

Essent Energy Trading

Innovation of the Year

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★ Essent Xpress, a trading platform developed by Essent Energy Trading, is for traders who like to get their hands dirty. Using its cross-commodity and structured products expertise in the physical and financial energy markets, Essent built the online bilateral trading platform for structured products that don't yet sit within the liquid exchanges, but for which there is growing demand for risk management.

"Most of the liquid risk has been taken care of in Europe," says Stephen Cornish, Essent Energy Trading's vice-president of capital trading. But for the more sophisticated and complex, illiquid structured products – the clean spark, dark and black spreads in the Netherlands and Germany, and emerging products such as Germany's BEB gas and BAFA coal contracts, traders have no systematic and efficient market to lay off their risk.

These aren't products you will find on your local exchange. "Many of these products are very physical," says Cornish. "And only if you're transacting with industrials, municipalities, etc, understanding the indexes and delivering some of the products physically do you get to appreciate some of them."

Thanks to its cross-commodity expertise, Essent has a good understanding of such products and, with its risk warehousing experience, it knows how to manage them. Indeed, understanding and managing risk metrics is core to its trading philosophy, Cornish says. "We're not a prop shop, and we don't pretend to be. We're a company very strong on asset management and portfolio optimisation on the one side, very strong

on merchant origination, flow business and structured products on the other."

The products listed on the platform are the very products Essent would like to trade itself, Cornish says. As such, Xpress is well embedded in Essent's processes already, a fact that allowed for very effective development and deployment.

Jon Savage, Xpress business manager, was brought in as project manager in August 2006, and by February this year the company was demonstrating at energy conference E-world in Essen to great acclaim. Several counterparties are now live on the system, and Savage sees a large pipeline of counterparties interested in signing up.

The products on Xpress are essentially a shop window for Essent's full range. "Different counterparties in the value chain can access diverse products; once they go into the system, they might see other structures that maybe they didn't know it was possible to trade," Savage explains. "Or, if they like what they see, but want, say, a different time period, a slightly different index, it's certainly there as a catalyst to pick up the phone and speak to one of our originators," he says. "If it's on Xpress, then you can be pretty sure Essent has a risk profile for it."

New products are on the way in the next few months – new gas basis trades around Zeebrugge; financial basis power trades; a northern European power basket, which will be "all financial", according to Cornish; and a spark and dark spread basket.

"We're talking about highly structured products, which could be very interesting for our many counterparties," says Savage.

Should any of these products – just outside the scope of liquid exchanges – take off in the market, Cornish and Savage say they have no intention of going head-to-head with the brokers or exchanges. "If something picks up, we'll drop it. We have a pretty long list of products we could bring to the market," says Cornish. Essent Xpress is not just innovation in technology – it is rooted deep within an experienced and pragmatic energy risk manager, and for that is a clear winner of the Innovation of the Year award. **ER**