

# the DESK

Thursday, February 10, 2000

Volume 3

## Around the Desk

### What a Year This Past Week Was.

Lots of activity on the EU front. We've heard that just about all of the major U.S. players that have opened trading shops in London, Amsterdam, in the NordPool area and elsewhere on the continent accelerated the process somewhat. Aquila, Reliant, Enron, Southern and others are reported to have stepped up their hiring and overall investment in these operations. The irony of course is that many of the trading groups over on this side of the pond are now weighing trading strategies – again – so don't be surprised when we write about some of the few remaining national trading operations opting for a more regional play.

Speaking of expanding operations in the EU, last week's announcement that the French government has finally given in to 'most' of the market liberalizing EU protocols, coincided nicely with EdF's aggressive ramping up of its trading desk in London. Last year we reported on the JV between EdF and Louis Dreyfus and their hopes for future domination of the EU power markets. When the French government started dragging its heels over competitive market regulations last fall – read, not opening its markets to other countries – about 10 countries along with the commission cried foul, and French companies were generally denied access everywhere. Thus the EdF/Dreyfus deal was suddenly on hold – or so we thought.

The holding pattern didn't exactly stop EdF Trading Ltd. from hiring staff and getting its London shop in order, or from quietly cutting at least one large deal in Spain. Sources in London tell us that recruitment ads in the big dailies officially began in earnest a few days ago. Actual recruitment we're told has been ongoing for many months.

Today's *Financial Times* recruitment ad reads this way: *EDF Trading Ltd. is a recently formed trading arm of Electricite de France and Louis Dreyfus and is presently establishing itself as a leading energy trading company within the rapidly evolving European energy market. These are exceptional opportunities to join the company at a time of significant strategic developments...there are three vacancies...for individuals with excel-*

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### Oil? Sure, We Do Oil

#### In Less Than a Year's Time the HoustonStreet Exchange Has Unquestionably Joined the Ranks

of companies that are truly redefining the energy business.

Not a week goes by these days when we don't hear about HoustonStreet.com's added functionality, new content, more backing, enhanced incentive programs – you name it.

It matters little if you actually trade the turbo-charged, Web-based energy exchange, or for that matter, if you even like these guys. It seems there is no stopping them. They're tenacious. They're risk takers. They're virtual. If they get it wrong the first time, they fix it, change it, or try something else.

Moxie. They got moxie. We like moxie.

And as of this week, they got oil, too.

With a cool \$6 million in the bank and the backing of Equiva Trading Company – the downstream oil trading alliance of Shell, Texaco and Saudi Aramco – Houston Street Exchange has been tasked with creating the next generation Web-based trading platform for oil and refined products such as gasoline, diesel, jet fuel and heating oil.

It's our guess the Portsmouth, NH-based operation will approach the new venture with a now all-too-familiar strategy: create a nearly idiot-proof front end, wedge in a basket of real-time market data, make security features a priority, ensure a steady stream of upgrades and wrap it all up in a whole lot of sizzle.

The announced venture between the big oil group and HoustonStreet  
*(Continued on page 2)*

### Caminus' New 'Flight Simulator'

#### In the Past Two Years We've Written Several Stories About Planned "Test Centers"

for new trading software applications. Several of the Big 5 had previously described visions of elaborate facilities in which customers or potential customers could essentially road test the latest in transaction and risk management systems to their hearts' content. The idea, largely fueled by the notion that no one system actually makes the grade as a stand-alone so different components and modules from various systems could be bolted together and tested – the so-called, best-of-breed system – after which you're Big 5 partner would sew together the various bits and everybody was happy.

Unfortunately, none of these "test centers" or "proving grounds" ever saw the light of day. In the final analysis, system vendors were never so keen on

loading their proprietary applications in a space they didn't control. Totally understandable from our standpoint, but for the market, another lost opportunity. But, as we found last week, not everybody buried the concept.

The latest rendition of the "test center" model was announced recently by Caminus' UK unit. After discussing the facility with Ian Mullane, the Caminus man on the scene, we've upgraded the "test center" tag to "flight simulator."

The folks at Caminus have brought together in one spot various software applications which together create an "ideal trading experience," according to Mullane. So if you're in the London area, you no longer have to grapple with quirky laptop demos and one-dimensional PowerPoint slide shows.

The "A" Team trading application suite, according to Caminus, looks something like this: Caminus (Zai\*Net),

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**(OIL? SURE WE DO OIL from page 1)**

speaks volumes about how some global, mature commodity players really see the world: first, that the Web is ultimately the answer, and second, that at this point in the game there's no reason to reinvent the wheel. Why create your own exchange when there are organizations like HoustonStreet around to do all the heavy lifting and do it well? All things considered, to a multi-billion dollar oil trading company, \$6 million is a small price to pay. Perhaps in the coming months others will take Equiva's lead. We may see a growing host of individual, company-sponsored exchanges, auction sites and bulletin boards begin to fall away, and operations like HoustonStreet, Altrade and Enermetrix begin to see levels of use and liquidity they always dreamed were possible.

Such is the way of competitive markets, no?

Equiva will use the new independent site as its primary Web-based trading platform for trading with other oil market players. According to company statements, the new HoustonStreet oil and products exchange (actually there will be two separate platforms, one for crude and the other for refined products) will allow industry traders from any organization to buy and sell crude and refined products (such as gasoline, heating oil, jet fuel or diesel) in this \$1 trillion industry. HoustonStreet.com will initially cover the U.S. trading market, and *plans to expand to encompass international markets.*

Here is another shift for HoustonStreet. So far as we know, it's only been recently that the word *international* has entered HoustonStreet's vocabulary. Hmm.

Frank Getman, the chief and founder of HoustonStreet, was a tough man to reach on Tuesday but we did manage to get him on the horn.

Suffice it to say, he was pleased. The Equiva announcement sent shares of BayCorp Holdings, Ltd. – the parent company of HoustonStreet, and yet another company the 30-something Getman founded a couple years ago – soaring.

"To be honest, oil wasn't part of the original plan. But as we got closer to rollout last year, we realized we had created not just a good exchange platform for trading power, but a really good platform, period. It didn't really matter whether you're talking about physicals or financials. A while back we began to look at energy in a broader context."

He says that as of this week, HoustonStreet is, "now focusing on becoming *the* premier brand for Internet-based

energy trading. When people hear HoustonStreet, I want them to think 'Internet,' 'energy trading'...and all the products that can be associated with that..."

Associated products? A set-up question to be sure. Which associated products? Bandwidth for instance?

"I see two opportunities for us. First, there's energy, standard products such as power, gas, oil, weather, and so on. All of these will be branded under the HoustonStreet banner. Unlike some Web-based exchanges, that seem to offer everything under the sun, HoustonStreet will always be about energy alone."

"Secondly there are things like bandwidth and other non-energy commodities. I think we have the opportunity to consider these things right now. We've been approached by a number of companies interested in accessing our exchange applications for several non-energy products. For this sort of thing, it wouldn't be a surprise to see a separate division set up to serve these other markets, leveraging our technology platform."

Like **Otherstuffexchange.com?**

"Is that name taken?" Getman fired back.

The thought that HoustonStreet Exchange may soon add "platform vendor" to its portfolio of services was never exactly part of the original plan either, according to Getman.

"The bigger surprise is that companies are approaching us on a global basis for that sort of thing," Getman says.

For the most part, development is still performed as an outsourced venture with Sapient Corp., but Getman tells us for the first time technical advisors have been brought in house.

Getman can be reached at 877/725-0510 or on the Web at [www.houstonstreet.com](http://www.houstonstreet.com).

## Trading System Vendor News

**Expect a Slew of New Sales Announcements From Some of the Top Systems Vendors** in the next week or so.

We are precluded from naming customers at this point, but we can say that Caminus, Nucleus, SAVA, new market entrant KWI, and Altra have reason to smile. TPT has also logged some new January sales for its oil trading platform as well.

Allegro reports a mixed month so far. Last year's sales jauggernaught received a reality check this month from Minnesota Power. It appears that the Minneapolis-based trading group has decided to drop Allegro as its system platform of record for energy trading and risk management. The change comes prior to full implementation of the system. Sources tell us that Caminus took the prize, lock, stock and barrel. We're told that Caminus will be loading it's full Zai\*Net package – risk, scheduling, trading. Implementation is expected in a matter of months.

Allegro chief Eldon Klaassen confirmed the move by MP earlier today. He also mentioned this was the "first time in five years we've been replaced by another commercial system. I don't think anyone else can make the same statement."

We think he's right. Klaassen also noted that he too will have *several new sales announcements to make in the near term.* He reports that his Duke Energy implementation is going quite well. Duke Energy? Huh, What? Late in the year a new trading group within the Duke family, a new desk which focuses on trading coal, resid, and crude, took delivery of Allegro's risk management, coal, crude, NGLs and refined products applications. It went live on Jan 1. Additionally, Allegro's new Houston 'satellite' office is open for business and staffed with about six DBMs.



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THE DESK

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**(CAMINUS' NEW 'FLIGHT SIMULATOR' from page 2)**

Syntegra, Automated Power Exchange (APX), TIBCO Software and Sun Microsystems. The new trading floor will serve as a "training accelerator for trading teams looking to test and perfect their chosen strategies, systems and skills," and more specifically, a "knowledge and skills development center" for companies preparing for the new UK energy trading arrangements, scheduled to be fully operational by October 2000.

At the heart of the operation is of course the Zai\*Net Energy Software Suite, courtesy of Caminus. Syntegra will provide trading platforms and will be responsible for integrating the five companies' products into one a single trading solution. APX will present its software and services for Internet power exchanges. TIBCO Software provides its real-time infrastructure software for linking applications and platforms to this unique energy showcase. Sun Microsystems will be taking on the role of 'Technology Partner,' providing an Enterprise server from its range of scalable, robust computer systems as the foundation platform for the new center.

Ian Mullane, managing director of software operations/EU for Caminus, and a former trader himself, tells us the idea for the new center surfaced about two months ago. He says the one-dimensional approach to marketing and demoing software is "no longer in sync with this marketplace. They wanted more, and this is our response."

He says that besides being a primary tool to support sales and marketing, the new facility was initially designed as a training center, a 'flight simulator', if you will, for bare-knuckled energy trading.

"We're opening ourselves up here for all to see. It goes way beyond a sales pitch. We will interactively let participants experience real trading conditions utilizing software that takes the trader from the retail to the wholesale ends of the transaction stream," Mullane says.

The basic program goes like this: Customers or perspective customers (or new Caminus staff) get a short overview of transaction entry screens and are briefed on the various areas of functionality. Following the intro, participants are assigned roles - head trader, risk manager, retail load manager or manager of a particular customer base.

"Then we count down to zero and they're suddenly in live trading conditions. Tibco's messaging applications will actually stream data to users such as sudden unit outages, unplanned maintenance, retail load suddenly skyrocketing, whatever. We get to see how real users react, and also get to stress-test our products and look for areas of improvement. Everybody wins."

At the end of the session, the market close bell sounds and they pull the plug, just like in the real world.

"At any time users will be able to ask their risk manager, what's the open position at the present time? What's the VaR? And so on. I'm pretty sure this is the first time all of these applications have gotten together in one place outside of a real trading floor."

The new London-based operation has a full-time staff.

Larry Schwartz, the Caminus marketing veep in NYC, tells us that while future facilities on this side of the pond are not yet in the final script, he says "we will be closely monitoring the success of the prototype London facility."

Mullane can be reached at [imullane@caminus.com](mailto:imullane@caminus.com). Call Schwartz at 212/888-3600.

**NETA Remains on Schedule**

**Contrary to Recent Media Comment and Speculation,** the introduction of the UK's new electricity trading arrangements (NETA) remains "very much on schedule," according to a Ofgem spokesman. He added that providing the Utility Bill - which contains the NETA legislation - receives royal assent in the summer then there is no reason to suggest that the timetable will falter. Indeed the decision to pass legislation on NETA, which Ofgem said was taken to provide a "clearer and more certain timetable," will probably ensure that NETA meets its deadline unlike previous electricity deadlines on market competition. And with the Utility Bill now entering the committee stage of its progress through Parliament, the bill is likely to receive its royal assent before Parliament recesses.

Although pivotal, royal assent of the Utility Bill is just one element of a complex timetable of events that needs to be concluded before NETA goes live on Oct. 31. The extent of the timetable was outlined at a NETA seminar on Feb. 3, which also addressed the program overview, system design and build, legal implications, trading arrangements, pricing issues and transmission access and losses.

Within the NETA timetable, the next milestone to be achieved is completing the definition of implementation strategy, which has Feb. 28 deadline, followed by the completion of design specifications by the end of March. The next major milestone will be the completion of the drafting and NETA review of the Balancing and Settlement Code (BSC) by June 16, which will lead to the BSC becoming legally effective, assuming that the Utility Bill receives its royal assent in July.

With the BSC in place, full NETA testing will start Aug. 4 and be completed by Oct. 27, four days before NETA goes live.

The timetable appears to be have constructed with regimental precision. Very little leeway has been allowed. That said, all involved remain confident that the timetable will be met. If it is not, it will certainly cause some embarrassment. Not just to Ofgem, but also to the government which has been confident of its ability to enact these market trading changes.

The Balancing and Settlement Code Company (BSCCo) will operate the BSC and be responsible for managing the NETA balancing mechanism. Earlier this month, Ofgem appointed Nicholas Durlacher, chairman of the SFA, as its chairman. Durlacher will operate as chairman-elect with immediate effect and take over full responsibility when the BSC is legally effective. Before then, the BSC board members will be elected by the end of May.

Commenting on Durlacher's appointment, Callum McCarthy, director general of Ofgem, said he was delighted that Durlacher had agreed. "His experience of trading at the highest levels will ensure that NETA's Balancing and Settlement Code operates in a professional and transparent way. He added that his appointment "is another milestone in the NETA program, which continues to be on track for introduction this autumn."

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**(AROUND THE DESK continued from page 1)**

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"The operation is up and running," sources say.

We're told that EdF unofficially began playing the market at the beginning of the year, in advance of the French government actually signing off on the necessary regs.

Another FLASH from across the pond has TotalFina/Elf is setting up a gas and power trading operation in London as well. We're told that Elf is moving a number of senior traders from the Geneva operation to London. The new desk will be ready for prime time sometime next quarter. "A sizeable operation" is how our source described the new TotalFina/Elf shop. More on this in the next issue.

Our source says that as the weeks pass, London is fast becoming the breakaway favorite for new energy trading operations. Continental talent is rushing in like never before we're told, and the prices for talent are beginning to reflect U.S. standards.

Speaking of new talent, last week we learned that two U.S.-based exchange operations - MA-based Enermetrix and CA-based APX both signed on some top-flight expertise to their fast-expanding operations. Enermetrix, a Web-based, reverse auction platform that has seen significant user and volumetric growth -- and in the past four-quarters a tasty bit of new venture backing - has hooked in Ershel C. Redd, Jr., vice president of e prime, Inc. and Annette Van Brunt, director of ops and business development for of Duke Solutions to the company's advisory board. They will be in good company: Enermetrix loaded up its board over the past two years with the likes of Charles Henry, president of the CBOE and NERC board member, former O&R CEO D. Louis Peoples, James Daly, president, Unutil Resources, Inc., and others.

In the increasingly crowded field of Web-based auction/exchange sites, conventional wisdom and venture dollars seems to lean more toward those with first mover status - Enermetrix, HoustonStreet, Altrade and to a much lesser extent, APX, seem to be grabbing most of the beans. Two of the four, HoustonStreet and APX are now charging the EU with their unique platforms. The APX has made significant headway already in London, overshadowing the troubled, other APX (Amsterdam Power Exchange). Last week, the Automated Power Exchange announced the acquisition of some new talent as well. Recent Nord Pool President and CEO Per Hjorth will join APX as managing director of APX's European businesses. He will be responsible for rolling out the company's e-commerce services throughout the region, including wholesale electricity exchanges, such as the APX UK, which is set to open in the next couple months. The APX is said to be weighing other site options on the continent as well.

APX's track record in the U.S. - volume-wise - is a bit

spotty. Perhaps it will have more luck overseas.

But, judging from what HoustonStreet's Frank Getman tells us (see *Oil? Sure We Got Oil* story on page 1) competition to the APX in the EU markets may just turn out to be from a fellow countryman's platform and not from the various Euro power exchanges slated to go critical in 2000. We think that most of the "formal" exchanges now on the books in the EU will likely suffer the same fate as U.S. power exchanges in California, Chicago and NYC - they simply can't compete with the surging OTC market, at least not now. Perhaps in five years or so we'll see a different game.

New Exchange hopeful EnronOnline released some respectable numbers today - according to company statements, the Enron-only site is now trading over 1,000 contracts a day for power and other energies. Not bad for two months operating.

"The first two months activity had a notional value, which is really kind of volume times price, of approximately \$2.5 billion a month, or about \$30 billion annualized rate, according to Enron chief Ken Lay.

Other exchange news: Energy services provider Avistar Inc. (a wholly-owned subsidiary of PNM, Public Service Company of New Mexico) announced today that it has acquired a significant stake in AMDAX.com, a business-to-business e-commerce company in CA. The company's primary product is a soon-to-be-launched Internet-based auction platform called "PowerBid." Using a model similar to Enermetrix, PowerBid, allows multiple energy suppliers to compete for energy contracts of C&I customers. AMDAX is said to offer a range of additional customer services, mostly through JVs, including energy audits, billing, meter installations, meter reading and DSM. The company expects to go critical next month.

Westcoast Energy Inc. and Swedish exchange developer, OM Group, have entered into a partnership aimed at enhancing "NGX Canada's position as a leading energy exchange in the North American market." NGX, based in Calgary, is an electronic gas trading platform for the Intra-Alberta and Empress markets in Canada. Over the past six years, NGX grown to over 120 trading and viewing customers with trading volumes averaging over 200,000 TJ per month. With the help of the OM Group, we expect some big things out of NGX. Company statements make it sound like the NGX will serve as a proving ground for new OM bells and whistles: "NGX will be the platform from where we roll-our new, innovative and cost-effective energy trading products, such as a range of energy derivatives, to the rest of North America," said Magnus Karlsson, of OM.



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