

Turner Commodities Law, PLLC

Energy Industry Glossary (A–Z)

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Usage Notes

This glossary is intended as a practical reference for legal, compliance, risk, and commercial professionals working in energy and commodities markets. Definitions are descriptive and context dependent. Readers should not rely on the glossary of terms to provide applicable or specific meaning in any particular instance nor in connection with any individual contract. Review relevant agreements, tariffs, market rules, and regulatory requirements for any specific transaction or issue.

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Glossary

Abandonment Clause

A contractual provision in midstream or downstream agreements (e.g., leases or transportation contracts) permitting early termination without penalty, typically triggered by sustained commodity prices below an agreed economic threshold or regulatory changes rendering the asset uneconomic; often includes notice requirements and asset reversion rights to mitigate disputes.

Affiliate

An entity controlled by, controlling, or under common control with another entity (with various statutes applicable also defining affiliate in terms of percentage of ownership of voting interest securities); critical in credit support, and numerous regulatory filings with various government agencies, and for a number of purposes to prevent circumvention of exposure limits or affiliate transaction rules under FERCs and CFTC's rules, such as Dodd-Frank.

Anti-Manipulation (FERC/CFTC)

A set of statutory and rule-based prohibitions targeting fraudulent, deceptive, or manipulative conduct in wholesale power, natural gas, and derivatives markets. Risk often arises from the interaction of physical scheduling/bidding with financial positions, and is managed through surveillance, controls, training, and escalation protocols.

Asset-Backed Liquidity

A risk management mechanism where unencumbered assets (e.g., inventory or receivables) serve as collateral to secure short-term financing, providing liquidity buffers during market volatility; commonly used in downstream refining to manage working capital.

Assignment

The transfer of contractual rights and/or obligations to a third party, subject to consent clauses, anti-assignment provisions, or regulatory approvals (e.g., FERC for interstate pipelines); in bankruptcy, assignments may be scrutinized for fraudulent conveyance.

Audit Clause

A provision granting one party the right to inspect the counterparty's books, records, and facilities for compliance verification, accuracy of invoicing, or environmental reporting; typically includes confidentiality protections and dispute resolution for findings. Also, typically shortens statutory limitations periods for any action to be taken based on audit.

Back-to-Back Letter of Credit

A structure where an intermediary issues a new letter of credit backed by an original one from the buyer, facilitating trade in downstream petroleum products by aligning terms without direct exposure between end parties.

Bankruptcy Remote

A structural feature in special purpose entities (SPEs) designed to isolate assets from parent company bankruptcy risks, often used in midstream project finance or securitizations to ensure uninterrupted operations and creditor protections.

Barge Bill of Lading

A negotiable document issued by a carrier evidencing receipt of goods (e.g., petroleum products) for barge transport, detailing title, quantity, condition, and terms; crucial for downstream logistics and trade finance, often integrated with Incoterms like FAS or FOB.

Basis

The differential between a local physical commodity price index (e.g., at a delivery hub) and the designated reference price (e.g., NYMEX benchmark futures index price) for the same commodity for the applicable period; key in midstream basis swaps to hedge transportation spreads.

Basis Point

One-hundredth of one percentage point (0.01%), used to express changes in interest rates, swap margins, or credit spreads in energy financing and derivatives.

Basis Swap

An over-the-counter (OTC) derivative transaction where parties exchange fixed basis differentials for floating ones over a specified period, commonly used to hedge regional price disparities in natural gas or crude midstream markets or in other commodities.

Beneficial Ownership

Identification of the natural persons who ultimately own or control a counterparty, including through layered entities. Central to KYC/AML, sanctions screening, onboarding, and ongoing monitoring, and often drives documentary representations and covenants.

Bill of Lading (B/L)

A Bill of Lading is a core shipping document that serves three primary functions: (1) it acts as a receipt issued by the carrier acknowledging the quantity and condition of goods received for shipment; (2) it evidences the terms and existence of the contract of carriage between shipper and carrier; and (3) it operates as a document of title, enabling transfer of ownership or control of the goods in transit. In energy shipping, Bills of Lading may be “straight” (non-negotiable, consigning goods to a named party) or “order” (negotiable, allowing transfer by endorsement), and successive versions may include notations (clauses) to record discrepancies or exceptions, thereby allocating risk and liability among parties.

Blackout Day

A scheduled outage for maintenance at a generation, refining, or processing facility, coordinated with market operators to minimize supply disruptions and price impacts; often subject to regulatory notice requirements.

Brent Crude

A major global benchmark for light, sweet crude oil priced at the North Sea, influencing downstream refining margins and international hedging strategies.

Call Option

A financial contract that the holder the right, but not the obligation, to buy (in the case of a call option) or to sell (in the case of a put option) an underlying asset at a specified price (referred to as

the “strike price”) on or before a stated expiration date (“Expiry Date”). The structure and exercise mechanics of options vary by type, as discussed in part, infra definition of “Put Option.”

Capacity Factor

The ratio of a power plant's actual output over a period to its potential output at full nameplate capacity; vital for renewables project finance and midstream tolling agreements.

Capital Expenditure (CapEx)

Investments in acquiring, upgrading, or maintaining physical assets like pipelines, refineries, or renewable installations; distinguished from OpEx for tax, accounting, and hedging policy purposes.

Carbon Credit

A tradable instrument representing one metric ton of CO₂ equivalent avoided or removed: integral to compliance markets (e.g., under cap-and-trade) and voluntary offsets in downstream ESG programs.

Carried Interest

A performance fee structure where fund managers receive a share of profits after meeting a hurdle rate, prevalent in energy private equity for midstream infrastructure funds.

Certificate of Origin

An official document or attestation confirming the country or source and/or environmental attributes of a commodity—whether it’s renewable electricity, oil, or refined products. It’s used to verify whether energy comes from a particular country or source, often to ensure compliance with trade rules or sanctions, or to guarantee the origin of renewable energy and the environmental attributes of such renewable energy.

Charter Party

A maritime contract between shipowner and charterer for vessel hire, such as time charter (fixed period) or voyage charter (specific trip).

CIF (Cost, Insurance, and Freight)

An Incoterm where the seller delivers goods on board the vessel, covers costs and freight to the destination port, and procures insurance; risk transfers to buyer upon loading, common in international downstream product sales.

Claused Bill

A Bill of Lading annotated with exceptions (e.g., for damaged or short cargo), limiting the carrier's liability; common in downstream product shipments to allocate risks.

Clean Spark Spread

The theoretical gross margin from a natural gas-fired power plant, calculated as power revenue minus fuel and carbon emission costs; used for hedging and investment decisions in integrated midstream-power operations.

Cleared Commodity Swap

A standardized swap contract submitted to and processed by a central clearinghouse (such as CME or ICE Clear). The clearinghouse becomes the counterparty to both sides of the trade, mitigating counterparty credit risk and enforcing daily margining and settlement. Customer funds are held in segregated accounts. Cleared swaps offer greater transparency, regulatory oversight, and liquidity, but may have less flexibility in terms and structure compared to OTC swaps.

Collateral and Security Interests

Contractual mechanisms for pledging, valuing, and enforcing assets as security for obligations; governed by UCC Article 9 in the US, with implications for bankruptcy priority.

Collateral Threshold

The unsecured credit limit in a CSA before margin calls or requirements for interim settlement payments are triggered; typically negotiated based on credit ratings and used to optimize liquidity in OTC derivatives.

Commercial Operation Date (COD)

The date a facility (e.g., pipeline or renewable project) achieves operational readiness and begins revenue generation; triggers milestones in PPAs, financing, and hedging.

Commodity End-User

An entity primarily engaged in physical consumption or production of commodities and for whom entering swaps to hedge such physical commodities may be critical to guard against price volatility for such commodities with such entity and hedging being exempt from certain swap dealer regulations under Dodd-Frank.

Commodity Swap

A financial derivative contract in which two parties exchange cash flows based on the price movements of a specified commodity index or locational spot price, without any physical delivery of the commodity itself. Commodity swaps are central to hedging price risk in energy markets.

Compliance Risk

The potential for sanctions, fines, or reputational harm from violating laws, regulations (e.g., FERC anti-manipulation rules), or internal policies; mitigated through audits, training, and enterprise risk frameworks.

Concentration Risk

Exposure to excessive reliance on a single counterparty, commodity, region, or sector; managed via diversification limits in hedging policies and enterprise risk assessments.

Confirmation

A trade-specific document (often called a "Confirmation" or "Confirm") that becomes an integral part of a Master Agreement with respect to an individual transaction by setting forth the specific economic and commercial terms of an individual transaction. It typically details the product type, prices or reference price, quantity or notional amount, delivery point or reference point(s) or index, settlement dates, term/duration, and any transaction-specific overrides or elections – many energy

agreements contain a clause stating that in the event of inconsistency between the terms of a master agreement and a confirmation, those in the Confirmation are controlling. At core, the Confirmation effectively tailors and controls the application of the standardized Master Agreement's terms to reflect the specifics of the deal, while the Master governs overarching relationship matters such as events of default, termination, netting, and general representations.

Confirmed Letter of Credit

A letter of credit where a second bank (confirming bank) adds its guarantee to the issuing bank's obligation, reducing risk in international downstream trades by providing payment assurance in the buyer's country.

Contango

A forward curve structure where futures prices exceed spot prices, often signaling storage economics; contrasts with backwardation and influences midstream inventory strategies.

Contract for Differences (CFD)

A financial instrument settling the difference between opening and closing prices of an underlying asset; used for speculation or hedging without physical ownership.

Contract Path

A nominated route on a transmission or pipeline system securing priority rights, though actual flows may differ due to physics; relevant for FERC open access compliance.

Counterparty Risk

The risk of default by a trading partner, quantified via exposure metrics and mitigated through netting, collateral, and letters of credit; a core component of enterprise risk management.

Crack Spread

The margin from refining crude into products, expressed as ratios (e.g., 3:2:1 for three barrels crude yielding two gasoline and one distillate).

Credit Risk

The risk of loss from a borrower's or counterparty's failure to repay obligations; in energy, includes payment defaults on trades or loans, mitigated by credit enhancements like letters of credit.

Credit Risk Mitigation

Techniques used to reduce the likelihood and/or severity of a counterparty's default (financial or performance-related), based on its financial position or creditworthiness; common measures include netting, setoff, collateralization, guarantees, and other credit enhancements that lower net exposure.

Credit Support Annex/Addendum (CSA)

An attachment to a master agreement but incorporated therein specifying margin terms, eligible collateral, and thresholds for OTC derivatives and/or power transactions. For the ISDA it is the Credit Support Annex. For the EEI Master Power Purchase and Sale Agreement, it is referred to as the Credit Support Addendum.

Credit Support Provider

A third party that supports a counterparty's obligations (e.g., guarantor, LC issuer). Key issues include scope, caps, termination, rating triggers, enforceability, and alignment with netting sets and collateral mechanics.

Cross-Product Netting

A structure permitting netting across multiple products (physical vs. other physical, physical vs. financial, and derivatives vs. other derivative classes/types – financial vs. financial) for payment and/or close-out. Reduces exposure and collateral, but requires careful documentation architecture and enforceability analysis.

Curtailment

The reduction or interruption of service (e.g., pipeline flow or power delivery) due to capacity constraints or force majeure; subject to tariff rules and compensation clauses.

Curve Strip

A sequence of consecutive forward contracts, futures, or swap quotes forming the forward price curve for a commodity; used for valuation.

Daily Nomination

The process of scheduling daily volumes for physical delivery in pipelines or grids; discrepancies trigger imbalance penalties.

Day-Ahead Market

A forward auction for hourly electricity commitments cleared 24 hours in advance; integral to balancing and hedging in RTO/ISO markets.

Decommissioning

The regulated process of retiring and dismantling facilities (e.g., refineries or pipelines), including environmental remediation and liability funding.

Default Waterfall

The ordered sequence of protections/priorities after default: suspension, collateral application, close-out netting/valuation, credit support enforcement, and claims/recovery.

Delivery Point

The specified location (e.g., hub or terminal) where title and risk transfer in physical contracts; critical for basis calculations, dispute avoidance, and alignment with Incoterms.

Demand Response

Incentive programs curtailing consumer load during peaks, providing grid stability and revenue streams for participants.

Demurrage

Charges for delays beyond allowed laytime in loading/unloading vessels; common in downstream shipping contracts, allocated based on charter party terms or Incoterms.

Derivative

A financial contract or instrument whose value is determined by (or "derived from") changes in the price, rate, level, or performance of an underlying asset, reference index, commodity, interest rate, currency, credit event, or other variable; common examples in energy markets include futures, forwards, swaps, and options on commodities such as crude oil, natural gas, electricity, or refined products.

Distillate

Middle distillate fuels like diesel, heating oil, and jet fuel; seasonal demand drivers in downstream markets.

Documentary Letter of Credit

A letter of credit requiring presentation of specified documents (e.g., bill of lading, invoice) for payment; standard in energy shipping to ensure compliance with sale terms before funds release.

Dodd-Frank Act

Broad U.S. legislation that, among other things, sought to reform financial markets post-2008, for purposes of energy markets, it fundamentally changed and increased the regulation of swaps and swap market participants, including mandating clearing for certain swaps, imposition of position limits, bank-like regulation of the largest swap providers, protection /segregation of collateral, reporting requirements, and end-user exemptions for hedging.

Due Diligence

Comprehensive review of assets, contracts, and risks in transactions (e.g., midstream acquisitions); includes environmental, legal, financial, and shipping logistics assessments.

Emission Allowances

Government-issued permits authorizing GHG emissions under cap-and-trade systems (e.g., EU ETS or California); tradable in compliance markets.

Enforceability Opinion

A legal opinion affirming a contract's validity, netting enforceability, and bankruptcy remoteness; required for cross-border trades involving letters of credit.

Enterprise Risk Management (ERM)

A holistic framework for identifying, assessing, and managing organization-wide risks (e.g., strategic, operational, financial, and compliance); in energy firms, integrates commodity price volatility, supply chain disruptions, and regulatory changes for board-level oversight.

Environmental

Impacts on the planet, including greenhouse gas emissions (Scope 1, 2, and 3), climate risk exposure, energy transition strategy, resource efficiency, pollution control, waste management, and biodiversity.

Environmental Products

Tradable instruments representing environmental or sustainability attributes of energy production, use, or emissions reduction; includes emissions allowances (e.g., under cap-and-trade programs),

Renewable Energy Certificates (RECs) for renewable power generation, carbon offsets/credits (voluntary or compliance), guarantees of origin, Renewable Identification Numbers (RINs) under the US EPA Renewable Fuel Standard (representing renewable fuel volumes blended or used to meet RVOs), and similar credits.

Environmental, Social, and Governance (ESG)

A widely used framework for evaluating a company's non-financial performance and long-term sustainability risks and opportunities across three pillars:

Ethylene

A petrochemical building block derived from natural gas or naphtha; key downstream product in plastics manufacturing.

Events of Default

Specified triggers (e.g., insolvency, non-payment, misrepresentations, or covenant breach) allowing for the exercise of contractually-specified remedies, often including the termination, liquidation, acceleration and close-out netting and setoff under the Master Agreement(s) – e.g., the ISDA, NAESB, and EEI Master Agreements.

Exchange for Physical (EFP)

A structure exchanging a futures position for a corresponding physical position (or vice versa), used to align hedges with physical exposure or manage delivery. Subject to exchange rules, documentation, and integrity controls.

Exposure Limit

Internal caps on risk to counterparties or markets, enforced via policies and monitored for compliance within ERM frameworks.

EXW (Ex Works)

An Incoterm where the seller makes goods available at their premises, with the buyer bearing all transportation costs and risks from that point; used in domestic midstream deals to minimize seller liability.

FAS (Free Alongside Ship)

An Incoterm where the seller delivers goods alongside the vessel at the named port, with risk transferring to the buyer at that point; suitable for bulk downstream commodities like refined products.

Feedstock

Raw material supplied to a refining or petrochemical facility for conversion.

FERC (Federal Energy Regulatory Commission)

US agency overseeing interstate electricity sales, natural gas pipelines, and hydropower; enforces open access and anti-manipulation rules.

Firm Capacity

Guaranteed, non-interruptible reservation on pipelines or grids with take-or-pay obligations; preferred for reliable downstream operations.

Firm Transportation

Contracted pipeline service ensuring priority delivery, subject to tariffs and nomination rules.

Floating Swap

A derivative with one fixed leg (e.g., NYMEX settle) and a floating leg (index plus margin); settles basis risk without physicals.

FOB (Free On Board)

An Incoterm where the seller delivers goods on board the vessel at the named port, with risk and costs transferring to the buyer upon loading; widely used in crude and LNG shipping for clear risk allocation.

Force Majeure

A contractual provision that excuses a party from performing its obligations (in whole or in part) without liability for damages when non-performance results from extraordinary, unforeseeable events beyond its reasonable control. Common examples include natural disasters (hurricanes, earthquakes, floods), acts of government (embargoes, expropriation, changes in law), war, terrorism, strikes, epidemics/pandemics, or other unforeseeable catastrophes. The scope and interpretation of these clauses often become intense subjects of litigation in times of disruption.

Forward Contract

A privately negotiated, bilateral agreement (not traded on an organized exchange) between two parties for the deferred purchase and sale of a commodity at a price fixed at the time of contracting, with the intent and commercial expectation of physical delivery or receipt of the underlying commodity at a future date or period. While many transactions resolve via negotiated book-outs (cash offsets without actual delivery) for logistical or commercial reasons, the exclusion depends on genuine intent for physical delivery at contracting.

Forward Curve

The interpolated series of future prices from market data to determine the present market value of the position(s) being analyzed.

Fracking (Hydraulic Fracturing)

High-pressure fluid injection to extract shale resources; upstream process impacting midstream gathering volumes.

Fractionation

Distilling NGL mixtures into pure components (e.g., propane, butane) at midstream plants; yields marketable products.

Futures Contract

Standardized, exchange-traded agreement for commodity delivery; cleared to reduce risk.

Gathering

The initial collection of hydrocarbons from wells via low-pressure lines to central processing; governed by gathering agreements.

Gathering Agreement

Contract for wellhead-to-processing transport; includes dedication clauses and fee structures in midstream.

Geothermal Energy

Harnessing subsurface heat for power or heating; a baseload renewable with midstream transmission needs.

Gigawatt (GW)

One billion watts of power capacity; scales large-scale renewables or grid projects.

Global Warming

Anthropogenic climate change from GHG emissions; drives regulatory shifts toward low-carbon midstream/downstream.

Greenhouse Gas (GHG)

Atmospheric gases like carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), water vapor, and others accumulate primarily in Earth's atmosphere, where they trap heat and contribute to rising global temperatures through the greenhouse effect.

Grid Modernization

Enhancing grid (the interstate electric grid within the continental U.S. (excluding much of Texas – ERCOT) infrastructure with smart tech for reliability, renewables integration, and cybersecurity.

Hedging

Deploying derivatives to offset price, basis, or volume risks; governed by internal policies requiring board approval for expansions.

Hedging Policy

Organizational guidelines on permissible instruments, tenors, limits, and value-of-information thresholds; generally, reviewed by counsel for compliance and integration with ERM.

Henry Hub

Louisiana natural gas pricing hub and NYMEX delivery point; benchmark for US basis trades.

Hydrogen

A versatile energy carrier produced via electrolysis or reforming; emerging in downstream clean fuels.

Hydrogen Derived Transaction (also referred to as Hydrogen Derivative Transaction in most industry usage)

A physical supply, purchase, or offtake agreement for commodities produced using hydrogen as a primary feedstock or reactant, rather than for pure hydrogen itself. I eschew calling these physical

transactions derivative transactions given the inherent confusion such labeling causes, although the inherently confusing terminology is the more common usage.

IECA Netting Agreement

Multilateral master enabling cross-commodity netting and setoff as part of the termination, liquidation, and acceleration process upon a bankruptcy or insolvency default. The agreement, when issued, was reviewed by several experienced commodity and bankruptcy lawyers (including myself), who, subject to the conditions contained in it, provided an accompanying enforceability opinion.

Imbalance Penalty

Charges for deviations between nominated and actual flows in pipelines or grids; encourages accurate scheduling.

In cracking (petrochemicals)

lighter feeds like ethane, naphtha, or NGLs for olefin production.

In refining

primarily crude oil for distillation and upgrading into fuels.

Incoterms

International Commercial Terms published by the ICC defining responsibilities for shipping costs, risks, and tasks between buyers and sellers; 2020 version includes rules like FCA, CPT, and DAP, tailored for energy trades to clarify delivery points.

Independent Power Producer (IPP)

Non-utility generator selling wholesale power; often hedges via PPAs.

Independent System Operator (ISO)

Non-profit entity managing regional grids for fair access; see also RTO.

International Swaps and Derivatives Association (ISDA) Master Agreement

The standardized master agreement published by the International Swaps and Derivatives Association (ISDA), most commonly used to document over-the-counter (OTC) derivatives transactions worldwide. It serves as the foundational framework agreement establishing the general legal, credit, and operational terms between counterparties for swaps and other derivatives, with individual trades documented via transaction-specific Confirmations.

Interruptible Capacity

Non-guaranteed pipeline or grid service, subordinate to firm; cost-effective for flexible downstream users.

Irrevocable Letter of Credit (Irrevocable LC)

A bank-issued, non-cancellable payment guarantee that obligates the issuing bank to pay the beneficiary (seller) upon presentation of compliant documents, as per UCP 600 rules. It cannot be amended or revoked without the beneficiary's consent. In downstream international energy trades

(crude, refined products, LNG), irrevocable LCs are preferred for high-risk counterparties or markets to secure payment, reduce open-credit exposure, and support trade finance.

Joint Operating Agreement (JOA)

Governs multi-party upstream or midstream projects, allocating costs, revenues, and operator duties.

Joint Venture (JV)

Collaborative entity for specific projects (e.g., pipeline builds); requires clear governance and exit provisions.

Kilowatt-hour (kWh)

Energy unit for billing and RECs; 1,000 watts sustained for one hour.

Knock-for-Knock Indemnity

Mutual hold-harmless for each party's property/personnel; standard in offshore and midstream contracts, including FPSO operations.

KYC (Know Your Customer)

Counterparty due diligence verifying identity, legal existence, beneficial ownership, and risk profile, including sanctions screening and adverse media. In trading, KYC is tightly linked to onboarding, credit approval, master agreement execution, and ongoing monitoring.

Laytime

Allowed time for loading/unloading cargo without demurrage; calculated in shipping contracts based on vessel size and cargo type, with weather exclusions.

Letter of Credit (LC)

A bank-issued instrument guaranteeing payment to the seller upon fulfillment of specified conditions; types include revocable/irrevocable, confirmed, and standby, vital for mitigating credit risk in downstream shipping.

Lien

Secured interest in assets; perfected under UCC for creditor priority in bankruptcy.

Lien Waiver

Release of lien rights, often required in construction or midstream financing.

Lifting

Physical uptake of allocated production at terminals; scheduled via nominations.

Liquefied Natural Gas (LNG)

Supercooled natural gas for marine transport; midstream liquefaction and regasification key, with shipping under specialized charter parties.

Liquidity Risk

The risk of inability to meet short-term obligations due to market illiquidity or funding gaps; in energy, managed through asset-backed facilities, revolving credits, and ERM stress testing.

Locational Marginal Pricing (LMP)

Node-specific power pricing reflecting congestion and losses; basis for hedging in RTOs.

Margin Call

Demand for additional collateral when exposures exceed thresholds; daily in cleared trades.

Mark-to-Market (MtM)

Periodic revaluation of positions at current prices; drives P&L and collateral.

Market Risk

Exposure to adverse movements in market variables like prices, rates, or volatilities; quantified via VaR and hedged with derivatives in trading portfolios.

Master Netting Agreement (MNA)

Umbrella for cross-product setoff and netting; can reduce systemic risk in trading books, especially in connection with a counterparty's bankruptcy.

Material Adverse Change (MAC)

Clause allowing termination or renegotiation upon significant detrimental, specified events.

Maximum Daily Quantity (MDQ)

Contractual cap on daily volumes; exceeding risks penalties or termination.

Midstream

Sector encompassing gathering, processing, transportation, storage, and wholesale of hydrocarbons; fee-based models predominate.

Minimum Volume Commitment (MVC)

Take-or-pay equivalent in midstream contracts ensuring revenue; common in gathering agreements.

Nameplate Capacity

The manufacturer-specified or design-rated maximum sustained output (or throughput) of a facility, unit, or system under ideal, specified operating conditions, as indicated on the equipment's nameplate or in official design documents.

Natural Gas Liquids (NGLs)

Hydrocarbons like ethane and propane extracted from gas; midstream fractionation products.

Negative Pledge

Covenant restricting asset pledges to protect unsecured creditors.

Net Present Value (NPV)

The present-dollar value of future cash flows, transactions, assets, or portfolios, discounted at an appropriate rate to account for the time value of money. In commodities/energy trading, NPV may be calculated in a variety of ways; often it is calculated via discounted cash flow (for projects), mark-

to-market/model using forward curves and market quotes (for trading books), or replacement/book-out values (for physical positions), often adjusted for hedging.

Netback

Upstream or midstream profitability after deducting transport and processing costs.

Netting

Offsetting obligations to a single net amount; includes payment, delivery, and close-out types for risk reduction.

Non-Disclosure Agreement (NDA)

Protects confidential info in negotiations; includes carve-outs for regulatory disclosures.

Notice of Readiness (NOR)

Vessel arrival notice triggering laytime; disputes common in downstream chartering.

OFAC

The U.S. Treasury office administering economic and trade sanctions. Trading compliance includes screening counterparties, beneficial owners, vessels/cargo flows, handling blocked property, escalation, and recordkeeping.

Off-take Agreement

A long-term, binding contract in which a buyer commits to purchasing a specified volume or percentage of future production from a facility, project, or asset (e.g., pipeline throughput, LNG output, renewables generation, or hydrogen/ammonia production). Key features often include:

Open Access

Seminal FERC orders that mandated non-discriminatory tenets regarding the use of interstate infrastructure; promotes competition.

Operational Risk

Losses from process failures, human error, or events; mitigated via controls, insurance, and ERM integration.

Option

A derivative contract that gives the buyer (holder) the right, but not the obligation, to buy (call option) or sell (put option) an underlying asset, commodity, index, or reference at a predetermined strike price on or before a specified expiration date (or at expiration, depending on style). The buyer pays a non-refundable premium upfront to the seller (writer) for this right. The seller receives the premium but is obligated to perform if the buyer exercises the option. Options can be exchange-traded (cleared on NYMEX/CME, ICE, EEX) or over-the-counter (OTC) under ISDA Master Agreements with Confirmations specifying strike, premium, expiration, settlement (cash or physical), and other terms.

Option Into

Right to upgrade interruptible to firm capacity; exercised via advance notice.

Over-the-Counter (OTC) Commodity Swap

A privately negotiated bilateral agreement between counterparties, typically customized to the parties' specific risk management needs. OTC swaps are subject to counterparty credit risk and are governed by master agreements (such as ISDA), with collateral and margin requirements determined by the parties.

Override (Overriding Royalty Interest - ORRI)

A non-operating, cost-free interest in the production of oil, gas, or other hydrocarbons from a lease or property. It entitles the holder to receive a specified percentage of gross production (or the revenue from it) without bearing any share of the costs of exploration, development, drilling, completion, operating, or abandonment.

Pipeline Tariff

FERC-approved rates and rules for interstate transport; includes recourse and negotiated options.

Position Limits

Regulatory or exchange-imposed caps on futures/options and certain economically equivalent swaps. Requires aggregation analysis (including affiliates), monitoring, exemption management (e.g., bona fide hedging), and coordination between commercial and compliance.

Power Purchase Agreement (PPA)

Long-term offtake for generation output; structures include fixed-price or indexed.

Precedent Agreement

A binding preliminary contract between a midstream project developer (e.g., pipeline or storage company) and prospective shipper(s) or customer(s), executed prior to construction or expansion. It commits the parties to enter into a definitive transportation, storage, or service agreement upon satisfaction of specified conditions precedent (e.g., FERC certificate issuance, minimum subscription levels, financing closing, or construction milestones).

Processing

The midstream process of treating (wet) natural gas at a dedicated processing plant to remove impurities (CO₂, H₂S, water, helium) and extract natural gas liquids (NGLs), yielding pipeline-quality residue gas (primarily methane) and marketable NGL components (ethane, propane, butane, natural gasoline).

Put Option

A derivative contract that gives the buyer (holder) the right, but not the obligation, to sell an underlying asset, commodity, index, or reference (e.g., crude oil, natural gas, power, RINs, or a crack spread) at a predetermined strike price on or before a specified expiration date (American style) or only at expiration (European style). The buyer pays an upfront premium to the seller for this right. If the market price falls below the strike, the buyer can exercise the option to sell at the higher strike price, profiting from the difference (minus premium). The seller receives the premium but must buy the underlying at the strike if exercised.

Real-Time Market

Real-Time Market (also called Real-Time Energy Market or Balancing Market): An intraday wholesale electricity market operated by Independent System Operators (ISOs) or Regional Transmission Organizations (RTOs) in the United States, where energy is bought and sold on a very short-term basis (typically every 5 minutes) to balance actual supply and demand in real time.

Regional Transmission Organization (RTO)

Multi-state grid manager; ensures reliability and markets.

Regulatory Risk

The risk of financial loss, operational disruption, or reduced profitability resulting from changes in laws, regulations, policies, or government actions that affect the energy sector.

Regulatory Self-Reporting

Voluntary disclosure of potential violations to regulators (e.g., FERC, CFTC, exchanges), typically paired with privilege-sensitive fact development and remediation. Decisions consider severity, intent, likelihood of detection, and penalty mitigation.

Renewable Energy Certificate (REC)

Proof of 1 MWh renewable generation; unbundled for compliance or voluntary markets.

Renewable Portfolio Standard (RPS)

Mandate for utility renewable sourcing; drives PPA demand.

Ring-Fencing

Asset isolation for protection; used in regulated utilities or bankruptcy planning.

Safe Harbor

Safe Harbor: A statutory exemption or protection, most notably under the U.S. Bankruptcy Code, that shields specific types of contracts, transactions, or market participants (e.g., forward contracts, swaps, repurchase agreements, master netting agreements) from certain Bankruptcy Code provisions — including the automatic stay, preference avoidance, fraudulent transfer rules, and certain unwind/avoidance powers. These protections exist primarily to prevent systemic risk and domino-effect disruptions in highly interconnected markets (such as energy and commodities trading) where counterparties hold numerous positions and intermediaries are common.

Sight Draft

A payment instrument requiring immediate payment upon presentation; often attached to bills of lading in downstream shipping for cash-against-documents terms.

Social

Treatment of people and communities, covering worker health & safety, labor practices, human rights in supply chains, diversity & inclusion, community relations, social license to operate, and product responsibility.

Spot Market

A market for the immediate (or near-immediate) purchase and sale of commodities, energy products, or electricity with delivery and payment occurring shortly after the trade (typically within days or the same day, as opposed to deferred delivery in forwards or futures).

Standby Letter of Credit (Standby LC or Standby)

A bank-issued, irrevocable guarantee that functions as a secondary or backup payment mechanism. It is activated only if the applicant (e.g., buyer, lessee, obligor, or counterparty) fails to perform its obligations under the underlying contract (non-payment, non-delivery, breach, or other default).

Virtual Power Purchase Agreement (VPPA)

A long-term contract between a renewable energy generator (seller) and a corporate or institutional buyer (off-taker) that bundles the transfer of renewable energy certificates (RECs) or environmental attributes (representing the "green" value of generated electricity) with a financial settlement mechanism, typically structured as a swap or contract for differences (CFD). Note: Some long-time industry lawyers have expressed the view that no part of the VPPA involves a swap, although I and many others are of the view embodies in the definition. The buyer does not take physical delivery of the power; instead, the generator sells the electricity into the local grid (e.g., at locational marginal pricing, or LMP, at a nearby bus or hub). Settlement with respect to the power involves a cash exchange: the buyer pays a fixed contract price (often based on a percentage of the facility's output), while receiving or paying the difference versus the floating market price (LMP or index), effectively swapping variable revenues for fixed. This structure allows the buyer to use the RECs in support of its voluntary carbon reduction goals reporting or ESG program compliance.