

## RETAIL WORKING GROUP

## MEMBERS UPDATE AND PROGRESS REPORT

May 31, 2017

CCRO White Paper:  
Risk Management Practices for Retail Power & Gas

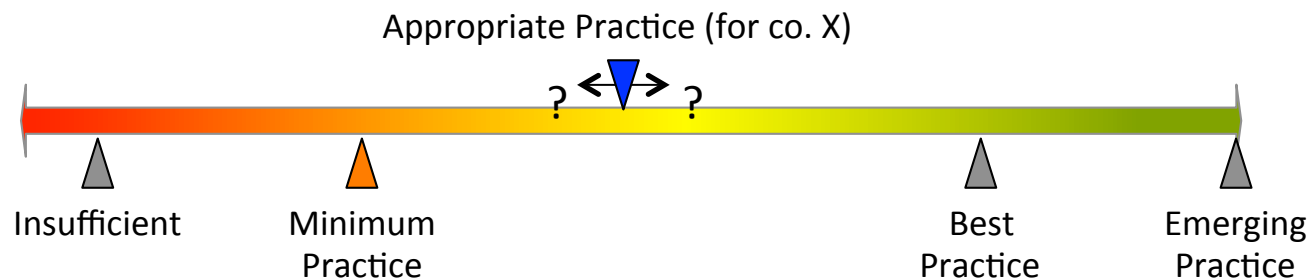
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# 1. Working Group Background

# Through this initiative, we seek to...

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- Develop a robust framework for retail risk management
  - No industry standards exist today for retail risk management
  - Framework designed primarily for power & gas retailers (REPs)
- Foundation for framework is:
  - Risk Management Lexicon
  - Risk Management Taxonomy: Mutually Exclusive, Completely Exhaustive (MECE)
  - Catalogues of Appropriate Risk Models and Hedging Products
- Objective is to be Identify & expound on range of RM practices supporting that framework
  - From “minimum” to “best”
  - Risk Management Process Mapping as a check for Taxonomy’s MECE construct
- Clarify the concept of “**appropriate practices**”
  - For all company types & sizes in the retail sectors of energy



# Retail Gas Risk ~ Taxonomy Examples

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- Market Risks
  - ▣ Price level
  - ▣ Basis
  - ▣ Full Requirements  
Convexity
  - ▣ etc.



- Credit/Liquidity Risks
  - ▣ Customer Credit  
Exposure
  - ▣ Payment/Receipt  
Mismatch
  - ▣ Credit Lines and  
Support Mechanisms



- Operative Risks
  - ▣ Forecast Error
  - ▣ Balancing Requirements
  - ▣ Regulatory Compliance
  - ▣ Etc.

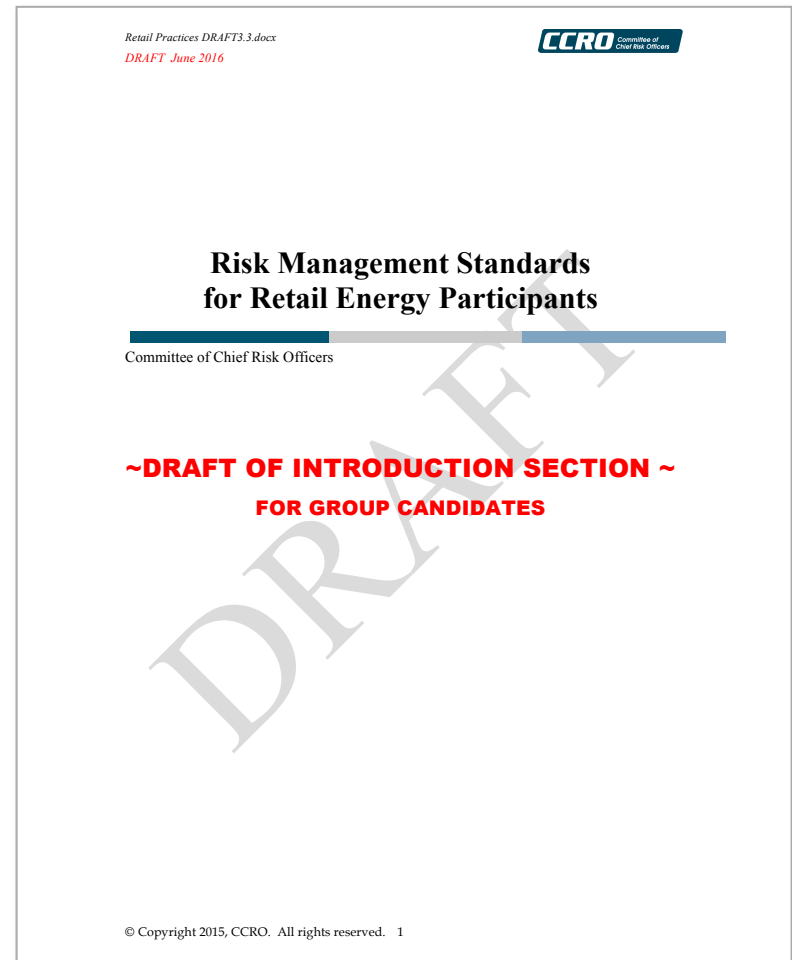


- Business/Market Design Risks
  - ▣ Tariff Structures
  - ▣ Market Entry/Exit Rules
  - ▣ Customer Protection Rules
    - Customer Acquisition
    - Product Restrictions, Etc.

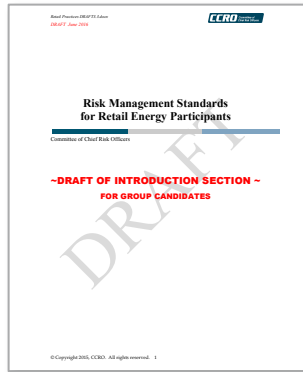
# Our Retail White Paper Target Audience

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- Retail energy providers (REPs / ESCOs) of all sizes and types
  - ▣ Strengthen financial outlook
    - Capital Requirements
    - Liquidity management
  - ▣ Enhance risk management capabilities for all risk taxonomy categories
- Retail suppliers
  - ▣ Enumerate minimum practice requirements
  - ▣ Manage agreements with REPs/ESCOs
- Regulators
  - ▣ Understand REP challenges
  - ▣ Distinguish between strong and weak market design.
- Others (e.g. credit suppliers, end use customers)



# Our Method: Webinar – to – White Paper



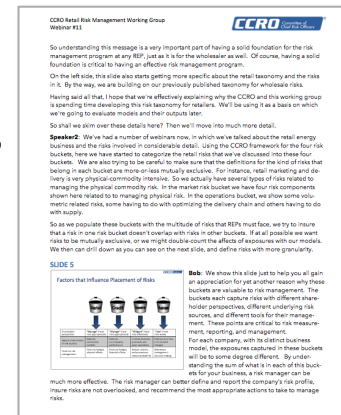
Review/edit draft paper (CCRO & WG Members)

Webinar discussion (broad participation)

To contribute to our white paper – Speak Up and participate in the discussions!

Move text to draft Paper (WG Leadership)

Produce anonymous transcript text (CCRO)



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## 2. Retail Webinar Discussions

# Webinars Completed to Date (2016)

- ✓ Webinar #1: July 7  
“The Impetus for Our Initiative”
- ✓ Webinar #2: July 14  
“Risk Mitigation Challenges Unique to Retail (Part 1- POWER)”
- ✓ Webinar #3: July 28  
“Risk Mitigation Challenges Unique to Retail (Part 2- GAS)”
- ✓ Webinar #4: August 4  
“Price Risk Management Considerations Unique to Retail (Part 1 - POWER)”
- ✓ Webinar #5: August 25  
“Price Risk Management Considerations Unique to Retail (Part 2 - GAS)”
- ✓ Webinar #6: September 15  
“Company Forecasting and its Role in Risk Management (Part 1 – POWER)”
- ✓ Webinar #7: October 6  
“Company Forecasting and its Role in Risk Management (Part 2 – GAS)”
- ✓ Webinar #8: October 20  
“Incorporating Regulatory Risk Into the Risk Management Framework for Retailers, Part One”
- ✓ Webinar #9: November 3  
“Methods for Risk Measurement, Part One”
- ✓ Webinar #10: November 17  
“Incorporating Regulatory Risk Into the Risk Management Framework for Retailers, Part Two”



# Webinars Completed to Date (2017)

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Webinar 11: 1/26/17

- ✓ Integrating Retail Risk Models and the Framework for Capital Adequacy

Webinar 12a: 2/16/17

- ✓ First Follow-on Discussion re Risk Taxonomy, Process Map, Models from Webinar #11

Webinar 12b 3/10/17

- ✓ Second Follow-on Discussion re Risk Taxonomy, Process Map, Models from Webinar #11

Webinar 13 3/17/17

- ✓ Credit Policies, PFE, and Your C&I Customers

# Remaining Webinars Planned as of Today...

All are on Thursdays at 3:00 CST

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- ❑ Measuring & Reporting Retail Risk (PART 2)
- ❑ Webinar XX: Capital Adequacy for Retailers
- ❑ Webinar # XX - Impact of DERs and Emerging Risks for Retailers
- ❑ Webinar # XX – Retail Risk Systems & Technology
- ❑ Webinar #XX - Risk Policies & Procedures
- ❑ Webinar XX – Establishing Effective Governance over Risk For Retailers
- ❑ Webinar XX -Qualifications, Training, and CCRO Passport

### 3. We Need Additional Member Input

These processes have emerged as central to the foundations of our paper...

# Some Internal Processes in Need of Standards

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- Pricing/allocating credit
  - Credit Assessment
  - Potential Future Exposure (PFE)
- Load forecasting
  - Long term for pricing and hedging
  - Short term for balancing
- Load profiling impacts
- Data management (market prices and delivery costs)
- Transaction pipeline risk management (Mass Markets)
- Supply/Delivery Optimization
- Supplier Settlements Reconciliation (Shadow Settlements)
- Prior Period Adjustment Management
- Liquidity management
- Regulatory Compliance (Not on process map)

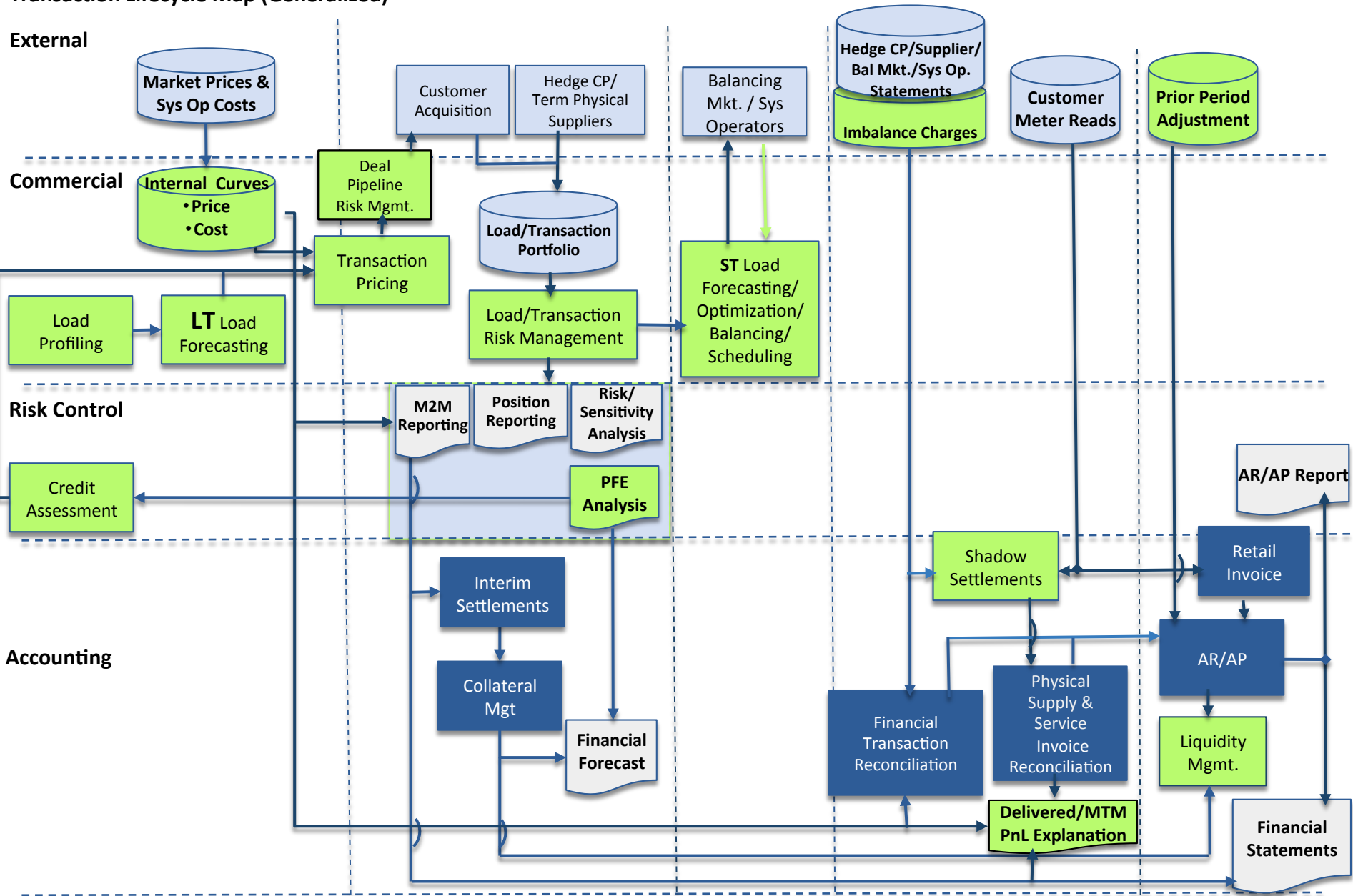
**Transaction Lifecycle Map (Generalized)**

**External**

**Commercial**

**Risk Control**

**Accounting**



Pre-Transaction

Risk Mgmt. & Reporting

Physical Delivery

Settlements

Liquidity Mgmt. & Reporting

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## 4. Outreach

# Continued Outreach

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- We continue to invite REPs to participate in the working group
  - Price matrix allows smaller firms to participate at working group member cost based on RCE size
- Planning to implement survey on current practice standards
- Developing opportunity for forum between industry participants and system vendors
- CCRO Conducting Meetings with Regulators
  - Planning a technical summit with PUCT – date TBA
- Questions?