

AECO

The historical name of a virtual trading hub on the NGX system, located in the province of Alberta, Canada. Also known as the Nova Inventory Transfer (NIT) system operated by Trans Canada Pipelines Limited.

American option

An option that can be exercised at any time during its life.

Asian option

An option with a payoff dependent on the average price of the underlying asset during a specified period.

Ask

The price at which a dealer offers to sell.

Asset

An economic resource, tangible or intangible, which is expected to provide benefits to a business.

At-the-Money Options

An option is at-the-money when the underlying asset price is equal to the strike price.

Backwardation

A situation in which prices are lower in each succeeding delivery month. Opposite of contango.

Barrel

A volumetric unit of measure for crude oil and petroleum products equivalent to 42 U.S. gallons.

Basis

The differential that exists at any time between the cash or spot price of a given commodity at a location and the price of the nearest futures contract for the same (or related) commodity (locational basis). Basis may also reflect different time periods (time spread), product forms (physical vs. financial), or qualities (quality spread).

Bbl

The abbreviation for barrel.

Bid

The price at which a dealer is willing to buy.

Book

A grouping of transactions within a portfolio by specific strategy, commodity, instrument, duration, etc.

Broker

An intermediary between traders for exchange-traded and OTC deals. Brokers receive a commission predetermined between the broker and his/her client.

Btu (British thermal unit)

A standard unit for measuring the quantity of heat energy equal to the quantity of heat required to raise the temperature of 1 pound of water by 1 degree Fahrenheit.

Calendar spread

A position that includes a long position in a certain period and an offsetting short position in the same instrument in a different time period.

Cash Flow at Risk (CFaR)

CFaR is the difference between the expected cash flow and the x percentile worst case, where x is typically between 1% and 5%. CFaR may be calculated by constructing a probability distribution of future cash flows by simulating all of the underlying risk variables and then running them through the corporate pro forma.

Confirmation

One or more documents exchanged between two counterparties acknowledging, validating, and verifying the terms of a transaction.

Contango

A situation in which prices are higher in more distant delivery months than in the nearest delivery month. Opposite of backwardation.

Contract Price

Price of fuels marketed on a contract basis covering a period of 1 or more years. Contract prices reflect market conditions at the time the contract was negotiated and therefore remain constant throughout the life of the contract or are adjusted through escalation clauses. Generally, contract prices do not fluctuate widely.

Correlation

Measures the linear relationship between two instruments.

Credit Risk

The risk that a loss will occur if a counterparty does not fulfill its financial obligations in a timely manner; also known as default risk.

Crude Oil

A naturally occurring liquid found in formations in the Earth consisting of a complex mixture of hydrocarbons. Crude oil may also be found in semi-solid form mixed with sand, as in the oil sands in Canada, where it may be referred to as crude bitumen. Crude oil is the raw material which is refined into gasoline, heating oil, jet fuel, propane, petrochemicals, and other products.

Delta

The rate of change of the price of an option with the price of the underlying asset.

Earnings at Risk (EaR)

EaR is the difference between the expected earnings and the x percentile worst case, where x is typically between 1% and 5%. EaR may be calculated by constructing a probability distribution of future earnings by simulating all of the underlying risk variables and then running them through the corporate pro forma.

Energy

The capacity for doing work as measured by the capability of doing work (potential energy) or the conversion of this capability to motion (kinetic energy). Energy has several forms, some of which are easily convertible and can be changed to another form useful for work. Most of the world's convertible energy comes from fossil fuels that are burned to produce heat that is then used as a transfer medium to mechanical or other means in order to accomplish tasks. Heat energy is usually measured in British thermal units.

European Option

An option that can only be exercised at the end of the contract period.

Exercise Price

The price specified by an option contract at which the underlying asset is to be bought or sold (also known as the Strike Price).

Extrinsic Value

The amount by which the option premium exceeds its intrinsic value, also known as time value.

Firm Gas

Gas sold on a continuous and generally long-term contract.

Forward

A contract that obligates the holder to buy or sell an asset for a predetermined delivery price at a predetermined future time.

Futures

An exchange-traded contract that obligates the holder to buy or sell an asset at a predetermined delivery price during a specified future time period.

Gamma

The rate of change of delta with respect to the asset price.

Gigajoule (GJ)

One billion joules, approximately equal to 948,211 British thermal units or 26.8 m³ of natural gas at defined temperature and pressure.

Hedge

A trade designed and intended to reduce risk.

Illiquid

A market is illiquid when it has a low level of trading activity. The distinction between liquid and illiquid markets varies by commodity, region, basis, etc. Analysis of market factors including the size of bid/ask spreads, trading volume, open interest, and trade tenor must be performed in order to determine the degree of illiquidity.

In-the-Money Options

A call option is in-the-money when the underlying asset price is greater than the strike price. A put option is in-the-money when the strike price is greater than the underlying asset price.

Intrinsic Value

For a call option, the greater of zero and the excess of the underlying asset price over the strike price. For a put option, the greater of zero and the excess of the strike price over the underlying asset price.

International Swaps and Derivatives Association (ISDA)

A trade organization of participants in the market for OTC derivatives. It is headquartered in New York, and has created a standardized contract (the ISDA Master Agreement) to enter into derivatives transactions.

Joule

The SI unit of energy. One joule is the work done, or energy expended, by a force of one newton moving an object one meter along the direction of the force.

Legal Risk

Legal risk is the risk of economic losses as a result of contracts which are not enforceable in a court of law. This risk could arise from insufficient documentation, insufficient counterparty authority, or uncertain legal issues.

Liquid

A market is said to be liquid when it has a high level of trading activity and transactions of normal size may be executed in a timely manner.

Liquidity Risk

The risk that a firm may be unable to liquidate its portfolio due to an illiquid market.

Margin

Performance deposit required to secure exposures and reduce credit risk. In OTC markets, margin (also known as collateral) is determined through bilateral negotiation. In futures markets, margin is determined and regulated by the rules of the individual exchange.

Mark-to-Market

Mark-to-Market is the value of an instrument based on the current market price of that instrument.

Mark-to-Model

The calculated value of an instrument based on pricing and valuation of the underlying asset, instrument, or structure.

Market Risk

Risk of losses arising from unfavorable movements in market prices.

Mcf

One thousand cubic feet, approximately equal to one million Btu (MMBtu).

Mid-Point Price

The simple average between the bid (buy) and offer (sell) prices.

MMBtu

One million British thermal units, equal to 1.0546175 Gigajoules (GJ) or approximately one thousand cubic feet (Mcf) of natural gas at defined temperature and pressure.

Natural Gas

A naturally occurring mixture of hydrocarbon and non-hydrocarbon gases found in porous geological formations beneath the earth's surface, often in association with petroleum. The principal constituent is methane.

Net Position

The difference between open long contracts and open short positions. Also the difference between net production and associated hedges.

NIT

The Nova Inventory Transfer System operated by Trans Canada Pipelines Limited in Alberta, Canada, a group of hubs and pipelines which form a 'virtual hub' and the primary single pricing point for gas in Alberta. Commonly referred to by its historic name, "AECO".

NYMEX

New York Mercantile Exchange, the world's largest physical commodity futures exchange, located in New York City.

Open Interest

The volume of contracts open on an exchange-traded contract.

Operational Risk

Risk of loss arising from inadequate systems and control, human error, or management failure.

Option

A contract that gives the purchaser the right, but not the obligation, to buy (call) or sell (put) the underlying asset at a certain price (the strike price).

Out-of-the-Money Options

A call option is out-of-the-money when the underlying asset price is less than the strike price. A put option is out-of-the-money when the strike price is less than the underlying asset price.

Over the Counter Market (OTC)

The market consisting of non-exchange traded instruments. Typically involves customized derivative contracts established bilaterally between two parties.

Penultimate

Next to the last.

Premium

The price of an option.

Prompt Contract

The contract for the next nearby month.

Rho

The rate of change of the price of an option with the risk-free interest rate .

Sensitivities

Sensitivities (referred to as “Greeks”) are a set of measures used to describe the risk position and exposure of trading positions and portfolios. Usually to measure and describe options positions.

Settlement Risk

The risk that settlement payments may be different than expected due to contractual issues.

Short

A sale transaction.

Spot Market

Market in which goods are bought and sold for cash and delivered immediately.

Spread

A transaction consisting of a long position and a short position. Spreads are designed to capture the difference between the relative prices of two commodities, time periods, locations, or product type and generally have lower risk than outright long or short positions. The risk of a spread is a function of the correlation between the two positions.

Strike Price

The price specified by an option contract at which the underlying asset is to be bought or sold (also known as the Exercise Price).

Swap

An agreement whereby a floating price is exchanged for a fixed price, or vice versa, over a specified period. The agreement defines the volume, duration and fixed reference price. Differences are settled in cash for specific periods: monthly, quarterly, semi-annually, etc. Swaps are also known as contracts for differences and fixed-for-floating contracts.

Swing Option

An option that allows for the right to nominate a specific volumetric amount at a pre-determined strike price on a day designated by the holder of that option.

Texas Sweet Light

A type of crude oil used as a benchmark in oil pricing and the underlying commodity of New York Mercantile Exchange's oil futures contracts. It contains about 0.24% sulfur (making it a "sweet" crude oil) and has an API gravity of around 39.6 (making it a "light" crude oil). It is also known as West Texas Intermediate (WTI).

Theta

The rate of change of the price of an option with the time to expiry.

Value-at-Risk (VaR)

The worst-case loss expected over a specified holding period given a set confidence interval. Larger losses are possible but with a low probability.

Vanilla

A term used to describe a standard deal.

Vega

The rate of change of the price of an option with the volatility the underlying asset.

Volatility

Measure of the uncertainty of the return realized on an asset.

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