



# Deal Structuring Weather

## The Need

Among the significant areas emerging in derivative technology is the rapidly growing area of managing risks resulting from weather. This exciting concept offers protection against uncertain costs/revenues resulting not on price changes but on fluctuations in volumes. Hedgers are compensated against unfavorable moves in temperatures, precipitation, water flow, even humidity and pollution, that determine the physical volumes transacted. This area opens a dimension to risk management not previously available to business managers.

## The Program

A business entity's economic exposure to weather must first be identified. The program starts with exposure identification and quantification. It then explores alternative weather hedge structures that best address the business' exposure, including fixed-price swaps, put and call options. Calculating and quoting conventions for this new market are explained. Pricing concepts for these products are unique to weather, differing significantly from the conceptual approaches applied commonly in energy commodities. These various approaches to pricing weather are compared and their implications analyzed.

## The Practical

The wide acceptance of weather hedging places the need for energy industry professionals to acquaint themselves with this new technology. Paradigm's program is oriented to providing industry professionals with a thorough, but still pragmatic, training session in the workings of this new and exciting technology.

## Summary and Objectives

At the conclusion of this program participants will be able to:

- ✓ *Understand how weather influences the economics of energy and non-energy businesses*
- ✓ *Quantify weather exposure to structure a tailored hedge*
- ✓ *Manage volumetric risk using weather hedging*
- ✓ *Use the common conventions for measuring weather indices*
- ✓ *Calculate Heating Degree Days and Cooling Degree Days from National Weather Service data*
- ✓ *Compare and contrast methodologies for pricing weather derivatives*
- ✓ *Analyze the effectiveness of using 30-year NWS 'Normals' in pricing weather transactions*
- ✓ *Quote option premiums quoted in weather units (e.g. HDDs, inches of rainfall, etc.)*
- ✓ *Establish payout limits for weather structures and understand their impact on pricing*
- ✓ *Differentiate option pricing concepts for weather from conventional option theory*
- ✓ *Attain a fluency in weather hedging that will facilitate problem-solving and creative deal structuring*

Contact us at: 1117 East Putnam Avenue, Suite 346 • Riverside, CT 06870  
Phone: 203.637.1092 • Fax: 203.637.5927