



WindEnergy

NETWORK

COMMUNICATION HUB FOR THE WIND ENERGY INDUSTRY

Health & Safety

**Emergency
Response**



**BLADE
INSPECTION &
REPAIR**

**Inter-Array
Cables**



RISK MANAGEMENT

JAD Financial provide non-executive solutions to a portfolio of clients across the Humber Region.

In a previous article the company briefly mentioned the benefits of Boards having a Risk Register in the context of presenting to a potential customer’s due diligence team that major threats to the continuity of business had been identified and their likelihood of happening assessed and assuaged.

OFFSHORE WINDFARM COMMERCIAL RISKS

On an offshore windfarm commercial risks include unplanned downtime. Managing that risk involves deciding between the benefits of Preventive Condition-Based Maintenance, or adopting a Reactive Approach to mechanical failures.

LIKELIHOOD					
SEVERITY	1 RARE	2 UNLIKELY	3 POSSIBLE	4 LIKELY	5 ALMOST CERTAIN
1 NEGLIGIBLE	VERY LOW (Green -1)	VERY LOW (Green -2)	VERY LOW (Green -3)	LOW (Yellow -4)	LOW (Yellow -5)
2 MINOR	VERY LOW (Green -2)	LOW (Yellow -4)	LOW (Yellow -6)	MODERATE (Amber -8)	MODERATE (Amber -10)
3 MODERATE	VERY LOW (Green -3)	LOW (Yellow -6)	MODERATE (Amber -9)	MODERATE (Amber -12)	HIGH (Red -15)
4 MAJOR	LOW (Yellow -4)	MODERATE (Amber -8)	MODERATE (Amber -12)	HIGH (Red -18)	HIGH (Red -20)
5 CATASTROPHIC	LOW (Yellow -5)	MODERATE (Amber -10)	HIGH (Red -15)	HIGH (Red -20)	HIGH (Red -25)

NOT A THEORETICAL EXERCISE

Managing risk however should not be thought of as a theoretical exercise raised at the behest of the purchasing department. A strong management team needs to be strong enough to admit to itself that it cannot control every adverse event that could happen.

MATRIX APPROACH

A client of the company uses a matrix approach to assessing risks. One way of populating a ‘League Table of Risks’ is to attach values to each possibility based on its likelihood of occurring and its potential impact on how the business performs.

The table below shows in the top left where the lowest analysed risk would sit [Rare x Negligible] and in the bottom right where the highest most catastrophic risk would sit [Almost Certain x Catastrophic].

Using this table as a simple pictorial prompt any risk in the red boxes requires an immediate action plan.

ASSESSING SPECIFIC RISKS

How one assesses a specific risk will depend upon the circumstances and type of business. During my time as Financial Director in a global duck business, a recurring major risk was the arrival of bird flu into their breeding farms.

Any outbreak immediately curtailed breeding stock exports for a minimum of six months. The threat to future sales is self-evident – why should a Chinese farmer defer his own business requirements because we can’t supply him?

ACTION PLAN

The action plan was a relentless focus on quality and hygiene at the breeding farms and to support a number of income streams from other parts of the business that would continue to generate cash should an outbreak happen. But you can never control diseased birds flying to our shores. This would probably be a ‘16’ in this matrix – likely and a major risk.

In this example, the probability of an equipment problem could be either ‘Possible -3’ or ‘Likely -4’. Its severity could be between ‘Minor-2’ and ‘Major -4’. The judgement call would be whether controlled preventive maintenance reduced the severity call to ‘Negligible – 1’. That call should be taken after an informed debate.

Isn’t it about time you reviewed your Risk Register before you are prompted by your Non-Exec?

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