

DAILY NEWS to Members: 08/02/2007 by Gunnar Lorenz

**EURELECTRIC RISK MANAGEMENT PAPERS DEFINE GOOD PRACTICE
REFERENCE BASIS FOR EUROPEAN ELECTRICITY COMPANIES**

“Risk management was all settled in the yearly meeting with the Ministry of Finance”, a CFO of a large electricity company once said. “Tariffs were adjusted to cover all risks and provide a target return on invested capital deemed appropriate for a state-owned company”. Times have changed and EURELECTRIC’s group on Risk Management, in cooperation with consultancy McKinsey, has published a series of five *White Papers* designed to serve the needs of European electricity companies at various stages of implementing enterprise risk management (ERM), for example as a high-level implementation guide or as a checklist for good practices.

The group found that the need for ERM in the European electricity sector has two main origins. First, players in the electricity industry are exposed to more risks today than has been the case historically. In particular, exposures to market and regulatory risks have increased significantly and these risks can have a major impact on profit margins, company reputation, and the ability to fulfil social obligations. Secondly, players are facing increasing demands from stakeholders concerned with risk management. Above all, regulation for listed companies has become more demanding in terms of risk transparency and control.

Managing these risks effectively is not only a fiduciary duty of executives and boards, it has also become key to value creation. Risk strategy is what drives effective risk management. True to the objective of defining a basis of reference for good practices in the European electricity sector, the first paper, which also serves as executive summary, describes the overall perspective of leading industry practitioners on ERM in the European electricity sector. The remaining four papers focus on four specific topics: (i) risk identification and prioritisation, (ii) risk strategy, (iii) governance and control, and (iv) change management.

The EURELECTRIC group found that implementing ERM components can be made easier by following three implementation principles: Incremental Iteration, Integration and Value Creation. Incremental Iteration describes how the three processes of ERM (risk prioritisation; risk strategy; and risk execution/governance and control) reinforce one another, while Value Creation shows how ERM contributes to the bottom line by improving risk/return ratios.

A summary report has been submitted to the 20th World Energy Congress in November this year. The first of the papers is freely available to the public, while the full package of papers is available for a protective charge of €150 to EURELECTRIC Members and €250 to others.