Not a year has passed since Energy Risk*'s 1994 launch without merger and acquisition activity between energy companies, banks or brokers.* *Roderick Bruce* *and* *Pauline McCallion* *chart the M&A history that forms the players we have today*

CHANGING LANDSCAPE

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Banks

The widespread use of energy derivatives has been driven by the banking sector. Though energy firms such as Koch Industries had an initial competitive advantage because of their physical presence, this was soon matched as banks fused financial expertise with physical assets.

The first example of such a physical/financial hybrid was Phibro-Salomon, which united Philipp Brothers, the physical trading giant built up by Marc Rich, with interest rate market pioneer Salomon.

The next banks to enter the market, Goldman Sachs and Morgan Stanley, also sought to back their operations with physical assets, a strategy that has seen them remain leaders to this day while competitors have emerged and disappeared. "People think of the market as being a duopoly between Goldman Sachs and Morgan Stanley, but at every step of the way there were 10 other banks in there," says John Shapiro, former head of Morgan Stanley's commodities business. "They would come and go, but we just kept on growing and making money."

The desire to unite the physical and financial has been a key theme over the years. In 1990 a certain US energy firm named Enron signed a joint venture (JV) with Bankers Trust to satisfy an increased appetite for derivatives. The JV didn't last but Enron's risk appetite did – with disastrous consequences. Enron's 2001 bankruptcy saw banks rushing to fill the gaps left by merchant energy firms, with UBS, Bank of America and Merrill Lynch among those piling into energy trading.

More successful JVs include Société Générale's Gaselys and Orbeo initiatives, while the Credit Suisse/Glencore alliance may yet prove to be an important future player.

Credit concerns drove the consolidation of the markets in 2001. "When a company as big as Enron went down as fast as it went down, it caused people to think about who they were dealing with," says Shapiro. "People realised that credit was an important part of transactions."

Those concerns returned in 2008 as the subprime mortgage meltdown brought many financial institutions to their knees. Those that learnt their lessons from the Enron debacle were able to survive the credit crunch; those that didn't struggled.

Though major firms such as Morgan Stanley and Goldman Sachs wobbled, they remain core components of today's markets, along with their long-time challengers Barclays Capital and Société Générale and expanding forces such as Deutsche Bank and JP Morgan.

Banks

1981 – Goldman Sachs acquires physical commodity trading company J Aron
– Physical commodity trading giant Philipp Brothers buys investment bank Salomon Brothers

1984 – Morgan Stanley forms Natural Gas Clearinghouse with law firm Akin Gump Strauss Hauer & Feld and Transco Energy Company

1985 – Goldman Sachs trades first Nymex WTI cargo spread

1985 – Morgan Stanley extends fledgling commodity coverage from metals options to oil markets

1986 – Chase Manhattan transacts first oil-indexed price swap; competitors include Phibro, Citibank and Bankers Trust
– Phibro-Salomon becomes Salomon Inc

1989 – CFTC Safe Harbour ruling exempts interest rate and commodity swaps from the Commodity Exchange Act
– Morgan Stanley sells stake in Natural Gas Clearinghouse, which goes on to become Dynegy

1990 – Crédit Lyonnais enters over-the-counter (OTC) energy markets
– Société Générale sets up oil trading operations on Nymex
– Drexel Burnham Lambert, a major early player in the oil swaps market, goes bankrupt
– Bankers Trust forms natural gas trading joint venture (JV) with Enron

1991 – Bankers Trust/Enron JV is dissolved

1992 – Legality of commodity swaps finally confirmed by congress passing the *Futures Trading Practices Act*
– JP Morgan and Bankers Trust become first financial institutions to be allowed to exchange futures positions for physical oil
– HSBC acquires Midland Bank, an early participant in the oil swaps market

1994 – J Aron, Morgan Stanley, Phibro (Salomon's energy arm), Bankers Trust, Crédit Lyonnais, AIG, Barclays de Zoete Wedd (BZW) and Lehman Brothers score highly in the first Commodity Rankings survey by *Energy Risk*

1995 – Bankrupt Crédit Lyonnais is bailed out by the French government
– Lehman Brothers forms partnership with Citizens Power & Light, the first power marketer in the US, to form Citizens Lehman Power

1997 – Travelers Group acquires Salomon Brothers and its Phibro energy arm for $9 billion

1998 – Citicorp acquires Travelers Group for $83 billion
– Barclays sells off parts of BZW platform to Credit Suisse First Boston, creates Barclays Capital

1999 – Deutsche Bank acquires Bankers Trust for $9.8 billion
– JP Morgan, Lehman Brothers and Merrill Lynch exit OTC energy markets

2000 – JP Morgan acquires Chase Manhattan for $30.9 billion
– Banque Nationale de Paris (BNP) and Banque Paribas merge to form BNP Paribas

2001 – Merrill Lynch sells energy trading desk to Allegheny for $490 million
– Société Générale and Gaz de France form Gaselys

2002 – Crédit Agricole buys Crédit Lyonnais for $20 billion, creates Calyon
– UBS buys Enron's trading operations
– Bank of America receives clearance to trade US power
– Barcap begins trading UK power

2003 – JP Morgan opens US power desk

2004 – Goldman Sachs, Morgan Stanley and Bank of America finish in the top five in *Energy Risk*'s 10th anniversary rankings
– Merrill Lynch re-enters energy trading with the acquisition of Entergy-Koch Trading for an estimated $1 billion

2005 – Bear Stearns and Calpine form energy marketing and trading company CalBear Energy, which becomes Bear Energy after Calpine's bankruptcy in December
– Credit Suisse ramps up its commodity presence by signing a crude oil trading JV with Glencore

2006 – Société Générale and chemical firm Rhodia form carbon trading JV Orbeo
– Fortis enters US power market

2007 – Royal Bank of Scotland signs trading joint-venture with Sempra Energy

2008 – Bank of America closes European commodity operations to concentrate on US
– Lehman Brothers goes bankrupt
– Barclays Capital acquires Lehman Brothers' North American businesses
– Bank of America buys Merrill Lynch for $50 billion following Merrill's $25 billion credit market loss
– JP Morgan acquires Bear Stearns for a knock-down $240 million, including its Bear Energy unit
– Commerzbank buys Dresdner Kleinwort for $6.47 billion

2009 – Constellation sells London commodity trading business to Goldman Sachs
– Macquarie buys Constellation's US natural gas trading unit
– UBS exits the commodities space and sells its metals, oil and US power and gas businesses to Barclays Capital, and its Canadian energy and global ags businesses to JP Morgan
– Deutsche Bank signs steel trading JV with Stemcor, acquires iron ore brokerage London Dry Bulk
– Calyon signs trading JV with EDF Trading
– BNP Paribas buys Fortis
– Morgan Stanley, Goldman Sachs, Bank of America and Société Générale are the top four dealers in *Energy Risk*'s 15th anniversary rankings. Deutsche Bank and Barclays Capital make the top 10

Brokerages

Several major factors have influenced M&A activity among inter-dealer brokerages in the energy sector over the past 15 years. Principally, the emergence of new markets, such as power and gas in both Europe and America, drove many to seek greater market share through organic growth, joint ventures, mergers and acquisitions.

"Around 10 years ago, everyone was looking to expand their coverage to gas and power," says Alan Kurzer, president of Tradition Energy. "The goal during that time for all the large inter-dealer brokers was to expand their coverage throughout the entire energy spectrum."

Brokers also chased market share through deals that would bring additional expertise in particular product areas, or increase geographical reach. APB Energy completed several deals with this intention, according to Todd Creek, chief operating officer at ICAP Energy. He was chief financial officer at APB when it was acquired by ICAP in 2002. For instance, APB bought Chapel Hill Brokers in 2002, principally for its experience in options. It also acquired Bergen-based Norwegian Energy Brokers and its Amsterdam subsidiary, First Energy Brokers, in 2001.

Publicly traded companies such as GFI Group, TFS (owned by Compagnie Financière Tradition, which is traded on the Swiss Stock Exchange) and ICAP also have to keep shareholders' concerns in mind when scouting for possible growth opportunities. Creek says: "With ICAP, any acquisitions really need to be accretive because it's a publicly traded company. We're a big company and we have coverage in almost every market now, so we try to find accretive acquisitions that enhance our market share and are sustainable businesses."

M&A is obviously also attractive from the point of view of economies of scale. When trying to keep up with constantly changing areas such as technology or regulation, it helps to have the investment ability and expertise that larger brokerages tend to have in-house. As a result, Kurzer argues that the sector has divided into two main camps. "You have the large houses and then you have the boutiques. That's the way the market has developed over the last 10 years – there is no middle ground," he says.

While Creek believes niche firms will always exist to focus on specific areas, he adds: "With additional regulatory concerns and the need to provide hybrid services and technology, it could become harder to have a sustainable model as a small shop."

Brokerages

1971 – PVM Group founded in New York to broker refined products

1978 – Amerex commences business in New York as a broker of heating oil, gasoline and fuel oil

1980 – United Energy is founded as a cash broker of cargo, barge and pipeline physical products

1984 – Starsupply Energy is formed and specialises in refinery feedstocks

1987 – GFI is established in New York to trade over-the-counter (OTC) US government bond options

1988 – Spectron is founded to cover the gas, electricity, oil, coal, metals, weather, petroleum and environmental products markets

1989 – TFS Energy is created by Tradition Financial Services (TFS) to specialise in energy derivatives

1992 – GFI opens a London office to specialise in coal derivatives; it also moves into power derivatives through both its London and New York offices

1993 – APB Energy is founded

1997 – BTU Brokers, a US voice brokerage for electricity and natural gas, is created

1998 – PVM Group acquires Shogun Products brokerage in Singapore

1999 – Garban merges with Intercapital to create Garban-Intercapital
– Tullett acquires a 25% stake in Natsource to a form joint venture (JV) called Natsource-Tullet Europe

2000 – TFS' US subsidiary, TFS Inc, merges with former energy group of Sakura Dellsher (SDI Energy) to form TFS Energy, LLC
– APB Energy acquires Chapel Hill Brokers
– Amerex acquires BTU Brokers

2001 – APB Energy acquires Bergen-based Norwegian Energy Brokers and its subsidiary First Energy Brokers, based in Amsterdam
– Garban-Intercapital becomes ICAP

2002 – ICAP acquires APB Energy, a brokerage focused on the US and European energy markets in electricity, natural gas, coal and other energy-related products
– GFI forms wet freight derivatives JV with ACM Shipping

2003 – ICAP acquires Intercontinental Energy Brokers, a London-based energy business operating in natural gas and some electricity markets

2004 – Collins Stewart Tullett acquires Prebon Yamane and becomes Tullett Prebon

2005 – GFI acquires Starsupply
– ICAP acquires the majority of the assets of United Fuels International and its affiliates (United), a US energy brokerage
– ICAP Energy and JE Hyde, a shipbroking business, launch a joint venture in freight forward agreements and shipping derivatives

2006 – GFI acquires energy brokerage Amerex Brokers
– ICAP and GFI announce plans to jointly develop new clearing services for OTC derivative products with The Clearing Corporation, an independent clearing house for derivative instruments in which each acquires a minority ownership interest

2007 – Formation of OTC Global Holdings, an interdealer broker in commodities, with the aim of building a portfolio of boutique brokerages
– ICAP buys JE Hyde

2008 – GFI and Tullett Prebon terminate discussions about a possible merger after failing to reach acceptable economic terms for a transaction
– Tullett Prebon acquires London-based Primex Energy Brokers (known as Amerex Europe until October 2007)
– Spectron is acquired by Imarex, a freight exchange, clearing and trading services group
– BGC Partners moves into the energy sector with the acquisition of Singapore-based Radix Energy. The new subsidiary, BGC Radix Energy, offers voice and electronic services for products including oil and freight swap derivatives

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Energy firms

The biggest M&A deals in the early days of *Energy Risk* included the consolidation of the oil majors and the emergence of Enron as an asset-backed trading giant. Post-2000, the liberalisation of Europe's energy markets allowed the formation of three utility powerhouses: EDF, RWE and E.ON. Since its creation in 2000, E.ON, now the world's largest utility, has dominated the M&A landscape across Europe, snapping up assets such as Powergen, Ruhrgas and OGK-4. EDF, meanwhile, has recently expanded on the back of the nuclear renaissance, sealing deals for British Energy and Constellation's nuclear assets.

Enron is undoubtedly the most powerful force to have swept through the energy markets. The other US merchant energy companies that tried to mimic its success were caught up in its failure, and their retrenchment from the traded markets allowed banks and European utilities to grab assets.

More recently, the credit crunch and global recession has seen asset values plummet, meaning cash-rich European giants such as RWE and Vattenfall have again been on the acquisition trail. Increasing emphasis on clean energy has also become a prime motivation for recent deals, with Iberdrola acquiring Scottish Power and SEE buying Airtricity. ■

Energy firms

1994 – BP, Elf, Enron, Shell, Texaco and Louis Dreyfus score highly in *Energy Risk*'s first rankings survey

1996 – Natural Gas Clearinghouse completes merger with Chevron's gas marketing operations

1997 – Enron buys Portland General for $3 billion

1998 – Oil majors BP and Amoco agree $110bn merger – the largest in history
– Power Company of America defaults on power supply contracts, and declares bankruptcy after $236 million in claims are filed against it
– EDF enters UK with purchase of London Electricity

1999 – Exxon & Mobil agree to $80 billon merger
– TotalFina and Elf agree $54 billon merger
Enron launches Enron Online

2000 – German utilities Veba and Viag merge to create E.ON
– Warren Buffet's Berkshire Hathaway takes a 75% stake in MidAmerican for $1.25 billion
– US energy firm Reliant announces the creation of Reliant Energy Europe
– Entergy and Koch form a trading joint-venture

2001 – E.ON buys UK's Powergen for $7.34 billion
– E.ON buys Sweden's Sydkraft for $6.5 billion
– Duke Energy acquires Canada's West Coast Energy for $8.5 billion
– Enron files for bankruptcy
– Centrica buys Enron's UK supply arm
– BP Amoco, Royal Dutch Shell and TotalFinaElf join Deutsche Bank, Goldman Sachs and Société Générale to found IntercontinentalExchange
– Chevron seals $45 billon merger with Texaco
– Southern Company spins off Mirant as a separate business

2002 – E.ON-owned Powergen acquires TXU's retail business for £1.37 billion to become the UK's largest electricity retailer
– E.ON buys 60% of Ruhrgas for $3.82 billion
– AEP assumes operation of Enron's Nordic offices; AEP announces exit from Nordic markets after $16.6 million fourth quarter loss; AEP sells UK assets to EDF for $943 million
– Dynegy ends trading on online platform Dynegy Direct
– Aquila winds down energy trading book; reports $331 million third-quarter loss
– Conoco and Phillips agree $15.6 billion merger
– RWE buys Innogy in the UK, renames it NPower
– TXU declared bankrupt, British Energy reveals financial troubles

2003 – Duke exits both US and European power trading
– El Paso closes trading business
– Devon Energy buys Ocean Energy for $5.3 billon to create the biggest independent US oil & gas producer

– Reliant pulls out of trading after $80 million loss; City of Los Angeles files $218 million lawsuit against Reliant for breach of a gas supply contract; Dutch utility Nuon buys Reliant's European generation for $1.3 billion
– Mirant, which has seen its share price fall 90% since mid-2001, attempts to refinance $2.3 billion in debt, files for bankruptcy

2004 – Enron, El Paso, Entergy-Koch, BP, EDF trading and RWE feature in the top 10 in *Energy Risk*'s 10th anniversary rankings
– Edison Mission Energy sells its foreign generation assets to International Power and Mitsui in an effort to reduce debt
– Merger of Gazprom and Rosneft's oil assets creates GazpromNeft

2005 – MidAmerican acquires Pacificorp for $9.4 billion
– Duke Energy and Cinergy agree to merge
– Valero buys Premcor for $6.9 billion, making it the largest refiner in the US
– El Paso completes sell-off of power trading portfolio with $442 million asset sale to Morgan Stanley
– Calpine declares bankruptcy as gas price plummets below value of long-term fixed-price supply contracts
– Scottish Power rejects takeover bid from E.ON

2006 – Florida Power and Light Company's proposed $11 billion merger with Constellation falls apart
– Fortis acquires Duke Energy's US commercial marketing and trading businesses
– Russian oil company Yukos is declared bankrupt
– Anadarko Petroleum buys Western Gas Resources for $5.3 billion
– Statoil buys Norsk Hydro's energy unit for $28 billion

2007 – Private equity firm KKR buys TXU for $45 billion
– E.ON drops its €42.4 billion offer for Endesa after the Spanish government steps in; E.ON strikes a deal with successful bidders Enel and Acciona to acquire Endesa's non-Spanish assets
– Bear Energy acquires Williams Power Company for $512 million
– Lehmann Brothers buys Eagle Energy
– Plans to create a Dutch national champion by merging Nuon and Essent fall through
– Suez takes control of Electrabel
– E.ON takes a majority stake in Russia's OGK-4
– Iberdrola buys Scottish Power for $22.5 billion

2008 – Gaz de France and Suez finally seal $160 billion merger
– Scottish & Southern Energy buys Airtricity for $1.1 billion
– Calpine emerges from bankruptcy
– Spain's Gas Natural buys domestic rival Union Fenosa for $35 billion
– EDF buys British Energy for $23 billon; EDF fights off Warren Buffet's MidAmerican to buy a 49.99% stake in Constellation's US nuclear generation business for $4.5 billion
– EDF Trading acquires Eagle Energy from bankrupt Lehman Brothers
– NRG makes a bid for Exelon, which is rejected
– Atel buys EOS for $4.2 billion

2009 – Constellation reveals fourth quarter 2008 losses of $1.4 billion; announces plans to exit trading and focus on generating and selling power
– RWE announces acquisition of Essent in €9.3 billion deal
– Centrica buys 20% of EDF-owned British Energy for $3.5 billion. As part of the deal, EDF takes Centrica's 51% stake in Belgian generator SPE
– Suncor buys Petro-Canada for $15.5 billion
– Enel acquires Acciona's 25.01% stake in Endesa for €11.1 billion, giving it a 92% shareholding
– Vattenfall buys Nuon for $11 billion
– Enron, BP, EDF Trading, Constellation and El Paso feature in the top 10 in *Energy Risk*'s 15th anniversary rankings survey