

## SUPPLY › SERVICE › SATISFACTION ›

**AGENCY AGREEMENT:** An agreement that allows a buyer or marketer to act on behalf of a customer to arrange energy supply and delivery.

**AGGREGATION:** Amassing volumes of gas or electricity from different sources to create a larger package.

**AMPERE:** The unit of measure of electrical current produced in a circuit by 1 volt through a resistance of 1 ohm. The measure of current flow.

**ARBITRAGE:** The simultaneous purchase of one commodity against the sale of another in order to profit from fluctuations in the usual price relationship between the two.

**ASK:** In the futures market, an ask is a motion to sell. Also called *offer*.

**AT THE MARKET:** A futures order placed *at the market* is executed immediately at the price available when the order reaches the trading floor.

**AT THE MONEY PRICE:** An option whose exercise, or strike price, is closest to the futures price.

**BALANCING:** Equalizing the volumes of energy withdrawn from a system with the volumes of energy input into the system. Typically refers to gas used by a customer versus gas supplied into the system by a marketer.

**BASE LOAD:** A volume of energy that serves as a constant load over a period of time.

**BASIS (DELIVERY):** The financial cost to move natural gas from the Henry Hub to the final delivery point on the pipeline. Basis is defined as the price difference between the cost of a futures contract at Henry Hub and the cash price at the delivery point.

**BASIS QUOTE:** Offer or sale of a cash commodity in terms of the differential above or below the futures price.

**BEAR:** One who anticipates a price decrease.

**BIDWEEK:** The time period at the end of a month when the bulk of the baseload trading on the spot market occurs for the following month. This trading typically occurs in the few days preceding the pipeline transportation nomination deadlines.

**BOOKING THE BASIS:** A forward pricing sale arrangement in which the cash price is determined by the buyer or seller within a specified time.

**BRITISH THERMAL UNIT (BTU):** The quantity of heat required to raise one pound of water (about one pint) one degree Fahrenheit at or near its point of maximum density. A common unit of measure for natural gas use and heat output.

**BULL:** One who anticipates a price increase.

**BURNERTIP:** The point at which natural gas is used as a fuel. Typically the end point and past the meter inside a facility.

**BUSBAR:** The point where power is available for transmission.

**CALL OPTION:** An option that gives the buyer the right, but not the obligation, to buy a futures contract for a specified price within a specified period of time in exchange for a one-time premium payment.

**CASH SETTLEMENT:** A method of delivering a futures contract by calculating the worth of the physical commodity represented by the contract and meeting both buyer's and seller's obligations by an exchange of money instead of the physical commodity.

**CITY GATE:** Physical location where gas is delivered by pipeline to a local distribution company (LDC).

**COLLAR:** A supply contract between a buyer and seller of a commodity in which the buyer is assured that he will not have to pay more than some maximum price, and the seller is assured of receiving some minimum price.

**CUBIC FOOT:** The most common unit of measurement of gas volume. The amount of gas required to fill a volume of one cubic foot under standard conditions of temperature, pressure, and water vapor, usually 14.7 PSI and 60 degrees F.

**CURTAILMENT:** Reduction of energy deliveries because of shortage of supply or shortage of pipeline capacity. Also called *Operational Flow Orders (OFOs)*.

**DEKATHERM:** A unit of heating value equal to 10 therms or 1 million BTU's or 1 thousand cubic feet.

**DELIVERY MONTH:** The month specified in a given futures contract for delivery of the actual physical commodity.

**DELIVERY POINT:** For a pipeline, the delivery point is where sales or transportation of gas exist in the system. For a gas producer, it is the point where the gas enters the pipeline.

**DEMAND:** The measure of total energy load at a specified point in time.

**DERIVATIVE:** Any financial instrument that derives its value from the value of the underlying security.

**FINANCIAL GAS CONTRACT:** Contracts in which the primary underlying purpose is to manage price risk.

**FIRM SERVICE:** The highest quality of commodity delivery offered to customers which anticipates no planned interruptions.

**FRONT MONTH:** This is the most current month in which the futures contract is being traded. Also called the *near* or *spot* month. Trading of the front month expires 3 business days prior to the end of the first calendar day of the delivery month for the NYMEX Henry Hub.

**FUTURES CONTRACT:** Standardized contract for the purchase or sale of a commodity that is traded for future delivery under the provisions of exchange regulations. The standard contract for natural gas at Henry Hub is 10,000 MMBTU. The contract specifies the unit of sale, how it is quoted in dollars, minimum and maximum price fluctuations, when and how it is traded, how delivery is made, and what the penalties are for failure to deliver. The current year plus the next five years are actively traded. Market fluctuation is limited to \$3/MMBTU on a daily basis.

**FUTURES OPTIONS:** The holder of futures options is given the right but not the obligation to buy or sell a specified futures contract at a specified price.

**HEDGING:** A purchaser or producer of energy uses a derivative position to protect against adverse price movements in the cash market by securing a price for future delivery.

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**HENRY HUB:** A pipeline interchange near Erath, LA, where 16 pipelines interconnect through a header system operated by Sabine Pipeline. Henry Hub is the standard delivery point for the New York Mercantile Exchange natural gas futures contracts.

**INTERRUPTIBLE SERVICE:** Contractual arrangements that allow some portion of energy delivery to be interrupted during specified conditions.

**KILOWATT-HOUR:** A unit of electrical energy equivalent to 1 kilowatt of power used for 1 hour. 1 kWh is equivalent to 3,412 BTU.

**LIMIT ORDER:** A contingent order for a futures or options trade specifying a certain maximum (or minimum) price.

**LIQUIDATION:** The closing out of futures and options positions.

**LIQUIDITY:** A measure of the level of trading activity. A liquid market has a high level of activity.

**LONG POSITION:** A buyer is obligated to accept delivery unless the contract is liquidated with an offsetting sale.

**MARKET CLEARING PRICE:** Price determined by buyers and sellers in a free market.

**MCF:** 1 thousand cubic feet.

**MMBTU:** 1 million British Thermal Units (BTUs). The letter M typically denotes 1,000.

**MMCF:** 1 million cubic feet.

**NAESB CONTRACT:** North American Energy Standards Board standardized contract for gas marketing activities.

**NYMEX:** New York Mercantile Exchange, the commodity exchange based in New York City.

**OFFER:** A motion to sell a futures or options contract at a specified price. Also called an ask.

**OPENING PRICE:** The price for a given futures commodity that is generated by trading through open outcry at the opening of trading on a commodity exchange.

**OPTION:** A contract that gives the holder the right, but not the obligation, to purchase or sell the underlying commodity.

**ORDER:** When buying or selling a futures contract, the broker will ask for specific instructions.

**OUT OF THE MONEY:** An option that has no intrinsic value. For *calls*, an option priced above the market price and for *puts*, an option priced below the market price.

**PRICING SYSTEMS:** Natural gas prices are generally quoted at the wellhead, delivered into a pipeline, at a city gate, or at the burnertip.

**PUT OPTION:** An option that gives the buyer or holder the right, but not the obligation, to sell a futures contract at a specific price within a specified period of time in exchange for a one-time premium payment.

**RESERVATION FEE:** A charge paid to reserve firm transportation capacity on a pipeline.

**SETTLEMENT PRICE:** The price established by the NYMEX at the close of each trading session as the official price to be used by the Clearinghouse in determining net gains or losses, margin requirements, and the next day's price limits.

**SHORT POSITION:** A seller obligated to deliver a commodity unless the contract is liquidated with an offsetting sale.

**SHOULDER MONTHS:** Normally defined as spring and fall months when energy demand is lowest.

**SPOT MONTH:** The futures contract closest to maturity; the nearby delivery month.

**SPREAD:** The simultaneous purchase of one futures contract and the sale of another futures contract. Spreads may occur between different exchanges or different commodities.

**STOP ORDER:** Used to limit a loss on an existing futures position or protect a profit. Once the Stop Order is reached, it becomes a market order and is executed.

**SWAP:** A negotiated transaction designed to manage financial risk. Settlements of swaps are made in cash.

**SWING SUPPLY:** Energy supply taken as needed to meet peaking demand above base load requirements.

**THERM:** Unit of heating value equivalent to 100,000 BTUs.

**TRIGGER PRICE:** A contract provision that allows choice of when to execute a pricing mechanism based on futures price.

**VOLATILITY:** The market's price range and movement over a period of time.

**VOLT:** The unit of measure of electromotive force equivalent to produce a current of 1 ampere through a resistance of 1 ohm.

**WATT:** A measure of real power production equivalent to 1 ampere flowing under a pressure of 1 volt. A measure of a rate of doing work.

## ENERGY EQUIVALENTS

1 Cubic foot of natural gas = approximately 1,000 BTU

Ccf (100 Cu. Ft.) of natural gas = approximately 100,000 BTU

1 Therm = 100,000 BTU

10 Therms = 1 Dekatherm

1 Dekatherm = 1,000,000 BTU = 1 MMBTU

1 Mcf (1,000 cu. ft.) of natural gas = 1,000,000 BTU

1 Mcf = 1 Dekatherm

1 BCF = 1 billion cubic feet of natural gas

1 Gallon of #2 fuel oil = approximately 140,000 BTU

1 Gallon of Propane = approximately 91,500 BTU

1 Kilowatt-hour (kWh) of electricity = 3,412 BTU

293 kWh of electricity = 1,000,000 BTU

1 Bushel of corn = approximately 314,000 BTU

1 Gallon of ethanol = approximately 76,100 BTU

1 Gallon of gasoline = approximately 114,100 BTU