



Wednesday, November 1, 2006

## Season of Surveys

### ETRM: Can't Get No Satisfaction

Scary statistic or opportunity of a lifetime? Only one in 10 energy marketers and traders in a recent survey said their current ETRM system meets their company's needs. "Complex energy markets demand advanced trading and risk management systems, but only 10 percent of companies have them," according to the poll by risk-management solutions provider Triple Point Technology.

If 90 percent say their systems aren't up to snuff – meaning fully integrated, enterprise-wide and real-time – what exactly is missing? The first thing, according to Triple Point Technology's survey, is that many ETRM systems just aren't keeping pace with the increased volatility of the commodities markets and today's tighter regulation and corporate governance requirements. When an organization has multiple, disparate systems in place, they usually don't talk to each other, and risk management suffers as a result. The survey showed most energy trading/marketing companies have between three and 13 separate applications. Add more commodities to the mix and the systems used to support trading and risk management expand from three to 16 different applications.

Seems we're not out of the spreadsheet woods yet. The survey found that ETRM systems are often applied piecemeal and companies continue to rely on spreadsheets for everything from tracking and monitoring trades and the like to actual analytical decision support. Spreadsheet models reliant on manual data entry "can have benefits in terms of flexibility and reporting for an individual user, (but) they fall apart when used as an enterprise tool," Triple Point Technology says.

The reason is fairly obvious: The tool isn't up to the task. "All risk management and hedging strategies are planned based upon a thorough understanding of your physical business. The problem is that this is very difficult to describe in spreadsheets and screens full of forms." Many systems are tailored to the specific needs of traders and schedulers, but few are developed to meet the needs of both, Triple Point Technology notes.

According to Triple Point Technology's Michael Schwartz: "These systems are not optional in today's complex energy markets and the speed an organization moves to a next-generation platform could very well be the difference between its success and failure."

\*\*\*

### Kicking the Tires

A clue to solving the dilemma in Triple Point Technology's survey may be revealed in a new white paper from UtiliPoint that runs down the value of a next-gen ETRM system and provides a handy checklist of key criteria for an ETRM that's up to the challenge of our modern energy environment. The study includes an "under the hood" look at the Commodity XL offering from Triple Point Technology, which was voted "Software House of the Year" in the Energy Risk awards.

The UtiliPoint paper says that those who survived the "commercial Darwinism" of the merchant meltdown are much more savvy today, and the technology is better too. "We've gone from an immature industry that was based upon outdated pipeline management systems to finally arriving at the point where we have purpose-built products, supported by companies with staying power, strong financials and professional management," UtiliPoint

says. "The resurgence in the energy trading business is attracting organizations of all sorts hoping to take advantage of volatility, prices and liquidity. In order to capitalize on this resurgence, trading organizations need tools to manage the growth, and this time around, mature tools that have stood the test of time are available."

The short version of the ETRM key criteria detailed by UtiliPoint includes:

- ♦ "One version of the truth," which is a real-time, straight-through process that integrates the front and back office;
- ♦ A view of the entire portfolio, both physical and financial exposure;
- ♦ A multi-commodity view that can aggregate risk and improve back-office efficiency;
- ♦ Standards-based component architecture that can work with the existing IT infrastructure but is a platform-independent, plug-and-play system;
- ♦ Flexible, dynamic reporting, meaning real-time updates, instant access to all data and the ability to slice, dice and drill down into data however you please;
- ♦ Accurate and transparent compliance and control functions that have strong security functions, rigorous audit trails, control limits and sign-offs;
- ♦ Business intelligence reporting and analysis models to enhance decision-making;
- ♦ The ability to pull data into and out of spreadsheets for additional analysis.

"Spreadsheets will never go away, but they need to be limited to a personal productivity tool, not an enterprise system," the study says.

We thought we knew that. But Triple Point Technology's survey results suggest otherwise.

\*\*\*