

Global Energy@Market (GEM)

Global Energy Advisory & Super Derivatives launch a joint initiative to provide a new independent energy Mark to Market service for use by the global energy industry.

With a future of punishing volatility, recession and an extended credit crisis, energy companies need to be forensic about their trading risk positions and responsibly watch the credit health of their counterparts. Energy companies need to be "exacting" in their standard of risk management.



By working with SuperDerivatives we believe that together our companies provide the best possible Independent Mark to Market (IMTM) analytical capabilities with global reach for every energy commodity and derivative structure. We call this service Global Energy@Market (GEM) which uses the SD-CM real-time price-feeds from global commodity exchanges and complementary data from multiple trusted inter-bank and OTC market contributors to provide the underlying data for our valuations.

Why Independent Mark to Market

It is standard practice for energy firms to monitor their commodity risk by taking daily snapshots or what we call "Mark to Market"(MTM) which are views of trading positions. We stress these for our standard risk reports such as Value@Risk or Peak Cash Flow Exposure; these help firms understand and monitor price and counterpart credit risk. However, with counterparts using



specialized in-house models or data feeds from different sources it's not surprising that there is some uncertainty surrounding each others perceptions of outright exposure.

Advantages of Using GEM

GEM provides:

- Independent MTM derivative/portfolio management, automatically or as required; and
- Valuations for more illiquid transactions by making use of the Super Derivatives proprietary volatility term surface modeling techniques which estimate and hence mark the position;
- GEM is available to all firms on a trade by trade fee basis.

GEM can:

- Support daily cross commodity trading and contract negotiation;
- Give confidence to risk committees that new or structured products have been analyzed properly;
- Give global reach and independent support to the largest trading groups by providing expert valuations;
- Save time (and frustration) in agreeing a credit exposure with a counterparty;
- Build confidence and provide back-up support for companies trading in a new commodity; and
- Provide cost effective portfolio review.

Once GEM has identified/confirmed/re-evaluated a credit exposure it's a simple step to managing the credit risk by making use of the proprietary financing and settlement solution called Center.

Center: Credit ENhancement of Traded ENeRgy.

Credit capital can be sizeable and firms do not want to post any more than is entirely necessary. Similarly if a company has an In the Money (ITM) position they want to know they have it covered to the best of their ability. With commodities exhibiting such volatility, large credit events could become an endemic feature of the global energy markets. Firms really need the expert independent support of industrial strength IMTM valuations which GEM provides.

Center is a proprietary platform for bilateral, multilateral collateral financing and settlement. Center allows companies to automatically/voluntarily monetize energy contracts and positions and hence clear credit lines.



Owned and operated by Orbian, the Center solution is based on a collaborative effort between two companies engaged in normal trading activity. One company/(Obligor) must enter an approved future dated payment instruction/ obligation into the system in favor of its counterpart. The

counterpart can immediately discount the approved payment at a cost of Libor, plus a margin, which is based on the credit quality of the Obligor – a very competitive form of finance.

For example if Trader A had a \$100mn Out of The Money(OTM) trading position, and the other counterpart asks Trader A to post for either \$100mn in cash or an Letter of Credit (LC) to cover the credit risk, then Trader A could avoid doing this by entering a payment instruction into the Orbian system. The counterpart can immediately discount the \$100mn for cash and receive the proceeds in 2 days.

Center is gaining international momentum. In early July Global Energy Advisory and Orbian hosted an industry gathering for the main UK and European energy companies in London. There is also interest from energy firms in Asia and the US. Last week, by invitation, Center was demonstrated to the specialist credit committee of the European Federation of Energy Traders (EFET), who readily saw the benefits in reducing traditional 20 or 40 day settlement risk to just 2.

With banking credit lines constrained for the foreseeable future and the “sleeveing of deals” fast disappearing, the industry has limited tools to manage their future credit exposure.

Although simple in concept GEM and Center may both be sophisticated financial market proprietary mechanisms but they are available now for use by the energy industry and contribute to state of the art risk management.

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“SuperDerivatives is the world’s leading derivatives solution provider. It provides real-time accurate pricing for all options through its unique pricing model that has become the world benchmark for option pricing.

GEM compliments our Center product with Orbian, which is a proprietary financing and settlement mechanism to supply working capital to credit enhance trading positions while simultaneously dissipating trading credit risk into the wider financial markets. ...It’s all good energy trading and risk management. Our counterparts, investors and customers deserve us to use the best risk management practices...”

Aily Armour-Biggs, Global Energy Advisory, CEO.

“SuperDerivatives continue to be recognized as the benchmark options pricing system.”

Euromoney, March 2005

Global Energy Advisory

Global Energy Advisory comprises seasoned experts in the global



energy market: entry criteria are a minimum of 20 years’ experience in related disciplines. We draw on our team of senior advisors and consultants to complement and enhance our modelling scenarios, providing unrivalled clarity in an uncertain energy future.

Enterprise Wide Risk and System Development



Our solutions company – Global

Energy Solutions – works closely with Microgen plc, one of the City’s leading business software companies, to offer clients a clean, efficient and fast track IT delivery. Microgen’s Aptitude business process management and business rules framework enables us to advise on best practice price risk management, as well as fast, comprehensive and controlled deployment of company-wide risk systems.

Global Energy Finance



Global Energy Finance is a Global Energy Advisory working relationship

with Orbian Corp. The company has a proprietary finance structure evolved from a Supply Chain Finance (SCF) solution the concept of which was initially developed by Citibank and SAP. This solution combines trade financing provided by a financial institution, a third-party, or internal funds; and a technology solution that unites the buyer, supplier and the trade financing source electronically. In short this is a payment platform that serves as a gateway to the financial markets with global financing capability.