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Version: June 2004

ANNEX 2<sup>1</sup>

**OPTIONS ANNEX**

to Schedule 2 to

**Grid Trade Master Agreement**

dated as of [\_\_\_\_\_]

between

[PARTY A TO GTMA]  
("Party A")

and

[PARTY B TO GTMA]  
("Party B")

This Options Annex supplements, forms part of, and is subject to the Grid Trade Master Agreement (the "**Agreement**") referred to above and is part of its Schedule 2. The following amendments are made to the Master Agreement:

- 1 In Recital C of the Master Agreement the word "Transaction" shall be deleted and replaced with the words "Grid Trade Transaction".
- 2 Clause 2.2.1 is amended by deleting and replacing the clause with the following clause:

"2.2.1 Unless otherwise agreed, within 2 Banking Days of entering into a Transaction otherwise than by way of clause 25<sup>2</sup>, the Option Seller (in respect of an Option Transaction) or the Seller (in respect of a Grid Trade Transaction) shall send to the Buyer (or, where relevant, the Option Buyer) by facsimile (or such other means, if any, specified in Schedule 2) a Confirmation, substantially in the form of Annex 1 to this Agreement (if the Transaction is a Grid Trade Transaction) or substantially in the form of Annex 2A<sup>3</sup> to this Agreement (if the Transaction is an Option Transaction) recording the details of the Transaction. Any Confirmation sent in relation to an Option Transaction shall incorporate the form of Confirmation for the related Grid Trade Transactions that will be entered into in accordance with clause 25 upon the exercise of the Options comprised in that Option Transaction.<sup>4</sup>"

- 3 A new clause 8.8 shall be inserted as follows:

**"8.8 Payment for Option Transactions**

<sup>1</sup> Please check that this Annex is correctly numbered for the specific Agreement it is being used with.

<sup>2</sup> Please check that the additional clauses (numbered in the Annex as clauses 24 and 25) are correctly numbered for the specific Agreement the Annex is being used with.

<sup>3</sup> Please check the numbering is correct for the Agreement the Annex is being used with.

<sup>4</sup> There is no requirement under clause 2.2.1 to send a further Confirmation confirming the exercise of an Option (whether automatically or otherwise). However, many market participants would regard it as good market practice and in some circumstances it may be an FSA requirement to do so.

- 8.8.1 The Total Premium in respect of the purchase of an Option shall be paid by the Option Buyer to the Option Seller on the Premium Payment Date in relation to the relevant Option Transaction. For the avoidance of doubt, all payments in relation to any Grid Trade Transaction deemed to be entered into in accordance with clause 25 shall be made in accordance with the other provisions of this clause 8.
- 8.8.2 Except as specified below, the provisions of clause 8.1 and 8.2 shall not apply in relation to any Option Transaction and the Total Premium shall not be included in any Monthly Statement.<sup>5</sup>
- 8.8.3 The provisions of clauses 8.2.2, 8.2.3, 8.3 and 8.4 shall apply *mutatis mutandis* to the payment of any sums owing on the Premium Payment Date pursuant to, and to any invoice issued under, clause 8.8.1 (and, for these purposes, references in those provisions to the Due Date shall refer to the Premium Payment Date and references to the Monthly Statement shall refer to any such invoice issued under clause 8.8.1).
- 8.8.4 If the Total Premium is not received on or before the Premium Payment Date, the Option Seller may elect (i) to accept a late payment of such Total Premium; (ii) to give written notice of such non-payment and, if such payment has not been received within 3 Banking Days of such notice, treat the Option Transaction as void; or (iii) to give written notice of such non-payment and, if such payment shall not be received within 3 Banking Days of such notice, treat such non-payment as an Event of Default under clause 12.1.3. If the Option Seller elects to act under either clause (i) or (ii) of the preceding sentence, the Option Buyer shall pay all out-of-pocket costs and actual damages incurred in connection with such unpaid or late Total Premium or void Option Transaction, as reasonably determined in good faith by the Option Seller, including, without limitation, interest on such Total Premium from and including the relevant Premium Payment Date to but excluding the date payment is made at the same rate and compounding as are provided for under clause 8.4.1, and any other losses, costs or expenses incurred by the Option Seller in covering its obligations in connection with such Option for the loss of its bargain, its actual cost of funding, or the loss incurred as a result of terminating, liquidating, obtaining or re-establishing a hedge or related trading position with respect to such Option."

4 The following clauses shall be inserted as clauses 24 and 25:

**"24. EXERCISE OF OPTIONS**

**24.1** Where the Option Buyer exercises an Option, it may do so by giving notice within the Exercise Period for the relevant Option Transaction:

- (a) in writing to the Option Seller in accordance with clause 18; or

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<sup>5</sup> This wording would need to be amended where weekly statements are used/provided for.

- (b) orally to a representative of the Option Seller on a recorded telephone line (but not by a message left on a voicemail or other messaging system).

Notwithstanding clause 18, an Option Buyer may exercise a True Daily Settled Option in accordance with the immediately preceding sentence on a day that is not a Banking Day and may give written notice that is effective on a day if such notice is received before the Expiration Time on that day. Unless otherwise agreed by the Parties, a notice of exercise is effective in the case of an American Style Option, (A) if received by the Option Seller at or prior to 1500 hours London time on any Banking Day in the Exercise Period other than the Expiration Date, or (B) if received by the Option Seller at or prior to the Expiration Time on the Expiration Date, or (C) if received by the Option Seller after 1500 hours London time on any Banking Day other than the Expiration Date, as of 0900 hours London time on the next following Banking Day, if any, in the Exercise Period.

- 24.2** The Option Buyer shall, within two (2) Banking Days of exercising such Option by giving notice orally, confirm such exercise by written notice to the Option Seller in accordance with clause 18. Any failure by the Option Buyer to send such written notice and/or any failure by the Option Seller to inform the Option Buyer of any inaccuracies in such written notice shall not: (a) affect the validity or enforceability of the exercise of such Option or of the Grid Trade Transaction deemed to be entered into pursuant to clause 25; or (b) be a material breach of this Agreement under clause 12.1.5.

- 24.3** If the Parties agree that "Automatic Exercise" shall apply in respect of an Option Transaction, then unless the Parties otherwise agree at the time of agreeing an Option Transaction, unless the Option Seller is otherwise instructed by the Option Buyer at or prior to the Expiration Time in respect of an Option, that Option shall have been deemed to have been exercised at the Expiration Time where the In-the-Money Amount payable to the Buyer equals or exceeds the product of (A) 10 percent (or such other percentage as may have been agreed by the Parties) of the Strike Price and (B) the Total Volume.

For these purposes "In-the-Money Amount" means:

- (a) in the case of a Call Option, the amount, if any, by which (x) the product of the Total Volume times the Reference Price exceeds (y) the product of the Total Volume times the Strike Price; and
- (b) in the case of a Put Option, the amount, if any, by which (x) the product of the Total Volume times the Strike Price exceeds (y) the product of the Total Volume times the Reference Price.

[For the purpose of this clause 24.3 the Parties agree that Automatic Exercise shall apply in respect of [all Option Transactions except Daily Settled Option Transactions].]<sup>6</sup>

- 24.4** Where the Option is not exercised or deemed to be exercised in accordance with this clause 24 by the Option Buyer at or prior to the Expiration Time on the Expiration Date, it shall expire unexercised (except that any outstanding Total Premium shall remain payable by the Option Buyer in accordance with clause 8.8).

<sup>6</sup> This is an example of how the Parties might wish to specify that Automatic Exercise shall apply.

## 25. EFFECT OF THE EXERCISE AND SETTLEMENT OF OPTIONS

Upon the Option Buyer exercising an Option in accordance with clause 24:

- (a) the relevant Option Transaction shall be terminated to the extent it relates to the Option (but without prejudice to any claim that the Option Seller may have in respect of any unpaid Total Premium or other amount relating to such Option Transaction); and
- (b) the Parties shall be deemed to have entered into a Grid Trade Transaction evidenced by and on the terms relating to the relevant Option that are set out in the part of the relevant Confirmation for such Option Transaction that relates to such Grid Trade."

5 The following terms appearing under Schedule 1 (Definitions) shall be amended as follows:

- (a) the definition of "Confirmation" shall be deleted and replaced with the following definition:

**"Confirmation"** has the meaning set out in paragraph A of the introduction to this Master Agreement, and shall be, in the case of Grid Trade Transactions (other than a Grid Trade Transaction deemed entered into pursuant to clause 25), substantially in the form of Annex 1 to this Master Agreement and, in the case of Option Transactions, substantially in the form of Annex 2A to this Master Agreement;"

- (b) the definition of "Transaction" shall be deleted and replaced with the following definition:

**"Transaction"** means a Grid Trade Transaction or an Option Transaction (as the case may be) provided that references to a Transaction in clauses 5 and 6 [inserted pursuant to Schedule 3B]<sup>7</sup> shall be to a Grid Trade Transaction only;"

- (c) the following definitions shall be added to Schedule 1 of the Agreement:

**"American Style Option"** means a style of Option which may be exercised during an Exercise Period that consists of more than one day;

**"Banking Day Daily Settled Option"** means a style of Option which may be exercised only on the relevant Expiration Date (which is a Banking Day) and which relates to an EFA Day that corresponds to a day following the Expiration Date up to and including the next Banking Day following that Expiration Date;

**"Call Option"** means an Option Transaction entitling the Option Buyer upon exercise to enter into a Grid Trade Transaction as the Buyer;

**"Daily Settled Option Transaction"** means an Option Transaction consisting of series of either: (a) Banking Day Daily Settled Options or (b) True Daily Settled Options, in either case such that one such Banking Day

<sup>7</sup>

If you have incorporated the Operational Schedule within the main body of the GTMA, then reference to Schedule3B should be deleted.

Daily Settled Option or True Daily Settled Option (as the case may be) relates to a Grid Trade Transaction on the terms set out in the relevant Confirmation for that Option Transaction (for this purpose: (i) one Banking Day Daily Settled Option or True Daily Settled Option (as the case may be) will be deemed to exist in relation to each EFA Day that corresponds to a day in the Term of the relevant Daily Settled Option Transaction, and (ii) if the Parties fail to specify whether the Daily Settled Option Transaction is a series of (x) Banking Day Daily Settled Options or (y) True Daily Settled Options then it shall be deemed to be a series of Banking Day Daily Settled Options);

**"EFA Day"** means a period of time starting at 2300 hours (inclusive) on a day and ending at 2259 hours (inclusive) on the next day. In this Annex, an EFA Day shall be said to "correspond" to the day in which the EFA Day ends. A day shall be said to "precede" an EFA Day when it is the day in which the EFA Day starts.

**"European Style Option"** means a style of Option which may be exercised only on the Expiration Date;

**"Exercise Period"** means: (a) in respect of (i) a European Style Option, (ii) a Banking Day Daily Settled Option and (iii) a True Daily Settled Option, the period from and including 0900 hours on the Expiration Date to and including the relevant Expiration Time; and (b) in respect of an American Style Option, the period from and including 0900 hours to and including 1500 hours (or, in the case of the Expiration Date, to and including the Expiration Time) on all Banking Days from and including the Trade Date to and including the Expiration Date;

**"Expiration Date"** means the date on which an Option expires, provided that (i) in respect of a True Daily Settled Option, Expiration Date means the day preceding the EFA Day (in the Term of the relevant Daily Settled Option Transaction) to which that True Daily Settled Option relates and (ii) in respect of a Banking Day Daily Settled Option, Expiration Date means the nearest Banking Day preceding the EFA Day (in the Term of the relevant Daily Settled Option Transaction) to which the Banking Day Daily Settled Option relates. For this purpose one True Daily Settled Option or Banking Day Daily Settled Option (as the case may be) will be deemed to exist in relation to each EFA Day which corresponds to a day in the Term of the relevant Daily Settled Option Transaction;

**"Expiration Time"** means the time on an Expiration Date at which the Option expires, which shall be:

- (i) 1200 hours London time for Banking Day Daily Settled Options and for True Daily Settled Options; and
  - (ii) 1500 hours London time for all other Option Transactions,
- unless the Parties agree otherwise;

**"Grid Trade Transaction"** means an oral or written agreement between the Parties to undertake one or more Grid Trades, which agreement, amongst other things, supplements this Master Agreement (or incorporates the terms of this Master Agreement by reference) and includes details for the Transaction Term, the Settlement Period Volumes, the ECV Notification Agent and the Contract Price;

**"Option"** means a right, but not an obligation to enter into a Grid Trade Transaction, that is given to an Option Buyer by way of an Option Transaction to enter into a Grid Trade Transaction in consideration of the payment of a Premium to the Option Seller, which Option may be an American Style Option, a European Style Option, a Banking Day Daily Settled Option or a True Daily Settled Option;

**"Option Buyer"** means the person identified as such by the Parties at the time of entering into an Option Transaction;

**"Option Seller"** means the person identified as such by the Parties at the time of entering into an Option Transaction;

**"Option Style"** means an American Style Option, a European Style Option, a Banking Day Daily Settled Option or a True Daily Settled Option;

**"Option Transaction"** means an oral or written agreement between the Parties to enter into one or more Options, which agreement, amongst other things, supplements this Master Agreement (or incorporates the terms of this Master Agreement by reference) and includes details of the Option Type, Option Style, Premium, Strike Price and Total Volume;

**"Option Type"** means a Call Option or a Put Option;

**"Premium"** means the price to be paid by the Option Buyer for an Option exclusive of VAT and other applicable taxes and expressed in £/MWh;

**"Premium Payment Date"** means in respect of an Option Transaction, the day which falls on the later of (i) 2 Banking Days after the Trade Date and (ii) 2 Banking Days after receipt of an invoice for the relevant Total Premium from the Option Seller, or such other day as the Parties may agree;

**"Put Option"** means an Option Transaction entitling the Option Buyer upon exercise to enter into a Grid Trade Transaction as the Seller;

**"Reference Price"**, [save where otherwise agreed in respect of an Option Transaction, means *[to be agreed between the Parties]*]<sup>8</sup>;

**"Strike Price"** means the price agreed between the Parties as the strike price (being also the Contract Price at which the Option Buyer may exercise its Option under that Option Transaction to buy or sell pursuant to a Grid Trade Transaction);

**"Term"** means, in respect of a Daily Settled Option Transaction, the period agreed between the Parties as such;

**"Total Premium"** means an amount equal to the product of the Premium and the Total Volume expressed in Pounds Sterling;

**"Total Volume"** means the volume for each day and/or Settlement Period to which an Option relates under an Option Transaction;

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<sup>8</sup> If the Parties choose that Automatic Exercise shall apply to one or more Options Transactions, then they will need to agree an applicable Reference Price. This is a matter for Parties to determine on a bilateral basis.

"**Trade Date**" means, in respect of an Option Transaction, the date on which the Parties enter into an Option Transaction;

"**True Daily Settled Option**" means a style of Option which may be exercised only on the relevant Expiration Date and which relates to the EFA Day that corresponds to the day following that Expiration Date.

**ANNEX 2A  
FORM OF OPTION CONFIRMATION**

This Confirmation evidences the terms of the binding agreement of the Option Seller and the Option Buyer named below regarding the Option Transaction described in Part A below; together with the terms and conditions of the Grid Trade Transaction, described in Part B below, to be entered into in the event that the Option Buyer exercises its right under the Option Transaction.

This Confirmation supplements the Grid Trade Master Agreement signed by the Parties dated [                      ].

**PART A: OPTION TRANSACTION**

Trade Date: [                      ]

[Time Transaction agreed: [                      ]]

[Broker: [Broker's full legal name]]

Option Seller: [                      ]

Option Buyer: [                      ]

Option Style: [European Style Option / American Style Option / True Daily Settled Option / Banking Day Daily Settled Option]

Option Type: [Put / Call]

Expiration Date(s): [date(s)]

[Term: From and including [date in the format DD MMMMM, YYYY] to and including [date in the format DD MMMMM, YYYY]]

Expiration Time: [[XX:XX in 24-hour format], [location] time] / [In accordance with the Options Annex to Schedule 2 of the Master Agreement]]

Strike Price (£/MWh): [                      ]

Total Premium: [currency and amount of Total Premium]

Premium Payment Date: [                      ]

Option Seller's telephone and facsimile numbers for the purpose of giving notice of exercise: [                      ]

**PART B: GRID TRADE TRANSACTION**

Seller: [                      ]

Seller Energy Account Number: [ ]  
Buyer: [ ]  
Buyer Energy Account Number: [ ]  
Settlement Periods  
(for which Grid Trades are to be made): [ ]  
Total Volume (MWh): [ ]  
Settlement Period Volume(s) (MWh): [ ]  
Contract Price(s) (£/MWh): [ ]  
Special Conditions: [ ]

If this Confirmation correctly sets out the terms of our agreement, please sign and return a copy of this Confirmation within 2 Banking Days from receipt of this Confirmation. If you believe that this Confirmation does not correctly set out the terms of our agreement, send a response within 2 Banking Days from receipt of this Confirmation, which sets out in detail the alleged inaccuracy.

If your response contains additional or different terms from those set out in this Confirmation and/or the Master Agreement, they shall only become part of the Transaction if we expressly agree in a supplemental written confirmation.

Dated .....

Signed .....  
Duly authorised on behalf of  
the Option Seller

Signed .....  
Duly authorised on behalf of  
the Option Buyer