



Interview with Dr. Vince Kaminski, Ph.D.

Professor in the Practice of Energy Management, Jesse H. Jones Graduate School of Business, Rice University; and Member of the J.P. Morgan Center for Commodities' (JPMCC's) Research Council at the University of Colorado Denver Business School



Dr. Vince Kaminski, Ph.D., Professor in the Practice of Energy Management, Rice University, presenting on “The Involvement of Financial Institutions in the Commodity Markets” at the September 30, 2016 JPMCC Research Council meeting. Dr. Kaminski is also a member of the JPMCC's Research Council.

In the Spring 2017 issue of the [GCARD](#), we are honored to interview Dr. Vince Kaminski, Ph.D., Professor in the Practice of Energy Management, Rice University and an inaugural member of the JPMCC's Research Council. In this issue's interview, Professor Kaminski discusses his motivation for joining the Research Council and the value that the JPMCC can bring to commodity market participants. [He also elaborates on his metaphor of comparing the various parts of the commodity complex to a Rubik's Cube, which he had proposed at the JPMCC's April 2015 Research Council meeting.](#) In addition, Dr. Kaminski generously summarizes his September 2016 Research Council presentation on the involvement of financial institutions in the commodity markets. Dr. Kaminski's interview also includes how he came to specialize in the commodity markets, and he offers advice to students and young professionals whom are interested in potential careers in the commodity markets. His interview also covers his newly published and updated reference textbook, [Managing Energy Price Risk](#), which is now in its 4th Edition at



Risk Books, and he concludes with suggestions on what topics should be covered in future issues of the *GCARD*.

Interview with Dr. Vince Kaminski, Ph.D.

What was your motivation for joining the JPMCC's Research Council?

Over the last 25 years I have observed the efforts of many business schools to create energy specializations and energy research centers and many of those efforts were not very successful. I think that the JPMCC has the right recipe for commodity oriented research, which calls for a balanced mix of practitioners and academics and covers a wide spectrum of different markets across various types of commodities and across financial and physical markets. I shall elaborate later why I think this is the right model.

What unique value can the JPMCC's Research Council provide to commodity market participants?

The JPMCC provides a meeting place and a platform facilitating interactions between academics and practitioners. Academics often concentrate on solving problems for which they have publicly available data and which can be solved using existing tools, and which produce elegant but often irrelevant solutions. The practitioners complain that the analytical tools are not very practical, are based on highly stylized representations of reality and are difficult to calibrate, given the paucity of market information. The theoretical models often ignore many dimensions and complexities of the problems practitioners face. This problem can be only addressed through frequent interactions between the producers and users of theoretical models. The JPMCC provides a venue for discussion and brainstorming for different participants in the commodity markets. The meetings that I have participated in were not only very interesting but also intellectually stimulating.

What were the highlights of the Research Council meetings that you have attended and presented at?

It would be a disservice to the contributors to come up with a list of a few presentations I liked most. It would be also impossible, given the exceptionally high and even caliber of lectures and panel discussions that I was privileged to listen to. The real highlight was the opportunity to meet in person the many guiding lights of industry and academia whose papers and books I have read and used over the many years that I have spent in industry as well as the professionals whose accomplishments I followed.



At the April 2015 Research Council meeting, you had compared the commodity markets to a Rubik's Cube with different dimensions and layers. Can you elaborate on this metaphor?

I approach the commodity markets as a complex system which consists of three layers:

- a. The physical layer of operations and assets related to production, transportation, storage and the distribution of different commodities.
- b. The financial layer of market transactions supporting the transfer of commodities from producers to end-users and facilitating capital flows to the industry.
- c. The socio-political layer of laws, conventions, regulations, and international treaties, which create a framework for physical and financial activities in the commodity markets.

All the three layers are connected through many constantly evolving channels transmitting shocks from one layer to another. Once we recognize additionally that the three layers are composed of many grey boxes (not white and not black boxes, but the boxes we understand to some extent but almost never have full information about them) we get a very complex system that can be compared to a Rubik's Cube, which is being constantly redesigned as we try to solve it. Anybody familiar with the *New York Times* bestsellers list knows that there are many shades of grey, and there will never be a shortage of research topics for intellectually curious academics and business solution challenges for the practitioners.

At the September 2016 JPMCC Research Council meeting, you had presented on the involvement of financial institutions in the commodity markets. Given your unique vantage point as a leading commodity practitioner and researcher, could you please summarize the key points of your presentation for our practitioner readership?

Historically, under U.S. laws, banking was separated, for multiple reasons, from commercial activities. The barrier between these lines of business was lowered, though not completely eliminated, through the enactment by Congress of the Gramm–Leach–Bliley Act (GLBA), also known as the Financial Services Modernization Act of 1999. Under this Act, the Federal Reserve Board allowed a number of systemically important financial institutions to engage (with some restrictions) in physical activities in the energy and metals markets. These institutions included Citigroup, UBS, Barclays, Deutsche Bank, Fortis, Société Générale and several other banks. The Federal Reserve Board has recently signaled its intention to revisit this issue by increasing capital requirements for physical commodity-oriented businesses. I updated members of the JPMCC's Research Council on the status of new rules proposed by the Federal Reserve.

What originally led you to specialize in the commodity markets?

As many decisions in life, it was purely accidental. After many years spent on Wall Street in the financial markets, I wanted to improve my quality of life and get away from long hours and weekends in the office, many hours spent commuting to and from work, and the unrelenting pressure to generate more



business. I thought that moving to a place with better life/work balance would benefit my family and me personally. I accepted an offer from a company based in Houston, which was expanding its presence in the energy markets and was looking for people with trading and quantitative finance skills. The name of the company was Enron, and I did not get exactly what I expected. On the positive side, I was given a unique opportunity to observe the evolution of many commodity markets from very early stages of development, and I could transfer skills acquired on Wall Street to a new industry.

Your edited book, Managing Energy Price Risk, is now in its 4th edition. What are the unique insights in your latest work?

Managing Energy Price Risk has become over the last 20 years a standard reference for energy trading and risk management. I measure the success of the book by the number of Xerox copies I see in the many companies I visit. Each edition of the book is practically a new publication addressing recent market and regulatory developments. A few of the most important papers are carried from one edition to another, but most chapters are either revised or replaced. I think that all the four editions are still quite useful to industry practitioners. The most recent edition covers the earth-shattering developments of the last 10 years, since the 3rd edition hit the shelves. The book reflects my fundamental vision of the commodity markets – the need for an integrated, holistic approach, across the different layers of the industry I have mentioned above.

The developments of the last 10 years were nothing short of a revolution. If somebody predicted the shale revolution, financial markets disruptions, geopolitical changes (correctly I should say) 10 years ago, one could have ended up in a well-padded room with around-the-clock medical help. But all this happened and, hopefully, the book offers a convenient way to catch up with all the different developments that took place in the industry over the last decade.

What advice could you give to students and young professionals interested in the commodity markets?

I start my overview of the energy industry class with a few slides demonstrating the importance of energy to our standards of living and national security, followed by historical data illustrating the change in U.S. energy consumption structure over time. Each major restructuring of the energy industry was associated with a wave of wealth creation and exceptional job opportunities. I tell the students that one cannot go wrong by choosing a career in the energy industry, in spite of high volatility and frequent booms and busts. I warn them, however, that one cannot succeed on the cheap by learning a few buzz words and hoping that fast talk and crowded PowerPoint presentations will be a substitute for solid knowledge and strong technical skills. One has to make an investment to learn the business or try one's luck in a different industry.

What topics do you think we should cover in future issues of the "Global Commodities Applied Research Digest," given its practitioner focus?

One critical issue to the energy industry is the interaction between the financial and physical markets. Price formation and discovery for physical commodities increasingly happens on the exchanges, such as ICE and CME, and the dynamics of these processes are not well understood. Another critical and related



issue is the decreasing participation of market participants in reporting transactions to index publishers such as Platts and Argus. This means that an increasing volume of transactions is priced through a shrinking volume of trades that are included in index calculations. This trend is very troubling and has been recently receiving a lot of attention from regulatory agencies and traders.

Thank you, Dr. Kaminski, for this opportunity to interview you.

VINCE KAMINSKI, Ph.D.

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Dr. Vincent Kaminski spent 14 years working in different positions related to quantitative analysis and risk management in the merchant energy industry. The companies he worked for include Citigroup, Sempra Energy Trading, Reliant Energy, Citadel Investment Group, and Enron (from 1992 to 2002) where he was the head of the quantitative modeling group. Prior to starting a career in the energy industry, Mr. Kaminski was a Vice-President in the Research Department, Bond Portfolio Analysis Group, of Salomon Brothers in New York (from 1986 to 1992).

In September 2006, Dr. Kaminski accepted an academic position at Rice University as a Professor in the Practice of Energy Management at Rice's Jesse H. Jones Graduate School of Business. He teaches M.B.A. level classes on energy markets, energy risk management and the valuation of energy as well as classes in the executive education program.

Dr. Kaminski holds an M.S. degree in international economics, a Ph.D. degree in theoretical economics from the Main School of Planning and Statistics in Warsaw, Poland, and an M.B.A. from Fordham University in New York. He is a recipient of the 1999 James H. McGraw award for Energy Risk Management (Energy Risk Manager of the Year). Dr. Kaminski has published a number of papers, and contributed to several books, on the energy markets, including the most recent 4th edition of the industry standard textbook, Managing Energy Price Risk (Risk Books).

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