Form 3: Cap/Floor Average Price

[Note (not for inclusion in form): This form can be used to achieve both a capped average price over a defined period and a floor average price over a period.]

Date: [Enter date]

|  |  |
| --- | --- |
| Party A |  |
| Party B |  |

## Lodging of hedge settlement agreement

1. Party A and Party B (the **parties)** submit this **hedge settlement agreement** to the **clearing manager**, as contemplated by clause 14.8 of the Electricity Industry Participation Code 2010 (the **Code**). Terms that are used in this agreement but not defined bear the meaning given to them in the **Code**.
2. By submitting this **hedge settlement agreement** to the **clearing manager** in accordance with clause 14.8 of the **Code**, the **parties** agree to be bound by the terms set out below from the time at which the **clearing manager** counter-signs it.
3. If the **clearing manager** counter-signs this document then, from the time it counter- signs, it has obligations relating to it under the **Code**. However, the **parties** acknowledge the **clearing manager** is not bound by this document and that its obligations in relation to it are limited to those set out in the **Code.**

## Definitions

The following definitions apply in this document:

**average floating price** means, in relation to an **option period**, an amount calculated using the following formula:

average floating price = **option period floating amount** ÷ **option period notional quantity**

**business day** means any day of the week except Saturdays, Sundays, **national holidays**, the day observed as Wellington Anniversary Day, and any other day from time to time declared by the **Authority** not to be a **business day** by notice to each **registered participant**

**calculation period** means a **trading period** during the **term**

**calculation period floating amount** means, in relation to a **calculation period**, an amount calculated using the following formula:

calculation period floating amount = **notional quantity** x **floating price calculation period notional quantity** *[Revoked]*

**calculation period premium** means, in relation to a **calculation period**, the amount specified as such in the schedule for that **calculation period**

**cash settlement amount** means, in relation to a **billing period**, the sum of the **option period settlement amounts** for each **option period** in that **billing period**

**commencement date** means the date specified as such in the schedule

**expiry date** means the date specified as such in the schedule

**floating price** means, in relation to a **calculation period**, the **final price** in dollars per **MWh** for that **calculation period** by reference to the **hedge reference point** [rounded to two decimal places]

**hedge reference point** means the **grid exit point** specified as such in the schedule

**notional quantity** means, in relation to a **calculation period**, the amount of **electricity**

(measured in **MWh**) specified as such in the schedule for that **calculation period**

**option buyer** means, in relation to a **hedge settlement agreement**, the party specified as such in the schedule

**option period** means each period during the **term** specified as such in the schedule

**option period floating amount** means, in relation to an **option period**, an amount equal to the aggregate of the **calculation period floating amounts** for each **calculation period** in that **option period**

**option period notional quantity** means, in relation to an **option period**, the sum of the

**notional quantities** for each **calculation period** in the **option period**

**option period premium** means, in relation to an **option period**, the sum of the

**calculation period premium** for each **calculation period** in the **option period**

**option period settlement amount** means, in relation to an **option period**, an amount calculated using the following formula:

option period settlement amount = **option period notional quantity** x **strike price differential**

**option premium** means, in relation to a **billing period**, the sum of the **option period premiums** for each **option period** in that **billing period**

**option seller** means, in relation to a **hedge settlement agreement**, the party specified as such in the schedule

**option type** means either a put option or a call option as specified in the schedule

**settlement date** means the date on which payments are due under clause 14.31 of the Code

**strike price** means, in relation to an **option period**, the amount specified as such in the schedule

**strike price differential** means, in relation to an **option period**, an amount equal to:

* 1. if the **option type** is a put option, the greater of the **strike price** minus the

**average floating price** and zero:

* 1. if the **option type** is a call option, the greater of the **average floating price** minus the **strike price** and zero

**term** means the period from 00.00 hours on the **commencement date** until 23.59 hours on the date on which the **hedge settlement agreement** terminates.

## Payment of hedge settlement amounts

1. In relation to a **billing period**:
   1. the **option buyer** must pay the **clearing manager** an amount equal to the **option premium** for that **billing period**; and
   2. the **clearing manager** must pay the **option seller** an amount equal to the **option**

**premium** for that **billing period**; and

* 1. the **option seller** must pay the **clearing manager** an amount equal to the **cash settlement amount** for that **billing period**; and
  2. the **clearing manager** must pay the **option buyer** an amount equal to the **cash settlement amount** for that **billing period**,

on the relevant **settlement date**.

1. In relation to a **billing period**, the **clearing manager** must calculate the amounts to be payable by and to the **parties** and advise each **party** of those amounts by the 5th **business day** of the month following the **billing period**. If either **party** notifies the **clearing manager** in writing by the 7th **business day** of the month following the **billing period** of any issues with the amounts the **clearing manager** has advised are to be payable, the **clearing manager** will use reasonable endeavours to correct the issues before issuing invoices on the 9th **business day** of the month following the **billing period** under clause 14.18(2) of the **Code**.

## Termination

This **hedge settlement agreement** terminates on the earlier of:

* 1. the **expiry date**; and
  2. the date on which it is cancelled under the **Code**.

## Other provisions

1. The **strike price** is inclusive of any additional costs arising due to carbon charges.
2. Where the terms of this **hedge settlement agreement** include reference to—
   1. day, this means both **business days** and non-**business days**:
   2. weekday, this means a **business day**:
   3. weekend, this means non-**business days**.
3. Where daylight savings starts or ends during the **term** of this **hedge settlement agreement**, the **clearing manager** will calculate the **calculation period premium** and **option period settlement amounts** for these days in the same way the **clearing manager** calculates the sale and purchase of **electricity** for these days.

# EXECUTION

EXECUTED for and on behalf of [Party A] by:

……………………………………..……… ……………………………………..……… [print name] [signature]

………………………………………..……

Position

in the presence of:

……………………………………..………

[signature]

……………………………………..………

Full Name

………………………………………………………………

Address

………………………………………………

Occupation

EXECUTED for and on behalf of [Party B] by:

……………………………………..……… ……………………………………..……… [print name] [signature]

…………………………………………..…

Position

in the presence of:

……………………………………..………

[signature]

………………………………………………

Full Name

………………………………………………………………

Address

……………………………….………………

Occupation

The **clearing manager** accepts the lodgement of this **hedge settlement agreement** by counter-signing it.

EXECUTED for and on behalf of Energy Clearing House Limited by:

……………………………………..……… ……………………………………..……… [print name] [signature]

……………………………………….……

Position

in the presence of:

……………………………………..………

[signature]

……………………………………..………

Full Name

………………………………………………………………

Address

………………………………………………

Occupation

# SCHEDULE

**TERMS OF HEDGE SETTLEMENT AGREEMENT**

|  |  |
| --- | --- |
| **Hedge settlement agreement terms** | |
| Commencement Date | [Insert date] |
| Expiry Date | [Insert date] |
| Option Buyer | [Party A] [Party B] |
| Option Seller | [Party A] [Party B] |
| Option Type | [Call Option] [Put Option] |
| Option Period | [Each day] [From 00.00 hours until immediately before 00.00 hours on the next day] [first period being nn and last period being mm] [during the **term**.] |
| Notional Quantity | [insert number **MWh**] [Table of Notional Quantities (in **MWh** per **calculation period**) to be inserted] |
| Strike Price | $[insert amount/**MWh**] – [Table of Strike Prices to be inserted] |
| Calculation Period Premium | $[insert amount] for each **calculation period** of **option period**.  [Table of Premiums to be inserted] |
| Hedge Reference Point | [insert **grid exit point**] |

Schedule 14.4, Form 3, clause 2, formula in the definition of **average floating price**: amended, on 24 March 2015, by clause 22(1)(a) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014.

Schedule 14.4, Form 3, clause 2, formula in the definition of **calculation period floating amount**: amended, on 24 March 2015, by clause 22(1)(b) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014.

Schedule 14.4, Form 3, clause 2, definition of **calculation period notional quantity**: revoked, on 24 March 2015, by clause 22(1)(c) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014. Schedule 14.4, Form 3, clause 2, definition of **calculation period premium**: inserted, on 24 March 2015, by clause 22(1)(d) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014.

Schedule 14.4, Form 3, clause 2, definition of **floating price**: amended, on 24 March 2015, by clause 22(1)(e) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014.

Schedule 14.4, Form 3, clause 2, definition of **notional quantity**: substituted, on 24 March 2015, by clause 22(1)(f) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014.

Schedule 14.4, Form 3, clause 2, definition of **option period notional quantity**: inserted, on 24 March 2015, by clause 22(1)(g) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014. Schedule 14.4, Form 3, clause 2, definition of **option period premium**: substituted, on 24 March 2015, by clause 22(1)(h) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014.

Schedule 14.4, Form 3, clause 2, formula in the definition of **option period settlement amount**: amended, on 24 March 2015, by clause 22(1)(i) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014.

Schedule 14.4, Schedule to Form 3: amended, on 24 March 2015, by clause 22(2) of the Electricity Industry Participation Code Amendment (Settlement and Prudential Security) 2014.

Schedule 14.4, Form 3, clause 2 **business day**: inserted, on 1 March 2024, by clause 106 of the Electricity Industry Participation Code Amendment (Code Review Programme) 2024.

Schedule 14.4, Form 3, clause 3(2): inserted, on 1 March 2024, by clause 107 of the Electricity Industry Participation Code Amendment (Code Review Programme) 2024.

Schedule 14.4, Form 3, clause 5: amended, on 1 March 2024, by clause 108 of the Electricity Industry Participation Code Amendment (Code Review Programme) 2024.