

# Nuon Case Study

risk controls and support were superior to many other offerings available in the market.

**The end result was the delivery of the largest SaaS deployment of its kind.** The complex migration task was completed on time and on budget, a critical factor in today's competitive environment.

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## INTRODUCTION

Nuon Energy Trade & Wholesale, one of the largest energy trading firms in Europe, has been on a growth curve which strained its trading room operations. Running 24/7, the trading room turned over € 3 billion in 2006 while using one system for power (KWI) and Sakonnet Technology's Xenon for all other commodities and consolidated risk management. The company was growing its volumes and running into operating friction as a result of running two competing vendor solutions. To eliminate the costs and operational inefficiencies of two mission critical systems, Nuon decided to move its trading operations to a single platform.

After reviewing all options, Nuon contracted with Sakonnet to expand Xenon's coverage to provide functionality for trading power. Although Xenon can be deployed a number of different ways, Nuon chose Sakonnet because its SaaS (Software as a Service) approach clearly was the best way to achieve its goals. Specifically, Sakonnet forms consultative partnerships with all its clients, involving them in all software development initiatives. The feature/functionality of the system,

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## THE CHALLENGE

Nuon didn't want to continue with two separate trading systems feeding its P&L and risk management.

"We were getting to the size and scope that the duality of two trading systems was overly burdensome, too creaky, and too prone to error," says Stephen Asplin, head of trading at the firm. "The company was spending too much time in the middle office translating power data to Xenon for risk management, positions and P&L. It was a burdensome process that had to run through the night, so it had an impact on end of day processes."

As the business grew (see sidebar), the reconciliation process between the two systems was garnering noticeable operational costs. It was clear that Nuon needed to focus more on increasing revenues, rather than bootstrapping multiple trading and risk systems.

### Nuon's Business Landscape

Nuon's business wasn't just growing in volume; it was also growing in complexity.

"There isn't much outside the US that we don't cover," says Stephen Asplin, Head of Trading.

Nuon's 80 traders cover power from the Nordic Pool down to Spain, and all the connecting markets in between – Benelux, France, Germany and the UK and now the Eastern European markets in Poland and the Czech Republic, with Hungary and Slovakia coming on board soon. In gas it trades the Dutch physical market now and will add the new hubs in Germany and along many border points – pretty much all the physical business or cleared forward business in gas.

"On the oil side we have the physical oil, barges, in and out of storage, and a lot of paper." Then there are the swaps – Brent on the exchange, swaps against Brent, gas, and cracks trading. Oil financially trades against oil, and against gas and coal.

"All the big Russian and Nordic gas contracts are priced off oil, as is LNG, and we have some gas to gas price competition. The gas contracts are quite challenging because they are finally settled against long-date and lagging oil formulas – it's not obvious system-wise how you handle it, but Xenon did a very good job," Asplin added.

Also critical are coal and emissions, both of which are captured within the Xenon system.

more sense than starting from scratch, but they embarked on a full-scale evaluation before reaching a decision.

The evaluation revealed that Xenon presented several advantages over competing solutions. For starters, the system offered all the functionality traders and risk managers need - including electronic trade capture, customized reporting and analytical capabilities. The Dashboard (Figure 1) is highly configurable, the screens are clear and intuitive and the menus are logically structured, which makes it easy to use and minimizes training.

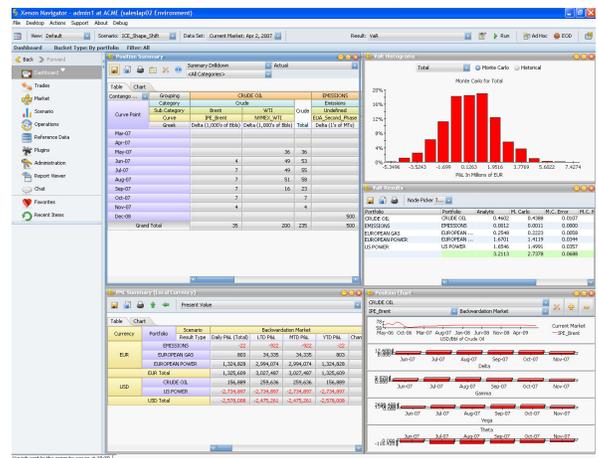


Figure 1: The Xenon Dashboard

All business processes from confirmations to final settlements can be handled via straight through processing, thus reducing the potential for error. Once a trade has been selected, relevant documents for confirm, invoice and settlement are automatically generated and tracked based on already-entered trade terms. This seamless transfer of data through the system increases the

## THE EVALUATION

Nuon began to explore its options in April 2005. From the beginning, the company concluded that picking one of its existing suppliers would make

efficiency of the back office, including an interface into SAP, and enables traders to concentrate on trading rather than paperwork. It also provides the transparency and accountability needed to manage operational risk and fulfill expanding regulatory requirements.

Risk managers can track trading books and market movements to assess their impact on equity value, as well as monitor trading floor activities. They can generate analytic VaR results as well as Monte Carlo and historical simulations. The intra-day and end-of-day reporting capabilities allow them to check, reconcile and understand risks within each portfolio. Since they can break down the reports by commodity or trader among other reporting schemes, they can track the sources of risk/return.

At the end of the evaluation, Nuon chose to expand its contract with Sakonnet to extend Xenon into power trading within a single system. During selection and implementation Nuon has been assisted by The Structure Group, a leading energy industry consultancy. "Not many companies run all the cross-commodity and risk reporting from one solution," notes David Rose, Structure's lead project manager on the account, "and Nuon is a significant operation. This was always going to be a challenge for whoever was selected."

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## THE PROJECT

The project team was fully integrated with three Sakonnet people on site all the time, three from The Structure Group, and four from Nuon. By all accounts, the team was built for efficiency and accountability.

*"We all knew what everyone else was doing," says Rose. "The Sakonnet team was responsible for software and we managed the configuration testing. Relationships on the team were excellent and the project ran very smoothly."*

"We were very pleased," says Asplin. "The process changeover met all expectations. Of course there were challenges, but for something so complex and business critical, they were to be expected. After all, this project dealt not just with trading, but with all our sales to 2 million customers and the price exposure associated with our assets."

By utilizing a cascading approach to project management, the project team minimized the inherent risks in the transition to the consolidated trading platform. A 'dynamic migration' approach was agreed to, with reconciliation between the source and target platforms closely monitored until the desired integrated solution was fully configured and tested. This strategy ensured that any data 'cutover' event would provide the least amount of disruption to day-to-day operations.

"The value this brought to the project cannot be understated as it meant that P&L and positions

were reconciled many months before cutover. The risk was minimal, merely switching off one system,” says Peter Loeffler, CFO and head of Professional Services for Sakonnet.

Nuon business users played a critical role during the implementation. Sakonnet and TSG conducted regular workshops and design reviews to ease the transition to the new platform. Training was provided continually on the trading floor during the assignment, thus avoiding the “big-bang” launch common with these projects .

The actual day of user cutover was treated as a celebration. Sakonnet and the rest of the implementation team remained onsite for the rollout, providing hands-on support to the trading floor and risk office. Feedback was gathered real-time, with improvements and changes discussed at the end of each trading day. Many enhancements were incorporated by the next morning, based on these user reviews.

It is worth noting the systems that were replaced have not been needed since cutover weekend. “This is a major achievement in the optimization of Nuon’s business processes and the simplification of the application landscape,” said Henk Verschoor, Nuon Head of IM.

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## BUSINESS BENEFITS

With the new, unified Xenon trading platform operational, Nuon is in a position to take advantage of greatly increased automation of

previously manual processes. Traded positions can now be updated without manual user intervention where appropriate, and settlement of delivered commodities is now uploaded to in-house financial systems from a single source.

Additionally, running on a single system has improved controls to the data feeds and simplified interfaces to other systems that depend on those outputs. It has also reduced Nuon’s licensing and support costs. There were significant savings with the decommissioning of the legacy power system. All hardware, support and maintenance costs are included in the Xenon package, so Nuon can focus on expanding the business and increasing revenues.

*“Sakonnet has built the system for the energy trading world, and they have factored a lot of lessons into the application with the result that it feels fresh, not like something that has been added onto over the years.”* This factor alone has streamlined the training process.

Because Nuon subscribes to Xenon’s SaaS model, the 80+ users can access Xenon from anywhere in the world with just an Internet connection. The solution is now a core part of Nuon’s planning for 2008 and beyond.

Ultimately, Nuon’s mission is to expand its European energy trading operations. As Nuon grows, it will continue to leverage leading technology to achieve competitive market

advantage and innovative edge. The long-term partnership with Sakonnet will play a critical role.

As Stephen Asplin says, “Our relationship with Sakonnet management goes back to 2001 – that’s an important component in making such a critical choice for our business.”