

Re: EBS VaR Transaction Policy

- *To:* Ted Murphy <ted.murphy@cw-test.com>, Stinson Gibner <stinson.gibner@cw-test.com>, Vince Kaminski <vince.kaminski@cw-test.com>
 - *Subject:* Re: EBS VaR Transaction Policy
 - *From:* John Echols </O=CW-TEST/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=JOHN.ECHOLS>
 - *Date:* Wed, 01 Apr 2009 04:19:47 +0000
 - *Cc:* Jim Fallon <jim.fallon@cw-test.com>, Barry Pearce <barry.pearce@cw-test.com>, Lou Casari <lou.casari@cw-test.com>, Kevin Howard <kevin.howard@cw-test.com>
-

I have two things biting me.

First is time. I need to turn a draft for Hannon and Rice ASAP. So, the value of a deliberative approach to coming up with a V@R policy will quickly evaporate if we take 2 weeks to study what the policy should say.

Second, I have a unique situation. Our concept of V@R is really unlike the rest of Enron's today. What happens today is that network engineers unilaterally make decisions about deployment, configuration and other matters which effect the longs and shorts of our asset/contract portfolio that they view strictly from a network operating standpoint.

A good example was a decision to move our primary TeraPop (three large servers storing 165 gigabytes each) from Portland to LA. The servers are already in place and purchased, so no capital was involved. But the decision has huge ramifications on the future LA/New York and other Bandwidth usage, and that cost money. Now it could be that the LA/New York cost is cheaper than the Portland/New York cost, the whole point is no one knows. What our "value-at-risk" policy attempt to corral is these types of decisions and put them into the hands of the risk management group, where the decision will be made with at least some economic work behind it.

I really see the EBS V@R policy to be misnamed, since we don't really have the math done to calc V@R. It really is a volumetric-based control policy that says you can't make network changes over XX amount of Megabytes (a storage measure) or OC-3 equivalents (a bandwidth measure) without Risk Management making or approving the decision. I do believe that with Research's help, we can in time actually calculate the V@R impact of such decisions. At that time, the policy should be modified to set metrics based on the V@R calculations.

So if you have an open enough mind to let us co-op your word for a minute, we need to start turning the minds of the network industry people into thinking about their decisions as having value effects. Said directly, Kevin Hannon has given me authority to write a policy to move control over significant network changes from the field to the trading floor, and I am going to issue something NOW to effectuate that.....

So... I really want your views on what we are doing, but thought you needed

some flavor and an sense of the urgency. If you can weigh in, do so quickly.....

Barry Pearce

06/30/00 04:47 AM

To: John Echols/Enron Communications@Enron Communications, Lou Casari/Enron Communications@Enron Communications

cc:

Subject: Re: EBS VaR Transaction Policy

Positive....

----- Forwarded by Barry Pearce/Enron Communications on 06/30/00 04:49 AM

Ted Murphy@ECT

06/29/00 11:33 AM

To: Barry Pearce/Enron Communications@ENRON COMMUNICATIONS@ENRON

cc:

Subject: Re: EBS VaR Transaction Policy

Barry,

Conceptually, I see no reason that a process like this can not be implemented. In some way we have attempted to do so through the Enron Corp Transaction Approval Process (TAP). I have forwarded to John a copy of this, along with the Risk Management Policy. I'll let him share with you if ok (I really don't want to act as the firm's in-house Kinko's!!). We have taken the first step and done poorly on follow-up steps to create a very easy to follow process for anything other than direct funded capital. However, some process around a greater number of assets/deals is better than none. I agree that I have not seen a really good fully baked one implemented, but I think it is wrong not to try.

The only concerns I have is that, given that we want to have "standard" metrics and approval processes around the firm, EBS creates a process/metric which is complementary to and integrates with processes/metrics that the other Business Units are subjected to .

Ted

Barry Pearce @ ENRON COMMUNICATIONS

06/29/2000 09:09 AM

To: Stinson Gibner/HOU/ECT@ECT, Dale Surbey/LON/ECT@ECT, Ted Murphy/HOU/ECT@ECT

cc: Lou Casari/Enron Communications@Enron Communications, John Echols/Enron Communications@Enron Communications, Jim Fallon/Enron Communications@Enron Communications

Subject: EBS VaR Transaction Policy

Hey you guys,

We are trying to implement a 'VaR transaction' policy - and would like your opinion.

This is going to be tough - because I'm not sure we have implemented a similiar policy across any of our other 'books' - that is - we looking to bring in all the accrual/operational assets as well as the MTM stuff (lambdas). To have a real-live 'configuration' of the system.

If assets/routes/servers etc...are added - what is the impact on the 'value' of the system and what it's worth.

John has attached a draft below - for your review and thoughts.

I can see how this works in a trading environment - when you actually know the VaR of your whole trading portfolio. However - I've not seen this done with a mixture of MTM & accrual assets. Add the spice of a 'operational system' valuation - and this will be tough to quantify and model.

Step 1 - configure system and value it

Step 2 - calculate a VaR on this. We will need to do some work here!

Step 3 - calculate the incremental VaR of new deals/amendments/reconfigs etc - tough....

See what you think?

B.

John Echols

06/28/00 05:41 PM

To: Jim Fallon/Enron Communications@Enron Communications, Barry Pearce/Enron Communications@Enron Communications, Lou Casari/Enron Communications@Enron Communications

cc:

Subject: Policies

Here is a first rough draft of a "value @ risk" transaction policy.

I would like you to start looking at where we are going on the policy and get some early thinking going on limits for the V@R. For example, should we effectively shut down all server relocations without approval, or allow some level of MB of storage to be moved around or reconfigured?

I need some commercial and industry realism for this. We may need Rick Paiste or your industry helpers (Marquardt, etc. to help us).

Barry, Lou, I need your input.

Attachment:

00000000AC876EC35722A3459F0BA162BCEA3BABE4C42000.#1.v@rpolicydraft.doc

Description: MS-Word document