IPE Natural Gas futures Contract

Background
The IPE Natural Gas futures contract enables trading, risk management, hedging and physical delivery in a growing energy market. The contract is deliverable unless positions are closed out prior to expiry. Physical delivery takes place within the UK natural gas grid at the National Balancing Point (NBP). This notional point is where BG Transco effects a balance every day between the input and withdrawal of gas taking place on the UK National Transmission System (NTS).

Features of the Contract

Position limits
There is no restriction in the size of positions held.

Price transparency
Real-time prices are available on IPE’s Energy Trading System (ETS) screens and via major data vendors.

Variable parcel size
Trading takes place in multiples of 5 lots 1 lot equals 1,000 therms per day. Because the contract is denominated in daily units a monthly contract for June has a value of 5 lots x 30 (days) x 1000 therms = 150,000 therms.

(1 therm = 100,000 Btu (British thermal units), 29.3 kilowatt hours or 25,200 kilocalories)

Realisable profits
The marked-to-market process, undertaken every day, enables profit or loss to be realised ahead of delivery. So if a position is held that increases in value, profit is credited relating to that day. Conversely if a contract is held that decreases in value margin is called for that day.

Increased flexibility
Enables users to separate pricing from existing long term physical supply contracts

Contract security
The London Clearing House Ltd (LCH) acts as the central counterparty for all trades. This enables LCH to guarantee the financial performance of every contract registered with it by its members who are clearing members of the Exchange up to and including delivery, exercise and/or settlement.

Delivery mechanism
The Natural Gas futures contract also offers users the opportunity to make or take delivery of natural gas. Delivery is effected at the NBP by the transfer of rights from the Seller to LCH and from LCH to the Buyer. If a user goes to delivery on a monthly contract and then wishes to balance, gas can be traded on the Balance of Month (BOM) contract.

Natural Gas Index
The IPE-NBP Natural Gas Index is calculated each trading day. It is an unweighted rolling average of the front month settlement price calculated at the end of each trading day. The final index is calculated at close of trading on the date that the front month contract expires. This happens at close of trading on the day that is two business days prior to the first delivery.
day of the expiring contract. The final index represents the unweighted average of all settlement prices of the expiring contract month ('front month'). IPE distribute the evolving index calculated on the current front month by email. The final index for the expired front month is published to the IPE website.

**Contract Specification**

**Date of launch**
31 January 1997

**Trading hours**
Open 8:00 - London local time
Close 17:00 (Daily contracts 16:00) - London local time

**Trading mechanism**
Contracts are traded through IPE ETS or by the Exchange of Futures for Physicals (EFPs).

**Contract size**
Minimum of 5 lots of 1,000 therms per lot of natural gas per day.

**Unit of trading**
1 lot equals 1,000 therms of natural gas per day.

(1 therm = 29.3 kilowatt hours)

**Quotation**
The contract price is in Sterling and in pence per therm.

**Minimum price fluctuation**
0.01 pence per therm

**Maximum daily price fluctuation**
There are no limits.

**Contract description**

- **Season contracts** are strips of six individual and consecutive contract months. Season contracts are always an (April - September) strip or (October – March) strip.

- **Quarter contracts** are strips of three individual and consecutive contract months. Quarter contracts always comprise a strip of (Jan - Feb - Mar) or (Apr - May - Jun) or (Jul - Aug - Sep) or (Oct - Nov - Dec).

- **Month contracts** are strips made up of individual and consecutive calendar days. A monthly contract is 28, 29, 30 or 31 individual day contracts, determined by the precise number of calendar days in the month. Month contracts are listed 9, 10 or 11 consecutive months into the future.

- **Balance of the Month (BOM) contracts** comprise a string of individual day contracts with the precise number determined by the number of days still outstanding in the current month. The BOM contract therefore reduces in size on a daily basis, generating a daily contract representing the delivery obligation of that day. Only one BOM contract is listed for any unexpired days remaining in the current month.

- **Day contracts** are listed from day ahead (D-1) to seven days ahead (D-7).

If not closed out prior to expiry contracts obligate delivery in equal measure on each individual day in the contract period of the number of lots remaining open at expiry.
Initial margin
Calculated on all open contracts, initial margin is a deposit held by LCH in order to cover the costs that may be incurred in closing out a position in default. It is returned upon the closing of the position, or at expiry, with interest.

Daily variation margin
All open contracts are 'marked-to-market' daily. Variation margin is calculated on the number of lots for each Daily contract e.g. for 31 days in the March contract. This process compares the settlement price, established by the IPE with the previous day's settlement price (or traded price for new contracts).

Delivery Mechanism

Expiry
The month, quarter and season contracts cease trading at the close of business on the last but one business day prior to the start of the contract delivery period.

The BOM contract ceases trading at the close of business on the last but one calendar day prior to the contract delivery period.

The day contract ceases trading at 16:00 on the business day prior to the delivery day.

Delivery
Matching Acquiring and Disposing Trade Nominations (buyer from LCH, seller to LCH) are input by buyer and seller to BG Transco via AT Link before 18:30 on the business day prior to delivery. Delivery takes place in kilowatt-hours (29.3071 kilowatt hours per therm).

Transferor or transferee arrangement
Should buyer or seller not be entitled to submit Trade Nominations or to have access to AT Link then either may appoint a ‘transferor’ or ‘transferee’ to do so on his or her behalf. By 16:45 on the last business day prior to delivery seller and buyer submit NBP Delivery Confirmation documents to LCH which specify the transferor or transferee, and the number of lots going to delivery. Both transferor and transferee in parallel submit NBP Transferor or Transferee documentation to LCH, which confirms ability to submit Trade Nominations to AT Link. By 18:00 LCH sends seller, buyer, transferor and transferee an NBP Conversion and Confirmation Report. This specifies the number of lots in kilowatt-hours to be quoted when submitting Trade Nominations. All parties must enter trade Nominations by 18:30. LCH issues account documentation to buyers and sellers no later than 18:00 hours on the day which is 17 business days immediately following the last day of the month in which delivery began.

The buyer pays the daily Exchange Delivery Settlement Price (EDSP) for each delivery. The EDSP represents the value of gas on the delivery day and is the settlement price recorded on the second business day immediately prior to the first delivery day. The EDSP for each daily delivery will differ from the price of the original trade by the amount of variation margin debited and credited since the initial trade was done.

Price
Excludes any charges payable to BG Transco. Exclusive of VAT or other duty that may become payable on the sale or transfer of rights in respect of natural gas.

Buyer's obligations
Nominate a transferee to take a transfer of rights to natural gas; notify LCH of the details of the transferee; ensure acceptance by the transferee of rights to natural gas from LCH; be responsible for the timely performance of the obligations of the transferee on buyers behalf; make payment in Sterling to LCH.
Seller's obligations
Nominate a transferor to make a transfer rights to natural gas; notify LCH of the details of the transferor; ensure the transfer of rights to natural gas to LCH; be responsible for the timely performance of the obligations performed by the transferor on sellers behalf.

Exchange of Futures for Physical (EFP)
The exchange of a futures position for a physical position, and vice-versa. EFP’s can be used to liquidate futures positions where both parties hold equal and opposite physical and futures positions; EFP’s can also be used to initiate futures positions where both parties hold physical positions only.
EFPs may take place at any time up to 30 minutes after the close of trading and must be registered in accordance with IPE procedures.

Law
The contract is governed by English law.

Clearing and Regulation

Clearing
LCH guarantees all contracts registered. All IPE Members are either members of LCH or have a clearing agreement with a Floor Member who is a member of LCH.

Regulation
The IPE and Members operate in accordance with the requirements of the Financial Services Act 1986, which requires the observance of the highest standards of business conduct and contract security. In accordance with the Act all IPE Members are either directly authorised by the Financial Services Authority or are members of the Securities and Futures Authority, the self-regulating organisation for the conduct of investment business in commodity, financial and other futures and options. IPE is a Recognised Investment Exchange.

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Contact Details
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