

Technology firm Sakonnet sets its sights on the energy market

## Converging forces

The recent boom around energy and commodity markets cannot be ignored and the wealth of new participants to the market has meant a strong demand for innovative technology to support the tremendous growth. Technology firm, Sakonnet, was created in 1999 to deal with this precise need in the market.

The energy market was an obvious choice for Sakonnet's primary focus and easily justified, says Thurstan Bannister, Sakonnet's CEO. Sakonnet's "sole focus" is wholesale energy trading and risk software and related services, according to Bannister.

"We stake that out as our territory and do not want to be sidelined or distracted in terms of our mission to central clients," he notes. "It is very important for people to be on top of cross commodity risk and to understand their exposure to all the markets," he observes. "People in other asset classes also need to understand the relationship between energy and their own asset classes."

Sakonnet's Java-based Xenon system supports energy trading and risk management for both financial and physical trades across a wide range of energy markets, including power, gas, coal, oil and emissions. Sakonnet offers Xenon as a subscription-based, ASP model, enabling clients to avoid up-front capital costs and maintenance fees.

While the firm primarily focuses on the energy markets, its software is flexible enough to incorporate new products in line with client demand. "We designed the software to be underlying-neutral, so it can incorporate new assets or new instruments as they come up," explains Bannister, adding that the burgeoning emissions market is an example of this. "Our platform responds very well to incorporating new instruments and markets very quickly."

The firm's founding members were previously part of JP Morgan's commodity derivatives unit, with a particular focus on trading technology. This, as Bannister explains, has been extremely important in the development of Sakonnet.

"We wanted to found the company on the basis of deep expertise in the financial services sector," he notes. "My partners were responsible for the technology side of JP Morgan's commodity

derivatives unit and decided that energy was a major asset class and was seeing enormous volatility and structural changes that would continue."

With the founding members' background firmly rooted in the commodity derivatives space, Bannister has unsurprisingly witnessed staggering growth and development in the industry.

He highlights two key developments that have acted as a catalyst for growth in the energy markets. Firstly, he describes broader acceptance of derivatives as the most "fundamental development" within the market. "That underpins why the trading activity has expanded and led banks to pay attention to the market," he notes. Furthermore, regulatory changes have also played an instrumental part in harmonising the markets. "Regulatory changes and initiatives to create tradable markets in power and natural gas have been important," he begins, "because, prior to that, went from core production to someone's home without ever seeing a trading ticket."

There are "two converging forces" the firm is responding to, says Bannister; namely the new scale of energy trading, coupled with new technology demands participants have for enterprise applications.

"We see people taking their experiences from internet retail applications and demanding instant convenient information for traders and risk managers," he says. "We want to be at that intersection of an expanded asset class and a new expectation from those involved about how they should see their risk."

The past six months have seen Sakonnet focusing on the visual format of its technologies. "I am an intense believer in people trading better and controlling their risk better when they can see their books in a visual format," reasons Bannister. "To make a platform effective for the client, there has to be three components present: software, upgrade and service."

Looking to the future, Sakonnet wants to expand into the US power complex. "We are launching a capability in US power to capture the strength of the US energy markets, which will leverage our fundamental knowledge in power markets but tailor specifics to US markets." □



Thurstan Bannister, Sakonnet

Helen Wray