

## GDF Suez Trading

Risk Manager of the Year (Utility)



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Faced with the ill effects of regulation, renewables and recession, Europe's utilities have had a torrid 18 months. That has increased the need for strong and capable risk management, which GDF Suez Trading has provided in abundance, both to its own corporate parent and externally to third parties.

Between 2012 and 2014, Paris-based utility Engie – then known as GDF Suez – reorganised its portfolio management and trading business, giving GDF Suez Trading a more central role in optimising the group's physical and contractual assets. This reorganisation was a major reason for its success over the past 18 months, says Mircea Caratas, its chief commercial officer: "Bringing assets closer to the market is what has really changed the scope of our business."

Optimising the generation portfolio of Engie, with 39.7 gigawatts of installed power capacity in Europe, is no small task. Like other utilities, the group has faced a challenge with its combined-cycle gas turbines (CCGTs), whose profitability has plummeted with short-term variations in power prices caused by intermittent renewables. Those short-term variations make it critical that CCGTs are managed in a nimble and flexible fashion – something GDF Suez Trading has managed to achieve. "The physical asset managers work at freeing up flexibility so that plants are as responsive to real-time prices as possible, and the traders monetise these assets' values in the market," explains Laurent Caldichoury, deputy director of trading.

Another important piece of work has been optimising Engie's French natural gas storage facilities. Following two years of relatively flat prices, the European natural gas market became more volatile in 2014 amid escalating tension between



Mircea Caratas and Laurent Caldichoury

Russia and Ukraine. By June, high inventories were putting pressure on short-term prices, but winter prices were rising due to worries about Ukraine-related supply disruptions.

GDF Suez Trading saw an uptick in trading activity across the board in the past 18 months, including gas, power, coal, biomass, oil and emissions. In 2014, the unit doubled revenues from trading and origination, increased its oil sector revenues by 50%, upped traded gas volumes by 30% and traded a whopping 180 new products. The unit now provides risk management services to the top 10 airlines across Europe, Africa, Asia and the Middle East, Caratas says.

"GDF Suez Trading is extremely competitive on pricing, especially for swaps on power and coal," says a risk manager at a French industrial firm. "On longer-term power deals



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The widening of calendar spreads introduced higher levels of risk into physical inventory management and made the unit's work modelling storage capacity against the forward curve extremely important, says Caldichoury.

It's not just Engie that has benefited from GDF Suez Trading's risk management nous. The unit's status as a registered investment services provider means it can offer many of the same risk management services to third parties as an investment bank. But it also has a deep understanding of the industrial side of the energy business, Caratas says. The unit traded with over 350 companies globally last year, ranging from the largest integrated energy producers to retailers, distributors and consumers.

we've found it tends to be much more competitive than investment banks."

GDF Suez Trading also won several important long-term power offtake contracts from wind farms in Europe in 2014. Such contracts typically involve the unit purchasing power over a number of years, either at a fixed price or indexed to a short-term reference. Getting the deals done took robust weather forecasting abilities and a healthy risk appetite, says Caratas. "You need to be a big physical player with a large physical portfolio to do a trade like this," he says. "That's the advantage of being the trading arm of a physical, asset-based group."

So far, the trades have been profitable, he adds: "The results are in line with what we had hoped at this stage, and show that we have the right thinking and right models." ■