

2-DAYS “ASSET OPTIMIZATION”

HEDGING PROCESS & BOOK STRUCTURE

This program covers asset optimization in the sense of optimizing the hedging process. And thus lock-in models is touched upon. Moreover, book structures are covered and it is shown how the relationships between the business units Sales and Trade are organized. Likewise between Generation and Trade.

During the delivery of this program you'll encounter the application of forwards and futures. Next, options are handled and the valuation and hedging of those. This is utmost importance to value and hedge physical assets, as will be shown in the second part of the program.

Level & Prerequisites

Mercurious guarantees a very interactive, practical and hands-on three days, full of examples, cases and exercises. Participants are required to participate actively and thereby we stimulate the learning curve optimally.

There are no specific prerequisites to attend. In other words, you don't need any basic knowledge, and still you'll manage to take it into depth. Mercurious is responsible for the guidance and helps you dealing with these challenges.

Asset-backed trading

- What is it?
- Risk taking
- Limit structures
- Internal transactions & Internal transfer pricing

Book structures & lock-in models

- Book keeping & accounting rules
- Types of books
 - Upstream books
 - Midstream books
 - Downstream books
- Levels of accounts
 - Division
 - (Sub-)departments
 - Individuals

Performance measurement

- P/L responsibility
 - Generation
 - Trading
 - Sales
 - Treasury
- Indexation
- Bonus structure

Fundamentals of flexibility & Optimization of the hedging process

- Forward curves
 - Contango & Backwardation
 - Convenience yield
 - Seasonality
 - Mean reversion
 - Roll yield
- Call & put options
 - Premium
 - Strike price
 - Options style
- Options
 - Outright options, embedded options & real options
- Flexibility as option
 - 1-sided right vs. 2-sided obligation
 - The real options approach

Transport capacity as real option

- Gas / Power transport capacity
 - String of location-spread options
- Basis trading
 - Trading the basis

Gas storage capacity as real option

- Gas storage
 - Sequence of time-spread options
- Locking in the value of gas asset
 - Hedging process
 - Setting up hedge
 - Choose amount/significance
 - Unwinding hedge
 - Choose significance
 - Repeat sequence
 - Timing is critical element
 - View on the market

Power generation capacity as option

- Power plants as sequence of call options on the spark spread
- Asset-backed trading
 - SS optimization
 - Delta hedging
 - Strategy to lock in
 - Dynamic hedging
 - Objective approach
 - Subjective approach
 - Under/over-hedging
 - Value of real option
 - Time value
 - Intrinsic value
 - Volatility of SS