



# Developments in End User Markets: Richard Betts - E.ON Energy Trading

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## E.ON Energy Trading (EET)

- From January 2008, E.ON began the process of combining all of its European trading operations including power, gas, coal, oil, weather and CO2 to create one strategically focused pan-European energy trading business.
- By combining our existing successful trading businesses and building a single, focused trading unit, we will be able seize new opportunities created by the ongoing integration of European energy markets
- Our trading teams are now working across international borders from our new office, based in Düsseldorf, Germany.

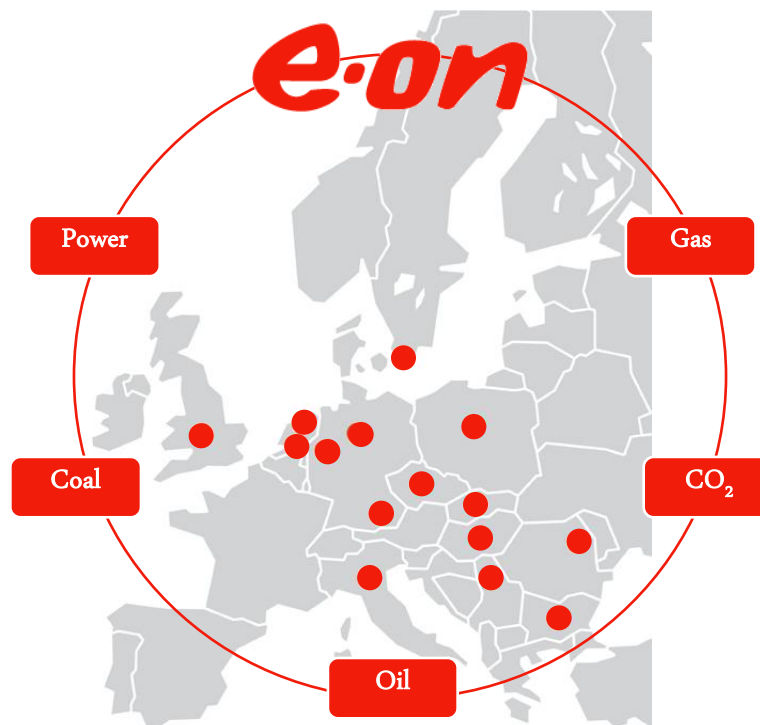
# E.ON Energy Trading location – Media Harbour Dusseldorf



# Previous E.ON energy Trading Activities

European trading activities were previously split across Europe within the following Business or Market Units and are now part of EET :

- E.ON Nordic, Malmö, Sweden
- E.ON D-Gas, The Hague, Netherlands
- E.ON UK, Coventry, UK
- E.ON Benelux, Rotterdam, Netherlands
- E.ON Sales & Trading Munich, Germany
- E.ON Hungary, Budapest
- E.ON Italy/Dalmine



- E.ON Kraftwerke, Hannover, Germany
- E.ON Ruhrgas, Essen, Germany
- E.ON Czech Republic, Prague
- E.ON Poland, Warsaw
- E.ON Slovakia\*, Bratislava
- E.ON Moldova, Romania, Bacău
- E.ON Sales & Trading, Serbia, Belgrade
- E.ON Sales & Trading Bulgaria, Sofia

\* Minority share

# E.ON Energy Trading is at the commercial heart of E.ON

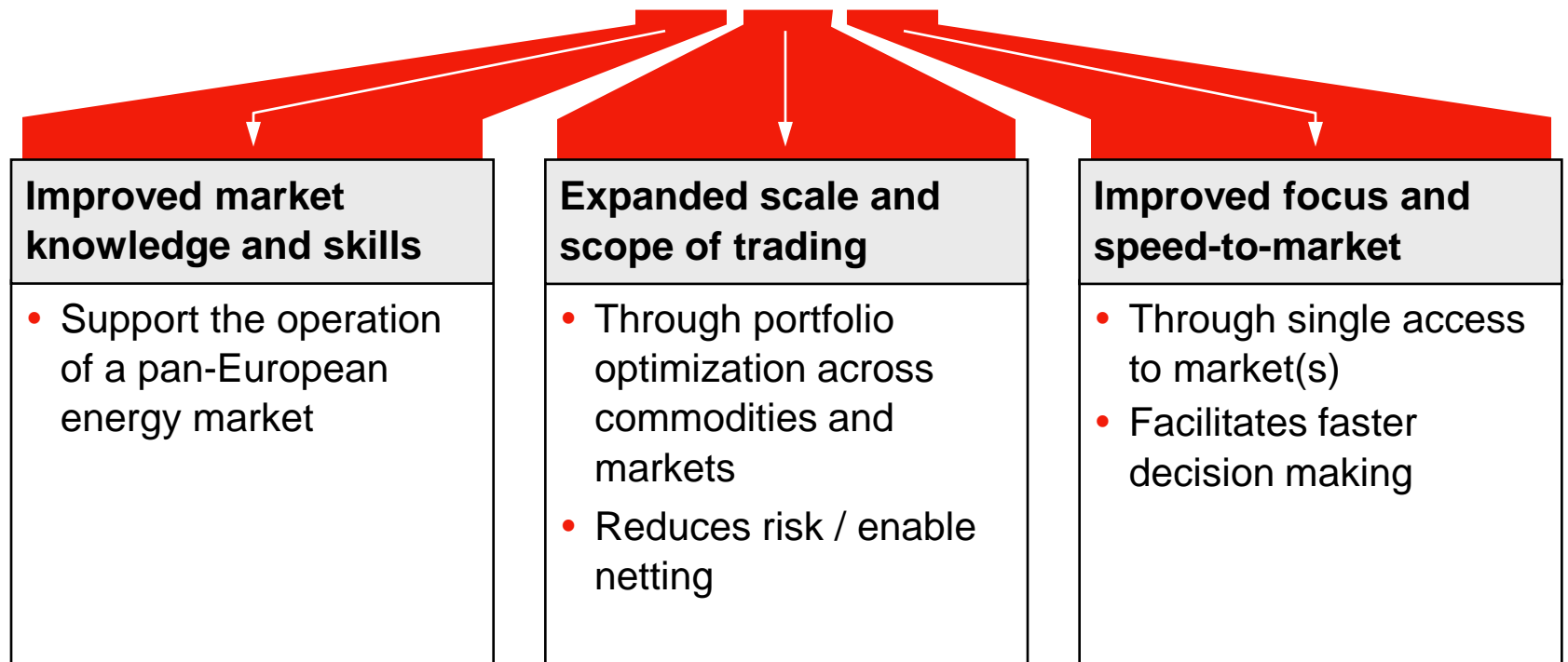
## **E.ON's well-diversified EU portfolio**

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- Over 60 GW installed power generation capacity with excellent mix of base, mid- and peak-load and fuel types
- Largest European gas supplier with  
> 1,000 TWh group-wide gas sales in 2006 from well-diversified sources
- 30 million customers in all important EU regional markets
- The broadest presence across Europe of any energy company

We are further developing our trading capabilities and expanding the scale and scope of our trading business

Markets will benefit from...



## E.ON Energy Trading - Weather Desk Set Up

- We aim to continuously innovate our business
- The creation of EET now enables us to analyse and optimize our Pan European portfolios with increased focus.
- As such we are in the process of setting up a Weather trading desk which will manage weather risk on behalf of all our Pan European portfolios
- We are currently developing an increasing number of counterparty relationships so we can transact quickly and efficiently on a variety of structures with the market.
- The creation of EET means that counterparties will benefit from risk allocation with one E.ON counterparty, who have an excellent credit standing.
- EET looks forward to an extremely productive and very successful future with all stakeholders in the Weather Derivatives Market



UK Weather Risk placement Winter 2007

# Weather Risk Placement 2007

## Background

- The UK business has previously managed small amounts of weather risk over a number of years using Weather Derivatives.
- During 2007 a rigorous analysis of the UK Gas Portfolio was carried out

## Gas Demand

- Analysis was performed using a number of historical years of weather data
- E.ON's UK Gas demand was replicated for those weather years using current customer numbers

## Pricing

- Gas price forecasts were then created for those weather years with a number of different supply scenarios

## Costs and Exposures

- Calculated to produce a distribution of the UK portfolio weather risk

## Risk Management Decision

- To investigate the placement of a hedge which reduced mild weather earnings volatility

# Hedge Design

- Speedwell Weather Derivatives (SWD) advised on the end to end process from Hedge design to Auction placement.
- Weather station data was analysed and concluded that a Hedge based on Nottingham Watnall Weather Station gave the best correlation with our risk , coupled with excellent data quality.
- Speedwell then analysed 30 different structures to optimally represent this exposure
- An HDD index was then designed which was deemed to be the best proxy to manage this risk

# Deal Placement

- Placement was conducted through a Vickrey/Dutch auction  
(i.e. offers were accepted until the entire capacity for the structure was filled, all clearing offers then received the highest clearing price for their offer)
- A wide range of Counterparties were selected to be included in the placement  
(subject to credit , regulatory considerations and final contract)
- Risk was placed via 3 separate deal structures under ISDA Terms & Conditions
- Total risk placed for period September 2007 – March 2008 was £56 Million
- E.ON was encouraged and impressed at the level of participation, market professionalism experienced and the size of risk transfer achieved



Energy  
Trading

Thank you...any questions?