

The DESK

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Sakonnet Targets US Market With Managed ETRM Play

Not Long Ago, if You Were Interested in Securing a Fully Web-Based, Quickly Implemented, relatively low-cost energy trading risk management solution, your choices were limited. Kiodex (SunGard) has pretty much owned this slice of the ETRM market for several years. Recently, however, a second ASP player has joined the ETRM fray in US energy trading markets, having already cut its teeth in Europe. Sakonnet Technology, with offices in NYC, London and Rio, has actually been around for several years as well (started in 2000), but only recently re-set its sights on the US marketplace. Kiodex, unlike its closest competition, views its target customer base as hedge funds, banks and industrials, in that order. While Sakonnet sees banks and funds as a choice market as well, it also views energy merchants, utilities and other sizeable operations as its core audience. Currently, Sakonnet serves Fortis' trading operations in Europe and the US and E.ON Energie in Germany. As far as we know, this is the first real instance where an ASP plans to compete head-on with traditional desktop-based systems for business from the big energy trading shops.

We had an opportunity to speak with company CEO Thurstan Bannister recently and also to take in a Web-based tour of the company's primary ETRM offering, Xenon. Bottom line: This system is pretty robust. It's definitely not your father's ASP. Considering the price, short install time, impressive functionality and low maintenance required for feeding and watering the beast, we suggest you take a look at Xenon, a Java-based multi-tier system.

We've been pretty bullish on ASP platforms for nearly a decade now, but it's only in the past couple years that ETRM ASP's have become not just ready for primetime, but able to easily compete with traditional offerings, depending on your needs and goals. These platforms are no longer the exclusive venue of smaller operations, managing modest books in single commodity markets.

As it happens, Sakonnet first began marketing the product in the US for the oil and natural gas markets, but the timing wasn't exactly ideal. "The fall of Enron and all the rest pretty much axed our marketing efforts over here at the time. But since we had this underlying-neutral application and saw a lot of demand and interest from companies that were moving away from being monopoly national utilities to competitive energy companies, we had a good deal of success in Europe. Our timing was ideal over there. We closed with E.ON in 2002,"

Bannister says. "That early system focused mostly on power and emissions for the EU marketplace. And it wasn't until this year we refined and built out the suite to manage multi-commodities (oil, gas etc.) here in the US markets."

Bannister tells us the company somewhat eschews the ASP moniker for a more descriptive tag: the "software as a service" concept. "In our view, it's the most productive and effective software model available, where the client uses an application which evolves through rapid upgrades and is supported by outside experts." And how does that differ from any other ASP? "To us, an ASP only describes the hosting dimension, and typically applies to less complex enterprise applications. Software as a service is much more holistic, where you get the integrated bundle of hosting, tech support and upgrades. Zero-administration upgrades at a fast pace. We, for instance, deliver five major upgrades per year. Software as a service describes a far more complex ETRM platform."

Bannister tells us the company has been in production with Fortis since 2004. Fortis, a sizeable financial house, energy market maker and prop shop covering several commodities, such as crude, refined, power and natty gas, has lately been edging over to the physical space, and Sakonnet has been rapidly building out that capability as well. "Integration with all the exchange and broker platforms and managing physical transactions are our primary upgrade focus right now," he says.

So as not to reinvent the wheel, at least on the physical transaction side (or the risk side, for that matter), the company also has an active partner program. They've enlisted Structure Group's nMarket platform. They've also integrated various FEA models and ROME Corp's credit risk applications, all to help companies launch into new markets more rapidly. Smart.

The brief demo we were treated to recently – not the full-bore demo you paying customers will likely see – revealed a look and feel of one of the more sophisticated desk-top models. In fact, we wouldn't be able to tell whether this was loaded on somebody's site or on the box in front of us. As for speed, Bannister says Xenon was designed so that all business processes – from confirms to settlements – can be handled via STP. Speed is no issue. The dashboard is also quite familiar, and easy to use. No issue there either.

The bit we thought would interest mid-office folks and the more inspired traders is the multiple layers of simulation and stress-testing capabilities available. This was news to us for such a platform – very robust on that score. The systems reporting capabilities are pretty impressive as well. The best compliment we think can give this one is that it's a whole system. It's all grown up.

As other ASPs have had a hard time breaking into various market

segments over the years, these walls have indeed been crumbling in the energy trading sector, both in the US and elsewhere. We reckon a platform like Xenon will do just fine, without a lot of effort. No irony lost there.

For more information on Xenon, go to www.sknt.com or contact Dean Stiles at dean.stiles@sknt.com.

What About That Pesky Tail Risk?

We Asked Sharif Eladawy, a Director at Sakonnet, to Describe How the Xenon System can support users' activities in managing tail risk, the perennial giant killer in the sector.

"Most risk management policies include the requirement for the monitoring and management of standard risk metrics (VaR, P&L attribution and sensitivity analysis). During the normal course of events, these typical metrics are adequate to monitor risks associated with most market events; however, in this time of increasing uncertainty in the energy markets, risk managers need to keep a close eye on adverse events which impact solvency related issues. Market conditions can change quickly and radically as a result of terrorism, natural disasters and unforeseen economic drivers, which emphasizes the need to focus on the tail-risk (the extreme end of the expected returns distribution)," Eladawy says.

As such, energy-trading operations these days pretty much require a wholly flexible ETRM system that is able not only to model and calculate the standard risk metrics but can also perform flexible scenario analysis in order to identify and measure "tail risk."

Eladawy says that risk managers need to constantly ask the following question: What are the repercussions on my portfolio if the energy market experiences a catastrophic event (impacting major price swings and increased market volatility)? He says that Sakonnet Technology's Xenon ETRM application effectively addresses these issues through a variety of approaches, allowing risk managers to easily model various extreme events to determine the impact of catastrophic events on their portfolio. These tools include the ability to perform the following:

- Perform stress scenarios that mimic drastic market shifts (forward price curve and volatility curve shifts). Stress scenarios may define a price and volatility shift from the current market data set. The shift is defined independently for each market price curve as a fixed/percentage shift for each curve point. Therefore it is possible to set up a parallel shift, or to twist or skew the market curves.
- Run scenarios that shift the mapping of trades from the standard price curves to new scenario price curves ("extreme event" price curves). Multiple price and volatility shift scenarios can be run simultaneously and the results can be compared in the Xenon Dashboard.
- Effective visualization of positions and P&L to identify outliers (extreme loss scenarios) that result from flexible stress testing scenarios.
- Back-testing existing portfolio against historical price and volatility scenarios that persisted during a prior market shock.

"Through the use of a combination of the standard risk metrics and the various scenario analysis methods described above, an energy risk manager can effectively monitor and manage tail-risk," the company says.

Definitely not your father's ASP.

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