

Contents

1. Introduction	1
2. Risk and Responsibilities in Risk Management	9
2.1. Identifying Different Types of Risks.....	9
2.2. Responsibilities in Risk Management.....	11
2.2.1. Responsibilities in risk management – internal.....	12
2.3. Lessons learned.....	16
3. Risk Limits and Reporting	17
3.1. Calculating and using Value at Risk.....	18
3.1.1. Variance-covariance	18
3.1.2. Adapting the VaR Format into a Risk Model.....	19
3.1.3. Calculating Portfolio VaR	20
3.1.4. Monte Carlo simulation.....	20
3.1.5. Historical simulation	22
3.1.6. A new way to calculate VaR	24
3.1.7. Scenario simulations.....	25
3.1.8. Toward risk management.....	25
3.2. Profit at Risk: More realistic than Value at Risk.....	26
3.2.1. Volume risk	26
3.2.2. Liquidity risk.....	26
3.2.3. Physical delivery and breakpoints	26
3.2.4. PaR in theory.....	27
3.2.5. PaR in practice	27
3.3. Earnings at Risk: Better for asset owners	28
3.3.1. EaR defined.....	28
3.3.2. EaR in action.....	28
3.3.3. From VaR to EaR	31
3.4. Cash Flow at Risk for non-financial companies.....	31
3.4.1. What and who it's for	31
3.4.2. C-far vs. VaR.....	32
3.4.3. Tailored for the industry	32
3.5. VaR-analysis of the end user sales example	34
3.6. Lessons learned.....	40
4. Financial Instruments and Options	41
4.1. Futures Contracts	41
4.1.1. Exposure to Credit Risks	42
4.1.2. Exposure to Market Risks.....	43
4.2. Options.....	43
4.2.1. Trading strategies with options	45
4.2.2. Exposure to Credit Risks	46

4.2.3.	Exposure to Market Risks.....	46
4.3.	Forward Rate Agreements	46
4.3.1.	Quantification of Credit Risks.....	47
4.3.2.	Exposure to Market Risks.....	47
4.4.	Interest-Rate Swaps.....	47
4.4.1.	Inherent Risk Types.....	48
4.4.2.	Quantification of Credit Risks.....	49
4.4.3.	Exposure to Market Risks.....	49
4.5.	Hedging of electricity contracts using derivatives.....	50
4.5.1.	Hedging with forward contracts	50
4.5.2.	Hedging with option contract	52
4.6.	Lessons learned.....	53
5.	Market Risks.....	55
5.1.	Price risk.....	55
5.2.	Volume risk	55
5.3.	Area price risk	56
5.4.	Currency risk	57
5.5.	Market liquidity risk.....	57
5.6.	Counterparty risk.....	58
5.7.	Operational risk	58
5.8.	Political risk	58
5.9.	Lessons learned.....	58
6.	Some Basic Portofolio Theory	59
6.1.	Portfolio optimization	59
6.2.	Hedge Performance Analysis (Hedge Portofolio).....	59
6.2.1.	Portfolio Management in Energy Industry	59
6.2.2.	Diversification.....	59
6.2.3.	Identifying Sources of Risk.....	60
6.2.4.	Quantifying Risk.....	61
6.2.5.	Managing Risk.....	61
6.2.6.	Time Component of Risk	62
6.2.7.	Two Simple Ways to Reduce Portfolio Risk.....	62
6.2.8.	Maintaining an Optimal Portofolio over Time: Vigilance and Flexibility	63
6.3.	Lessons learned.....	63
6.3.1.	Some basic portofolio theory.....	63
6.3.2.	Enclosures on portofolio theory	63
7.	The Trading Process	64
7.1.	Trading strategy	64
7.2.	Analysis.....	65
7.2.1.	Fundamental analysis	65
7.2.2.	Technical analysis	67
7.3.	Interpretation	68
7.4.	Action! – making the trading decision and do the trade	69

7.5.	Appendix: Technical Analysis.....	71
7.6.	Consolidation.....	71
7.7.	Nearest season forward contract, Consolidation	71
7.8.	Nearest year forward contract, Consolidation.....	72
7.9.	Trend	74
7.10.	Fast Adaptive Moving Average.....	74
7.11.	The Signals.....	75
7.12.	Lessons learned.....	76
8.	Development Curricula	77
8.1.	Daily schedule of lessons.....	77
9.	References	78
10.	Enclosures	79