

Information Session
Market Enhancements for
d-cypha SFE Electricity Futures & Options

6 December 2007



ASX

AUSTRALIAN SECURITIES EXCHANGE

Agenda

- Background
- Overview of Enhancements
 - Block Trade Message
 - Daily Settlement Process
 - Strip Trades
 - Block Trade Threshold
 - Pre-negotiated Business Rules
- Compliance with SFE Rules and Procedures
- Questions

Background

- Primary drivers for the enhancements:
 - administrative efficiency;
 - reduce asymmetric information;
 - cater for higher volumes and more new entrants.

Block Trade Message

- Approved short-hand message:

BT ~~ORDER~~: BNH9 20 @ 65.00

"BT ~~ORDER~~: HNZ8 15 @ 40.25. ~~Legs to follow~~ LTF"

Legs HNZ8 15 lots @ 40.25: 52.75, 32.50, 38.00, 37.80

Daily Settlement Process

- Daily Settlement Price (DSP) will not be generated at levels less competitive than outright orders at market close
- ~~In absence of last traded price, DSP will be generated from midpoint of valid bid / offer spread – (valid spread determined as less than — \$15.00 wide for the spot month on all contracts, \$3.00 wide for other Base Load futures and \$5.00 for other Peak Period futures contracts). In absence of trades or valid orders DSP will be prior settlement price~~

Examples:

- Last trade 45.00. Bid 44.00. Offer 47.00. DSP = 45.00 (not 45.50)
- Last Trade 50.00. Bid 52.00. Offer 55.00. DSP = 52.00 (not 53.50)
- Previous DSP 60.00. Bid 58.00. Offer 61.00. DSP = 60.00 (not 59.50)
- Previous DSP 60.00. Bid 61.00. Offer 62.00. DSP = 61.00 (not 61.50)

Strip Trades

- Prescribed algorithm uses the Price of the Strip Trade and allocates prices to the futures components using the ratio of the previous DSPs.
- SFE will calculate the allocated prices and inform the relevant SFE Participants. This enhancement will:
 - eliminate the requirement for futures prices to be negotiated, enabling market participants to spend more time focusing on trading instead of post trade administration; and
 - enable all market participants to calculate what the allocated quarter prices are as soon as the strip product trades.

Block Trade Threshold

| | d-cypha SFE electricity futures (including cap futures and strip products) | d-cypha SFE electricity options (including strip options) |
|------------------------------|--|--|
| Applicable Contracts | All | All |
| Minimum Threshold | 15 lots | 15 lots |
| Minimum Trading Increment | \$0.01 | \$0.01 |

Pre-negotiated Business Rules

| | Minimum Prescribed Time Between Message and Entry of Orders: Outright Market | Minimum Prescribed Time Between Message and Entry of Orders: Custom Market | After Prescribed Time has Elapsed – Time Allowed for Order Execution+ | Minimum Volume Threshold |
|--|---|---|---|--------------------------|
| ELECTRICITY | | | | |
| d-cypha SFE electricity futures (including cap futures and strip products) | 30 seconds | 30 seconds | 90 seconds | 1 lot |
| d-cypha SFE electricity options (including strip options) | 30 seconds | 30 seconds | 90 seconds | 1 lot |

Compliance with Rules

- Written client consent
- Anonymous market
- Front running
- Pre-neg: orders must be brought to market
- Last second orders are legitimate

Questions

Attachment - SFE Notice 23/ 06

The Exchange wishes to remind all Participants of the following requirements:

- Pursuant to Operating Rule 3.3.4 “Entry of Orders on the Trading Platform”, once counterparties have been solicited pursuant to Operating Rule 3.3.3, the Participant(s) *“must enter the orders of the Trading Platform for execution;”* and
- Pursuant to Operating rule 3.3.7 “Time for Entry of Orders on the Trading Platform,” following the request for quote (RFQ) via the Trading Platform Message Facility or the Trading Platform RFQ Facility *“the Pre-negotiated orders must be entered on the Trading Platform for execution immediately after the prescribed period under Rule 3.3.5 (c) has elapsed.”*

This Notice is intended to both Participants and clients that potential business negotiated under these Operating Rules results in **orders which have to be taken to market**. This is a necessary requirement due to the entitlements provided for under the Pre-negotiated Business Order Rules (withholding transmission of instructions, disclosure of details of clients instructions and the ability to aggregate orders).

Participants are requested to remind all representatives and relevant clients when discussing or considering pre-negotiation (and when seeking the required written authorisation from a client to enter the pre-negotiation on the latter’s behalf) of the requirements of undertaking pre-negotiation.

The prescribed period after the release of an RFQ is designed to allow other market participants to enter prices into the market that has been requested. Should these resultant prices be equivalent to or better than the levels established during pre-negotiation, then the Participant holding the negotiated order is obliged to trade with the best available price. This requisite action may result in part or all of one side of the parties to the pre-negotiated deal missing out on the trade. If the market does not respond with a better price within the determined period, the Participant is obliged to enter the negotiated orders into the market and complete the trade. **Should customers not be prepared to accept the risk associated with the prescribed time between the message and order entry, customers should not participate in pre-negotiation orders.**