

## Reining in risk and reducing surprises Managed Risk services for Energy and Resources Companies

Many executives often find it challenging to assess how hedge practices may impact key financial goals — margins, customer pricing or investor return. By deploying market-based simulations over a range of hedge strategies and potential market outcomes, energy-intensive industries can examine portfolio tradeoffs and tailor its overall risk exposure to meet its financial goals. This stands in stark contrast to the typical approach where individual trades are considered incrementally.



**Introducing a new perspective for energy-intensive industries to provide a structured framework to mitigate commodity risk exposure and meet corporate objectives.**

In the energy and resources (E&R) industry, the quest to manage risk related to commodity prices raises a number of questions. For instance: *How will fuel price volatility impact the rates a utility company will pass along to its customers? Should a refinery hedge 30% or 70% of its input and output mix, over what period, and using what financial instruments? Or, how much expected oil and gas production should an exploration & production company sell forward?*

Arriving at well-reasoned answers to these types of questions can be challenging. Many companies do not have the specialized personnel and systems needed to develop, monitor and respond to changing market conditions and in a systematic way. The cost of building these capabilities as internal core competencies often outstrips the financial wherewithal of many mid-sized companies. Our risk-based approach helps your organization to implement and execute a program that manages and aligns your market, credit, and regulatory risk with your financial objectives.

### A two-sided value proposition

Deloitte's Managed Risk solution provides E&R companies with a structured approach to addressing two fundamental issues associated with hedge programs and their interdependence: understanding the risk to financial goals that volatile commodities cause, and adopting a lucid hedge structure to protect the goals. Hedge programs often address one of these issues without explicitly addressing the other. Both, however, are required in order to heighten the effectiveness of the program and to increase the probability of meeting specific financial goals and objectives. Deloitte adds value by supplying the program framework, tested methodologies, skills, analytical tools and facilitating systems required for addressing both sides. For many companies, this is the first time many of these components can be readily accessed from a single source.

### Alignment drives effectiveness

Many companies and senior executives become frustrated with their hedge programs because they have no assurance of the outcome — their hedge programs can produce unpredictable results and at the most inopportune times. Frequently, this variability can be traced to the hedge strategy's lack of alignment with the organization's objectives. Deloitte's Managed Risk solution helps address this disconnect by explicitly recognizing an organization's objectives and applying a structured decision-making process to help achieve them. This approach seeks to create a more full understanding of required actions, a greater degree of certainty around potential outcomes, a higher probability of achieving goals, and greater productivity among managers by supplying them with the facilitating systems needed to efficiently implement and execute the program, allowing them to turn their attention to other important matters.



Three critical components to establishing a leading-practice risk management program.

### Better board relations

Establishing clearly defined program objectives, rigorously testing hedge strategies, and implementing appropriate facilitating systems are leading practices for managing commodity price volatility. While they offer the obvious benefit of potentially better outcomes, they also pay dividends in promoting greater understanding between the trading and risk organization, senior management, and the board of directors (BOD). These leading practices encourage greater focus and attention to tradeoffs, which in turn allows the organization to articulate their strategies and rationales more effectively. This ability is becoming particularly important as organizations come under increased pressure from the BOD and other stakeholders to explain their decisions.

### Our services

Deloitte provides a set of phased services to companies seeking to develop, implement and execute a leading-practice commodity risk management program. They are designed to help a company build the capabilities required to understand its risk profile, design and execute an effective hedge strategy, and to efficiently manage the Dodd-Frank compliance implications. Our goal is not to make decisions for you, but instead to thoroughly equip your organization to make informed risk-management decisions that can be clearly explained to the BOD and other key stakeholders.

More specifically, our offering includes the following services:

- Risk Assessment
- Objective setting
- Program Design
- Governance and controls
- Facilitating systems
- Ongoing Advisory

Deloitte offers our Managed Risk solution in the context of a broad risk advisory consultancy, incorporating the industry's regulatory and compliance requirements, and the complexities and nuances of financial reporting for the energy industry. We bring subject matter specialization from a variety of disciplines (operational, financial, information technology, compliance, regulatory, and strategic) and can bring insights to clients across the business. Find out how we can help your organization — contact us today.

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