

FAQs – Energy Risk Management

In this fact sheet, we present the answers to some of the questions we are frequently asked about energy risk management.

Q My trading and risk management system uses third party plug-ins for valuations and I am struggling to get information about the models and valuation methodologies used by the third party – essentially I have a ‘black-box’ which produces values I don’t understand. Does Lacima provide more transparency on these matters?

A Yes, by employing Lacima’s software solutions, you benefit from receiving full transparency on our risk models, algorithms and valuation methodologies. You won’t be faced with being unable to provide the auditors the answers they need to sign-off on your risk approach.

Q When I look into the “comprehensive range of risk metrics” offered by my ETRM system, I see that it is basically four different ways of calculating VaR. I need to be able to report other relevant risk metrics which are cash flow based, such as GMaR or PaR. What can I do?

A Lacima Analytics’ Risk Suite provides the ability to calculate and report the full range of relevant energy market risk metrics including: MtM, VaR, EaR, RaR, GMaR, CFaR and PFE. Our cash flow based risk metrics specifically address portfolios of physical assets, which can include power plants and gas storage facilities.

Furthermore, portfolios of financial contracts and assets can be easily combined for joint risk exposure analysis. All these risk calculations derive all their data (forward curves, volatilities, trade data, etc) directly from your ETRM system thus avoiding the need for any system replacements, or the need to re-key any data.

Q My ETRM system cannot adequately handle complex assets types such as swing and storage portfolios, which means that I have to analyse these off-line in a spreadsheet. Management is concerned that this ad-hoc approach is exposing us to risk. We can’t replace our ETRM systems. Is there an alternative approach?

A One of the major problems sophisticated users find with their ETRM systems is that the functionality offered for valuation and risk is basic with essentially no capability to adequately handle more complex portfolios.

Users are left with no choice but to resort to spreadsheets and then face the corresponding challenges including the inability to report a fully consolidated risk metric.

Lacima Analytics works alongside ETRM systems and is implemented by experts recognised for their approaches to the complex modelling issues associated with swing, storage, tolling and power purchase agreements. Both the valuations and risk calculations are handled in a consistent way using the same models, methodologies and optimisation techniques thus providing management with the reassurance they desire.

Q After a recent merger, I now find myself using different ETRM systems for different commodities and regions. How do I achieve a consolidated risk metric quickly?

A The good news is that you don't have to replace your ETRM systems, or even try to combine them, to achieve such a consolidation. Lacima's flagship application "Lacima Analytics," offers your merged business a way to accurately, simply and cost effectively consolidate risk without the need to replace any ETRM systems from day one, or to resort to an unsatisfactory spreadsheet based amalgamation of the risk numbers exposing you to compliance problems.

The application has been designed to seamlessly integrate with ETRM systems through automatic upload of data including market curves, historical data, deal and asset specifications. As a result, Lacima Analytics can be placed in the centre of the existing software landscape to run all of the risk and valuation reports.

Q None of the ETRM system providers seem to have sufficient in-house quantitative or relevant risk expertise. Can Lacima hold detailed conversations with me about energy specific models and how they can be applied to my complex portfolio?

A Yes, Lacima has the largest and most qualified team of quantitative risk and valuation experts in the energy risk and valuation software sector, who develop, implement and support the software, and are easily accessible to all customers.

Q I have been told that it is sufficient to run fifty simulations for my risk calculations and even then it takes hours to run. Is this adequate to give me an accurate picture of my risk exposure?

A No. If your software provider is telling you that you only need fifty simulations for any valuation or risk evaluation, then you should probably re-evaluate your provider. Fifty simulations are insufficient for meaningful risk exposure results in any market. Typically, you need to be able to run

thousands of simulations to get an accurate picture of risk exposure. Lacima Analytics' strong batch processing capabilities allows you to run thousands of simulations in just minutes, without jeopardising the accuracy of results.

About Lacima

Lacima is a specialist provider of software and advisory services dedicated to valuation, optimisation and risk management for global energy markets. We help you to maximise your profit potential and make more informed decisions by providing tools that yield more accurate valuations, hedging analysis and risk exposure analysis for portfolios of financial contracts and physical assets.

Clients of our software and services include structuring, valuation and risk teams in vertically integrated energy companies, energy retailers, financial institutions and large energy consumers in Europe, North America and Australasia.

Our software solutions have been developed and implemented by peer-recognised experts in energy analytics, offering an unparalleled level of expertise and personalised support.

For further information, visit www.lacimagroup.com or email info@lacimagroup.com

