Back to class post-Enron

A university course aims to create a blueprint for the industry, says Sheila McNulty

It has come too late to save Enron. But the new Energy Risk Management Certificate programme being offered by the University of Houston’s Bauer College of Business may well help save its peers in the world of energy trading.

The programme, in the college’s Global Energy Management Institute, is teaching graduate students and industry professionals to analyse risk factors and understand the trading opportunities to manage those risks.

The inaugural class comprises 36 students, including several from energy traders Duke and Reliant Energy, and others from traditional oil and gas companies such as Chevron-Texaco (which owns a stake in energy trader Dynegy) and Marathon Oil. One former Enron worker is in the ranks.

“Some students asked if they should stay in the programme as people are saying anything related to trading is evil,” says student Jason Ho, an energy financial analyst at Reliant Energy. “But the whole idea of risk management is to reduce uncertainty. Risk management is here to stay.”

The problem is that energy traders such as Enron – the US’s biggest energy trader until its collapse in December – for years prized young, energetic workers with fresh ideas over professionals trained in risk management. “We observed an industry that was largely an apprentice system, especially in trading,” says Arthur Warga, dean of Bauer College.

Energy traders learned on the job, says Praveen Kumar, professor and chairman of the Bauer College’s finance department, who developed much of the curriculum. “If you had the right character you survived. You need traders to understand accounting rules, what each contract does to the risk profile of an organisation,” he says. He believes the certificate programme creates a blueprint for the future of the industry.

It has a high-profile backer in Pat Wood, chairman of the Federal Energy Regulatory Commission in Washington DC, who spoke at the recent opening in Houston. “By fostering an environment here, in the energy capital of the world, to explore and better understand the needs of tomorrow, the energy industry can learn from the lessons of the recent past and invest in its own bright future,” Mr Wood said.

The “lessons of the recent past” include not only Enron’s collapse, amid revelations of its financial trickery, but the subsequent disclosures that many of its peers also had engaged in deceptive trades, stretched accounting limits in the little-understood world of energy trading and burdened themselves with too much debt.

Even before Enron filed for bankruptcy, Bauer College faculty say they were being told by those running energy trading and risk management programmes at companies that they wanted people to have a more fundamental backing, Prof Kumar says.

“When Enron came along, the need for such a programme became more stark,” Prof Kumar says.


The institute is using its longstanding relationship with the energy industry to ensure its students are learning from the experiences of full-time professionals, who make up about half the speaking roster. Those on the roster include Phillippe Jorion, author of Value at Risk, the world’s leading text on risk-management; Rita Nagle, vice-president at Goldman Sachs; and Horace Brock, director of the Institute of Petroleum Accounting.

Its ability to lure such speakers is mainly because the institute is in Houston, home of many energy traders. “Because of our location, we are able to bring in people who can bring fascinating case studies,” Prof Kumar says. “Enron is a case study. Dynegy is a case study. Williams is a case study, Duke is a case study... We can get this talent five minutes drive away.”