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North American Natural Gas Software: A Repeat Performance?

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In the early 1990s, deregulation of North American natural gas spurred a raft of new software ventures offering solutions to fill the emerging requirement for gas marketing and transaction management software. Today, while very few of those original vendors remain, there is renewed interest in developing natural gas marketing and transaction management systems. Ironically, the drivers behind this new volley of next generation natural gas software systems may be very similar to those that lay behind the earlier wave of systems.

Repeat Performance?

As the natural gas industry deregulated in the early 1990s, a requirement for a new category of software emerged to help natural gas companies to trade, manage and move quantities of natural gas across North America. The target market for the software was essentially producers, producer-marketers and the emerging merchants. The emphasis was purely on physical gas. It wasn't until later, with the deregulation of electric power and the rapid rise of the mega-merchants, that risk management became an additional requirement for natural gas systems and, by that time, many of the early vendors had either already disappeared or were being acquired by software vendors with origins on Wall Street. Still, many of those earlier solutions from vendors like TransEnergy Management, Altra and others are still in use today.

Following the collapse of the mega-merchant segment, producers and end users of natural gas (utilities, local distribution companies [LDCs], generators, etc.) have necessarily had to reconsider their approach to buying, selling and delivering natural gas. “The vacuum created by the demise of the large merchant marketing players has meant that gas producers have been drawn back in to marketing their own equity gas,” reports Cleve Hogarth, vice president, sales and marketing, Quorum Business Solutions, Inc. However, these companies are also today faced with a new set of challenges that have arisen directly as a consequence of the merchant segment troubles including increased scrutiny around corporate governance, financial reporting, concerns over credit management, and greater price volatility around the commodity itself.

“Some of the factors now driving demand for natural gas software solutions, such as Sarbanes-Oxley and enhanced credit management needs, mean that these companies now require something more formal than spreadsheets or home-grown systems,” reports Paul Brundage, vice president, New Energy Associates.

Increased Sophistication

While there are similarities between the early '90s and today in that once again, there is a new and emerging need for natural gas software in the producer-marketer and LDC segments of the industry, the requirement has also become a good deal more sophisticated and complex than it once was. Consequently, there is a growing opportunity for new software solutions that has not gone unnoticed by the vendor community. Today's producer, LDC, or small merchant is faced with a situation where, in an effort to meet the need for better financial reporting, corporate governance and improved credit management, their existing systems, from Excel spreadsheets to legacy third-party packages, may not be up to the job.

Detailed requirements for natural gas systems still vary tremendously across different industry segments. “Power companies look at it from an enterprise perspective and need multi-commodity systems to help cater to all fuels including natural gas,” reports New Energy Associates' Brundage. “The bar has risen and buyers are looking for more sophistication. Integrated risk management, Value-at-Risk, and credit analysis tools are all now expected features of a single system,” he says.

Quorum Business Solutions' Hogarth makes no secret of the company's intent to build a producer-oriented gas marketing system. “There is an open requirement for a producer-oriented physical gas system and Quorum is moving to fill that need,” he says. “Full-blown trading and risk management systems don't meet the producer's specific needs because they come complete with a lot of overhead and clutter related to portfolio and risk management that were designed for those who wished to take a position and be market makers. Producers are naturally long in the market and need to move physical gas to liquid trading points thereby requiring more physical transaction-oriented solutions,” he says.

Other vendors such as TrinityApex, Data Management Solutions and Ensyte Energy Software also offer a number of physical gas marketing systems aimed at various specific segments of the natural gas value chain. Meanwhile, Energy Softworx has quietly grown a large installed base serving the fuel procurement and management side of the business at LDCs with its GasWorx and FuelWorx software products. OpenLink Financial, SunGard, Entero and EnCompass are other vendors offering different shades of natural gas trading, transaction and risk management systems.

New Product Announcements and License Agreements

New product announcements have already begun with SolArc, Inc. announcing a new natural gas supply module for its successful RightAngle software last May and Triple Point Technologies' announcement of GasXL last year. "Today's natural gas enterprise has to deal with many new constraints and requirements that were nonexistent just two years ago, such as strict management of exposure limits on business party credit risk and compliance with internal controls and procedures," said Brad Anderson, CEO of SolArc in its product announcement. "Consequently, current gas transaction systems are ill-equipped to handle these mandatory requirements, and were not designed with the flexibility to integrate new functionality seamlessly."

Another relatively new offering specifically targeting gas operations and scheduling recently announced a licensing agreement. e-Systems announced that it licensed Attache, an integrated natural gas management and scheduling system for companies that operate within the energy industry, to Southern Company.

Meanwhile, Allegro Development is already seeing the demand for natural gas systems turn into new customers, announcing new licensing deals at SunCor Energy and Astra Power, and a major license extension at Atmos Energy. "Allegro's approach is to provide users with specific software components to meet specific functional requirements all on a common architecture and using a single underlying database," said Fasih Hussein, operations director, Trading & Utilities, for Allegro. "Consequently, we are able to meet a broad set of requirements ranging from specific physical gas management components through to a full-blown trading and risk management solution."

Summary

The current business climate bodes well for vendors with natural gas solutions as energy companies from producers to LDCs review their current systems and infrastructures. Although there are a number of potential suppliers with full-fledged ETRM systems that cater to natural gas, there are also a multitude of segment-specific markets for more physical transaction-oriented, operations and scheduling software, some of them potentially unmet by any current product. As a result, UtiliPoint expects to see a large number of software products and vendors persist in the natural gas software space for some time to come.

NOTE: UtiliPoint will shortly announce a new multi-client study aimed at providing research in to natural gas software and IT architectures from well-head to burner tip. Please contact Dr. Gary Vasey at UtiliPoint via e-mail, gvasey@utilipoint.com, or call 281.681.8020 for a prospectus and further information. Additional information is also available at http://www.utilipoint.com/press/PR_MCS_IT_July2004.asp.

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