



**Definitions:**

Financial Swap: A fixed- for- floating financial transaction whereby a buyer pays a fixed price and receives an index price (settles against HOEP). Also known as a contract for differences.

Physical Contract: A transaction for delivery of MWs. Unlike financial contracts, the physical contract quantity can be offset against IESO metered quantities for settlement and billing purposes.

Cleared: This means that there is a contractual central counterparty that runs an anonymous electronic bid/offer service or auction. The central counterparty acts as buyer to each seller and seller to each buyer and manages prudentials appropriately.

Bilateral: This means that buyers and sellers are matched either directly or indirectly, over the counter (OTC), through an exchange, or through a broker. There is no contractual central counterparty and prudentials are managed between the parties or by the broker of the deal.

## Definitions

### Cont'd.:

Administered: This means that there is an entity (IESO) that runs an anonymous electronic bid/offer service or auction, and which manages exchange of funds. The administrator is not the contractual central counterparty but does need to manage prudentials in order to ensure funds are exchanged appropriately.

Bid/Ask - the settlement price is the price the buyer bids and the seller offers.

Auction - the settlement price is a single market clearing price.

### Notes regarding eliminated options:

#### (1) External EFM Cleared Auction

Although NGX has run auctions for the OPA in the past on a one-off basis, NGX did not recommend this for an ongoing EFM. If an externally operated auction is seen as advantageous by the market, it could be investigated. For now, I have eliminated the cleared auction options for an external EFM.

#### (2) Bilateral Auction

There is no such thing as a "bilateral auction". The definition of bilateral is: matching of buyers and sellers directly or indirectly without a central counterparty. An auction does not match buyers and sellers, rather it stacks bids and offers to determine a market clearing price, and the auction operator manages prudentials centrally. I have eliminated the auction options for all bilateral transactions.

#### (3) IESO EFM Financial Bilateral Bid/Ask

There is no role for the IESO in this type of EFM since prudentials are managed between the parties or by the deal broker. Even if the IESO did offer to manage funds and prudentials on behalf of the parties, there is little to no prudential synergy under a financial swap. Prudentials for IESO financial markets are managed independent of real time market prudentials.