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Enron Capital & Trade
Resources Corp.
1400 Smith Street
Houston, TX 77002

COMMENT

July 23, 1999

Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Attention: Jean A. Webb, Secretary

Re: Applications of the Chicago Mercantile Exchange for Designation as a Contract Market in CME Degree Days Index Futures and Options Contracts

Dear Ms. Webb:

We are submitting this letter in response to the Commission's notice that it is considering an application by the Chicago Mercantile Exchange for designation as a contract market in Degree Day Index Futures and Options Contracts (the "proposed CME Contracts") (Fed. Reg. Vol. 64, p. 33472, June 23, 1999).

Enron is very interested in the proposed terms and conditions because we are one of the largest participants in the over-the-counter weather derivatives market ("OTC Market"). Given the nature of these activities in the OTC Market, Enron is a potential user of these contracts. For this reason, we are writing to point out the disparities between the proposed CME Contracts and existing standards in the OTC Market.

Our primary concern regarding the proposed CME Contracts is that they provide for the settlement index to be based on the determination of a private enterprise, the Earth Satellite Corporation ("EarthSat"), rather than the index which is currently being used by the OTC Market. In this regard, the generally accepted settlement index for the industry is based on information gathered by the National Weather Service and provided by the National Climatic Data Center ("NCDC").

Both of these government entities have worked with the weather derivatives industry to provide timely service and have become a reliable, widely accepted source of data.

Of equal concern is the fact that the information provided by EarthSat (as viewed on the CME web site) does not correspond with the data reported by the NCDC and we have identified significant differences between the two sets of data. The end result of this analysis is that the proposed CME Contracts would not be appropriate as a hedging tool for transactions effected in the OTC Market, and therefore they might not be useful to OTC participants. We recommend that any futures settlement index replicate mechanism used in the OTC Market at least in terms of actual data, if not also the actual source.

We are also concerned that the Fallback Reference source (e.g. the data source if source from the primary site is not available) is not consistent with industry standards. Instead of using the triangulation method proposed by the CME, we recommend that the proposed CME Contracts utilize the industry standard of designating a predetermined Fallback Reference Station. The triangulation method involves taking three or more surrounding cities and using them as data points to determine any missing data. While this method might work for the ten cities proposed, the OTC Market trades with respect to over seventy cities. Triangulation methodology would be onerous at best to cover the OTC Market effectively. The more experienced participants in the weather derivatives market have been working to create a standardized list of Fallback Reference Stations that perhaps the CME could use.

I would be happy to discuss these points in further detail, if necessary. Should you have any questions, please do not hesitate to contact me at 713-853-3096.

Yours truly,

Lynda Clemmons
Vice President, Weather Risk Management