

Q&A with Debra Bryson

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Q. Is it true that more energy trading is taking place than ever before? Is there a difference in the type of risk management systems required for each type of trading activity?

A. More trading is occurring today because there are a larger number of participants and despite continued liquidity issues in most energy commodity markets, the increased number of participants have resulted in more individual transactions. The ratio of physical to financial trades varies by several distinct variables: geo-political boundaries, North American geographies, seasonal production, facility capacity and storage options, storage capacity and the corporate or trading firm business models. The type of risk will vary by the type of trading activity. Firms trading product they own will have a lower risk profile while firms trading product as a commodity for hedging or swaps will have a higher risk profile.

Q. Have risk management systems become significantly more sophisticated in recent years? Please elaborate.

A. Risk Management systems have become more sophisticated as a reflection of today's innovative and aggressive trading business. As the requirements of energy trading and marketing companies' trading portfolios have evolved to include more in-depth and real time physical asset position reporting and more corporate price strategy and margin portfolios risk management is at the forefront of executive management and accountability. It has also become necessary for systems to adapt and provide more hands on tools for analysis, reporting, auditing and approvals. Additionally, credit exposure is a key component of any risk management strategy.

As a result of the challenges and governance requirements for today's corporate executives, trading software solutions have become more sophisticated and are in greater demand.

Q. Do some energy traders still use spreadsheets or have most switched over to commercial software?

A. Yes, certain small and large companies still use spreadsheets to track and manage their energy trades; isn't that a scary thought? The spreadsheets used are difficult to consolidate, create monthly reconciliation challenges, often lead to variances between marketing, production and accounting and are very difficult if not impossible to audit. Trading is inherently a risky business and the use of spreadsheets as a primary management tool only adds to that risk.

Q. Is off-the-shelf ETRM software available and advisable for most energy traders or must it be customized for each user?

A. Off-the-shelf software ETRM solutions are both available and advisable. However, due to the many nuances associated with this business, ETRM software cannot simply be plugged in. Systems should allow for configuration to meet your business needs – not change your business needs to meet the software. Yet, be aware that excessive customization increases your implementation cost and duration. Traders have little time to devote to implementing new solutions, so look for one that is easy to implement – providing a quicker payback and less disruption to your business.

Q. Finally, we hear a lot about system integration, especially with regard to front-to-back office. How important is this? What if a user implements a front-office system from one vendor and has a different system for the back office (accounting, etc.)? Does this create problems?

A. Integration is vital to today's energy industry when you consider the level and frequency of communication. ETRM involves front office (bidding, scheduling/nominations), middle office (price forecasting, simulations, risk management) and the back office (balancing, settlement, contract management). Think of the two or three systems speaking different languages and needing a translator. If something gets lost in translation, it can confuse the entire conversation and create significant problems. However, when you have a system that is integrated on an overall basis, the various sub-systems can speak to each other seamlessly, allowing for much greater ease in management of data flows. Integration provides more visibility into the logistics, operations and financial growth of your company throughout the entire deal capture process.

In an ideal situation, a system would have the ability to work in the world we work in; a world of multi-commodity deals, forecasting, scheduling, nominations and contract settlement - and all in multiple languages and currencies. Because we live and work in a complex world, the systems should mask the complexity, making our lives easier.

