



In partnership with



Study Prospectus

Market Research and Analysis

Risk Management Study

March 2009

1. BACKGROUND ON RESEARCH

CommodityPoint recently completed a research study into changes in commodity markets and their impact on physical traders and ETRM software requirements. That study confirmed that ‘risk management’ is the single biggest critical business issue (Table 1) facing trading firms today. This current research proposal is aimed at examining risk management in more detail as a follow up to that original study.

The former study showed that whilst ‘risk management’ is *the* critical business issue facing traders, other and related issues were also highly ranked including ‘portfolio management’, ‘reporting’, ‘data management’, ‘credit & collateral’, ‘understanding factors behind price formation’ and ‘integration’ – all of which could be considered to be related to the overall concept of risk management.

Table 1: Critical Business Issues Facing Traders¹

	North America		Europe	
	Score	Rank	Score	Rank
Risk Management	4.38	1	4.31	1
Credit and Collateral Rests.	4.03	2	3.50	10
Understanding Factors behind Price Formation	3.95	3	3.64	7
General Market Liquidity	3.92	4	4.13	3
Portfolio Management	3.79	5	3.94	4
Reporting – Lack of availability of BI Tools	3.68	6	3.75	6
Reporting – Ability to retrieve Data from sys.	3.59	7	4.25	2
Credit Scoring	3.56	8	3.33	12
Data Management	3.5	9	3.38	11
Audit Trailing in ETRM S/w	3.43	10	3.00	15
Reporting – Speed	3.36	13	3.88	5
Errors and Omissions	3.38	12	3.56	8
Integration	3.23	14	3.53	9

The former study also asked what types of risk analytics were utilized by its respondents, and discovered that ‘some form of VaR reporting’ and ‘mark-to-market valuation’ were most widely used in the industry (Figure 1). CommodityPoint concluded that;

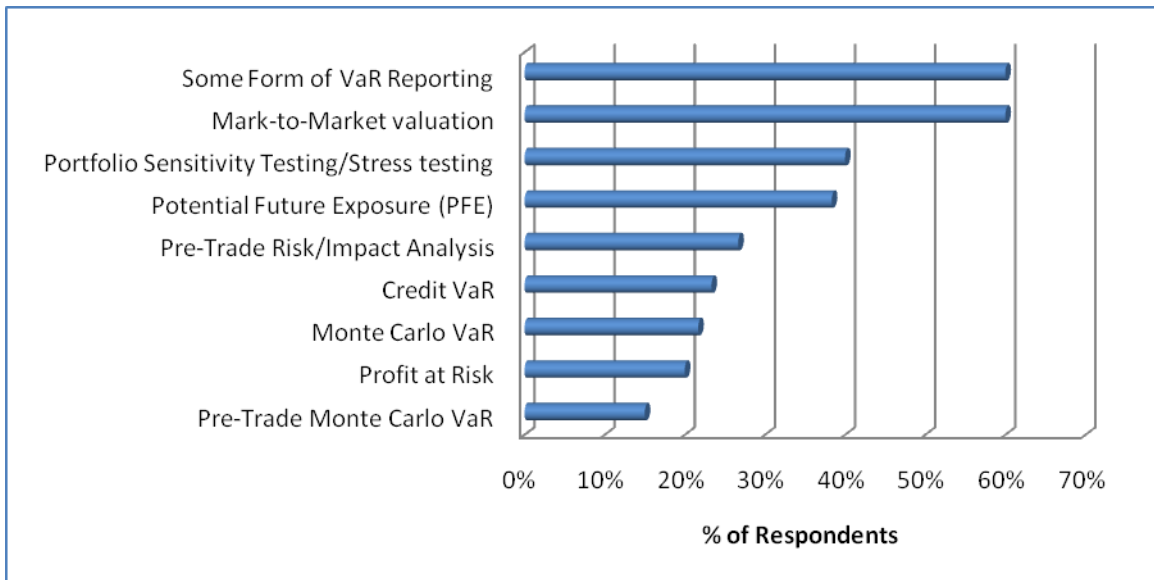
“Although all participants utilize some type of risk analytics, there is a preponderance of use of mark-to-market and some form of VaR across the survey respondents. Given current market conditions of rapid, large magnitude price movements, it is somewhat surprising that only around 40% of the respondents also use sensitivity analysis and stress testing methods in analyzing their portfolios. Further, the credit and counterparty issues identified by participants would suggest that

¹ Changes in Commodity Markets – Impacts on Traders and Software, CommodityPoint Report, 2009

credit risk analytics should be in wider use. Additionally, CommodityPoint believes that stochastic approaches, utilized by only a small minority of respondents, should be more widely adopted.

Another area highlighted by the study results is the use of pre-trade analysis, again utilized by only a small minority of respondents – mainly hedge funds and investment banks. CommodityPoint would expect that this type of analysis to be more widespread. Unfortunately, these types of "what if" analyses may be being hampered by the various organizations existing software capabilities.

Figure 1: Risk Analytics used



Given these results and the markets' high level of interest in risk management– not just price risk management, but a more holistic view encompassing credit risk, operational risk, and regulatory risk, CommodityPoint has partnered with UK-based ETRM-specialist consultancy, **Seminel**, to undertake more exhaustive research into risk management at energy and commodity trading firms.

2. PROSPECTUS AND SCOPE OF RESEARCH

CommodityPoint and **Seminel** are proposing to examine risk management in greater detail as follows;

- More detailed review of risk analytics deployed by commodity and energy trading firms and their value to traders under current market conditions;
- An assessment of the systems employed to perform risk analytics and their value under current market conditions;
- An assessment of the most important aspects of risk management – not just price risk but including regulatory, operational and credit risk – required by traders under current and future market conditions;
- An assessment of where risk management is headed for commodity and energy trading in the future and its impact on systems vendors and products in the space.

CommodityPoint and **Seminel** will utilize a combination of a web-based questionnaire and phone and/or in-person interviews with effected industry participants to determine their views along with secondary research and interviews.

3. QUALIFICATIONS

The project team, including Dr. Gary M. Vasey and Patrick Reames of **CommodityPoint**, and Mr. Paul McLean-Thorne of **Seminel**, will oversee the development of the study and will author the subsequent report. They will be assisted by UtiliPoint's market research team, headed by Mr. Christopher Purdue, (see biographies below).

4. PROJECT TEAM

Dr. Gary M. Vasey
General Manager, Europe

Dr. Gary M. Vasey is an energy industry expert noted for his industry analysis, consulting, and marketing skills. Gary currently manages UtiliPoint's CommodityPoint Division from our office in the Czech Republic. With over 27-years experience in the energy and utilities industry, Gary has experienced the industry's volatility as a geologist, consultant, software developer, analyst and marketing practitioner providing him with unique insights, not just into the entire energy value chain, but also into how to position, brand and deliver products and services to the industry. He is a noted expert on the energy trading, transaction and risk management software industry and an accomplished industry analyst and thought leader.

Gary has published more than 500 articles on energy and utility industry trends in a variety of publications, is a regular speaker at industry conferences and the co-author of the UtiliPoint expert series books 'Trends in Energy Trading, Transaction and Risk Management Software - A Primer' and 'Selecting and Implementing Energy Trading, Transaction and Risk Management Software - A Primer'. He also contributed two chapters to 'The Professional Risk Managers' Guide to Energy and Environmental Markets' published by PRMIA and two chapters, co-written with Peter C. Fusaro, to 'Weather, Energy and Environmental Hedging - An Introduction' (ICFAI University Press, 2007) edited by Amando F C Da Silva.

Gary is also the co-founder of the Energy Hedge Fund Center (www.energyhedgefunds.com) and the co-author of 'Energy & Environmental Hedge Funds - The New Investment Paradigm' (Wiley, 2006) with Peter C. Fusaro and of many trade press articles on hedge funds in the energy industry. He and Mr. Fusaro are also the joint editors of EnergyHedge, an electronic newsletter published by the Energy Hedge Fund Center.

Gary holds a B.Sc. (Hons.) degree in Geological Sciences from the University of Aston in Birmingham, England and a Ph.D. in Geology from the University of Strathclyde, Scotland.

Paul McLean-Thorne
Director, Seminel

Paul McLean-Thorne is a Director at Seminel, a specialist Energy Trading & Risk Management (ETRM) business & IT consultancy. Seminel is involved in ETRM systems implementation, package analysis and systems strategy and has developed a product to expedite ETRM implementation: <http://www.seminel.co.uk/Products.html>

Prior to Seminel, Paul worked for Business and IT consultancies including Accenture and EDS.

Paul has undertaken projects with clients such as ATEL, BP, Conoco, DONG, EdF, E.ON, Essent, Halliburton, Nuon, Shell and StatoilHydro in the Energy Industry as well as BFCE, Citibank, Credit Lyonnais, Deutsche Bank, HSBC, Morgan Euroclear, NMB and Rabobank in the Finance Sector.

Paul has been involved in:

- ETRM vision creation
- Risk Management strategy development
- ETRM system implementation advisory & review
- evaluating the systems of Energy Trading system vendors, including Allegro, Murex, Navita, OilSpace, OpenLink Financials, Solarc, Sungard, TradeCapture, Triplepoint and Ventyx
- defining and implementing ETRM IT Strategy Blueprints for Energy Companies
- developing product strategy for ETRM vendors, helping them define the market potential, gap analysis
- business case development, value chain analysis, process modeling, requirements gathering and gap analysis
- managing the implementation and integration of vendor packages
- designing and implementing custom-built ETRM systems
- providing specialist ETRM consultancy for IT Consultancies

Paul speaks at Energy Industry conferences and seminars and also publishes white papers on the Energy market and IT e.g. http://www.seminel.co.uk/documents/Energy_risk_article_energy_trading.pdf

Paul holds an Honors degree in Computer Science from the University of London.

Patrick Reames

Vice President, Trading & Risk Management

Mr. Reames has more than 30 years of energy industry experience. He has a deep understanding, developed through hands-on experience and managerial oversight, of upstream and midstream oil and gas operations including exploration, production, gathering, gas plant operations and pipeline operations. Additionally, he has 5 years of energy commodity trading, transportation, and risk management experience with Hess Corp. (formally known as Amerada Hess), a Fortune 100 integrated energy marketing company. Over the last ten years, he has been focused primarily on information technology serving energy trading, marketing, and risk management. Prior to joining UtiliPoint 2 years ago, Patrick served as an executive for several technology companies (including TransEnergy Management, Altra Energy, and TradeWell systems) providing products and services to gas and power marketing organizations. In these roles, his focus was on the creation and delivery of high value service products designed to ensure the successful implementation and on-going use of technology solutions.

Patrick is a frequent speaker at industry conferences and events. He has published numerous articles in industry publications and contributes regularly to the UtiliPoint's IssueAlert series. He maintains the ETRMCommunity blog and website (<http://www.etrmcommunity.com/site/modules/wordpress>) and is the co-author of the book “*Selecting and Implementing Energy Trading, Transaction and Risk Management Software – A Primer*”. Patrick holds a B.S. in Business Administration – Finance from Oklahoma State University.

J. Christopher Perdue
Senior Director, Market Research

Mr. Perdue directs UtiliPoint's market research efforts which result in special reports/analyses for corporate clients. In addition, Mr. Perdue's expertise includes forecasting of load, economic development, financial consulting, research, and retail solutions development and support at energy companies. Mr. Perdue has work experience at Excelergy, Duke Solutions, Central and South West, and Gulf States Utilities. Mr. Perdue most recently served at American Electric Power in roles with the software and technology company Excelergy. He holds a B.B.A. in Economics from Belmont College and a M.A. in Economics from Vanderbilt University.

5. PROJECT TIMING DELIVERABLES AND COST

The objective is to commence the study in late February, 2009. The study is likely to take at least three months to complete. The report will be issued, if the project commences on schedule, in late June, 2009.

Costs

CommodityPoint and Seminel are seeking project sponsors for this study. The cost for a sponsor is \$5,000. Existing CommodityPoint or Seminel retainer clients may deduct 50% from these fees.

A sponsor will obtain a copy of the final report in PDF format and will be identified on the front cover of the report and in all 'marketing' of the study. The report will list the sponsors and include a full-page overview of each sponsor. Additionally, UtiliPoint and Seminel will interview the sponsors at the beginning of the study and the results of that interview may be used to shape the project.

Sponsors will also be provided with free access to a private 1 hour long presentation of and discussion about the results of the study after report issuance.

The fees will be invoiced in two parts; 50% on execution of this agreement and 50% on completion of the project.

Please contact us with any additional questions or requirements.

TERMS AND CONDITIONS

1.1 Taxes. Client will pay any taxes resulting from the Parties' performance under this Agreement, including without limitation, any sales, use, and excise taxes on any Services and Deliverables provided by UtiliPoint International to Client under this Agreement, but not including taxes on UtiliPoint International income. Client will indemnify, defend, and hold UtiliPoint International harmless against any failure by Client to report or pay any such taxes.

1.2 Payment. It is our normal practice to invoice our client on an estimated basis at the beginning of each month for services and expenses estimated for that month. Upon completion of the assignment, a final adjusted bill will be submitted with the appropriate debit or credit amount. Credits shall be paid immediately thereafter. Should the project be terminated prior to completion, we would be reimbursed for the actual time charges and expenses up to that termination date. Our invoices will be payable upon receipt

1.3 Expenses. Client will reimburse UtiliPoint International reasonable expenses incurred in connection with the Services and development of any Deliverables. Such expenses shall include, without limitation, local travel to and from Client's facilities, other approved project-related travel expenses (transportation, lodging, telephone, and meals), and any other items directly associated with the project. Any travel expenses will be discussed and approved by Client beforehand.

2. Confidentiality

2.1 In connection with this effort, each party will have access to confidential information made available by the other; each party shall use the confidential information of the other only as in connection with the arrangement and each party will protect such confidential information in the same manner as it protects its own confidential information of like kind.

2.2 Subject to obligations of confidentiality, each party shall be free to use the concepts, techniques and know-how used and developed on the project. In any event, UtiliPoint International shall continue to be free to perform similar services for its other clients using its general knowledge, skills and experience.

3. Warranties and Indemnification

3.1 By UtiliPoint International. UtiliPoint International warrants that it has the right to enter into this Agreement and to perform all obligations hereunder. For a period of ninety (90) days following the delivery of any Deliverable, UtiliPoint International warrants that such Deliverable will perform according to the applicable written functional specifications provided to UtiliPoint International by Client and incorporated into the Project Description or an amendment thereto. During that period, UtiliPoint International will, at its option, correct or replace any such nonconforming Deliverable, or refund the fees paid by Client for the nonconforming Deliverable. UtiliPoint International warrants that its execution and performance of this Agreement will not breach any agreement between UtiliPoint International and a third party. UtiliPoint International will indemnify, defend, and hold Client, its officers, directors, employees, contractors, and agents harmless from any breach of any of the warranties contained herein

3.2 By Client. Client warrants that it has the right to enter into this Agreement and to perform all other obligations hereunder. Client represents that UtiliPoint International providing any Services and Deliverables that Client requests will not, to Client's knowledge; infringe any Intellectual Property right of any third party. Client warrants that its execution and performance of this Agreement will not breach any agreement or any contractual right of a third party. Client will indemnify, defend, and hold UtiliPoint International, its officers, directors, employees, contractors, and agents harmless from any breach of any of the representations or warranties contained in this Section 3.2 and from any claim for damages by any third party that is based in whole or in part upon an allegation of fact which would constitute a breach of any of the representations or warranties contained herein.

3.3 Mutual Indemnity. Client and UtiliPoint International each will defend, indemnify, and hold the other harmless from any claim connected with this Agreement that may be asserted against the indemnitee by third parties based on the negligence or willful misconduct of the indemnitor. If such claim arises from the joint negligence or misconduct of Client and UtiliPoint International, each Party shall indemnify the other in proportion to its allocable share of such negligence or misconduct.

4. Limitation of Liability

4.1 No Special Damages. Neither Party will be liable to the other Party for indirect, special, incidental, punitive, or consequential damages (including without limitation, damages resulting from loss of profits, data, or records of Client), even if such Party has been notified of the possibility or likelihood of such damages.

4.2 Actual Damages. UtiliPoint International liability will be limited to actual damages, which will not exceed the amount paid to UtiliPoint International by Client for the portion of the Services or Deliverables directly causing the damages. UtiliPoint International will not be liable for any damages resulting from the creation or use of any Deliverable after such Deliverable has been accepted by Client or has been the subject of a final Rejection by Client.

4.3 Disclaimer of Additional Warranties. UtiliPoint International makes no representations or warranties other than those expressly stated herein, including any warranties of merchantability or fitness for a particular purpose, noninfringement of intellectual property, or that services will be performed in a workmanlike manner

4.4 Applications. The limitation of liability shall apply to claims of every kind, whether based on contract law, tort law, or otherwise, even if these limitations have the effect of exculpating a party from responsibility for its negligence, fault, or other conduct.

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ENROLLMENT FORM
Risk Management Study

I want to enroll as a SPONSOR of this study

The cost of the study is \$5,000 for SPONSORS.
Existing retainer clients benefit from a 50% reduction in these fees.

Email scanned document to gvasey@utilipoint.com

Sponsor Information

Name: _____

Signature: _____

Title: _____

Company: _____

StreetAddress: _____

City, State, Zip Code: _____

Telephone: _____ Fax: _____

E-mail Address: _____

UtiliPoint International and Seminel reserve the right to modify the pricing deliverables described in this proposal on an ad hoc basis in response to individual client needs. In the unlikely event that this sponsored research project does not reach a critical mass of participation, UtiliPoint International and Seminel, at their own discretion, further reserves the right to discontinue this effort. In the unlikely case of such a decision, clients will be notified and any funds paid to UtiliPoint International refunded in full.