



OPERATIONAL PROCEDURES RELATING TO STRIP OPTIONS

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.