EnergyRisk Awards 2018

Electricity house of the year

ENGIE

Today's power markets are undergoing a revolutionary change driven by shifting customer demands and technological advances. Throughout 2017, ENGIE has remained at the cutting edge of this change, developing some innovative solutions to help its clients navigate the change. Key to its success is the firm's ability to anticipate not just market changes but the "shifting expectations of clients with regard to how energy services ought to be delivered", says Mircea Caratas, Paris-based chief commercial trading officer.

Technology is essential in developing innovative solutions and increasing operational efficiency, he adds. "[Investment in technology] is a one-way road now; there is no alternative in the energy market in general, or in the electricity market specifically; it's becoming so reactive and liquid and greater automation is part of that market evolution. Today, developing automatic solutions in areas such as trading or balancing is a must."

Remaining ahead of the game in terms of technological advancement is particularly important in the power markets as activity becomes more focused on the short term due to the transition towards the greater use of renewable sources of energy. "Investment in renewable energy – solar and wind power mainly – has transformed the market and, without understanding and having specific solutions to better forecast these renewable markets, it's very difficult for players to be successful in today's market," he says.

In 2017, ENGIE has been active on both sides of this market – working with producers and consumers of renewable energy to offtake or provide renewable energy, as well as tailored risk-management solutions. "On the producing side, we work with the asset developers on long-term offtake facilities or contracts, committing ENGIE to offtake power over the long term at fixed prices, which helps developers to finance these assets," Caratas says, explaining that the volume risk inherent in renewable energy production often makes it difficult for developers to secure a fixed price and therefore attract investor financing. "ENGIE has the capacity and the strong portfolio to be able to offload this risk over the long term, which typically means more than 10 years," he continues.

On the other side of the transaction, ENGIE can also offer end-users access to renewable energy on a long-term basis through the use of renewable power purchase agreements. "We place ourselves in the middle and take the risk on both sides – from the consumers who want to buy long-term green power contracts and from the producers trying to secure a long-term offtake for their projects."

In addition to technology firms that want to secure green power for large, energy-intensive data centres, a growing number of industrials also want to power their facilities with renewables. For example, earlier this year ENGIE signed a five-year fixed price photovoltaic power supply deal with global building materials supplier Wienerberger to provide green electricity to four of its Italian brick production facilities.

Targeting another shift in the market – namely growing interest from investors in buying European energy assets – ENGIE now offers its asset management expertise "as a service" to new or non-traditional power market entrants. "All sorts of investment funds and private equity players are buying energy assets, such as power plants and storage from utilities, but many do not have the necessary resources to physically manage these assets effectively," he says. "As intermittent renewable generation and price volatility drive value-creation on intraday markets, more counterparties have been drawn to this offering." In 2017, for example, ENGIE structured deals for short-term optimisation and market access services for two power plants in Italy with capacities of 240 megawatt and 150MW.

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Mircea Caratas, ENGIE

Typical services provided to clients in this area include developing tailored strategies for trading intraday and day-ahead markets, using a jointly-defined algorithm to bid on generating capacity in order to maximise revenue, and managing the associated risks on behalf of the client. "Our traders implement strategies to optimise value across European markets in real time and clients receive a guaranteed baseline based on day-ahead gross margin, and a share of profits beyond said baseline at no extra risk," Caratas explains, adding that this offering has global applications and is currently being developed for use in North America and in the burgeoning Chinese market.

In fact, following ENGIE's January 2017 move into the North American market with a Houston gas trading platform that is now staffed by 55 people, its sights are now firmly set on China. The company already has a Chinese business unit separate to its current Asia-Pacific operations and, in time, plans to develop its gas and power market offering. ENGIE has signed a strategic cooperation agreement with Linyang Energy, which has 1.5 gigawatts of solar capacity in China. However, he says the first step into this market will be via carbon emissions trading. "We have started with carbon and will continue with activities in power and renewables, depending on the development of the market," Caratas says, adding that ENGIE has already set up systems to trade the Shenzhen pilot emissions market from its Singapore platform. ■