

LETTERS

Interconnection conflict

I'd like to suggest another solution to the problem explicated by Jonathan Gottlieb in the column in your July/August issue titled, "Transmission vs. generation: Who serves whom?" (p. 11).

As a consultant and developer of independent power projects, I have experienced first-hand the conflicted interconnection climate that Gottlieb describes. However, as a utility executive, I also have negotiated over 500 MW of power purchase contracts, as well as three interconnection agreements that provided for detailed cost sharing, fixed prices for the independent power producers, and construction of substations and transmission lines. All three projects were built on schedule and remain operational. Although this may be a "minority" example, it demonstrates that when there is a willing buyer and seller, independent power projects can get built and interconnected cost-effectively.

The solution I propose for situations where generators and transmission owners can't settle their differences is to bring in an independent mediator or arbitrator. This would constitute a new approach. While some contractual issues have been decided under arbitration clauses after a plant has commenced operation, few interconnection disputes have been submitted to either arbitration or mediation during the negotiation stage.

The primary role of a mediator would be to help each side understand the other's point of view. Armed with facts from both sides and his own technical knowledge and industry experience, the mediator could close the gap between the parties and create an environment more conducive to a working relationship based on trust rather than animosity.

I emphasize that for this concept to work, the mediator must be a neutral party. Both parties would—and should—be uneasy about disclosing data to a mediator who may later become a decision-maker—for example, a regulatory official or an administrative judge. A mediator should be barred from

becoming an arbitrator on the matter in question unless both parties agree to the change in role.

Having said that, I must add that a mediator can neither close an economic gap that is too wide, nor make an intransigent party change its ways. But a mediator can act as a "Dutch uncle" to bring two parties closer. In the process, he can help make the question, "Who serves whom?" irrelevant and rhetorical.

HOWARD SOLGANICK, P.E.
*Principal Energy Tactics
& Services, Inc.
Langhorne, Pa.*

Weather risk

Because it focused on the energy industry, the cover story of your July/August 2001 edition ("Betting on the weather," p. 28) understated the use of weather risk management tools in other industries throughout Europe, and particularly in France. In fact, the relative absence of demand for energy hedges has been the reason that French weather players have developed their own innovative weather risk management solutions for companies in the leisure, agriculture, and retailing industries. French banks and funds have been central to the market for several years.

Between the end of July and the middle of August, there was a sharp rise in the volume of weather derivatives traded in the European market. As well as deals at such established locations as London Heathrow and Paris Orly [airports], sizable deals have also been done based on data from weather stations in cities such as Lille, Lyon, Marseille, Oslo, Berlin, Hamburg, and Stuttgart.

Activity typically picks up during this summer period, as trading desks start to evaluate their winter exposure. Market participants have suggested that prepositioning of books, as well as large customer orders, may have helped swell the flow.

Swap and option formats have been traded in similar quantities. The preferred underlying index remains heating degree days (HDDs), rather than average temperature. Deal sizes of

[about \$14,400] per HDD are not uncommon; a year ago, the norm was a tenth this size.

Several drivers have contributed to this spurt of activity, including the arrival of new players in the market and increased availability of weather data. Spectron views this as a very positive development. Combine this with announcements by a number of other players that they intend to enter the market, and the potential demonstrated by the size of the U.S. weather market could well be realized in Europe in the near future.

NICK WARD
*Head of New Markets
Spectron Group
London*

I'm sure it was an oversight that your July/August cover story, "Betting on the weather," omitted any mention of Aquila, Inc., the company that did the first weather deal in July 1996. As reported in another publication of The McGraw-Hill Companies, *Global Energy Risk*, the transaction was based on cooling degree days for the month of August 1996 in New York City's Central Park. It was structured as a dual-commodity hedge for Consolidated Edison Co. of New York, Inc.'s Megawatt Hour Store.

Since then, Aquila has been a leader in developing a host of new weather risk management products and alliances around the globe. Most recently, the company formed an alliance with Australia's Macquarie Bank to market weather products in Australia and New Zealand. Aquila also has strategic alliances with companies in the U.S., Japan, and Great Britain. By itself, Aquila accounts for a very significant share of the industry's business. To underscore the company's leadership in the field, I'd like to add that Ravi Nathan, our general manager for weather products, helped found the Weather Risk Management Association and serves as its current president.

AL BUTKUS, *Vice President
Corporate Communications
UtiliCorp United/Aquila, Inc.
Kansas City, Mo.*