

The Era of ETRM in the Cloud



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Introduction

Commodity Technology Advisory (ComTech) has been tracking the rise of ETRM solutions delivered in the cloud over many years¹. While the potential benefits and cost savings associated with ETRM in the cloud have always appeared to be robust, uptake across the industry has proven to be quite slow until relatively recently. Although many other industries migrated to the cost

efficiencies of the cloud, the energy industry lagged behind.

The key concern quoted by the industry was usually data security², despite companies often having back-up and recovery procedures in place that result in trade and position data being stored off-site. Then, commodity prices collapsed generally, led by energy, and costs began to rise inexorably as new regulations progressively came into force. Margins were squeezed and structural changes have occurred across the industry so that profitable trades are a good deal harder to find.

While ETRM and other IT initiatives were put on hold or scaled back to reduce costs, rapid market changes necessitated ETRM functional changes – compelling energy companies to seek more cost effective ways to procure the right ETRM platform. As their ETRM and related solutions have quickly become outdated, these systems are effectively deadweight - holding those businesses back from responding to change and streamlining business processes. In this environment, ETRM in the cloud³ has become a popular alternative to “traditional” on-premises software given its low cost of entry, potential lower total cost of ownership and promise of cheaper maintenance and upgrades. Confirming this trend, a recent survey conducted by ComTech looking at trends in a lower energy price environment³ found that around 30% of surveyed European energy traders had an increased urgency to upgrade or replace their current ETRM, and that almost 50% would consider ETRM in the cloud as a way forward.



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1. CTRM In The Cloud, Commodity Technology Report, January 2014 and other research reports
 2. As above
 3. ETRM in a Low Commodity Price Environment, Commodity Technology Advisory Report, 2016
 4. 2016 CTRM Market Update, Commodity Technology Advisory Report, 2016
 5. CTRM in the Cloud, CommodityPoint Report, 2010
 6. CTRM in the Cloud, Commodity Technology Advisory Report, 2014

AN APPETITE FOR THE CLOUD?

As commodity prices fell throughout FY2015, many energy companies cut their budgets and reduced, or delayed, their spending on IT solutions. The first half of FY2016 saw similar conditions, and with deadlines for regulatory reporting occurring during the same time period, the spending that did occur was with an emphasis on compliance in European energy markets specifically. Faced with reduced revenues, higher costs, and harder to find profitable trading opportunities more companies are turning to cloud-based solutions. This trend has continued in the latter half of 2016 and is forecast to continue⁴. ComTech anticipates that spending on ETRM procurement will rise in 2017 primarily driven by previously deferred IT spending, as there is significant pentup demand for solutions that can assist industry participants address the near constant changes impacting their markets.

Experience has demonstrated that ETRM in the cloud does provide a number of business benefits. The initial cost of procurement is lower, as there are no upfront license fees and no hardware, third-party software, or infrastructure/installation services required (though implementation services are still required). Instead, the buyer will pay a recurring (usually monthly) fee that includes usage of software and hardware infrastructure, upgrades, and support. Additionally, all bug fixes, upgrades, and new functionality will be provided by the vendors and will be automatically applied to the software as part of the cloud agreement. This arrangement ensures users will stay current with industry changes, providing greater agility for the business in responding and adapting to change. Back in 2010, research by CommodityPoint⁵ showed considerable resistance to cloud-delivered ETRM software, with less than 10% market penetration at

that time. Yet by 2014, subsequent research⁶ suggested that ETRM in the cloud penetration rates had increased by 150%, accounting for about 16% of the total market. The report also showed how buyer resistance to ETRM in the cloud had melted away with around 80% of respondents being open to deployment in the cloud and just a hardcore of 20% still resisting.

The results showed that industry participants had begun to realize the advantages, with survey respondents citing a number of perceived benefits, including,

- / Lower total cost of ownership (TCO),
- / Lower entry costs,
- / Lower demand on IT resources,
- / Faster deployment, and
- / Lower implementation costs.

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Concerns over data security, including having sensitive trade data in the cloud had eased considerably, probably as a result of the relatively ubiquitous nature of cloud-based applications in all walks of life; even including personal banking. By 2016⁷, ComTech had estimated a growth rate for cloud-based CTRM solutions of about 20% per annum, far in excess of the 3% growth forecast for traditionally installed solutions.

The appetite for cloud solutions to support trading and risk management has grown considerably over the last 5-years as a result of several inter-related factors, summarized as follows,

/ Lower commodity prices, higher costs, and a need to find more cost effective and less disruptive solutions to address the margin squeeze,

/ Structural changes in the industry, from a dramatic change in the generation mix and the exit of many of the banks and financial players, have had significant and ongoing impacts for almost all industry participants,

/ A larger number of smaller players seeking solutions to replace spreadsheets in order to address audit and compliance requirements from regulators, lending institutions and stakeholders,

/ Increasing numbers of smaller players as disgruntled traders from banks and utilities have spun up their own trading firms.

The era of the cloud has arrived for trading and risk management as it offers a cost effective and agile approach at a time when the industry demand for such solutions has risen.

ETRM IN THE CLOUD

Many ETRM solutions for electric power and gas in Europe were developed on legacy architectures, making true cloud deployment more difficult. However, a small number of next generation vendors have come to the fore in recent years with ETRM solutions based on more modern technologies

that were often built with cloud deployment in mind. One of those is Contigo, who from day one, have offered their products in the cloud and have long utilized the cloud as a means to keep users up to speed with new developments.

Of course, as a particular technology or methodology gains traction in any industry, there is a rush on the part of vendors to adopt it, or at least, claim to have adopted it. Today, almost all ETRM vendors will claim to offer a cloud approach, though many will



simply utilize screen-scraping software like Citrix to provide cloud access to their legacy application. Unfortunately, the benefits of cloud deployment are often lost using a screen-scraping approach, as the underlying software was never designed for the cloud. Cloud software can also be offered in a multi-tenanted environment in which users access shared applications, though with compartmentalized databases so that user company data remains

secure. The alternative is a single tenanted environment, which Commodity Technology refers to as "hosted in the cloud". Both approaches have been adopted by user companies, though the industry preference generally has been for single tenanted where they can enjoy the cost benefits of the cloud but also retain a customized or modified version of the solution to better support their operations and processes.



CONTIGO'S APPROACH

Contigo's software is available hosted in the cloud in a single tenanted environment allowing it to offer a customized version of its software while still delivering significant cost savings and other cloud benefits. Access to the application is via a secure URL and is completely browser-based. Security is further enhanced by not allowing users direct access to the database layer of the application. The solution is built on cutting edge Microsoft technologies including .NET, developed in C# and ASP.NET and runs against a SQL Server database backend. Contigo keep pace with technology updates and changes, ensuring the latest versions of third-party software are used in their solutions.

The web application is hosted in Internet Information Services (IIS) running on Windows servers. By offering the application as single tenanted, but in a shared infrastructure, Contigo offers users essentially a managed service solution that is both secure, cost effective, and maintains strong segregation of customer data while allowing the exact same level of customization and extensibility as a traditionally deployed solution. About a quarter of Contigo's current customers have taken up this model to date. Contigo's approach provides a significant reduction in costs as there is no requirement to purchase hardware, third-

party software, nor even deploy upgrades to that hardware and software as these are managed by Contigo's application experts as are back-up and recovery processes. Back up and disaster recovery is performed by using two data centers, both located in England, and a full back up is completed every night with transactional back ups every 30-minutes. Contigo also offers customers the option to host the software themselves in the cloud if they so chose.

7. 2016 Market Update, Commodity
Technology Advisory Report, 2016

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SUMMARY

Against a backdrop of a drive for cost containment and business efficiency, cloud-based ETRM software is rapidly gaining market share versus traditionally implemented ETRM software. Buyers are keen to avail themselves of the benefits of cloud-deployed ETRM software and will undoubtedly increasingly select such solutions. However, buyer beware, as not all cloud is truly cloud!

To obtain the cost and agility benefits offered by the cloud model, users must scrutinise ETRM solutions to ensure that they are truly built for the cloud, with browser-based front-ends accessible via a secure web connection. They must ensure that the vendor has the ability to provide secure hosting services complete with back-up and recovery. And, they must ensure that the vendor can offer a flexible services model both in terms of pricing and delivery of both software and services.

Contigo developed its ETRM solution relatively recently, making use of modern technologies and with an eye on the cloud from the start. It has a track record of using the cloud to provide customers insights into its recent developments or customizations - and now offers a quarter of its customers a managed services approach to gaining the business critical functionality that they need to survive in a cost conscious and fast moving industry.

Energy Risk Software Ranking 2017

Contigo have been voted number one for ease of implementation and number two for best cloud based ETRM solution globally by the ETRM community. Contigo also voted in the top five for a further ten ETRM awards.

