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An Interview with David Edwards of Baringa Partners

*By Gary M. Vasey, Ph.D.
Managing Director, Europe and AsiaPac*

This interview is the second in a series of interviews with major consultancies in the Commodities Trading & Risk Management area. I had the opportunity to visit with David Edwards of UK-based Baringa Partners and ask him a few questions about his firm and the commodities trading and risk management industry in Europe.

Dr. Gary Vasey: Tell us something about Baringa Partners? What does the firm focus on and what types of projects do you engage in?

David Edwards: Baringa Partners focuses on partnering with major energy players to deliver the largest strategic programmes of business and IT change in the industry. Typically clients bring us in at the very start of their change process to assist them in defining and mobilizing large programmes of work. Our client engagements span corporate and operational strategy, including high value gross margin improvement projects around performance measurement and portfolio optimization, through to major systems delivery programmes. We work with our clients to define and deliver a holistic view of change which encompasses strategy, organization, process and systems. We are truly domain-focused and have a strong reputation in the industry for delivery.

Dr. Vasey: What do you see as the "hot issues" in and around ETRM and Energy Trading in Europe right now?

Mr. Edwards: We are seeing a lot of activity around business re-structuring including post-merger integration, re-organizations of business units within vertically integrated entities and also centralization of traditionally dispersed trading hubs. Such fundamental change is challenging for our clients in terms of defining pragmatic, realistic and achievable programmes of work. However, it also presents huge opportunities to look at new ways of measuring and improving performance and margin contribution across the integrated value chain as well as improving operational cost efficiencies and rationalizing IT spend. Other key challenges include "speed to market" where business ambition to expand into new markets, and trade new

instruments and commodities needs to be matched by an operational platform that can expand to manage this new business and deliver value with appropriate key market and operational risk controls in place.

Dr. Vasey: How do you see the current state of wholesale energy markets in Europe? Where do you see the potential in the future?

Mr. Edwards: There is a huge amount of dynamism in the markets at the moment with a vigorous play into developing markets in Central and Eastern Europe as well as renewed interest in energy and other commodities from the financial institutions. We also see a great deal of interest from the vertically integrated utilities in understanding true gross margin contribution around different parts of the portfolio. Indeed, we have had great success in working with our clients to reduce margin leakage in areas such as short term power and gas optimization and the end to end management of large I&C power and gas contracts. This trend of driving transparency along the value chain is set to continue and will need to be matched with supporting changes in key business processes, IT systems and performance measurement frameworks.

Dr. Vasey: Baringa helps its clients with ETRM software selection amongst other services. Might you give our readers the benefit of your experience there and provide a few “lessons learned” that might help them when they undertake ETRM selection projects?

Mr. Edwards: Baringa is commercially independent and is therefore able to advise clients on any aspects of trading architectures with their specific requirements and a “fit for purpose” solution firmly in mind. We have recently delivered major implementations of all of the leading ETRM platforms as well as many of the smaller platforms, and we have built up extensive knowledge of the vendors and their systems. We believe that a structured and well-managed evaluation process gives our clients the best chance of selecting a system to meet their needs and will allow them to engage vendors in a commercially optimal way. A clear, well-written set of business and technical requirements for the target trading platform is obviously key, but we also believe it is crucial to understand the future target operating model, including book structure, reporting processes and interfaces with other business units, as early as possible in the process. Finally, it is important to have strong executive-level advocacy for the process and to engage all key senior stakeholders through regular communications, dress rehearsals for key decision meetings and buy-in to the fundamental evaluation and decision-making criteria.

Dr. Vasey: CommodityPoint research shows that most firms have very un-integrated suites of software supporting their trading and risk management activities, we believe that this is a major concern and that it prevents the implementation of true STP and therefore inhibits the implementation of controls and checkpoints. Do you agree and can Baringa offer any best practice thoughts in this area?

Mr. Edwards: Experience tells us that it is unrealistic for energy trading firms to expect a single vendor solution for the totality of their front-to-back trading requirements. There will always be part of the energy trading architecture that, for reasons of specific proprietary business requirements, cost, or particular desired flexibility, will end up as modular or bolt-on solutions to a core ETRM system. However these “step-out” choices must be weighed against the very

real value delivered from having an integrated system that delivers true STP in terms of improved financial and operational controls, reduced IT costs and general cost efficiencies. Striving for automation in key standard, high-volume processes such as market data manipulation, confirmations and settlements, is central to delivering cost efficiencies for a well-run trading organization.

Dr. Vasey: CommodityPoint sees "risk management" generally as a real issue at the moment. What do you believe are the trends in risk management right now?

Mr. Edwards: Our clients are continuing the task of embedding fundamental risk management measures within their business and starting to understand the real cost of capital allocation. This is starting to be viewed as a real opportunity cost to the business and in the most sophisticated players is being reflected in proportionately allocated internal costs for particular trading activities. Price risk management is also becoming a key theme with companies increasingly wanting to understand real price risk attribution for complex indexed contracts and additionally employing structured profit and loss attribution techniques to measure and report on hedging and optimization strategies. Finally given recent economic uncertainties we see a lot of focus on general counterparty credit risk and collateral management including more widespread use of exchange and OTC clearing and bilateral margining..



David Edwards
Partner, Wholesale Energy Consulting Practice
Baringa Partners

Mr. Edwards has over 13 years of business and IT consulting experience in energy markets throughout Europe and North America. Mr. Edwards has managed, and provided thought leadership for, a number of large energy trading and risk management system and business transition programmes in the European energy markets. Internally, Mr. Edwards is part of the Baringa Partners leadership team with specific focus on developing Baringa's Wholesale Energy practice and additionally has executive responsibility for recruiting.

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