

*Putting Knowledge Into Action*



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## **Will Triple Point Benefit From Its Acquisition of ROME?**

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Given the turmoil that has subsequently occurred in commodity and other markets, the acquisition of ROME Corporation by Triple Point Technology in July, 2008 might prove to have been a very smart move indeed by the management team at Triple Point. At one time, credit risk management was the poorer brother of market risk management despite the emergence of both ROME Corporation and RAFT International a few years ago. RAFT was acquired by Financial Objects in 2006 which was subsequently acquired in 2008 by Temenos, the banking software company. ROME is now the credit risk side to Triple Point's business. But in today's volatile commodity markets, the assessment of credit risk is increasingly viewed as mission critical and accordingly, it is moving closer to the front office.

### **Credit Risk Emerging as a Key Requirement**

Volatile commodity markets make for significantly increased risks and in an era of tighter credit conditions, credit risk management is a significant aspect of a trader's exposure. Lack of access to low cost capital, counterparty credit rating migrations and increased margin and cash calls as commodity prices have risen, have all contributed to the need to tighten credit and credit risk management at trading firms. The collapse of Lehman Brothers and the demise of Constellation Energy have already sent out ripples into the market which will have an, as yet, unknown impact, but the collapse of Enron and the energy merchants is surely still fresh in most people's minds.

Of course, markets have moved on today. There is significantly more trading by a greater diversity of players ranging from energy users through to banks and funds. There is greater absolute volatility and higher prices. There are more instruments and commodities to trade and more money at stake than ever before. There are more arbitrage opportunities and commodities as an asset class means that not all price movements are tied to commodity fundamentals or even market sentiment. These days, price movements can also be related to trading activities and market movements in other asset classes. So certainly, now is the right time for Triple Point and its ROME acquisition.

## **Understanding the Acquisition**

One key aspect of the acquisition was the immediate benefit to ROME from being a part of a larger organization. Although ROME did an excellent job of earning some of the top energy and commodity companies in Europe as clients including E.ON, SmartestEnergy, Atel and BG, its European infrastructure was minimal at best prior to the acquisition with a small office in London and a reliance upon contractors to assist in implementations. Today, ROME has essentially doubled its entire staff due to internal training and significant European hires and has gained access to Triple Point's sales and support staff who can sell and support the ROME software. According to Dan Reid, VP, Credit Risk Solutions for Triple Point, "We have doubled our support staff and cross-trained our sales force, sales engineers and services people vastly improving our market reach and implementation and support capabilities. We can now also work with Triple Point's system integration and consulting partners as opposed to independent contractors."

But Triple Point Credit Risk Solutions, as ROME is now known, is still a solution that can and has been deployed in conjunction with other ETRM and CTRM software platforms, not just Triple Point's. "We always had to integrate with a variety of platforms and so we use our credit integration tool which was built from the ground up to integrate us with many ETRM platforms," Reid told me. This affords another advantage for Triple Point since the ROME software already integrates with Triple Point's solution out of the box but Triple Point aims to tighten the integration further believing that fully integrated risk and credit is increasingly a top requirement in the market. Essentially, Triple Point can have their cake and eat it too by virtue of being able to provide a credit risk solution to work alongside competitors ETRM products or offer a more tightly integrated solution of their own.

Feedback regarding the acquisition has been very positive says Reid as he can now offer significantly improved support and services as well as continue to serve their clients regardless of ETRM platform.

## **Europe Benefit?**

The acquisition has probably most benefited ROME's capabilities in Europe however by providing them access to Triple Point's significant presence on the continent. In fact, Europe likely has a good deal of potential for Triple Point's Credit Risk Solutions. "Europe has so many different regional and national rules and regulations, different netting and pricing terms and so on that accentuates the requirements for a comprehensive credit solution" says Reid. Indeed, Europe is not yet a single homogenous market for trading and still has some way to go to meet that objective despite the EU's push towards that goal. There are also a larger number of counterparties and a lot more laws and regulations around things like equal access, for example that makes the trading picture a good deal more complex and impacts management of credit greatly.

When that increased complexity is set against today's trading environment it must equate to high demand for solutions and integrated solutions at that. It is today's market volatility however that has really brought credit into the mainstream focus for commodity traders. A trader can do a trade and hedge it eliminating market risk but ignores the margining

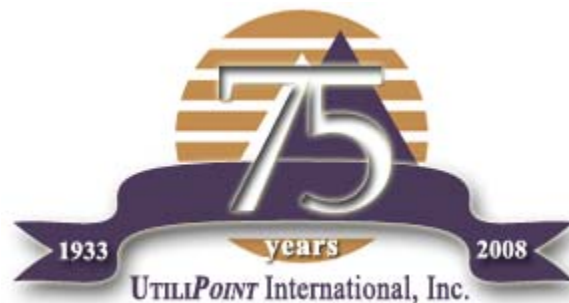
and collateral requirements at their peril. “Often the cost of credit to support the trade is not properly considered,” states Reid.

Today, a trader must consider the credit aspects of the trade they are contemplating more than ever before. This involves understanding the credit quality of the counterparty, the cost of credit and collateral and a good deal more. “Traders have in the past depended on credit rating agencies to tell them that they can do a deal but now the world has been turned upside down,” says Reid. “Credit has been the watchdog and the stop sign but now traders need to be comfortable with the details. Credit is moving closer to the front office as a result.”

## UtiliPoint Assessment

Indeed, UtiliPoint has already observed and commented on market liquidity issues related to the cost of credit that has impacted smaller physical players' ability to participate and we expect the situation to get worse not better over the coming months. In retrospect, Triple Point's timing in the acquisition of ROME couldn't have been better and in our assessment it adds a significant revenue contributor to the company. While there remains a risk that users of competitors' ETRM software will be less likely to procure Triple Point's credit risk solution, the bare facts are that there are few, if any, true alternatives squarely focused on energy today and credit risk remains something of a 'best of breed' solution category anyway.

Credit risk management and its integration into ETRM and CTRM solutions will increasingly become a key factor in the battle for market dominance in the space. Through its timely acquisition of ROME, Triple Point has placed itself in a potentially market leading position to provide a broader-based solution or even a best of breed component. At this time, Triple Point's acquisition appears to have been extremely well timed. We will see.



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