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Settlement Pricing Procedure

The English version is for informal use only. Only the German version is legally binding.

15.04.2026
Leipzig

Version 5.34

Table of Contents

Table of Contents	2
1. Preliminary Remarks	3
2. General Rules of Price Determination	4
2.1 Definition of Product-Specific Parameters	4
2.2 Calculation of Theoretical Prices	5
2.3 Market Plausibility Check	9
3. Product-Specific Rules and Parameters for the Determination	10
3.1 Settlement of Financial Power Futures	10
3.2 Settlement of Futures on Emission Allowances	11
3.3 Settlement of Freight Futures	12
3.4 Settlement of Options on Power Futures	13
3.5 Settlement of Options on EUA Dec Futures	14
3.6 Settlement of Options on Freight Futures	15
3.7 Settlement of Futures on Agricultural Products	16
3.8 Settlement of Natural Gas Futures	17
3.9 Settlement of Options on Gas Futures	19
3.10 Settlement of Futures on Guarantees of Origin (GO)	20

1. Preliminary Remarks

This document outlines the calculation procedure applied by European Energy Exchange (“**EEX**”) to determine daily settlement prices, hereinafter referred to as “**Daily Settlement Prices**” of derivatives traded at EEX, which are provided by EEX to European Commodity Clearing AG (“**ECC AG**”) for clearing purposes, more specifically to calculate each trading participant’s variation margin. The Daily Settlement Prices further serve information purposes.

Furthermore, the determination of premiums for options (hereinafter referred to as “**Option Premiums**”) is described.

With regards to the final settlement prices of derivatives products (including contracts that do not qualify as financial instruments under MiFID II) traded at EEX, please refer to the relevant contract specifications.

Indices, such as ELIX and EGIX, are described in EEX AG’s Index Description, which is available on the website of EEX AG (www.eex.com). Indices provided by EEX AG that qualify as benchmarks under Regulation (EU) 1011/20016 (“Benchmark Regulation”) are exclusively covered in the Benchmark Statement of EEX AG, which is available on the website of EEX AG (www.eex.com).

Daily Settlement Prices are determined on the basis of trades concluded at EEX during a specified period of time during the opening hours (hereinafter referred to as “**Settlement Price Window**”) and/or orders entered into the trading system (hereinafter referred to as “Market data”). If no such market data is available or the Market Plausibility Check makes it necessary, additional data, such as trades concluded in direct temporal connection to the Settlement Price Window and/or orders entered into the trading system, fair values obtained via the **Chief Trader Procedure**, data from index or data providers or other market places, are used to determine Daily Settlement Prices.

All times are Central European (Summer) Time (UTC+01:00 or UTC+02:00).

2. General Rules of Price Determination

2.1 Definition of Product-Specific Parameters

In principle, concluded **trades** and the EEX **order book situation** are used as the basis of the price determination procedure. Only trades and orders which fulfil product or contract specific parameters are taken into account. These parameters include:

- Minimum quantity of contracts per trade
- Minimum quantity of contracts per order
- Minimum duration of the cumulated valid best bid and best ask
- Maximum Spread per contract
- Minimum quantity of cumulative traded contracts

The **Maximum Spread per contract** is the maximum price range between buy and sell orders, specified for each contract ("**Settlement Spread**"). The Settlement Spread to be applied depends on the market situation.

Based on trades and orders qualifying for consideration a **Theoretical Price** is calculated (section 2.2.). In a second step this Theoretical Price undergoes a market plausibility check (section 2.3), resulting in the determination of the Daily Settlement Price.

2.2 Calculation of Theoretical Prices

a) Daily Settlement Prices

The **Theoretical Prices** are determined based on the **calculation algorithms** defined below. In this context, the underlying method depends on the number of valid trades and orders which fulfil the product-specific preconditions (see section 4). In principle, the price sources are trades, orders, the Chief Trader Procedure (fair values collected in a price committee) and data of other price sources.

Cancelled trades are not considered. EEX reserves the right to exclude individual trades, orders or fair values from pricing if those are not in line with the actual situation on the market.

The following overview provides examples of possible scenarios and the calculation algorithms connected with these:

Orderbook situation	Calculation algorithm
There was at least one trade There were suitable orders	Theoretical price = $0.75 * \text{AverageTradePrice} + 0.25 * \text{AverageMid}$
There was at least one trade There were no suitable orders	Theoretical price = AverageTradePrice
There was no trade There were suitable orders	Theoretical price = AverageMid
There was no trade There were no suitable orders	The Theoretical Price can be established under consideration of market data in direct temporal connection to the Settlement Price Window, data of other price sources or the Chief Trader Procedure.

The **AverageTradePrice** is the mean price of trades concluded via orderbook trading at EEX during the Settlement Price Window.

The **AverageMid** is the arithmetic mean of the average (time weighted or arithmetic) best bid and the average (time weighted or arithmetic) best ask, which fulfil the minimum order quantity. The average best bid (the average best ask) is established as the average from all highest buy orders (lowest sell orders), which lie within the limits of the current settlement spread per contract during the Settlement Price Window for the individual contract on the market.

If there are no trades and orders fulfilling the product-specific parameters, EEX can determine the Daily Settlement Price under consideration of market data in direct temporal connection to the Settlement Price Window, data of the Chief Trader Procedure or other prices sources. Every trading participant can take part in the Chief Trader Procedure. The EEX Market Operations department provides a standardised form to all trading participants, who agree to provide a market price for the respective derivatives. If required, EEX determines the Daily Settlement Prices by calculating the arithmetic mean from all estimates of the market price indications given. For the calculation, EEX reserves the right to not consider indications which deviate considerably.

There is no order book trading in products for Trade Registration only. As a result, Daily Settlement Prices are established with the Chief Trader Procedure, prices from Trade Registration or other price sources.

EEX reserves the right to adjust the Theoretical Prices established in advance to ensure freedom from arbitrage.

For derivatives contracts without open interest, EEX reserves the right to waive the determination of Daily Settlement Prices. In this case, the Daily Settlement Price will be set to the minimum price as defined in the contract specifications.

b) Option Premiums

EEX determines Option Premiums daily for all option contracts and all respective exercise prices (strike prices). In this context, EEX distinguishes between European-style options and average price options, also known as Asian options.

The calculation of European-style **Option Premiums** is based on the mathematical equation of the Black-76 model. In contrast, average price options are valued using the Turnbull-Wakeman approach, as extended by Espen Gaarder Haug.

The essential influencing parameters comprise the underlying futures price, the exercise price, the residual term, the short-term risk-free interest rate if applicable and the implied volatility of the underlying security. In this context, the implied volatility is established by EEX based on data of other price sources or using the Chief Trader Procedure and with the help of historic market prices.

European-style options include all EEX Gas options and EEX power options, except for options based on Japanese power futures as well as the EEX emission option. Average price options comprise those based on Japanese power futures and freight futures.

European-style options on EEX power futures, EEX gas futures and EEX emission futures, as well as average price options based on Japanese power futures, are structured as future-style options, i.e. the payment of the agreed option premium by the buyer is not made by a one-time payment after the purchase of the option, but only on the day the option expires or is exercised as final premium payment. Additionally, during the holding period, a daily settlement based on the change in the option premium will take place in accordance with the Clearing Conditions of ECC AG. On the day of the conclusion of the transaction, daily settlement shall be settled based on the agreed option premium and the Daily Settlement Price, and subsequently based on the Daily Settlement Prices of the Exchange Day and the previous Exchange Day. The daily settlement may also result in an interim debit to the seller of the future-style option. When the future style option is exercised and assigned as well as when it expires, the final premium payment is made on the ECC Business Day following the Last Trading Day. The final premium payment is the Daily Settlement Price of the option contract on the exercise or expiration day. The buyer of a future style option is obliged to pay the final option premium on the settlement day after the exercise and assignment or expiration. The final option premium is credited to the seller of the future style option on the same day.

Average price options based on freight futures are structured as equity-style options, meaning that the agreed option premium is paid by the buyer upfront upon acquisition of the option position.

Subject to the assumption of the standardised normal distribution, theoretical European-styled Prices are established in accordance with the following equation:

$$c = [F N(d_1) - X N(d_2)]$$

$$p = [X N(-d_2) - F N(-d_1)]$$

with

$$d_1 = \frac{\ln\left(\frac{F}{X}\right) + \frac{\sigma^2 T}{2}}{\sigma\sqrt{T}}$$

$$d_2 = \frac{\ln\left(\frac{F}{X}\right) - \frac{\sigma^2 T}{2}}{\sigma\sqrt{T}} = d_1 - \sigma\sqrt{T}$$

with

c = price of the call option

p = price of the put option

F = current futures price (of the underlying security), here: Daily Settlement Price

X = exercise price (strike price)

T = residual term of the option

N(x) = cumulative standardised normal distribution at point x, i.e. N(x) indicates the likelihood for a variable to be subject to a standard normal distribution of being smaller than x or equal x

ln() = natural logarithm

σ = expected annual volatility of the futures price (of the underlying security)

The pricing of average price options on freight futures structured as equity-style options is based on the mathematical formula of the Turnbull-Wakeman model, as extended by Espen Gaarder Haug. Subject to the assumption of the standardised normal distribution, Theoretical Prices for average equity-style Options are established in accordance with the following equation:

$$c_A = e^{-rT} [F N(d_1) - X N(d_2)]$$

$$p_A = e^{-rT} [X N(-d_2) - F N(-d_1)]$$

with

$$d_1 = \frac{\ln\left(\frac{F}{X}\right) + \frac{\sigma_A^2 T}{2}}{s_A\sqrt{T}}$$

$$d_2 = d_1 - \sigma_A\sqrt{T}$$

where

$$\sigma_A = \sqrt{\frac{\ln(M)}{T}}$$

$$M = \frac{2e^{\sigma^2 T} - 2e^{\sigma^2 \tau} [1 + \sigma^2(T - \tau)]}{\sigma^4(T - \tau)^2}$$

c_A = price of the call option with volatility of the average on the futures s_A

p_A = price of the put option with volatility of the average on the futures s_A

F = current futures price (of the underlying asset), here: Daily Settlement Price

X = exercise price (strike price)

T = Time to maturity

τ = Time to the beginning of the average period

r = short-term risk-free interest rate. This is the interbank interest rate, at which banks of good credit standing lend each other money.

$N(x)$ = cumulative standardised normal distribution at point x , i.e. $N(x)$ indicates the likelihood for a variable to be subject to a standard normal distribution of being smaller than x or equal x

$\ln(\)$ = natural logarithm

σ = expected annual volatility of the futures price (of the underlying asset)

If the option is into the average period the strike price must be replaced by Y and the option value must be multiplied by $\frac{T}{T_2}$, where

$$c_A = e^{-rT} [F N(d_1) - Y N(d_2)] \times \left(\frac{T}{T_2}\right), Y > 0$$

$$c_A = e^{-rT} [E_Q[A] - X], Y < 0$$

$$p_A = e^{-rT} [Y N(-d_2) - F N(-d_1)] \times \left(\frac{T}{T_2}\right), Y > 0$$

$$p_A = 0, Y < 0$$

with

$$Y = X \frac{T_2}{T} - F_A \frac{(T_2 - T)}{T}$$

$$E_Q[A] = F_A \frac{(T_2 - T)}{T_2} + F \frac{T}{T_2}$$

T_2 = the original time in the average period

F_A = the average futures price during the realized or observed time period $T_2 - T$.

During the average period F_A will be assumed to be equal to F .

The calculation of Average Option Premiums for Options on Japanese Power Futures is based on the Future-styled version of the Turnbull and Wakeman formula extended by Espen Gaarder Haug.

This means that the calculated option premium is not discounted, and therefore the term e^{-rT} is omitted from the formula described above.

2.3 Market Plausibility Check

The Theoretical Price is validated against the actual market situation. For the market plausibility check external price sources will be used like prices from other trading venues, information from data providers and chief traders or prices from trade registration. Furthermore, especially in the case of having insufficient market data within the Settlement Price Window, trades and orders in direct temporal connection to the Settlement Price Window can be used for the market plausibility check.

3. Product-Specific Rules and Parameters for the Determination

3.1 Settlement of Financial Power Futures

Parameter	Specification
Settlement Price Window EEX Japanese Power Futures EEX Nordic Power Futures Other EEX Power Futures	09:00 – 09:30 CET, 10:00 – 10:30 CEST 15:50 – 16:00 CE(S)T 17:05 – 17:15 CE(S)T
Minimum number of contracts per trade	1 contract = 1 MW constant output per delivery hour (h) during the delivery period
Minimum number of contracts per order	1 contract = 1 MW constant output per delivery hour (h) during the delivery period
Settlement spread for the consideration of best bid / best ask	specified on contract level
Minimum duration of the cumulated valid best bid and best ask during the Settlement Price Window EEX PXE Power Futures and EEX Irish SEM Power Futures All other Futures	60 seconds 180 seconds
Other notes	<p>The Daily Settlement Prices of the front month and front week are calculated as an average of the available spot prices and the available Daily Settlement Prices of the respective day- and/or week futures and estimated prices.</p> <p>The Daily Settlement Price could be negative for the day, week and weekend futures if the corresponding Theoretical Price is negative. Where the Theoretical price for month, quarter and year futures is negative, the Daily Settlement Price is set to the minimum price of 0.01 EUR/MWh, 0.01 GBP/MWh or 0.01 JPY/MWh, as applicable.</p>

3.2 Settlement of Futures on Emission Allowances

Parameter	Specification
Settlement Price Window	17:05 – 17:15 CE(S)T
Minimum quantity of cumulative traded contracts	200 contracts = 200,000 t CO ₂ equivalent
Minimum number of contracts per order	1 contracts = 1,000 t CO ₂ equivalent
Settlement spread for the consideration of best bid/best ask	specified on contract level
Minimum duration of the cumulated valid best bid and best ask during the Settlement Price Window	180 seconds

3.3 Settlement of Freight Futures

Parameter	Specification
Trade Registration Product	There is no order book trading in these products. The Daily Settlement Prices for Freight Futures are based on the daily prices published by Baltic Exchange.

3.4 Settlement of Options on Power Futures

Parameter	Specification
Intraday Fixing Prices European Power Options (German/French/Italian/Spanish Power Options)	On the last trading day the expiry of the option takes place at 15:00 CE(S)T. For the purpose of determining whether an option is in the money or out the money, the exchange determines an Intraday Fixing Price for the underlying Power Future. The methodology for determining the Intraday Fixing Price follows the same principles as methodology for determining the Daily Settlement Price. However, the relevant time window is from 13:50 to 14:00 CE(S)T.
Fixing Prices Japan Power Options	On the expiry day of the option, the Daily Settlement Prices of the underlying Japanese Power Base Month Futures also serve to inform whether an option is in or out of the money.

3.5 Settlement of Options on EUA Dec Futures

Parameter	Specification
Intraday Fixing Price	On the last trading day the expiry of the option takes place at 15:00 CE(S)T. For the purpose of determining whether an option is in the money or out the money, the exchange determines an Intraday Fixing Price for the underlying EUA Dec Future. The methodology for determining the Intraday Fixing Price follows the same principles as methodology for determining the Daily Settlement Price. However, the relevant time window is from 13:50 to 14:00 CE(S)T.

3.6 Settlement of Options on Freight Futures

Parameter	Specification
Trade Registration Product	On the expiry day of the option, the Daily Settlement Prices of the underlying Freight Futures also serve to inform whether an option is in or out of the money. With regard to the determination of these Daily Settlement Prices, reference is made to Section "Settlement of Freight Futures".

3.7 Settlement of Futures on Agricultural Products

Parameter	Specification
Settlement Price Window Dairy Futures (excluding Liquid Milk Futures) Liquid Milk Futures Potatoes Futures	08:55 – 18:00 CE(S)T 08:55 – 18:00 CE(S)T 10:00– 16:00 CE(S)T
Minimum number of contracts per trade Dairy Futures (excluding Liquid Milk Futures) Liquid Milk Futures Potatoes Futures	1 contract = 5 metric tons 1 contract = 25.000kg 1 contract = 250 quintals
Minimum number of contracts per order Dairy Futures Potatoes Futures	1 contract = 5 metric tons 1 contract = 250 quintals
Settlement spread for the consideration of best bid/best ask	specified on contract level
Minimum duration of the cumulated valid best bid/best ask during the Settlement Price Window	300 seconds

3.8 Settlement of Natural Gas Futures

Parameter	Specification
Settlement price window EEX Natural Gas Futures	17:00 – 17:15 CE(S)T
Minimum number of contracts per trade EEX FIN, LTU, LVA-EST, PEG and PVB Natural Gas Futures EEX NBP Natural Gas Futures in p/therm EEX TTF Natural Gas (\$/MMBtu) and JKM LNG Natural Gas Futures All other EEX Natural Gas Futures	1 contract = 1 MWh/d constant output per delivery day (d) during the delivery period 1 contract = 1 ktherm/d constant output per delivery day (d) during the delivery period 1 contract = 10,000 MMBtu 1 contract = 1 MW constant output per delivery hour (h) during the delivery period
Minimum number of contracts per order EEX FIN, LTU, LVA-EST, PEG and PVB Natural Gas Futures EEX NBP Natural Gas Futures in p/therm EEX TTF Natural Gas (\$/MMBtu) Futures und JKM LNG Natural Gas Futures All other EEX Natural Gas Futures	1 contract = 1 MWh/d constant output per delivery day (d) during the delivery period 1 contract = 1 ktherm/d constant output per delivery day (d) during the delivery period 1 contract = 10,000 MMBtu 1 contract = 1 MW constant output per delivery hour (h) during the delivery period
Spread for the consideration of best bid and best ask	Specified for each market area in Table 3.8.1
Minimum duration of the cumulated valid best bid and best ask during the Settlement Price Window EEX Financial EGS1 Gas Futures EEX FIN, LTU, LVA-EST, CZ VTP EEX PVB Natural Gas Futures EEX TTF Natural Gas (\$/MMBtu) and JKM LNG Natural Gas Futures All other EEX Natural Gas Futures	60 seconds 180 seconds

Other notes	The Daily Settlement Prices of the Financial EGSI Gas front month and front week are calculated as an average of the available spot prices and the available Daily Settlement Prices of the respective day- and/or week futures and estimated prices.
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Table 3.8.1 Maximum spread for orders

Contract	FIN LTU LVA-EST ZTP (EUR/MWh)	PEG PVB (EUR/MWh)	TTF (EUR/MWh)	THE (EUR/MWh)	PSV (EUR/MWh)	NBP (p/th)	ETF (EUR/MWh)	CEGH VTP CZ VPT (EUR/MWh)	TTF (\$/MMBtu) JKM LNG
Short term	n/a	n/a	1.5	1.5	n/a	3	n/a	1.5	-
M+1	1.5	0.9	0.8	0.9	0.9	0.9	0.9	0.9	1.1
M+2	1.1	1.1	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Month after	1.1	1.1	1.0	1.3	1.1	1.1	1.1	1.1	1.1
Q+1	1.1	1.1	0.9	1.0	1.1	1.1	1.1	1.1	-
Q+2	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.1	-
Q+3	1.1	1.4	1.2	1.3	1.4	1.2	1.1	1.1	-
Q+4	1.5	1.4	1.2	1.3	1.4	1.2	1.5	1.5	-
Quarter after	1.5	1.4	1.4	1.3	1.4	1.4	1.5	1.5	-
S+1	1.1	1.1	0.9	1.0	1.1	1.1	1.1	1.1	-
S+2	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.1	-
Season after	1.5	1.2	1.2	1.3	1.2	1.2	1.5	1.5	-
C+1	1.2	1.1	0.9	1.0	1.1	1.1	1.2	1.2	-
C+2	1.2	1.1	0.9	1.1	1.1	1.1	1.2	1.2	-
Cal after	1.2	1.1	1.0	1.3	1.1	1.1	1.2	1.2	-

M: month contracts, Q: quarter contracts, S: season contracts, C: calendar contracts, Short term: day, week, and weekend contracts

3.9 Settlement of Options on Gas Futures

Parameter	Specification
General notes	On the expiry day of the option, the Daily Settlement Prices of the underlying Gas Futures also serve to inform whether an option is in or out of the money.

3.10 Settlement of Futures on Guarantees of Origin (GO)

Parameter	Specification
Settlement Price Window	15:30 – 16:00 CE(S)T
Minimum number of contracts per trade	1 contract = 1000 GO certificates
Minimum number of contracts per order	1 contract = 1000 GO certificates
Settlement spread for the consideration of best bid/best ask	specified on contract level
Minimum duration of the cumulated valid best bid and best ask during the Settlement Price Window	180 seconds