

2-on | France

SNET Trading framework

Proposal for interaction mode with EET

- 65% ownership scenario -

November 26th, 2008

7 | France

face with EET – proposal

uction and objectives

**document proposes the core principles for the cooperation between EET and EEA in Energy
ization and Trading activities**

posed framework is based on the 65% ownership of SNET

ous schemes that could be envisioned in a different ownership situation would have to be
stigated at a later stage

sent document covers (in the 65% ownership situation)

split of roles and responsibilities between E.ON France / SNET and EET

required interfaces

necessary (and already ongoing) process alignment

EEA cooperation Model for trading activities in France

- EEA/EFR proposes a hedging strategy that should be validated by EET. CC arbitrage in case of cor
- Asset optimization is done by the SNET trading floor within the hedging strategy framework agre
EET
- All contracts and commodity positions stay within EFR
- Management of the commodity risk is defined in EFR's hedging framework (agreed with EET)
- Hedging performance in E.ON France P&L
- EFR Sales to secure transparency about performance and portfolio risks and to ensure complianc
hedging framework
- Any proprietary trading activity is within EET, no proprietary trading is within EFR and SNET
- Participation in the French market (Powernext) as two separate entities: SNET and EET
- Outside France operations through EET only
- All existing trading related employees stay within the SNET (Energy Management)
- A set of interfaces is formalized: alignment of hedging strategy, reporting and access to expertis
- Full process alignment. Well under way, some minor adjustments to be completed (cf. appendix)
- Common development and evaluation of sourcing / selling alternatives for LTCs (e.g. EdF, EdFT)

faces between EFR & EET

Alignment of hedging strategy

• common
• ending of SNET
• strategy

• integration phase,
• initiation of framework
• hedging strategy at EFR
• for
• limits
• interparty risk
• management

• in of process for EET
• initiation to EFR hedging
• , while at 65%

2 Reporting and contract disclosure

- Set-up of interim reporting scheme (until end of year)
 - communication to EEA & EET
 - including all open & closed positions for generation & sales portfolio
 - Cooperation with EET for PaR limit reporting
- proposal for full "Commodity Risk Report" to be communicated to EET
- Daily position update to be proposed & sent to EET
- Full disclosure of long term contracts information (EdF Contract)

3 Access to expertise & service

- Value-added services & to be provided by EET to
- Question over potential compensation mode from to EET, to be discussed

ment of hedging strategy

What the hedging strategy should define / describe (scope definition)

positions & commodities traded

governance, decision making process & requirements

associated with open positions (price, volume, etc.)

principles of positions hedging (e.g. back-to-back, hedge, buying and selling, dynamic etc.)

for price risks hedging (e.g. description of path/corridor) and rationale behind (e.g. link to behavior, minimum cash demand, volume, risk appetite, price strategy, value creation)

instruments used for hedging (e.g. forward contracts, swaps, assets, etc.)

performance indicators measuring hedging performance

hedging strategy is reflected in the **portfolio structure**

What framework is already in place

Decision possibilities of SNET Risk Committee narrowed by

- Alignment of rules for optimization (introduction of "corridor" & overall hedging strategy)
- Alignment of risk strategy (width of corridor)
- Set-up of PaR limits

How strategy adjustment will happen

EET to participate to EFR hedging strategy development through (proposal):

- Yearly: hedging strategy meeting
- Monthly: conf call around Commodity Risk
 - review of past month activity
 - if needed, adjustment of strategy within framework (process to be defined)
- Ad-hoc: exceptional meeting in case of major change of environment (e.g. crisis)

Transparency through reporting and full contract disclosure

Transition of reporting scheme (EFR to EET, at 65%)

Possible content of report to EET

portfolio report with
 open & closed positions
 generation & sales portfolios (including EDF
 contract position & TaRTAM position)
 coming 3 years (liquid period)
g on economic generation
party risk positions

date on day-before deals and position
 content to be defined)

m contract terms an conditions

Possible process for communication to

- EFR send report to EEA and EET at the end of month
- CC receives the report for information & act if necessary
- Sent as newsletter by email (format tbd)
- Full upfront transparency on existing contracts
- Updates as needed

Content & process to be agreed upon by EFR / EEA & EET

Transparency through reporting (2/2)

report (already in place, until end 2008)

2010 month		1	01/01/10										
			Economic Generation	Procurement (externally)	Procurement (internally)	SubTotal	Closed Position (externally)	Closed Position (Option / VPP)	Ventes clients sous TaRTAM	Ventes clients hors Tartam	Closed Position (internally)	Free Allocation expected (share of SNET)	Sub Total
			01/01/10	01/01/10	01/01/10		01/01/10	01/01/10			01/01/10		
rgie)	base	TWh	622	0.79	0.00	7.01	0.70	2.34			1.67		4
	peak	TWh	2.90	-0.08	0.00	2.82	1.06	1.94			0.16		3
			0.3445				0	0.395					
	API#2	Mio. to	3.14	0.00		3.14	0.76	1.69					2
			0.9788					1.0013					
		Mio. to	8.92	0.77		9.69	0.50	4.29			3.49		8
							0						
	start-up	Mio. to	0.06	0		0.06	0.0120						0
	base	TWh		0.46	1.67	2.13	0.18		1.01	1.01	0.00		2
	peak	TWh		0.04	0.16	0.20	0.00		0.10	0.10	0.00		0
rgie)	base	TWh	143	0.00		143	0	0.36					0
	peak	TWh	1.66	0.00		1.66	0.2349	0.63					0
			0.5650					0.3650					
		Mio. to	1.13	0.00		1.13		0.36			0.97		1
			0.5200					0.5200					
	STS	Mio. to	0.34	0.00		0.34	0.0265	0.09					0

ss to expertise

	Examples of content/topics	Options for compensation from EFR to E		
		Free	Flat fee	Cost
e / t al ut	• Hedging strategy conception / validation • Structure & process evaluation... - e.g. EDF contract valuation	✓ Support potential curve out		
g of ata ts	• Fundamental market analysis • Market price reporting...	✓ Considered as 'normal' service from EET to subsidiaries	OR ✓ SNET has access to all reports, by paying yearly fee to EET	OR ✓ EET propo prices and Si purchas
ind ng al ts	• Risk & Legal Consulting • Market access (outside France)...	✓ Considered as 'normal' service from EET to subsidiaries	OR ✓ SNET has unlimited access to EET standard expertise (scope to be defined)	AND ✓ EET will q special r analyses b

Maximum usage of EET expertise to be enforced, to ensure group-wide optimum
ority shareholders interest to be taken into account (if compensation then market prices
Next steps: recommendation from EFR, to be submitted to EET for validation

ment – progress & next steps

ng / Optimization

Function (sub-function)	Progress realized	Left to be done - Next steps
Trading	Set-up of EET-SNET interfaces • ISDA coal contract signed • First deals done	Validation of other contracts, e.g. All appendix (30/11/08) Define and formalize EUA transmiss scheme (SNET to EET)
Operations	Power: check of processes conformity to EET standards Gas: independent evaluation started	Power: Define dispatch development strategy with EET (Q1 2009) Gas: results expected on 07/12/08
Monitoring	Check of processes conformity to EET standards	Further alignment of modeling process (assumptions of price forecast, ...) (end 2009)
Financial fuels	Identification of requirements linked to end of EDFT contract	Evaluation of options for international sourcing (discussion EET / EFra start)
Models	SNET responsibility, information of EET	-

orting activities

unction ib-function)	Progress realized	Left to be done - Next ste
alysis	Start of information transfer Confidentiality agreement has been signed	Finalize market information transm
anagement f Contract)	Alignment of valuation methodology on EEA & EET standards	Finalization of EDF contract valuatio other tolling options Full disclosure of long term contract information Common development of sourcing / alternatives for LTCs (EdF / EdFT)
e	Check of conformity with EET standards	-
n systems	Zainet system transfer	Final system checks

Strategy / Risk

Function (sub-function)	Progress realized	Left to be done - Next steps
Management	Alignment on EET standards Setting of PaR limits	Validate proposed scheme (end 2008)
Development	Implementation of structured hedging strategy (Active Portfolio Management corridor)	Validate proposed scheme)
Compliance	Ad-hoc support from EET Process exchange of expertise between SNET and EET has been formalized	-
Management	Identification of key issues (e.g. ancillary services – market view)	EEA and EET to provide feedback on issues after SNET evaluation (Q1 2009)

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Backup

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Progress in the implementation of EET / EEA cooperation Models

Criteria	Cooperation model	Progress made
▶	• EEA/EFR proposes an hedging strategy • Asset trading is done by the SNET trading floor	• Proposal ready; validation expected
▶	• All contracts and commodity positions stay within EFR • Management of the commodity risk is defined • Hedging performance in E.ON France P&L	• No further implementation needed • Validation of proposed scheme expected
▶	• EFR Sales to secure transparency about performance and portfolio risks	• Aggregated position included in the reporting (already available)
▶	• Any proprietary trading activity is within EET	• Decision made and SNET books closed
▶	• Existing trading related employees stay within the SNET • EET provides additional trading/ risk services to EFR	• Conditions for services to be specified
▶	• Participation in the French market under two separate identities (SNET and EET)	• No implementation required
▶	• Full alignment	• Main processes implemented, still some implementation needed (see appendix)
	● Model already implemented ◐ Some progress has been made ○ Implementation has not started	