



## Understanding Enterprise Risk Management for Energy Companies

### A 2 day Training example

#### Course Outline

You and your energy company are probably wondering what went wrong with the risk management after the credit crisis did hit the financial players and what lessons you could learn to better equip yourselves for the future. Now the lessons of the credit crisis become clear this is the time to undertake a fairly rigorous examination. A change in the way risk management methodologies and processes are executed will help you move from a position of vulnerability to a place where risk management is executed more holistically, and your company is not exposed to material unknown risks

Enterprise risk management has taken on new importance as stockholders, boards of directors and regulators demand better, more timely analysis of risk and a deeper understanding of how your company is impacted by the dynamic risk environment of a global commodities industry. The risk management needs of energy companies must break down traditional risk silos to drive toward a firm-wide risk view. In areas such as credit and market risk, an integrated approach can efficiently allocate capital and provide better loss containment; it also serves as a form of protection against a damaged reputation.

The objective of this training is that Kasper Walet will provide an understanding of ERM and assist executives in developing and applying an ERM framework within your company.

#### **Tailor made Training**

This is just an example of a possible training. However, it will be my pleasure to discuss with you your requirements. This will allow us to design a tailor made training course that will exactly meet your demand.

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Your Commodity Markets and Risk Management Partner



## Your Expert: Kasper Walet



Kasper Walet has more than 20 years of experience and extensive knowledge on a theoretical and practical level about all the aspects related to trading, derivatives and risk management in the (energy) commodity industry practical level about all the aspects related to trading, derivatives and risk management in the (energy) commodity industry.

Kasper received a Masters degree in Law from the University of Utrecht in 1987. He started his career at the NLKKAS, the Clearing House of the Commodity Futures Exchange in Amsterdam. After working for the NLKKAS for five years, Kasper was appointed as Member of the Management Board of the Agricultural Futures Exchange (ATA) in Amsterdam at the age of 31. While working for the Clearing House and exchange, Kasper became an expert in all the aspects of trading and risk management of commodities.

In 1997 he founded his own specialist-consulting firm that provides strategic advice about (energy) commodity trading and risk management.

Kasper has advised government agencies such as the European Commission, investment banks, major utilities and commodity trading companies and various exchanges in Europe, CEE countries, North America and Asia. Some of the issues he has advised on are the development and implementation of a Risk Management Framework, investment strategies, trading and hedging strategies, initiation of Power Exchanges (APX) and other trading platforms, the set-up of (OTC) Clearing facilities, and feasibility and market studies like for the LNG Market.

Kasper has given numerous seminars, workshops and (in-house) training sessions about both the physical and financial trading of commodity products. The courses have been given to companies all over the world, in countries like Japan, Singapore, Thailand, United Kingdom, Germany, Poland, Slovenia, Czech Republic, Malaysia, China, India, Belgium and the Netherlands.

Kasper has published several articles in specialist magazines such as *Commodities Now* and *Energy Risk* and he is the co-author of a book called *A Guide to Emissions Trading: Risk Management and Business Implications* published by Risk Books in 2004



## The Program

### Introduction

- 10 golden rules Risk Management Framework
- Lessons Credit crisis for need integrated risk management
  - Link market, credit and operational risk
- What is ERM
- Benefits of ERM
  - Integrated Portfolio Approach to Risk Management
  - Enhanced Capital Allocation
  - Integrated Risk and Planning Processes

### Identifying Risks

- Market Risk.
- Credit Risk
- Operative Risk
- Business Risk

### Scope of Framework

- Risk Appetite
- Risk Tolerance
- Corporate Governance
- Risk Metrics
- Risk Policies
- Measurement and Reporting

### Building a Risk Management Culture

- Crucial role Board and senior management
- Risk Governance Structure
- Risk Policies and Risk Control Framework
- Monitoring and Risk Reporting
- Risk Education Program
- Establishing Formal Communication Networks
- Alignment of Strategic Planning and Risk Management

### Risk appetite and tolerance

- What is it and what are the benefits for energy companies
- Issues to consider
  - Where and when to apply Risk Appetite and Tolerance Concepts
  - Relationship between business strategy and Risk Appetite and Tolerance



## Risk management in organization

- Risk Management - Organizational Structure
- Organizational Risk Management Structure and other Company Functions
- Risk management policy components
  - Risk Measurement.
  - Enterprise Risk Metrics
  - Risk Limits and Guidelines
  - Risk Analysis and Reporting
- Risk Management and Commercial Decision Making

## Implementation of Framework

- Identify and Quantify Risks
- Establish Risk Tolerance and Policies
- Develop Business Unit Strategies and Metrics
- Implement Controls and Procedures..
- Execute Strategies
- Monitor Risk and Reporting

## Market Risk

- Definition of Market Risks
- Elements of the Framework
- Exposure Mapping
  - Identify all Market Risks
  - Determine Market Risk factor volatilities and correlations
  - Define How Market Risks relate to earnings
- Scenario Generation
- Best Practice

## Credit Risk

- Components Credit Risk
- Credit Risk management in the energy industry
- Credit Risk Measurement Building blocks
  - Expected Default Probability (EDP)
  - Default Rate volatilities and correlations
  - Recovery Rate and Recovery Rate volatility
  - Rating migration
  - Current and Potential Future Exposures
- Credit Risk Mitigation
- Best Practice



## Operative Risk

- Building the Framework for assessing Operative Risks
- Developing an appropriate Risk Management Framework
- Operative Risk Management: identification, measurement, monitoring and control
  - Operational: Identification internal risks from People, Processes, and Systems
  - Operations: Identification of physical risks of production, delivery, and storage
  - Identification of external risks from Legal, Regulatory, Political, and Environmental exposures
- Operational: Measurement of Internal Risks from People, Processes, and Systems
- Operations: Measurement of Physical Risks and External Risks
- Monitoring and controlling Operative Risks

## Risk Capital and Risk-Adjusted Return on Capital

- Risk Capital
  - How much risk capital is needed
- Upper and lower bound potential risk capital
  - Simple Sum Method
  - Modern Portfolio Theory
- RAROC
  - Calculation RAROC

## Enterprise Risk Metrics

- Earnings-at-Risk
- Cash Flow and liquidity Risk metrics
  - Cash Flow at Risk
- Capital allocation and ERM
  - Current trends in Capital Allocation energy industry
  - The Capital Allocation Process.
  - ERM and the Capital Allocation Process

## Best Practice for implementing Corporate Risk Management

- Sophistication levels in
  - Exposure measurement
  - Risk mitigation
  - Risk philosophy
- 6 steps to achieve an effective risk management system