

RULE D-5 FINANCIALLY SETTLED OVER-THE-COUNTER DERIVATIVE INSTRUMENTS

The sections of this Rule D-5 are applicable only to OTC DI settling on a future date where the Underlying Interest is financially settled.

New Rule 02/06

Section D-501 Definitions

Notwithstanding Section A-102 for the purposes of OTC DI, the following terms are defined as follows:

- “AESO” - means Alberta Electric System Operator.
- “APP” - means Alberta Power Pool and represents the Reference Index as computed by AESO.
- “Baseload” - refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 24 for Sunday through to Monday inclusive.
- “Basis Swap” - is a type of swap transaction whereby cash flows are exchanged at predetermined future dates; these cash flows are determined by two floating rates, namely Reference Index (1) and Reference Index (2), where both Reference Indices are expressed according to the same Unit of Measure and currency.
- “Fixed Price” - is the contract price specified in the OTC DI transaction. However, in the case of OTC DI transactions which are Options sometimes referred to as the Exercise Price
- “Fixed-Rate Payer” - refers to a contracting party to a Swap transaction charged with paying a fixed rate specified under the terms of the OTC DI transaction.
- “Fixed Swap” - is a type of swap transaction whereby cash flows are exchanged at future dates; cash flows are determined by one fixed rate and one floating rate (Reference Index (1)), where both the fixed rate and Reference Index (1) are expressed according to the same Unit of Measure and currency.
- “Floating-Rate Payer” - refers to the contracting party in a Swap transaction that is charged with paying a floating rate specified under the terms of the OTC DI transaction, where the floating rate is the value of the Reference Index specified under the terms of the OTC DI.
- “Gj” - means Giga-joule or 1,000,000,000 Joules.
- “Instrument Type” - the attribute of the OTC DI which describes the time period over which delivery occurs for the Underlying Interest as specified under the terms of the OTC DI.
- “MMBtu” - means a million British Thermal Units
- “MWh” - means mega-watt hour or 1,000,000 Watt hour

| | |
|---------------------------|---|
| “NERC” - | means North American Electric Reliability Council. |
| “Off-Peak” - | refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 07 plus hour-ending 24 between Monday to Saturday inclusive plus hour-ending 01 through hour-ending 24 on Sundays as well as any other days classified as Off-Peak in accordance with the standard NERC operating calendar. |
| “On-Peak” - | refers to the Profile of electricity which is to be delivered over the period of hour-ending 08 through hour-ending 23 for Monday through to Saturday inclusive. |
| “Profile” - | is the Commodity sub-type or grade specified as to be delivered under the terms of the OTC DI. |
| “Reset Frequency” - | is the elapsed time interval between successive Resets of a Reference Index. |
| “Reference Index” - | is the index specified under the terms of an OTC DI used to measure the value of a related Underlying Interest at a moment in time specified under the terms of the OTC DI. |
| “Reference Index Price” - | is the value of the Reference Index determined by the Corporation at the time of a specific Reset. |
| “Settlement Date” - | unless otherwise specified, shall be the day a payment is made under the terms of the OTC DI. This day shall be determined by the Corporation and will depend on the Underlying Interest, Settlement Type and the Settlement Rule of the OTC DI as well as the practices of the relevant Market Centre. |
| “Settlement Period” - | means, unless otherwise specified, the period of the 1 st calendar day until the last calendar day of every month. |
| “Settlement Rule” - | will be either current month (CM) or following month (FM) as outlined in the OTC DI specifications. |
| “Settlement Type” | financially settled. |
| “Spread” - | means the fixed price to be added or subtracted from the floating leg of an OTC DI transaction. |
| “Swap” - | means a derivative transaction which involves two contracting parties exchanging cash flows at some point in time in the future. |
| “Unit of Measure” - | means the standard volumetric measurement quantity related to a particular Commodity. |

New Rule 02/06, amended 10/06

**Section D-502 Over-The-Counter Derivative Instruments (OTC DI)
Acceptable for Clearing with the Corporation**

The Corporation shall issue, from time to time, a list of parameters defining the OTC DI transactions that are acceptable for clearing with the Corporation.

New Rule 02/06

Section D-503 Final Settlement Through the Corporation

1) Financially Settled OTC DI where the Underlying Interest is a Commodity

Unless otherwise specified by the Corporation, settlement of OTC DI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTC DI and will occur on the Settlement Date. Settlement shall be made by an exchange of cash between the Corporation and each of the selling and buying Clearing Members. The Settlement Amount to be paid or received in final settlement of:

- a) A Fixed Swap is determined by:
- the Notional Quantity multiplied by the
 - difference between the Reference Index Price and the fixed rate multiplied by the
 - number of days specified in the Instrument Type which are coincident with the Settlement Period multiplied by the
 - number of hours in the Profile (if applicable)
- as specified under the terms of the OTC DI transaction.
- b) A Basis Swap is determined by:
- the Notional Quantity multiplied by the
 - difference between Reference Index Price (1) and Reference Index Price (2) multiplied by the
 - number of days ~~in~~ as specified in the Instrument Type which are coincident with the Settlement Period multiplied by the number of hours in the Profile (if applicable)
- as specified under the terms of the OTC DI transaction.

2) Financially Settled OTC DI where the Underlying Interest is a Security

- a) A Call Option is determined by:
- the Notional Quantity multiplied by the
 - difference between the Reference Index Price and the Exercise Price, if positive, as specified in the OTC DI transaction.
- b) A Put Option is determined by:
- the Notional Quantity multiplied by the
 - difference between the Exercise Price and the Reference Index Price, if positive, as specified in the OTC DI transaction.

New Rule 02/06, amended 10/06

Section D-504 Unavailability or Inaccuracy of Reference Index Price

- 1) If the Corporation shall determine that the Reference Index Price for an Underlying Interest is unreported or otherwise unavailable for purposes of calculating the Settlement Amount, then, in addition to any other actions that the Corporation may be entitled to take under the By-laws and Rules, the Corporation may do any or all of the following:
 - a) suspend payment of the Settlement Amount. At such times as the Corporation determines that the required Reference Index Price is available, the Corporation shall fix a new date for settlement;
 - b) fix the Reference Index Price in accordance with the best information available.
- 2) The published Reference Index Price shall be deemed to be accurate except where the Corporation determines in its discretion that there is a material inaccuracy in the reported Reference Index Price. In such a case, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Reference Index Price to be used for settlement purposes.

New Rule 02/06

Section D-505 Payment and Receipt of Settlement Amount

The Settlement Amount will be included with other settlements on the daily Consolidated Activity Report on the Settlement Date which is appropriate for the OTC DI.

New Rule 02/06

Section D-506 Instrument Specifications

The generic specifications for each OTC DI acceptable for clearing by the Corporation are summarized as follows:

Underlying Interest
Market Centre
Product Type
Type of Option
Instrument Type/Expiration
Profile
Exercise Rule
Exercise Price/Fixed Price
Basis
Settlement Type
Unit of measure/Unit of Trading
Settlement Currency
Settlement Rule
Reference Index
Reset Frequency
Notional Quantity

Each OTC DI which the Corporation deems acceptable for clearing will be defined by a subset of the above parameters. In accordance with Section D-502, the Corporation will publish, from time to time, a list of acceptable parameters corresponding to these generic specifications.

New Rule 02/06, amended 10/06