

# The Value of Energy Trading & Risk Management Systems

To maximize profitability and manage exposure, you want your team to have every advantage. This paper describes 16 areas in which energy trading and risk management systems help energy companies increase revenue, reduce costs, manage risk, and comply with mandates. The business benefits are significant, and an investment in a new system or an upgrade can generate a compelling ROI for your enterprise.

Clearly, every company has its own unique set of business priorities. We understand that. To help you organize your analysis, please use the Checklist on page 3 to identify your priorities and target those sections most important to your firm. Today's ETRM systems can help companies achieve these business objectives faster than you may have thought possible. We invite you to learn more.

An investment in an energy trading and risk management system can generate returns unmatched by nearly any other technology investment for your business.

## Why?

Because it gives you market intelligence

And speed in market decision making

To find opportunity

And increase profitability

It lets you understand your whole business, your real risks, and your best options

Maybe for the first time

It gives you control of the business

And lets you grow

Without technology barriers

It provides security in compliance

And confidence that company policies are followed

It ensures efficient execution

And gives your team all the real time information they need

To achieve your full potential

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**My Business Objectives**

(Check all that apply)

















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“A number of factors have continued to influence the ETRM platform market, not the least of which is the fallout from the financial crisis: The need for deeper, more responsive risk management capabilities and a holistic view of risk across the enterprise.”

-- Gartner, March 2010

## The New Focus on Risk

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## Mitigating Market Price Exposure

Gain visibility into market risk with real-time updates, comprehensive metrics, and simulation

In order to mitigate exposure to volatile market prices, organizations need to have a clear understanding of their risk to create effective hedge positions. With disparate position reports for physicals and financials or for each commodity type, it is often difficult and time-consuming to aggregate and analyze this position data. This approach also lacks the timeliness and the detail traders and risk managers need to aggressively manage their exposure to market price movements. Allegro enables customers to manage and report on exposure with a single system that integrates all physicals and financials. The platform offers real-time updates to position reports, so that as soon as a trade is entered or a price changes, that exposure is reflected immediately across the enterprise. In addition to a holistic view of a company's exposure, Allegro enables optimal decision making with comprehensive metrics, including Value at Risk (VaR) and mark-to-market (MtM), and the ability to perform simulations and stress testing to understand how future changes will impact a portfolio.

### Allegro Provides

- Integrated physical and financial exposures
- Disaggregation of exposure separated by market price, date, and other criteria
- Real-time updates; exposure is immediately reflected with every change
- Comprehensive metrics, including Value at Risk (VaR), mark-to-market (MtM), and other critical risk measurements
- Simulation and stress testing to determine impact of potential future changes

### Business Benefits

- Limitation of losses due to volatility in commodity prices with active risk management
- Improved predictability in the P&L and support for a higher share price through effective hedging

### Typical Allegro Configuration



# Mitigating Counterparty Exposure

Manage exposure with credit and collateral management and a flexible credit scoring process

Attempting to solve exposure after a debt exists – at the collections level – puts organizations at an obvious disadvantage. This method leads to limited credit availability which prohibits profitable trading and lacks visibility into forward position cash flow. Organizations need the ability to measure and clearly understand their counterparty exposure in order to limit potential losses. This is achieved by maintaining low concentration to any single counterparty, effectively monitoring daily collateral, and engaging in real-time communication around this risk. Allegro solutions enable complete management of detailed counterparty information, including credit and collateral requests. Allegro also provides a flexible credit scoring process and the ability to evaluate and forecast a counterparty’s potential future credit situation.

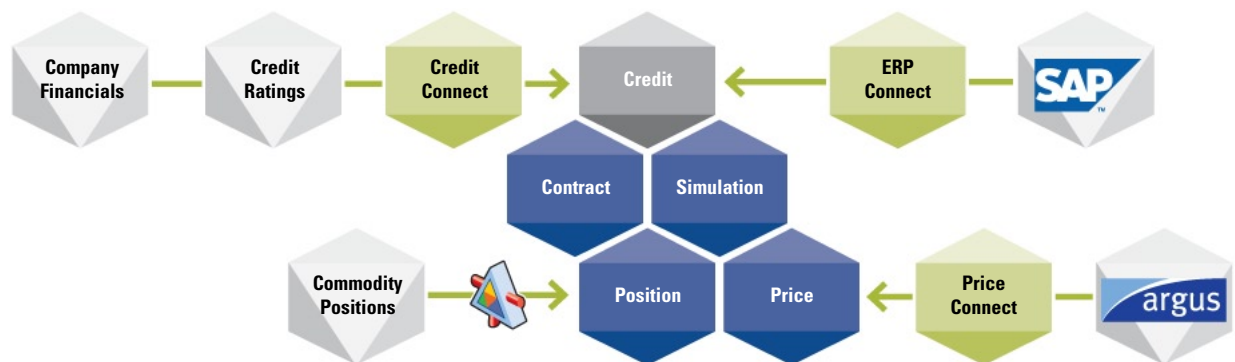
## Allegro Provides

- Credit and collateral request management across the portfolio
- Flexible credit scoring
- Comprehensive calculation of credit risk exposure, including potential future exposure
- Real-time integration with leading credit and financial data providers
- A standardized business process across the organization, and improved executive level visibility into overall counterparty exposure in real time

## Business Benefits

- Reduction in expected losses due to counterparty default
- Reduction in accounting reserves and related write-down expenses -- for improved earnings performance
- Ancillary knowledge about counterparty operations for improved business strategies

## Typical Allegro Configuration



# Mitigating Liquidity Exposure

Manage cash and capital adequacy with efficiency

Many organizations today are forced to gather trading, equity and treasury information from a variety of sources and consolidate it on spreadsheets. The process is often extremely manual and error-prone, and doesn't provide insight into forward position cash flow. This approach leaves many firms at a disadvantage because it lacks the transparency companies need to effectively manage their liquidity. In order to manage cash, collections and borrowing capacity, companies need the ability to link forward positions with capital and debt structure. Allegro delivers a single platform with integrated physical and financial exposure, real-time cash flow forecasting, and the ability to simulate price and volume fluctuations to mitigate liquidity exposure.

## Allegro Provides

- Real-time cash flow forecasting from positions
- Integrated physical and financial exposures
- Disaggregation of exposure by margin and liquidity elements
- Simulation capabilities to help you understand the impact of price and volume fluctuations on overall forward cash flow

## Business Benefits

- Enabling optimal capital deployment through effective planning
- Lower cost of capital through effective cash flow management

## Typical Allegro Configuration



# Achieving Commodity Cost Control

Minimize earnings volatility with better management of commodity purchases

Consumers of commodities, such as refiners who consume crude oil or power plants that consume fuel, face major challenges in volatile commodity markets. One primary concern is that the unexpected costs of commodity consumption can have a severe impact on company earnings. Inaccurate forecast quantities, a shortage or excess of supply, and actual costs that exceed forecast costs can have tremendous financial consequences. In order to manage exposure to commodity cost fluctuations, organizations need complete transparency into physical and financial positions, and the ability to accurately forecast supply and demand. Allegro's single platform integrates physical contracts and hedging instruments, provides real-time visibility into quantity and price movements, and has the ability to perform simulation and what-if scenarios to analyze how future events will impact commodity expenses. Allegro provides the tools to effectively minimize the cost and manage the risk in commodity purchases.

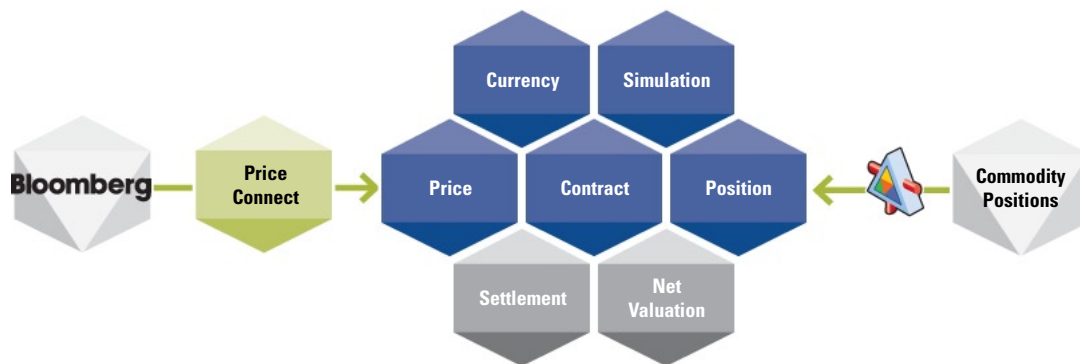
### Allegro Provides

- Comprehensive supply and demand forecasting and the ability to see long and short positions
- Integration of physical contracts and hedging instruments
- Real-time visibility into quantity and price movements
- Scenario simulation to determine how criteria such as volatility and price will impact overall commodity costs

### Business Benefits

- Ability to mitigate exposure to commodity price risk and basis risk
- More accurate cost forecasting and budgeting
- Lower net cost of commodity purchases
- Reduction in unexpected costs and impact to earnings

### Typical Allegro Configuration



“Ultimately, when leaders think about risk, the one risk they fail to explicitly put on the table is the risk of not adopting new technologies. Companies risk losing real competitive advantage if other firms discover business value first.”

-- **Financial Times, January 27, 2011**

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# Improving Position Analysis

Improve strategic decision making with accurate, real-time information

Today's commodity markets demand software solutions that provide transparency into portfolios with accurate and instantaneous views of positions. Making decisions based on insufficient data can have a great impact on company earnings. When trade and position data are transferred between multiple systems and spreadsheets organizations often experience difficulty gaining a holistic view of their business. Energy companies need the ability to identify which parts of the business are performing well and which are performing poorly, then understand the reasons behind that performance. Allegro enables optimal decision making with a single platform that provides reliable metrics and consistent data for each line of business and across the enterprise, with advanced analytics and the ability to simulate future scenarios.

## Allegro Provides

- Mark-to-market (MtM) disaggregated by trader, book, product, and other attributes
- Attribution of mark-to-market changes into new trade, volumetric, market price, volatility, time and interest rate segments
- Simulation of forward mark-to-market scenarios
- Comprehensive functionality to support multiple commodities, departments, and regions
- Connectivity between operational functions and analytic functions to ensure consistency in information and decision making
- Standard data and consistent metrics for all decision makers

## Business Benefits

- Improved earnings through superior market decisions - with identification and fast response to trends and outliers in performance
- Reduction in losses due to volatility through real-time intraday position reporting
- Reduced support cost and time through system consolidation
- Reduced cost and increased reliability with automation and the elimination of system interfaces
- Improved business control with the monitoring and measurement of transactional performance

## Typical Allegro Configuration



# Increasing Trader Productivity

Streamline and automate trade processes to capitalize on the most profitable opportunities

Entering trades into spreadsheets, homegrown or disparate systems can consume a great deal of a trader’s valuable time. Often traders get bogged down with cumbersome, redundant tasks that prevent them from focusing on important information and markets, which ultimately impacts profits. Utilizing a single platform with highly streamlined work processes allows traders to concentrate their attention on developing effective trade strategies and performing analysis of existing trades for optimal decision making. Allegro software solutions alleviate time-consuming, manual tasks and equip traders with the tools to identify the most profitable opportunities, and the time to pursue them.

## Allegro Provides

- Trade strategy analysis with active market data
- Accurate, instantaneous positions generated by grid architecture
- Quick, easy trade input for simple trades
- Intuitive, heuristic based input for complex trades
- Integration with instant messaging (IM) for OTC trading and exchange trading

## Business Benefits

- Improved trade velocity and trade profitability
- Greater efficiency because traders spend less time on routine tasks such as analyzing net exposures and real-time position reporting
- Identification of additional opportunities for trading profits
- Positive impact on recruiting and retention of top traders

## Typical Allegro Configuration



# Improving Position Valuation

## Optimize decision making with accurate visibility into positions

Improving position valuation is an important business objective for any organization participating in energy and commodity markets. The ability to calculate the most accurate value for assets, services, and options allows for competitive market pricing and optimal market decision making. Assets can include generation plants for utilities or fractionation plants for refiners. Services can include pipeline capacity or storage for natural gas or crude oil. The options could be natural gas swing options, for example. In each case, using spreadsheets to manually value such positions typically does not provide sufficient visibility and often does not capture the highly detailed information needed to achieve optimal decision making. This can lead to problems such as oversimplified calculations or valuations that take a long time to calculate. Spreadsheets can also lead to the problems of “black box” calculations that few people on the team truly understand.

When transactions don’t reflect the accurate value of assets or positions, companies face losses, reduced profits, and issues when dealing with audit committees. Allegro offers a solution that supports the complexity of these valuations by capturing all necessary data elements that affect valuation. Allegro also provides net valuation of positions and inventory at source and destination, as well as the transformation of asset data into equivalent forward or option positions. In addition, Allegro provides comprehensive option models for both physical and financial options. These models are transparent with fully documented calculations. In summary, Allegro increases valuation accuracy and reduces the administrative effort around valuation activities.

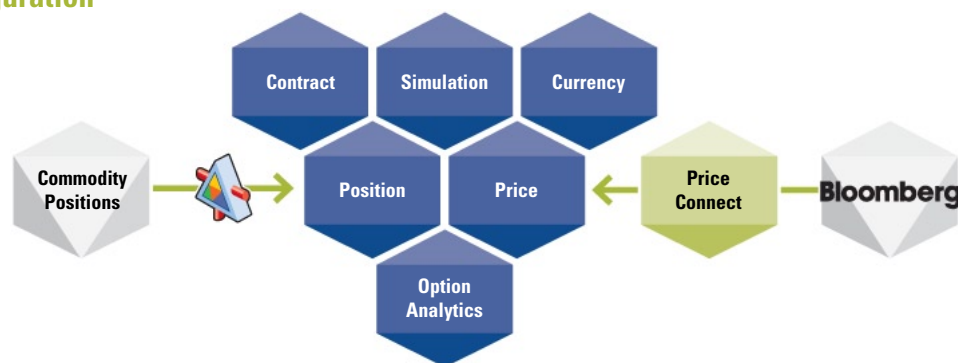
### Allegro Provides

- Detailed capture of data elements that affect valuation for each asset
- Net valuation of positions and inventories at both source and destination
- Transformation of asset data into equivalent forward or option position
- Comprehensive option models for physical and financial options
- Transparent option models with fully documented calculations

### Business Benefits

- Reduced time and effort to calculate valuations
- Reduced losses due to inaccurate valuation of assets and positions
- Increased profitability and capture of greater market opportunity through improved valuation accuracy

### Typical Allegro Configuration



# Achieving Transactional Growth

Manage substantial growth in transaction quantities and complexity without adding substantial resources

One way companies endeavor to increase revenue and earnings is to increase transactional volumes. Whether entering new markets or expanding an existing business, companies can't afford to adapt slowly to emerging business opportunities. Opportunities around new customers, suppliers, products, locations and trading instruments typically result in substantial growth in transaction quantities and complexity. Organizations need a flexible system that can support aggressive entrance into new markets and lines of business without adding substantial resources. Allegro provides a technology platform that rapidly adapts and scales as your business grows, while maintaining a high level of system performance. It also delivers the breadth of features and functions needed to support growth, as well as the access to data sources that energy companies need. In a nutshell, Allegro helps companies seize opportunities as quickly as they arise.

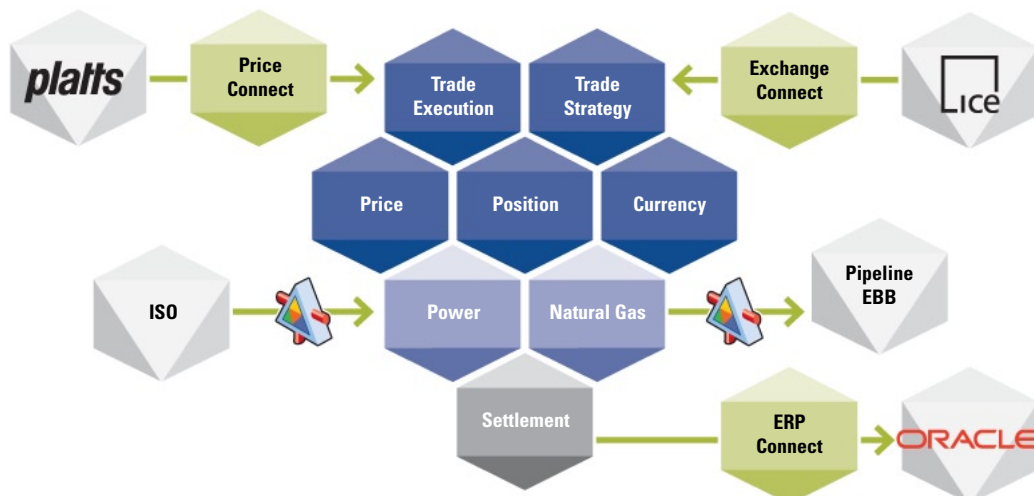
## Allegro Provides

- A deep set of features and functions to operate immediately in your target markets
- Scalable system architecture for high performance without volume limitations
- Flexible architecture and the use of software extensions to match your business process exactly and meet your special requirements today and tomorrow

## Business Benefits

- Enabling aggressive and rapid entrance into new markets and lines of business
- Scalability to keep pace with your expanding business, without degrading system performance
- Reduced back office costs as business expands
- Rapid system deployment allows trading to begin immediately
- Standardized connectivity to external data sources for optimal trading and profitability

## Typical Allegro Configuration



“Companies need a better balance. They can rapidly adopt new technologies, but do it in a staged, focused way that manages risk while also delivering results faster and with lower investment. With measured risk comes measurable rewards.”

-- **Financial Times, January 27, 2011**

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# Achieving Accurate Settlement

Improve your bottom line with timely, accurate settlement and invoicing

Energy contracts and energy trades tend to be very complex with dynamic pricing mechanisms and variable prices. Trading organizations seek to generate timely, accurate settlement with counterparties that is consistent with contractual arrangements. The need to manage complex pricing and methods of price calculation, as well as the proper calculation of all fees associated with each invoice can cause great challenges. Managing this data with spreadsheets or low-feature systems is extremely manual and error-prone and can result in late invoices, insufficient documentation for disputes, improper contract execution, and a high probability of prior period adjustments. Allegro's energy trading and risk management solution has the ability to calculate a wide range of complex prices and fees and provides transparent detail to display exactly how the amounts were calculated, even in highly complex situations. It also provides an efficient, structured settlement approval process and an automated revision process for prior period adjustments.

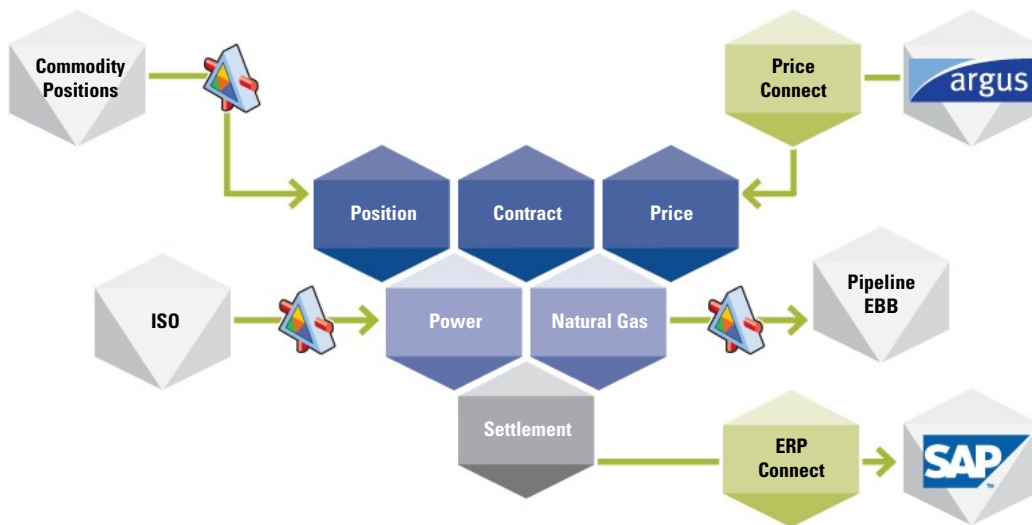
## Allegro Provides

- Ability to calculate a wide range of complex prices and fees
- Transparent detail to display exactly how amounts were calculated
- Structured approval process for settlements
- Automated revision process for prior period adjustments (PPA) to ensure PPAs are properly settled

## Business Benefits

- Reduction in time spent on settlement activities and ability to settle books earlier
- Reduction in financial losses due to inaccurate settlement of receivable and payable invoices
- Efficient access to all necessary documentation for disputed settlements
- Reduction in prior period adjustments
- Maximizing payments received and minimizing payables, according to contract terms

## Typical Allegro Configuration



# Streamlining Contract Management

## Manage contract negotiation, execution, rights, and responsibilities

The complexity and volume of energy contracts cause major challenges when trying to achieve accurate contract management and reporting. While organizations typically capture contracts into some sort of system, key dates and obligations are often managed on spreadsheets. Without a single repository to maintain all necessary contract data and clauses, and automated workflows that track and trigger contract tasks, obligations are often missed. This can result in cancelled contracts, costly missed opportunities and financial penalties. Allegro's solution allows highly detailed contract administration, including negotiation rights, execution rights, responsibilities and various amendment rights. Allegro provides efficient methods to identify contract tasks, track the status of these tasks, and notify decision makers of contract action dates in order to meet all contractual obligations.

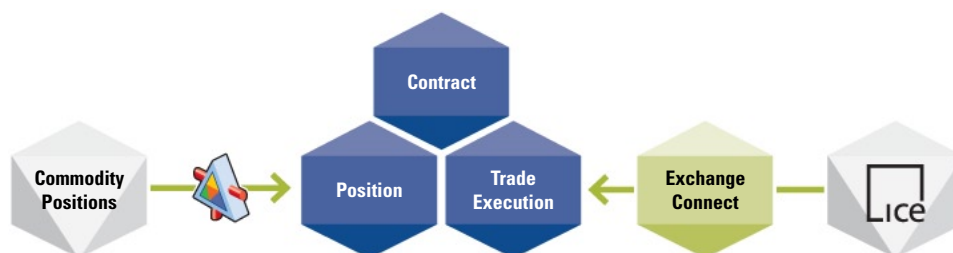
### Allegro Provides

- Detailed contract administration, including the ability to structure common energy clauses
- Messaging, implemented through system workflow processes and targeted to decision makers on contract action dates
- Transparency into all contract detail, so that personnel have advanced knowledge of contract obligations

### Business Benefits

- Ability to meet contract obligations accurately and on time
- Reduction in cancelled contracts and financial penalties
- Reduction in missed opportunities to renegotiate terms because of human error and missed contract milestones

### Typical Allegro Configuration



# Optimizing Natural Gas Logistics

Streamline natural gas logistics to ensure high availability and low cost

Natural gas professionals are increasingly challenged to find better ways to easily manage all physical natural gas positions and movements, stay on top of daily imbalances and avoid pipeline penalties and unnecessary losses. Schedulers must optimize workflows and create efficiencies to collaborate more effectively with traders, ensuring that each morning's nominations are submitted in a timely manner. However, managing the transport and storage of natural gas by capturing volumes on spreadsheets and manually inputting data into a pipeline EBB (electronic bulletin board) leaves an organization exposed to great potential for error in scheduling and measurement. This approach causes difficulty when reacting to an Operational Flow Order (OFO), attempting to manage imbalances or disruption events. Allegro software solutions deliver proper imbalance management as well as an understanding of capacity positions and secondary contract markets. Allegro informs decision making with a comprehensive view of supply and demand whether from production, a plant, or bilateral positions. These logistics capabilities help customers realize a reduction in imbalance penalties and unused capacity costs.

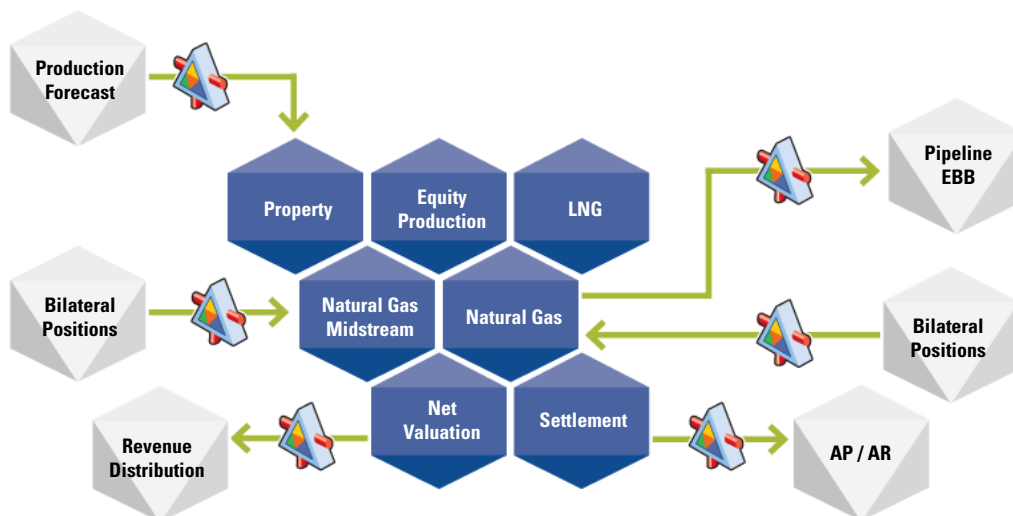
## Allegro Provides

- Proper imbalance management
- Understanding of capacity positions and secondary contract markets
- Management of physical natural gas supply and view of market and inventory positions for simplified natural gas scheduling
- Management of storage contracts and storage plans
- Natural gas pipeline and service maintenance management

## Business Benefits

- Lower cost contracts for transportation and storage
- Reduced unused pipeline capacity costs, and higher capacity utilization over time
- Reduced imbalance costs and pipeline penalties
- More accurate accruals and fewer period adjustments
- Supply risk mitigation through improved supplier analysis and increased reliability
- Greater staff efficiency in gas logistics through automation

## Typical Allegro Configuration



# Optimizing Power Logistics

## Streamline power market operations for lower risk and improved profitability

Power market participants such as utilities, generators, traders, municipals, and retail companies are facing increasing pressure to manage logistics and operations with lower risk and improved profitability. The need for an integrated solution to completely manage the power life-cycle, including trading, planning, forecasting, scheduling, tagging, settlement and actualization, has never been greater. Problems occur in manual and spreadsheet based communications with an ISO due to a high likelihood of errors in scheduling and settlement, leading to corporate losses, missed opportunities and penalties. Higher contract costs can occur because transmission is not obtained at the right time, or poor planning can lead to unused purchased transmission capacity. ISO imbalances may be cashed out at a price that is sub-optimal. Such events can dramatically impact an organization's bottom line. Allegro offers a solution that provides imbalance management on day ahead, hour ahead and real-time markets, as well as optimal matching of supply, transmission, and demand. Allegro enables customers to optimize their power logistics by reducing transmission imbalance liquidation and the costs associated with unused transmission capacity.

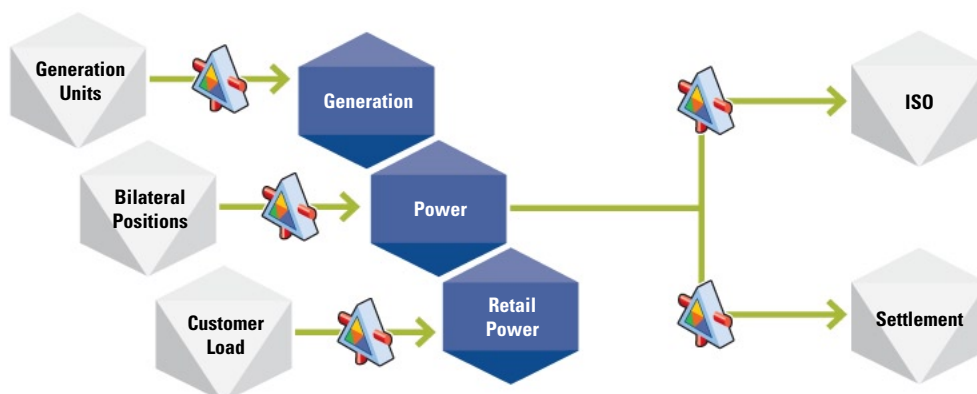
### Allegro Provides

- Imbalance management on day ahead, hour ahead and real-time markets
- Optimal matching of supply, transmission, and demand
- Support for virtually any electric power product including energy, transmission capacity and ancillary services
- Support for the European Transmission auction process, as well as North American and other global power market ISO operations, including the ability to schedule across time zones for global trading activity
- Hourly and sub-hourly scheduling, pathing and full position support beyond trade positions (including generation and consumption)

### Business Benefits

- Lower cost transmission contracts
- Reduced imbalance costs
- Reduced unused transmission capacity costs
- Greater staff efficiency in power market operations through automation

### Typical Allegro Configuration



# Optimizing Petroleum Logistics

Achieve optimal transport and storage of crude oil and refined products to ensure high availability and low cost

Companies that purchase, sell, transport, and store crude oil and refined products typically have special needs around logistics which are further complicated by the variety of transportation modes and storage locations. Managing these logistics in spreadsheets can lead to costly errors in scheduling and measurement, including inaccurate calculation of inventory, improper supply and demand matching, and problems around availability. Poorly managed physical logistics also leads to higher cost tariffs and ultimately higher transportation and storage costs. Allegro provides optimal matching of supply, transportation, storage and demand, as well as comprehensive documentation of complex logistics information. With detailed transparency into logistics activities, organizations experience better communications in logistics, greater efficiency, and effectively reduce their business costs.

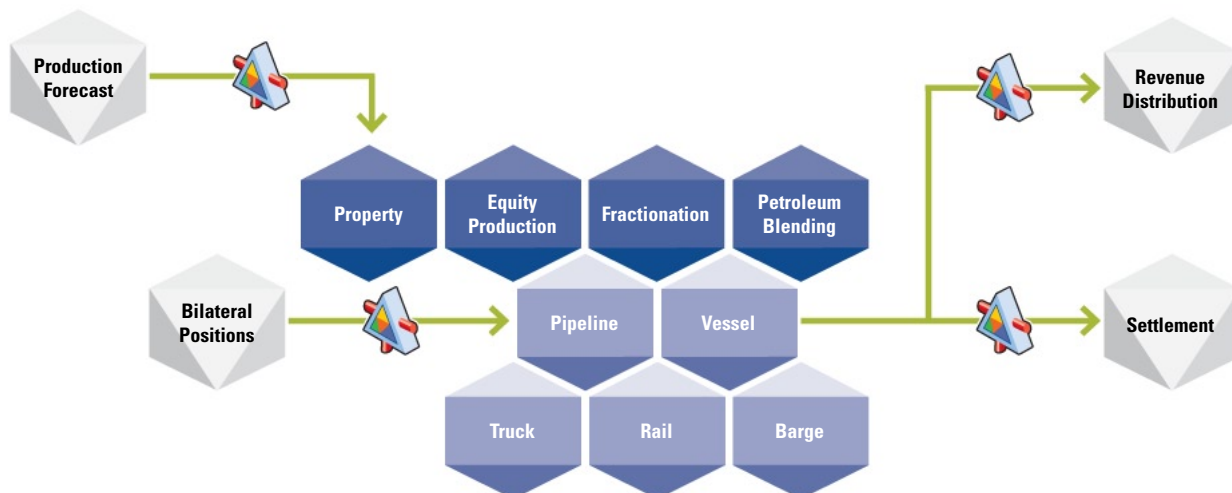
## Allegro Provides

- Optimal matching of supply, transportation, storage, and demand
- Comprehensive documentation of complex logistics information, including vessel vetting and laytime, voyage status and events, in-transit cargos and demurrage claims
- Automation of workflows and data integration to reduce errors and increase efficiency
- Management of exchange balances, operational contract tolerances, and product quality specifications

## Business Benefits

- Reduced transportation and storage costs, including demurrage expenses
- Improved risk mitigation around transportation and storage assets
- Improved logistics profitability with visibility into hidden transportation costs, fees, and taxes and better market decisions
- Reduced excess inventory costs
- Timely communication regarding logistics requirements and status, including shipment delays, conflicts and laboratory analysis
- Greater efficiency in logistics administration
- Better planning tools to avoid product overruns and outages

## Typical Allegro Configuration



“Inability to respond to regulatory changes can be crippling to clients who have rigid platforms or are in limbo on a major system overhaul.”

-- **Energy Risk, March 2010**

## **The Mandate for Control & Compliance**

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# Achieving Hedge Accounting Compliance

Manage compliance with accuracy and confidence

Managing hedge accounting compliance for government mandates requires many manual processes and can be expensive and time-consuming. Energy companies are under great pressure to meet these requirements and risk serious financial consequences if they fail to complete timely and accurate reporting. Organizations need the ability to account for the hedging of physical trades with derivative trades and to measure and report hedge effectiveness to government agencies. Allegro software solutions effectively reduce the time and cost of compliance with transparency into every transaction, analytical tools to evaluate hedge effectiveness and the ability to generate accurate reports.

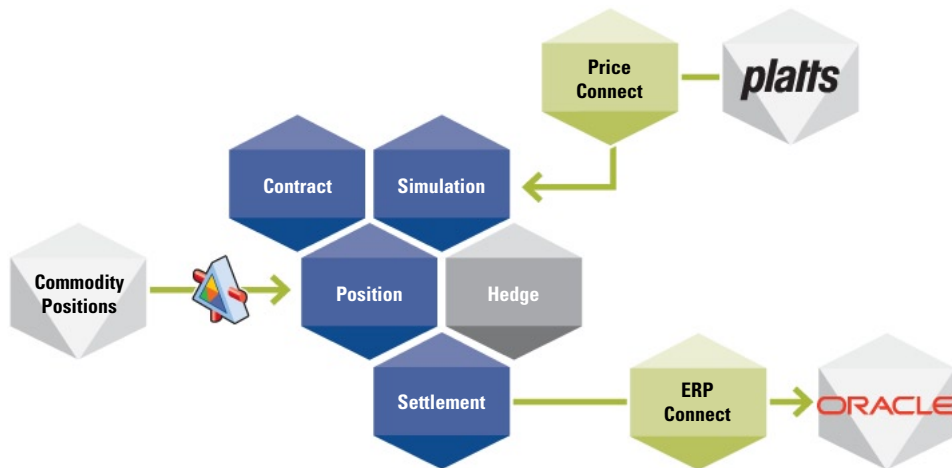
## Allegro Provides

- Identification of hedge accounting processes and automation of workflows
- Analysis of hedge effectiveness
- Detailed documentation to support financial statements
- Creation of financial entries for general ledger systems

## Business Benefits

- Elimination of penalties and terminations with timely, accurate regulatory compliance
- Reduced cost and time of compliance
- Supporting a higher share price and providing executive-level confidence that appropriate work processes are in place

## Typical Allegro Configuration



# Achieving Emissions Compliance

Manage compliance without expensive and personnel-intensive processes

Many companies struggle with the inefficiencies and time-consuming nature of using spreadsheets to comply with government mandates regarding emissions and renewables. Manually managing and reconciling certificates with physical positions can leave an organization exposed to severe financial penalties. Allegro provides a comprehensive solution that captures emission allowance allocations, surrenders, expirations and bilateral transactions and captures renewable energy bilateral transactions. These are then automatically matched to the certificate registry to reconcile the emissions and renewable energy certificates. Allegro also delivers physical positions tracking and inventory management which enhances reporting and decision making for environmental commodities.

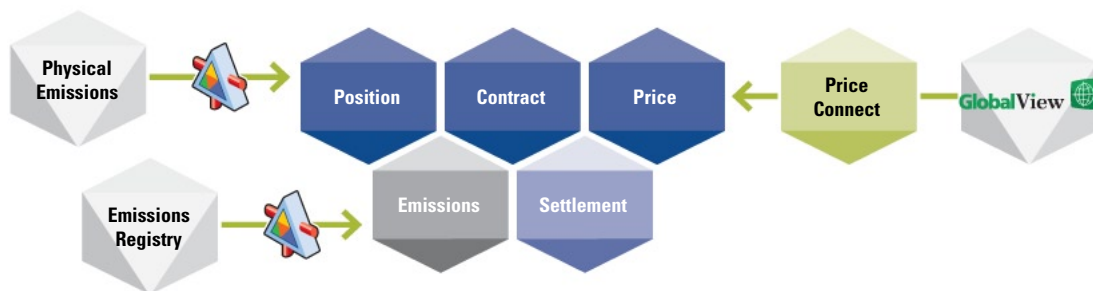
## Allegro Provides

- Capture of emission allowance allocations, surrenders, expirations, options and bilateral transactions
- Capture of renewable energy bilateral transactions and options
- Certificate registry reconciliation for emissions and renewable energy certificates
- Ability to take physical emissions measurements and renewable energy obligations, to allocate those to certificate positions, and to compare the net certificate inventory position
- Effective exercise decisions for energy option trades

## Business Benefits

- Reduced time and effort necessary to maintain compliance
- Accurate matching of certificates to physical positions to ensure compliance
- Reduced potential for financial penalty
- Improved reporting for emissions and renewables government mandates
- Emissions and renewable functionality integrated with all other commodity positions for improved portfolio-wide decision making

## Typical Allegro Configuration



# Improving Risk Control & Audit

Streamline business processes and implement necessary controls to reduce operational risk

Allegro solutions provide support for companies seeking to improve risk control and audit. When trades are entered in spreadsheets or captured in a system with weak controls, there is great potential for losses due to unverified trades, transactions that haven't been approved, or errors in business processes. Without proper limits on traders, positions, counterparty activity or credit breaches, companies compromise data integrity and expose themselves to operational risk. Additionally, inefficiencies and inaccuracy lead to greater manual efforts when complying with Sarbanes-Oxley and potential future regulations. Allegro enables efficient execution of business processes, including contract negotiation, trade capture and confirmation, with appropriate controls to ensure data integrity, validation of each step in the workflow, adherence to corporate policies, and compliance with government regulations.

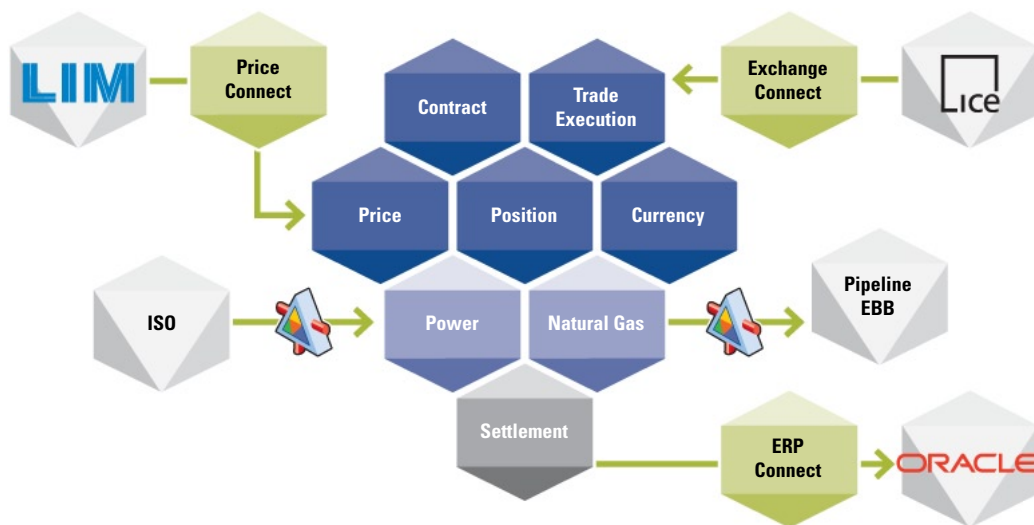
## Allegro Provides

- Ability to implement trade controls, approval processes, position limits, and security limits
- Monitoring and messaging to detect conditions which require attention, such as exceeding position limits, excessive Value at Risk (VaR), or credit limit breaches
- COSO framework reporting for Sarbanes Oxley compliance
- Flexible structure to manage future regulation
- Executive level visibility into compliance metrics

## Business Benefits

- Decreased cost of compliance, while increasing compliance with corporate policies
- Maximized human capital by allowing personnel to focus on creating value rather than manual tasks
- Reduced risk of operational failure
- Reduced risk associated with unapproved transactions
- Reduction in penalties and fines for non-compliance

## Typical Allegro Configuration



## Agile ETRM from Allegro

Allegro energy trading and risk management software delivers the fastest realization of business objectives and greatest flexibility with minimal risk and disruption to our customers' business. The key to this approach is that every effort centers around a specific business objective. This focus minimizes the number of specific business processes involved in achieving the objective. It also minimizes the number of technology changes required and minimizes the number of personnel affected. The result of all these steps is a faster realization of business objectives for our customers, better cost/benefit alignment, and higher total benefits over time.

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### About Allegro

Allegro is a global leader in energy trading & risk management solutions for power and gas utilities, refiners, producers, traders, and commodity consumers. With more than 27 years of deep industry expertise, Allegro's enterprise platform drives profitability and efficiency across front, middle, and back offices, while managing the complex logistics associated with physical commodities. Allegro provides customers with agile solutions to manage risk across natural gas, power, coal, crude oil, petroleum products, emissions, and other commodity markets, allowing decision makers to hedge and execute with confidence. Headquartered in Dallas, Texas, Allegro has offices in Calgary, Houston, London, Singapore, Sydney, and Zurich, along with a global network of partners.

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