

E.ON Energy Trading

Electricity Europe – House of the Year

energy risk
awards 2009

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German utility giant E.ON's pan-European trading business has long been at the forefront of the power markets. However, increasing interconnection and integration of national markets in recent years sparked the company to re-examine its structure, and in mid-2007 it announced plans to integrate its various trading units under one roof in Düsseldorf, creating E.ON Energy Trading (EET).

The project to unite around 900 employees covering markets spanning Europe was a huge undertaking, both in terms of the physical relocation and the movement of the majority of the wider E.ON group's commodity market positions.

Despite the challenge of bedding down the new business in tough market conditions, in 2008 EET posted impressive adjusted cross-commodity sales of €645 million, and traded 878.5 billion kWh of electricity. While no direct performance comparison can be made to 2007 due to the change in business structure, EET outperformed its own expectations. The speed and success of the integration combined with impressive financial results impressed the judging panel and earned EET *Energy Risk's Electricity Europe* award.

Tom Sargent, EET's director, Western European power and emission trading, says that traders welcomed the integration plans, despite natural personal uncertainties involving relocation. "Our trading community has always seen the potential of the E.ON group to expand its trading business," he says. "We could see the progress of wider market integration in Europe and saw



the advantages that creating a single trading business would offer."

Trading units from across Europe became active in Düsseldorf from January 2008, and that process continued until September 2008,



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Tom Sargent, E.ON Energy Trading

when the Nordic trading business was the final unit to arrive. January 2009 marked the completion of the legal integration process. "There's been a lot of change over the last year; our focus in 2008 was on bringing things together, while this year we're focused on harmonising our systems and processes, creating a single platform on which we can build," says Sargent.

One advantage of the move is the concentration of information flow between trading desks, but the timing of the integration also helped EET to cope with the intensification of the credit market turmoil that took hold from September last year.

"We were able to centralise the risk management and reporting functions, and that was a real benefit through

difficult economic times and the credit environment of last year," says Sargent. "A lot of focus was on what was happening externally and we were able to deal with that as a single business and a single point of relationship between us and parent E.ON AG. We had a single set of reporting positions and aggregated credit exposures, and that helped support the case for creating the single business."

Sargent says that concerns the integration process might impact on the efficiency of the business proved unfounded. Trading volumes rose throughout the year despite the changes. The economic downturn also failed to dent EET's performance, and its hedging functions became even more important. "Although European demand has been affected, we've seen a lot of volatility on the traded markets, so our business has remained very active," says Sargent. "We're having to risk manage and optimise positions in quite volatile circumstances, which leads to more volume rather than less."

Ultimately the integration has been a great success for EET, allowing its business to operate more efficiently in testing times. Over 70% of EET staff were retained from the pre-integration workforce. "The talent we have here is critical to our ongoing success," says Sargent. "Though there was danger of staff departures, we retained the bulk of our people and that was a key factor in both completing the process and growing the business."

Sargent adds that the company now has strong foundation for future growth. "We're on course to deliver our vision of becoming the leading asset-backed energy trader in Europe," he says. "It's great to win this award as it shows how far we've come in a relatively short time." ■