

# 2016 delivery of oil at 140\$ per barrel on supply concerns...

**A series of Enron style credit events could be upon us...**



*This time last year the oil price was just over \$69 per barrel, today in New York it's trading at over \$135 per barrel (at time of going to print). Currently delivery for 2016 is at \$140 per barrel; we are told this level is based on supply concerns and perhaps with good reason: The IEA shows us that in 2008 only five countries will be able to expand their production by over 100,000 barrels of oil per day. These are Saudi Arabia, Angola, Azerbaijan, Brazil and Australia. The long predicted energy crisis marches ever faster towards us and in reality \$140 per barrel could be with us at the end of the week!*

*As cross commodity experts, Global Energy Advisory believes that going forward energy firms are exposed to a series of high impact events whose magnitude and frequency are likely to increase in the future. The global energy sector is now a volatile and punishing marketplace. Future energy prices are highly uncertain with commodity shortages likely. But are the utility and energy firms using all the risk management tools at their disposal? As energy users can we be sure that our utility company can survive through the Enron credit failures which are sure to appear? Only this week a leading UK utility announced a profit warning due to rising wholesale costs of energy. Just because the oil price doubles, a firms liquidity lines do not.*

## **Every Company has Limited Economic Capital and Increasing Credit Risk**

Against a backdrop of the current credit crunch and impending energy shocks, it may be said, that ideally companies should hold reserves against unexpected losses and ensure they have capital adequacy to withstand any catastrophic risk that could result in insolvency inducing losses. Working Capital efficiencies and financing flexibility should be key areas of focus and Global Energy Finance, a collaboration between Global Energy Advisory and Orbian Corp of the USA, can support the Industry needs through providing alternative liquidity including, contract monetization, traditional supply chain finance and Center – a credit risk product for energy trading.

## **Center, An Innovative Approach to Financing and Risk Management**

Where there is a price risk there is a credit risk and in energy we sometimes have a concentration risk which can be severe. Managing credit risk and having effective finance to keep a business solvent are two of the most important issues facing energy companies at the current time. Center makes use of a financial markets proprietary financing and settlement solution which can dissipate energy trading credit risk into the wider



financial markets while improving working capital of a company. Why dissipate the risk in to the wider financial markets? The answer is simply while bank lines are constrained the capacity of the global financial markets is huge.

## Too Much Cash?

It is common for trading counterparts to post cash against agreed credit exposures. Indeed some counterparts contend that they have so much cash that they are trying "to hide it under the mattress". That may as well be but a risk manager would probably have to say three things;

1. Great - I hope your good fortune will last but these markets are tricky and will the company always be so fortunate? Remember your finance lines don't double just because the commodity price does;
2. This solution is not only about cash but also good credit risk management and a way to dissipate these large systemic credit risks into the wider financial markets;
3. The early adopters intend to make use of this product as a useful addition to the credit tools already in their armoury. As the "going gets tough" and counterparts scurry into the distance, it would be futile to try to begin using Center when a credit event was already upon us. It is therefore responsible to make use of this product now for this a number of other good reasons.

## Credit Where Credit is Due

With soaring commodity prices and a global credit contagion, it's inevitable that not all companies will be able to meet their payment obligations. A credit default to any company, of any size, can be a very costly, both in monetary and reputational terms, and a time consuming experience. This credit risk solution has been well received and within the UK and European energy industry and there is a meeting of the key energy companies in July to progress this solution further. This is an important development as a key objective of any market should be to build strong and liquid markets as they benefit all participants and as the volatility becomes ever more punishing then, industry is going to require superior risk management products to support the complex supply chain of businesses.

*For more information contact [aily@globalenergyadvisory.com](mailto:aily@globalenergyadvisory.com)*

### Contact Us

T: +44 (0) 207 692 0888

F: +44 (0) 118 939 3385

M: +44 (0) 7833 954 817

W: [www.globalenergyadvisory.com](http://www.globalenergyadvisory.com)

E: [aily@globalenergyadvisory.com](mailto:aily@globalenergyadvisory.com)

A. Global Energy Advisory Ltd, 4th Floor,  
3 Tenterden Street, Hanover Square,  
Mayfair, London, W1S 1TD

No part of this publication may be reproduced, stored in or introduced into any retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of the copyright owners. Global Energy Advisory does not guarantee the accuracy or completeness of any information, statement or opinion expressed in this publication.

### Global Energy Advisory

Global Energy Advisory comprises seasoned experts in the global energy market: entry criteria are a minimum of 20 years' experience in related disciplines. We draw on our team of senior advisors and consultants to complement and enhance our modelling scenarios, providing unrivalled clarity in an uncertain energy future.



### Enterprise Wide Risk and System Development

Our solutions company – Global

Energy Solutions – works closely with Microgen plc, one of the City's leading business software companies, to offer clients a clean, efficient and fast track delivery. Microgen's Aptitude business process management and business rules framework enables us to advise on best practice price risk management, implementation and control, as well as fast, comprehensive and controlled deployment of company-wide risk systems.



### Global Energy Finance

Global Energy Finance is a Global Energy Advisory working relationship with Orbian Corp. The company has a

proprietary finance structure evolved from a Supply Chain Finance (SCF) solution the concept of which was initially developed by Citibank and SAP. This solution combines trade financing provided by a financial institution, a third-party, or internal funds; and a technology solution that unites the buyer, supplier and the trade financing source electronically and provides financing triggers based on one or several supply chain events. In short this is a payment platform that serves as a gateway to the financial markets.

