ENERGY TRADERS ARE TURNING TO ETRM TO QUANTIFY THE 'E' IN ESG

Dealing with the “E” in ESG: The problem for energy traders might be solved in your ETRM

The problem? Energy companies face significant challenges in managing conflicting objectives to meet environmental goals while maintaining profitability. Traders, risk managers, fuel buyers and others in the energy commodity supply chain often struggle to align regulatory and stakeholder mandates with prudent commodity trading strategies. At the center of this conflict is the actual energy trade book itself and the choices inherent in its strategic execution.

When traders approach the renewables marketplace in search of financial instruments to satisfy ESG mandates and requirements, they face an array of choices that include RECs, RINs, VCOs and even relatively new physical commodities like renewable natural gas (RNG). However, the positive results in these renewable choices may be lost or diminished if not captured, tracked and monitored in a system of record like other commodity trades for natural gas, power, LNG or crude oil. Most organizations track their transactions with either a commercially available energy trading and risk management system (ETRM) or an in-house system. Many of these platforms, however, cannot address the “E” of the ESG paradigm. This lack of system capability coupled with ever-changing regulatory requirements often result in uncertainty of whether goals were met, or risk increased.

How can a trading operation prove in quantifiable and consistent terms that it effectively balances ESG initiatives and profitability? The answer is reporting, from the ETRM, that links high-level ESG objectives to specific trading strategies and outcomes. Forward-thinking organizations leverage advanced reporting functionality in ETRM systems to document their ESG-related activities. Certainly, no trading shop wants to spend more time creating ad-hoc reports and IT resources are often too scarce to automate a solution to the problem. The better way to solve this resource challenge is with an ETRM platform that supports advanced reporting requirements across all commodities and renewables. By capturing these transactions in an ETRM system, the entire value chain can be evaluated, tracked, monitored and linked to ESG mandates.

Trading in pursuit of ESG concerns may also bring new or additional risks that must be evaluated and monitored. As new mechanisms such as RECs, RINs, VCOs and others are still developing, historical pricing models, counterparty creditworthiness and challenging valuation calculations often add to uncertainty and risk. Solutions that capture renewable instruments provide methods to value and hedge against current and future exposures. Without a data repository or system of record to supply the reporting, energy companies are left with uncertainty, lack of current and historical data, or subjective assessments of their actual results in balancing ESG goals and profitability.
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FIS® Energy solutions (FIS Energy Trading, Risk and Logistics Platform, formerly Aligne; Commodity Risk Manager, formerly Kiodex; Market Data Suite, formerly MarketMap; Cross-asset Trading and Risk Platform, formerly Front Arena; and FIS Enterprise Risk Suite, formerly Adaptiv) provide a comprehensive framework for data collection, analysis and presentation that unites ESG and profitability goals. With an open technology approach, FIS Energy solutions enable organizations to report, monitor and communicate ESG data to satisfy requirements for transparency and effectiveness.

Talk to the expert

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FIS CAN HELP YOU TO MANAGE PRICE AND OPERATIONAL RISKS BY EFFECTIVELY:

- Enabling emissions trading, capturing forecasted and actual emissions, and supporting the issued purchase and sale of emissions allowances
- Enabling trading of renewables credits and related energy derivatives
- Capturing trade and allowance types including EU ETS, GOs, ROCs, LECs, CERs, RECs, REGOs, US Green Tags, SOX/NOX and other allowances and shapes
- Managing regulatory reporting by tracking trades and monitoring allowance surrender, true-ups and verification processes
- Capturing forecast and actual SOX, NOX or carbon emissions, alongside allowances trades
- Capturing emissions forecasts and actuals directly or uploading them from third-party models
- Managing registry accounts and account positions against the forecasts for verified emissions