collections) work together effectively to maximize revenues and operating margins. The purpose is to proactively identify, recover and mitigate revenue leakage throughout the entire revenue cycle.

Hernandez: Progressive energy companies are examining their revenue cycles to address issues around revenue recognition, merger integration, compliance requirements and customer service. A proper revenue-assurance program addresses these issues by evaluating the impact of processes, organizational structure and technology.

Revenue-assurance programs take on different characteristics at different companies. They are typically designed to achieve:

- A decrease in unbilled revenues and the creation of integration points to reduce the manual effort spent reconciling between consumption capture, pricing and billing systems.
- The realization of merger synergies since fragmented systems and processes often result in "lost revenue."
- Improvement in the billing and collection of division of interest and royalty payments for multi-party agreements.

A side benefit of revenue assurance is that it typically helps a company improve the management of its cash flow.



World Energy: Have companies been able to substantively recover "lost" revenues through the implementation of revenue assurance?

Gibson: Our research shows that significant financial benefits are realized by companies that have undertaken revenue-assurance initiatives. Many companies are recovering hidden or lost revenue. There has been significant focus over the last decade upon "re-engineering" and "rightsizing" to reduce costs and improve business performance. Relatively less attention has been paid to focusing on revenue leakages, such as unbilled consumption and inaccurate pricing. Because they don't appear in the financial statements, the opportunity cost of these leakages is usually invisible to an organization. Stemming these leakages can be realized with much less disruption and reorganization within a company than typical cost-saving restructuring initiatives.

Many companies implementing revenue cycle improvements have captured, billed and collected millions in incremental revenue. Given the scale of most companies in the energy industry, even a 0.1 percent revenue "leakage" translates into millions of dollars. Faced with the choice of either restructuring your company to reduce costs or implementing new processes and controls to capture and bill revenue that your company is rightfully entitled to, which would you choose?

World Energy: How does revenue assurance integrate with Sarbanes-Oxley compliance efforts?

Hernandez: Like the typical Sarbanes-Oxley compliance methodology, revenue assurance examines a company's business processes and tests the effectiveness of its internal controls. There are synergies between the two types of projects. However, revenue-assurance programs take this effort a step further. There is a heavier emphasis on operational controls in addition to financial controls along with a focus on the interplay between the two. These are the areas where revenue leakage often occurs.

The improved and streamlined operating processes enable management to better track, monitor and report revenues throughout the organization. From a systems perspective, tools are utilized to test the integrity of the data and source any interfacing, programming or control errors. This results in reliable data and remediation of system-control defects.