

A CAN-DO ATTITUDE

Axpo Trading & Sales aims to optimise the production of Switzerland-based utility Axpo, but is increasingly offering the same service to external clients, including renewable generators. *Energy Risk* talks to Domenico De Luca, head of international trading and origination, about the firm's activities

Energy Risk: What is Axpo's current area of focus?

Domenico De Luca: We have several key activities. One is asset-backed trading. We have assets in Switzerland and in Italy, mainly, and some long-term contracts in France, so a big activity is the optimisation of these portfolios. Another is origination, which involves customer-based activity. We also engage in speculative trading in energy, power, gas, emissions, coal and biomass. We are quite successful in both asset-backed trading and speculative trading, but do not anticipate an increase in these activities in the future. Our growth must come from customer businesses. The activity of origination is where we actually want to grow further, which includes offering services to renewable clients.

Energy Risk: Many banks and large utilities are stepping back from European power and gas because they see it as less attractive. Do you have a different view?

Domenico De Luca: Yes, we have a different view. First of all, we are much more familiar with the territory, so we have more originators – a higher number of originators than a bank.

Another difference is that banks are heavily regulated through the European Markets in Financial Instruments Directive and the Basel III capital accord, so they are slashing business activities that they consider to be non-core. Power and gas is a very exotic commodity for them whereas, for us, it's the core business. So, in this respect, the banks leaving means there is more opportunity for us to grow. In a way, we are a mix between a utility and an investment bank, so we want to combine the best of the two.

Energy Risk: Do you agree that the impact of renewables has made

it trickier to trade and hedge in European power?

Domenico De Luca: That's a bit of a general statement, but it is true that the way we trade has changed a bit compared with the way we traded in the past when there was more trading in the long term. Now, we have shifted our attention much more to the short term.

Energy Risk: You're managing a portfolio of 12,000 megawatts of renewables across Europe. How do you feel about possible changes to the subsidies offered to renewable generators?

Domenico De Luca: All of us in the market hope that there will be a market-oriented solution. In Europe we have made many mistakes, and one of those mistakes is that each country has its own way of regulating renewables. We hope there is a harmonisation across all the member states and also across different types of renewable power. We would like to see more renewables being installed, but on a market-efficient basis.

Energy Risk: What is it that Axpo can offer to a small renewable generator, in terms of products and expertise?

Domenico De Luca: We really want to offer a 360-degree service. At the moment we offer energy risk management, so we take the energy to the market, sell it and hedge it. This risk management system often helps to unlock project finance for renewable generators and allows their projects to get started. Another service we offer is balancing. We offer the opportunity for customers to limit the cost of balancing by aggregating a number of power plants. We also offer wind and solar production forecasting and forecasting systems – again, to limit costs for our customers. The



Domenico De Luca

other new product we are launching is more of a diagnostic system. It allows the manager of the power plant to remotely see how much wind power is produced at each moment, which turbines are working, and which turbines are not working, for instance.

The next thing we want to do is establish a service for improving the operation and maintenance of power plants – so, how can we ensure the customer is producing as many megawatt hours from the power plant as possible? This is a very important and interesting business for the future. It's not really trading, but it is a very good link with our engineering expertise.

Energy Risk: Are there any countries or regions you're particularly focused on?

Domenico De Luca: In some countries we are stronger in terms of origination activities, and in other countries we are picking up. In Germany, we were more trading-oriented, so we had a lot of traders, but not so much of a focus in origination. We have now switched and we are really pushing the origination activities. We are very strong in Italy and Spain and in the Scandinavian countries.

We have always been present in eastern Europe, mainly with cross-commodity trading, and now we see potential for more origination in that market. We started in the UK market four or five years ago where the focus was initially more on proprietary trading, with limited origination volumes. In the near term, we would aim to increase our origination activities as we see opportunities where our expertise can add value to our clients' business and Axpo stakeholders.