S F E B U L L E T I N

SFE Bulletin No: 58/04

From: SFE Corporation Limited ABN 74 000 299 392

Date of Issue: 1 October 2004

Effective Dates:

Quarterly Base Load $300 Cap Futures	**3/11/04**
Options on Calendar (Cal) Year Base Load Strip Futures Products	**5/11/04**

NEW ELECTRICITY PRODUCTS

SFE and d-cyphaTrade are pleased to announce that, subject to regulatory approval, the d-cypha SFE Quarterly Base Load $300 Cap Futures and Options on Calendar (Cal) Year Base Load Strip Futures Products (the Products) will be available for trading on the Sydney Futures Exchange (the Exchange) from 9.00am on 3/11/04 and 9.00am on 5/11/04, respectively. The first contract month for the d-cypha SFE Quarterly Base Load $300 Cap Futures to be listed shall be March 2005, and the first Option on Calendar (Cal) Year Base Load Strip Futures Products will be the 2006 Strip Option expiring on 18 November 2005.

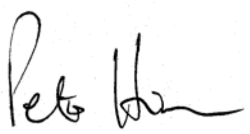
The Products will be listed on SYCOM the week prior to launch to allow contract maintenance to be performed on SYCOM IV® Workstations, SYCOM IV® Interfaces and order systems connecting to those interfaces. Participants are requested to ensure all Trading and Clearing systems are operationally ready prior to the above referenced launch dates.

To further assist Participants with their preparations for the listing of this product the attachments to this Bulletin highlight:

- SFE codes;
- Head-line Exchange fees and Initial Margins;
- a summary of the Contract Specification for the new products;
- a sample of Individual Contract Specifications and Determinations which are applicable to the Individual Contract Specifications,
- determinations relating to Pre-negotiated Trading, Block Trading and Exchange for Physical (EFP) trading rules, and
- a worked example of an exercised strip option.

Should you have any queries regarding the introduction of Strip Options and Cap Futures please contact:

d-cyphaTrade Business Development – Cathy Sutin, Ph: 02 8211 0616, catherine.sutin@d-cypha.com.au
SFE Operational Enquiries – SFE Operations Centre, 02 9256 0677, sycom@sfe.com.au



PETER HIOM
GENERAL MANAGER, EXCHANGE BUSINESS DEVELOPMENT

ATTACHMENT 1 – SUMMARY OF SFE CODES

SFE Codes for Cap Futures and Strip Options are presented in the following tables. Market Vendor Codes will be available on the d-cypha and SFE websites, www.d-cyphatrade.com.au and www.sfe.com.au, closer to the listing date.

Base Load Quarterly $300 Cap Electricity Futures	SFE Code	Strip Products on $300 Cap Futures	SFE Code	Strip Options	SFE Code
NSW Base Load Quarterly $300 Cap Electricity Futures	GN	NSW Base Load Cal Year $300 Cap Strip Products	RN	NSW Base Load Strip Options	HN
QLD Base Load Quarterly $300 Cap Electricity Futures	GQ	QLD Base Load Cal Year $300 Cap Strip Products	RQ	VIC Base Load Strip Options	HV
VIC Base Load Quarterly $300 Cap Electricity Futures	GV	VIC Base Load Cal Year $300 Cap Strip Products	RV	QLD Base Load Strip Options	HQ
SA Base Load Quarterly $300 Cap Electricity Futures	GS	SA Base Load Cal Year $300 Cap Strip Products	RS	SA Base Load Strip Options	HS

ATTACHMENT 2 – EXCHANGE FEES & INITIAL MARGINS

Exchange Fees

Item	Fee (excluding GST)
Cap Futures	$37.00 per contract side
Strip Options	$148.00 per contract side
Exchange for Physical (EFP) for all Electricity Futures Products	$30 per leg per side
Block Trades for all Electricity Futures Products	$30 per leg per side

Initial Margins for Cap Futures

	Caps		Caps		Caps		Caps
GNH05	900	GVH05	1500	GQH05	1800	GSH05	1800
GNM05	600	GVM05	500	GQM05	800	GSM05	1000
GNU05	1700	GVU05	600	GQU05	1100	GSU05	900
GNZ05	400	GVZ05	600	GQZ05	1800	GSZ05	800
GNH06	700	GVH06	1300	GQH06	1200	GSH06	1700
GNM06	550	GVM06	600	GQM06	2000	GSM06	1300
GNU06	700	GVU06	500	GQU06	800	GSU06	700
GNZ06	400	GVZ06	600	GQZ06	1800	GSZ06	800
Inter month	300		300		300		300

Inter Commodity Concession	Concession	Ratio
BS:GS	60%	1:1
BV:GV	60%	1:1
BQ:GQ	60%	1:1
BN:GN	60%	1:1

Margin Information for Strip Options

Contract	Recommended PSR	Recommended VSR	Short Option Min.
HNZ06	$6,000	3.50%	$200
HNZ07	$6,500	3.50%	$200
HNZ08	$8,500	3.50%	$200
HVZ06	$9,000	3.50%	$200
HVZ07	$9,400	3.50%	$200
HVZ08	$9,400	3.50%	$200
HQZ06	$8,500	3.50%	$200
HQZ07	$8,500	3.50%	$200
HQZ08	$12,400	3.50%	$200
HSZ06	$7,000	3.50%	$200
HSZ07	$7,000	3.50%	$200
HSZ08	$8,600	3.50%	$200

ATTACHMENT 3 – CONTRACT SPECIFICATIONS

These Contract Specifications comprise a summary of product information for the Strip Options and Cap Futures. For full information readers should refer to the Individual Contract Specifications and the Determinations for each contract, which are set out in Attachment 5 in draft form and which will be published in Section 6 of the Exchange's Operating Rules when regulatory approval has been obtained.

Options on Calendar (Cal) Year Base Load Strip Futures Products[1]

Contract Unit:	1 Megawatt of electrical energy per hour on a Base Load profile for the respective States (NSW, QLD, VIC and SA) over the duration of a Calendar Year.
Contract Years:	Options available on 3 Cal Year Strip Futures Products up to three and three quarter years ahead.
Commodity Code:	HN – Base Load NSW HV – Base Load VIC HQ – Base Load QLD HS – Base Load SA
Minimum Price Movement:	Quoted in Australian Dollars per Megawatt hour. The minimum price fluctuation is $0.01 per MWh.
Exercise Prices:	Set at intervals of $1.00 per MWh. New option exercise prices created as the underlying futures contract price moves.
Contract Expiry:	Options will cease trading at 12:00pm on the Last Trading Day. The Last Trading Day shall be the day 6 weeks prior to the day immediately preceding the commencement of the Contract Year for the underlying Strip Futures product. If this day is not a business day or is recognised in NSW, QLD, VIC or SA as a Public Holiday then the following business day will be the expiry day. SFE will publish expiry dates in advance of new contracts being listed.
Trading Hours	9.00am – 4.50pm[2]
Settlement Method:	Options may be exercised on any business day up to and including the day of expiry. In-the-money options are not automatically exercised at expiry. Buyers may exercise in, at and out-of-the-money option positions held, by lodging a notice of manual exercise with SFE Clearing no later than 1:30pm on the day of expiry.
Formula for Determination of Futures Quarterly Prices Resulting From Strip Option Exercise:	Upon exercise, the holder will receive four quarterly futures positions at prices equivalent to the option strike price, after applying the current curve ratio determined from the previous Business Day's settlement price of the 4 quarterly futures contracts underlying the relevant Strip Futures Product, as outline below: $FP = A \times \frac{B}{C}$ FP = Price allocated to each futures contract resulting from exercised Strip Option. A = the previous day's Settlement Price for the Contract Quarter for each individual futures contract. B = Exercise Price. C = Previous Day's Implied Strip Price, calculated as follows: $\text{Implied Strip Price} = \frac{F}{G}$ F = $a + b + c + d$ a = Q1 previous day's Settlement Price x megawatt hours for Q1 as determined by the Exchange. b = Q2 previous day's Settlement Price x megawatt hours for Q2 as determined by the Exchange. c = Q3 previous day's Settlement Price x megawatt hours for Q3 as determined by the Exchange. d = Q4 previous day's Settlement Price x megawatt hours for Q4 as determined by the Exchange. G = Total number of megawatt hours of all four Futures Contracts.
Options Settlement Price:	The Option Settlement Price will be determined on the day of expiry by taking the mean of the respective Cal Year Strip Futures product quotes (the mid-point of the bid and offer in the underlying strip futures product) at 11.45am, 11.50am, 11.55am and 12pm rounded up.

[1] Subject to regulatory approval.
[2] Unless otherwise stated, all times are Sydney times.

Quarterly Base Load $300 Caps Futures[3]

Contract Unit:	1 Megawatt of electrical energy per hour on a Base Load profile for the respective States (NSW, QLD, VIC and SA) over the duration of a Calendar Quarter.
Contract Quarters:	A total of 8-11 Quarterly products.
Commodity Code:	1. GN NSW Base Load Quarterly $300 Cap Electricity Futures 2. GQ QLD Base Load Quarterly $300 Cap Electricity Futures 3. GV VIC Base Load Quarterly $300 Cap Electricity Futures 4. GS SA Base Load Quarterly $300 Cap Electricity Futures
Trading Functionality	Two Calender Years of Strip Products will be available with commodity codes as follows: 1. RN NSW Base Load Cal Year $300 Cap Strip Products 2. RQ QLD Base Load Cal Year $300 Cap Strip Products 3. RV VIC Base Load Cal Year $300 Cap Strip Products 4. RS SA Base Load Cal Year $300 Cap Strip Products
Minimum Price Movement:	Prices are quoted in Australian Dollars per Megawatt hour. The minimum price fluctuation is $0.01 per MWh.
Trading Hours	9.00am – 4.50pm[4]
Last Trading Day:	The Last Trading Day is the last Business Day of the Calendar Quarter. On this day, trading terminates at 4:50pm.
Cash Settlement Day:	The Cash Settlement Day of the Contract shall be the fourth Business day after the expiry of the Calendar Quarter.
Formula for Determining Cash Settlement Value of a Cap	The Settlement Price = $\frac{C - (300 \times D)}{E}$ Where: C = the sum of all Base Load half hourly spot prices for the Region in the Calender Quarter greater than $300.00. D = the total number of Base Load half hour spot prices for the Region in the Calender Quarter greater than $300.00 E = the total number of Base Load half hour spot prices for the Region in the Calender Quarter.
Provisional Cash Settlement Value:	A Provisional Cash Settlement Value (based on the provisional prices provided by NEMMCO) will be declared on the first Business Day after the expiry of the Contract and shall be later confirmed on the third Business Day after expiry.
Cash Settlement Process:	Upon the fourth Business Day after the expiry of the Contract, the Contract will be cash settled at the Cash Settlement Value confirmed on the third business day after the Contract Period. The final Cash Settlement Value is rounded to the nearest cent, as adjusted by NEMMCO and provided to SFE. All bought and sold contracts in existence as at the close of trading in the Contract Period shall be settled by SFE Clearing at the Cash Settlement Value.

[3] Subject to regulatory approval.
[4] Unless otherwise stated, all times are Sydney times.

ATTACHMENT 4 – OPTION OPERATING RULES

Amendments have been made to Rule 6.3 of the SFE Operating Rules to permit the listing of Strip Options. Subject to regulatory approval these rules will be published on the SFE web-site – www.sfe.com.au.

ATTACHMENT 5 – INDIVIDUAL CONTRACT SPECIFICATIONS AND DETERMINATIONS

This attachment sets out the Individual Contract Specifications and Determinations as they relate to the NSW Cap Futures and NSW Strip Options. Subject to regulatory approval, the Individual Contract Specifications and Determinations as they relate to Cap Futures and Strip Options for NSW, QLD, SA and VIC will be published on the SFE web-site – www.sfe.com.au.

Operating Rules

Rule 6.60.3 Strip Options over New South Wales Base Load Electricity Futures contracts

Item	Heading	Individual contract specifications
1.	Contract Unit	An Option over four predetermined New South Wales Base Load Electricity Futures Contracts as described in Item 1 of Rule 6.60.1, comprising one calendar year.
2.	Options not subject to Exercise Request will expire	On the Declaration Date, SFE Clearing shall, unless directed otherwise by an Exercise Request, allow all Options to expire. SFE Clearing will not exercise in-the-money Options unless directed to do so by an Exercise Request.
3.	Value of the Contract Premium in dollars and cents	The price, quoted in Australian dollars (to such number of decimal places as shall be determined by the Exchange) per Megawatt hour, agreed to by the parties at the time of entering into an Option and multiplied by the aggregate number of base load hours in the underlying four New South Wales Base Load Electricity Futures Contracts and expressed as Australian dollars.
4.1	Determination of Option Settlement Price	(a) The Option Settlement Price will be the average price quoted on the SYCOM IV® ® Strip Trading Facility which is referable to the four futures contracts determined in Item 1. (b) The average price will be the average price of the mid point of the bid and the offer at such intervals and at such times as determined by the Exchange.
4.2	Futures Prices Resulting from Exercised Strip Options	$FP = A \times \frac{B}{C}$ FP = Price allocated to each futures contract resulting from exercised Strip Option. A = the previous day's Settlement Price for the Contract Quarter for each individual futures contract. B = Exercise Price. C = Previous Day's Implied Strip Price, calculated as follows: Implied Strip Price = $\frac{F}{G}$ F = $a + b + c + d$ a = Q1 previous day's Settlement Price x megawatt hours for Q1 as determined by the Exchange. b = Q2 previous day's Settlement Price x megawatt hours for Q2 as determined by the Exchange. c = Q3 previous day's Settlement Price x megawatt hours for Q3 as determined by the Exchange. d = Q4 previous day's Settlement Price x megawatt hours for Q4 as determined by the Exchange. G = Total number of megawatt hours of all four Futures Contracts.
5.	Exercise Price	The Exchange shall determine Exercise Prices from time to time having regard to the weighted average price (weighted on the basis of the megawatt hours of each futures contract) of the four futures contracts determined in Item 1, and shall Publish the Exercise Prices so determined.

Item	Heading	Individual contract specifications
6.	Undesirable Situations	If an undesirable situation within the meaning of Rule 1.4 is developing or has developed, then the provisions of that Rule 1.4 shall apply and any provision of these Operating Rules which cannot be complied with until the price has been declared shall be complied with as soon as possible after it has been declared.

Explanatory Note
The terms of all Strip Options over New South Wales Base Load Electricity Futures contracts comprise a combination of:
- the Individual Contract Specifications set out above; and
- the generic specifications set out elsewhere in the Rules.

As to the generic specifications, see in particular Rule 6.3:
(a) which provides for determinations by the Exchange as to:
  - the manner in which Premium is quoted and minimum fluctuation
  - the manner in which Exercise Price is quoted and minimum fluctuations
  - Settlement Months
  - the Declaration Day
  - the time at which trading ceases on the Declaration Date
  - the latest time for lodgment of an Exercise Request; and

(b) which also sets out terms which are applicable to all option contracts.

Pursuant to the generic terms/specifications for all contracts that are set out in Rule 6 providing for various Determinations by the Exchange, the actual Determinations (which do not themselves constitute terms of the contracts) are set out, for information, in the separate document "Procedures, Determinations and Practice Notes" (which document does not form part of the Rules).

For example, the generic term/specification in Rule 6.3 relating to the time on which trading in options ceases is as follows:

"Time at which trading ceases" – such time as is determined by the Exchange. The actual determination made by the Exchange pursuant to this power is "12 noon on the Declaration Date".

Rule 6.60.3 Strip Options over New South Wales Base Load Electricity Futures contracts

Ref Rule	Subject	Options contract determinations
Item 1	Pre-determined contracts	As set out in the Schedule to these Determinations.
Item 4.1 (b)	Time and intervals at which the mid-point of the bid and offer in the underlying Strip market is taken.	11.45am, 11.50am, 11.55am and 12pm
6.3.6	Manner of quoting Contract Premiums.	Australian dollars per Megawatt Hour.
6.3.6	Minimum fluctuations to be used in quoting Contract Premium.	$0.01 per Megawatt Hour.
6.3.6	Manner of quoting Exercise Prices of Options.	Australian dollars per Megawatt Hour.
6.3.6	Minimum fluctuations to be used in quoting Exercise Prices of Options.	$1.00 per Megawatt Hour
6.3.6	Expiry months	November, with a contract code of December, delivering into March, June, September and December
6.3.6	Declaration Date:	The day 6 weeks prior to the day immediately preceding the commencement of the calendar year for the underlying four quarterly futures contracts. If this day is not a Business Day or is recognized in NSW, QLD, VIC or SA as a Public Holiday then the following Business Day will be the expiry day.
6.3.6	Time at which trading ceases on Declaration Date	12.00 noon on the Declaration Date.
6.3.8	Creation of New Exercise Prices	New Exercise Prices are created as the underlying futures contracts in the Strip Trading market moves.
6.1.4	Trading hours	9.00 am – 4.50 pm.
6.3.6	Time for lodgment of an Exercise Request	Up to 1.30 pm on any Trading Day, including the Final Trading Day. Options not subject to Exercise Request will expire.
6.3.13	Notification of Assignment of Exercise Request	For Requests lodged on the Declaration Day: • by no later than 3.00 pm on the Declaration Date; and For Requests lodged on a day other than the Declaration Date: • by no later than 45 minutes prior to the commencement of trading on the next Business Day on which clearing occurs following the day on which the Request is lodged

Schedule of Pre Determined Contracts

Item 1 Rule 6.60.3 Strip Options over New South Wales Base Load Electricity Futures contracts

Strip Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
December 2006[1]	March 2006	June 2006	September 2006	December 2006
December 2007[2]	March 2007	June 2007	September 2007	December 2007
December 2008[3]	March 2008	June 2008	September 2008	December 2008

[1]These contracts are comprised in Strip Code HNZ6
[2]These contracts are comprised in Strip Code HNZ7

[3]These contracts are comprised in Strip Code HNZ8

6.60.4 New South Wales Base Load Electricity Cap Futures Contract

Item	Heading	Individual Contract Specifications
1.1	Contract Unit	One (1) Megawatt hour (MWh) of electrical energy per hour during the base load profile as defined in Item 1.2, bought and sold in the New South Wales (NSW) region of the Wholesale Electricity Pool Market conducted by the National Electricity Market Management Company Limited ("NEMMCO") or its successor, over the period of a Calendar Quarter.
1.2	Reference Price	The Wholesale Electricity Pool Market price that underlies the Contract shall be the NSW reference price. The NSW reference price shall be calculated by NEMMCO on a base load profile (on a half hourly basis for purposes of invoicing physical deliveries of electricity occurring between 0:00 hours Monday and 24:00 hours Sunday – Australian Eastern Standard Time ("AEST") exclusive of any days which may be determined by the Exchange ('the base load hours')) in accordance with the following formula: $RP = \frac{[C - (300 \times D)]}{E}$ Where RP = Reference Price. C = the sum of all base load half hourly spot prices for the Region in the Calendar Quarter greater than $300.00. D = the total number of base load half hour spot prices for the Region in the Calendar Quarter greater than $300.00 E = the total number of base load half hour spot prices for the Region in the Calendar Quarter.
1.3	Type of Contract	Cash settled
2	Contract Value	The price, quoted in Australian dollars (to such number of decimal places as shall be determined by the Exchange) per Megawatt hour, agreed to by the parties at the time of entering into the Contract and multiplied by the number of base load hours in the underlying Calendar Quarter and expressed as Australian dollars, where the number of base load hours is as defined in Item 1.2, for any Calendar Quarter.
3	Provisional Settlement Price.	(a) The Reference Price as calculated in Item 1.2 shall be notified to the Market by SFE Clearing, at such time as it shall determine, as a provisional Settlement Price. (b) SFE Clearing may, at its discretion at any time up until the final Settlement Price is declared, amend the provisional Settlement Price.
4.	Settlement Price	(a) For each Settlement Day SFE Clearing shall declare the numerical value which shall be the provisional settlement price on the first Business Day after expiry. (b) Subject to Item 3 (b), the provisional Settlement Price shall be declared by SFE Clearing as the Final Settlement Price on the third Business Day after the Final Trading Day. (c) This Settlement Price shall be accepted as final. (d) The Settlement Price of a Contract on the Settlement Day shall be a numerical value calculated as the Settlement Value of the underlying amount of electricity as described in Item 5, multiplied by the amount of electricity represented by one contract as defined in Item 1.1 above.
5.	Settlement Value	The Settlement Value is the Settlement Price multiplied by the number of base load hours in the underlying Calendar Quarter and expressed as Australian dollars, where the number of base load hours is as described in Item 1.2, for any Calendar Quarter.

Item	Heading	Individual Contract Specifications
6.	Exclusion of Liability	Subject to the right of the Exchange under Rule 1.4 to direct that contracts be settled at a price other than that determined in accordance with the Individual Contract Specifications, the Exchange and SFE Clearing shall be entitled to regard the information received from NEMMCO or its successors as being conclusive and final. Any failure by the Exchange or SFE Clearing or any entity on behalf of those parties, to provide or obtain the relevant information necessary for calculating the Settlement Price, or any inaccuracies created before or during the calculation or in the transmission thereof shall not lead to a party having any claim whatsoever against NEMMCO or its successor, SFE Clearing or the Exchange.
7.	Inability for SFE Clearing House to declare settlement price and undesirable situations	If a situation is developing or has developed which is capable of preventing SFE Clearing from declaring the Settlement Price in accordance with these Individual Contract Specifications, or if an undesirable situation within the meaning of Rule 1.4 is developing or has developed, then the provisions of that Rule 1.4 shall apply and any provision of these Operating Rules which cannot be complied with until the price has been declared shall be complied with as soon as possible after it has been declared.

Explanatory Note
The terms of all NSW Base Load Electricity Cap Futures Contracts comprise a combination of:

- the Individual Contract Specifications set out above; and
- the generic specifications set out elsewhere in the Rules.

As to the generic specifications, see in particular Rule 6.2:

(a) which provides for determinations by the Exchange as to
  - the units in which prices are to be quoted by participants when submitting orders
  - the Final Trading Day in a Settlement Month
  - the time at which trading ceases on the Final Trading Day
  - the Settlement Date
  - the final times by which the Seller's and Buyer's obligations, respectively, must be satisfied on the Settlement Day
  - the Settlement Months in which a Final Trading Day for a contract occurs; and

(b) which also sets out the effect of the contract in terms of the obligations to pay in cash or receive in cash, respectively, the difference between the Contract Value and the Settlement Value.

Pursuant to the generic terms/specifications for all contracts that are set out in Rule 6 providing for various Determinations by the Exchange, the actual Determinations (which do not themselves constitute terms of the contracts) are set out, for information, in the separate document "Procedures, Determinations and Practice Notes" (which document does not form part of the Rules).

For example, the generic term/specification in Rule 6.2 relating to the Final Trading Day for this contract day is as follows: "Final Trading Day" – such business day as is determined by the Exchange. The actual determination made by the Exchange is "The last Business Day of the Settlement Quarter".

6.60.4 New South Wales Base Load Electricity Cap Futures Contract

Ref Rule	**Subject**	**Options contract determinations**
Items 2 & 4	Calculation of Contract Value and Settlement Value	Calculations shall be carried out to 2 decimal places.
Item 3	Time at which Provisional Settlement Price is declared	11.00 am on the first Business Day following the Final Trading Day.
Item 4	Time at which Final Settlement Price is declared.	11.00 am on the third Business Day following the Final Trading Day.
6.2.3	Manner of quoting Futures Price	Australian dollars per Megawatt Hour.
6.2.3	Minimum fluctuations to be used in quoting Futures Price	$0.01 per Megawatt Hour.
6.2.3	Final Trading Day	The last Business Day of the Calendar Quarter.
6.2.3	Settlement Months	March/June/September/December, such that sufficient Quarter Months are always available for market participants to trade the next two Calendar years.
6.2.3	Time at which trading ceases on Final Trading Day	4.50 pm
6.2.3	Settlement Day	The fourth Business Day after the Final Trading Day.
6.2.3	Final time by which Seller's obligations must be satisfied	12.00 noon
6.2.3	Final time by which Buyer's obligations must be satisfied	10.30 am

ATTACHMENT 6 – DETERMINATIONS RELATING TO PRE-NEGOTIATED BUSINESS AND BLOCK TRADING

Determinations as related to Pre-Negotiated Business

The Exchange's Pre-negotiated Business Orders Rules provide Participants with the opportunity to facilitate client business in order to obtain the best price for that business at that time. These rules permit Participants (subject to client agreement) to withhold orders, disclose order specific information to prospective counterparties and aggregate orders for entry into the SYCOM IV® ® Trading Platform, subject to first issuing a Request for Quote (RFQ) and waiting for a 'Prescribed Time Period'. The requirement to send a RFQ and wait a prescribed time period before entering opposing orders into the Trading Platform is designed to enable other market participants to lodge their best bids and offers and, subject to these orders being competitive, participate in trades that have been pre-negotiated.

The premise behind Pre-Negotiated Business Order Rules is to give incentive to the originating Broker to obtain counter-parties to a trade, whilst not excluding other market participants from the ultimate trade and to ensure the best price is achieved for counterparties.

Determinations
Subject to regulatory approval having been given for the new Operating Rules for the new contracts, the Exchange proposes that Cap Futures and Strip Options may be entered into under SFE's Pre-Negotiated Business Orders Rules with the following maximum prescribed time periods and minimum volume thresholds.

- A Participant must have written authorisation from its Client(s) allowing it to pre-negotiate business on each Clients behalf; and
- once the prescribed time period has elapsed, the orders must be entered immediately – currently deemed by the Exchange to be no longer than **60 seconds**.

Determinations as related to the Block Trade Facility (BTF)
The Block Trade Facility (BTF) is a trading mechanism available for Strip Options and Cap Futures. The BTF permits Participants to arrange and execute nominally large transactions on behalf of their clients, via a facility that is separate from the SYCOM IV® Trading Platform. The BTF is simply an alternative way for market users to transact Exchange contracts that exceed a minimum volume threshold.

Determinations
Subject to regulatory approval having been given for the new Operating Rules for the new contracts the Exchange proposes that the Block Trading Facility will be available for Strip Options and Cap Futures as follows:

CONTRACTS	STRIP OPTIONS	CAP FUTURES
APPLICABLE CONTRACTS	All	All
MINIMUM VOLUME THRESHOLD	15	15
CHANGE OF SPOT MONTH (DAYS PRIOR TO EXPIRY)	N/A	N/A
MINIMUM TRADING INCREMENT	$0.01	$0.01

ATTACHMENT 7 – EXAMPLE OF A STRIP OPTION EXERCISE

The prices of the futures contracts arising upon exercise of the Strip Options will be calculated in accordance with the following formula, which appears in the Contract Specifications.

$$FP = A \times \frac{B}{C}$$

FP = Price allocated to each futures contract resulting from exercised Strip Option.

A = the prior day Settlement Price for the Contract Quarter for each individual futures contract.

B = Exercise Price.

C = Previous Day's Implied Strip Price, calculated as follows:

$$\text{Implied Strip Price} = \frac{F}{G}$$

F = $a + b + c + d$

a = Q1 prior day Settlement Price x contract specified megawatt hours
b = Q2 prior day Settlement Price x contract specified megawatt hours
c = Q3 prior day Settlement Price x contract specified megawatt hours
d = Q4 prior day Settlement Price x contract specified megawatt hours

G = Total number of megawatt hours of all four Futures Contracts.

EXAMPLE:

The aim of the following process is to obtain fair and reasonable prices for each individual leg of each individual strike price. As each strike price will require different priced legs to attain its value the following process must be used for each strike that has a position on expiry.

Upon Expiry Day, the Exchange obtains the prior day settlement prices for each individual underlying contract for the Strip Option. These individual prices are the best reflection on where each component of the strip is being traded in the outright market.

HNZ5 expiring option:

Contract	Prior Day Settlement price.
BNH5	43.50
BNM5	35.50
BNU5	36.50
BNZ5	27.00

As each contract month's contract hours may vary, the prescribed number of Megawatt Hours (MWH) determined prior to the listing of the contract month must be used in the calculation of the implied strip price.

Contract	Prior day settlement price	Number of (MWH)	Weighted Price.
BNH5	43.50	2160	93960
BNM5	35.50	2184	77532
BNU5	36.50	2208	80592
BNZ5	27.00	2208	59616
	TOTAL	8760	311700

The Strip price is calculated as

The total weighted price / total number of (MWH)

311700 / 8760

Implied Strip Price = 35.58219178 (note there is no rounding to apply here)

To obtain the individual component prices for each option strike in the expiring options contract, the following calculation must be performed:

Individual Prior day settlement price * expiring strike price / Prior day implied strip price

Participant wishes to exercise the Option at HNZ5 33.00 strike

Contract	Prior day settlement price	Strike price divided by Implied strip price	New leg price for strike.
BNH5	43.50	0.927430215	40.343214
BNM5	35.50	0.927430215	32.923773
BNU5	36.50	0.927430215	33.851203
BNZ5	27.00	0.927430215	25.040616

Each leg must be rounded to two decimal places.

HNZ5 33.00 strike.

Contract	Leg Price
BNH5	40.34
BNM5	32.92
BNU5	33.85
BNZ5	25.04

To confirm that the new leg prices equate to the value of the exercised strike price a calculation of the strip is required:

Contract	Prior day settlement price	Number of (MWH)	Weighted Price.
BNH5	40.34	2160	87134.4
BNM5	32.92	2184	71897.28
BNU5	33.85	2208	74740.8
BNZ5	25.04	2208	55288.32
	TOTAL	8760	289060.8

The Strip Price is calculated as:

The total weighted price / total number of (MWH)

289060.8 / 8760

IMPLIED STRIP PRICE = 32.99780821

Rounded to two decimal places = **33.00**

Once the individual component legs are calculated and verified, each option position will be allocated four individual legs in the underlying Base electricity futures.