

## Innovation and Energy Efficiency; risks and financial potential



Interview by *Donato Camporeale*  
Executive Director Energy Utilities & Mining

with *Domenico Floro*  
Head of Financial Risk Management

**1** Today, the ability to innovate is still the main lever of differentiation for the energy market. Several players, with the aim of seizing the opportunities offered by the change in the energy structures of many countries, have changed - in some cases significantly - their “asset portfolio”. Among these, ERG is a very significant example. Mr. Floro, could you explain how ERG is positioning itself today?

I think that ERG can really be considered one of the most dynamic companies in terms of innovation. ERG was among the first Italian companies to take steps in line with the European Union guidelines on the issues of innovation and energy efficiency.

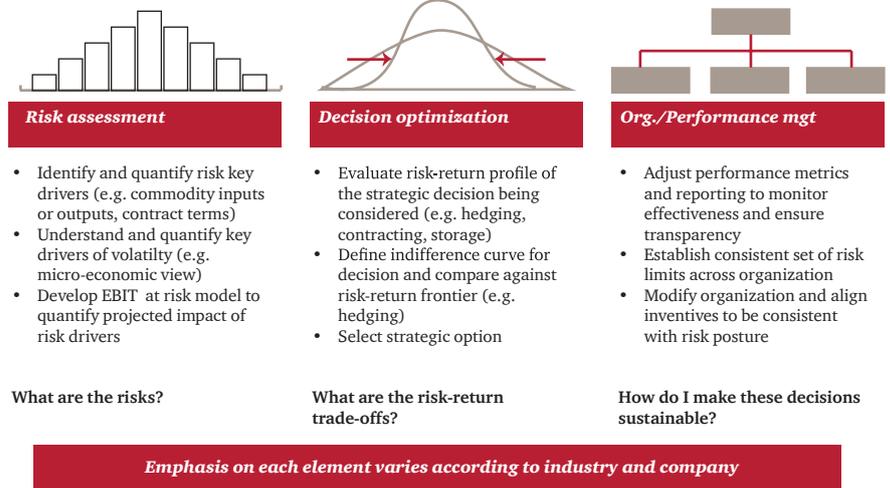
ERG, in fact, was able to successfully diversify its activities. First of all, today ERG is the first wind farm operator in Italy, it also operates a wide and efficient distribution network of fuel and produces electricity through combined cycle plants designed and built with the best technology available.

To keep up with the market, which is, as mentioned before, very crowded and competitive, ERG has introduced management approaches that have changed the decision-making process of our management, based on risk management techniques and models. In particular, the department that I’m responsible of, the Financial Risk Management, was strongly wanted in order to assess and manage risks through the adoption of methodologies based on quantitative approaches.

Actually, the approach to risk management is spreading across all business functions. For instance, just starting from the model used for financial risks, we have recently launched a project that involves the measurement of operational risk. The involvement of the production companies’ functions will be very strong

**Risks | Benefits | Costs**

**ERG Model**



**2** Therefore, together with the analysis of credit risks and market risks you shall also evaluate the industrial risks. Which specific benefits do you expect to achieve?

The project I mentioned before is considered among the most challenging and innovative. In particular, it will enable us to evaluate the performance of the plants and of their main parts. We will measure the risk profile of our operating activities (today, we are focusing on the generation of electricity, but we're already thinking about the other activities) to verify our exposure, even in respect of the risk sharing tools that we are using.

We think, moreover, that the project can be very useful to the functions that deal with asset management, operation and maintenance. We will be able to evaluate and choose, for example, among the possible mitigation options the one which is more convenient both in technical and economic-financial terms, or, as another example, to analyze the planned maintenance programs in terms of costs and benefits.

**3** When talking about an innovative project reference is often made to the "IT" component. Is this also the case with this project?

Sure. The methodology that will be used for risk assessment (quantitative approach), the involvement of different business functions and the need to make the model really "functional", required the introduction of a tool capable of collecting and managing a great deal of data and information. It would have been difficult to believe that such a change could have been realized without the support of an application able to simplify the complexity of a rather structured system.

**4** When do you plan to make the model and the application available?

We expect to complete the project, including the implementation of the application, by the end of the first quarter of 2014. We have also planned a proper training program for our staff, in particular the risk owners, who will be committed to use the system and understand the results of the analysis. We are very confident.

We shall contact you again by next spring, then. Thank you Mr. Floro.

Thank you



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**Think4Energy – The Energy & Utilities Sector periodical newsletter**

Published and freely distributed by PricewaterhouseCoopers SpA  
Court of Milan registration number 487, of 30 October 2009

**Editor**

PricewaterhouseCoopers SpA

Editorial Director

Giovanni Poggio

Partner

Energy Utilities and Mining

Email: [giovanni.poggio@it.pwc.com](mailto:giovanni.poggio@it.pwc.com)

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