



Environmental Products Conventions

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1. Description

This convention applies to transactions for eight legislated Environmental Commodities in the Australian Marketplace and a semi-voluntary scheme for 'Green Power'.

A [summary of the characteristics of the schemes](#) has been prepared by Johnson Winter & Slattery.

1.1. New South Wales Energy Saving Certificates (ESC)

An ESC is a tradeable Commodity created under Division 7 of Part 9 of the NSW Electricity Supply Act 1995 (NSW ESA) and is used to demonstrate compliance with the requirements of the NSW legislative energy savings scheme set out Part 9 of the NSW ESA.

The NSW ESA establishes the rules for creating an ESC. The ESC must be in electronic form, and must be registered by the Independent Pricing and Regulatory Tribunal (IPART) of NSW before considered valid. 1 ESC is equal to 1tCO₂-e (one tonne of carbon dioxide equivalent) attributable to energy savings arising from an eligible activity.

Further information regarding the NSW ESA and ESC can be found at the [Energy Saving Scheme website](#)

1.2. Large-Scale Generation Certificates (LGC)

An LGC is a tradeable Commodity created by the Renewable Energy (Electricity) Act 2000 (REC Act) and is used to demonstrate compliance with the requirements of the Commonwealth Government's target for generation from large-scale renewable generators.

The REC Act establishes the rules for creating an LGC. The LGC must be in electronic form, the certificate must have its own unique code and the LGC must be registered by the Office of the Renewable Energy Regulator (ORER) before it is considered valid. One LGC is equal to 1 megawatt hour (MWh) of eligible renewable energy.

Further information regarding the REC Act and LGCs can be found at the [Office of Renewable Energy Regulator website](#).

1.3. Small-Scale Technology Certificates (STC)

An STC is a tradeable commodity created under the REC Act. It is used to demonstrate compliance with the requirements of the Commonwealth Government's target for generation from small-scale renewable technology.

The REC Act establishes the rules for creating an STC. The STC must be in electronic form, the certificate must have its own unique code and the STC must be registered by the ORER before it is considered valid.

One STC represents 1 megawatt hour (MWh) of eligible renewable energy. However, multipliers are used when issuing STCs so 1 MWh of generation may result in the issue of more than one STC.

The ORER can also create STCs under the clearing house arrangements established under the REC Act.

Further information regarding the REC Act and STCs can be found at the [Office of Renewable Energy Regulator website](#).

1.4. New South Wales Greenhouse Abatement Certificates (GAC)

A GAC is a tradeable Commodity created under Division 5 of Part 8A of the NSW ESA and is used to demonstrate compliance with the requirements of the NSW legislative greenhouse gas abatement scheme set out in Part 8A of the NSW ESA.

The NSW ESA establishes the rules for creating a GAC. The GAC must be in electronic form, every certificate must have its own unique code and the GAC must be registered by the Independent Pricing and Regulatory Tribunal (IPART) of NSW before considered valid. 1 GAC is equal to 1tCO^{2-e} (one tonne of greenhouse gas emissions) abated by an eligible activity.

Further information regarding the NSW ESA and a GAC can be found at the [Greenhouse Gas Reduction Scheme website](#).

1.5. Australian Capital Territory Greenhouse Abatement Certificates (GAC)

The ACT scheme mirrors the NSW GAC scheme and certificates created under the NSW scheme are used to acquit liability under the ACT Scheme.

1.6. Queensland Gas Electricity Certificates (GEC)

A GEC is a tradeable Commodity created under Division 1 of Part 4 of Chapter 5A of the Electricity Act 1994 (QLD) (QLD Act) and is used to demonstrate compliance with the requirements of the QLD gas scheme set out in the QLD Act.

The QLD Act establishes the rules for creating a GEC. The creation of the GEC must be noted in the electronic register, and the GEC must be registered by the Scheme Administrator, being the Chief Executive of the Department administering the Electricity Act, before it is valid. 1 GEC is equal to 1MWh of eligible electricity generated from gas.

Further information regarding the QLD Act and a GEC can be found at the [Queensland Department of Mines and Energy website](#).

1.7. Victorian Energy Efficiency Certificates (VEEC)

A VEEC is a tradeable Commodity created under Division 3 of Part 3 of the Victorian Energy Efficiency Target Act 2007 (VEET Act) and is used to demonstrate compliance with the requirements of the VEET scheme set out in the VEET Act.

The VEET Act establishes the rules for creating a VEEC. The VEET Act states that the VEEC must be in electronic form, that every certificate must have unique identification code and that the VEEC is not valid until registered by the Scheme Administrator, being the Essential Services Commission. 1 VEEC is equal to 1tCO₂^{-e} (one tonne of greenhouse gas emissions) abated by an eligible activity.

Further information regarding the VEET Act and VEECs can be found at the [Victorian Essential Services Commission website](#).

1.8. GreenPower Program (GREC)

The National GreenPower Accreditation Program, established by various government agencies collectively known as the “National GreenPower Steering Group”. A GREC is an LGC created by a generator accredited under the Program and is used to demonstrate compliance with the requirements of the Program.

The Program establishes the rules for recognising GRECs.

Further information regarding the GreenPower Program can be found at the [Green Power website](#).

1.9. Carbon Farming Initiative (ACCU and KACCU)

An Australian carbon credit unit or ACCU is a tradeable commodity created under the Carbon Credits (Carbon Farming Initiative) Act 2011 (Cth) (CFI Act). A KACCU is a Kyoto-compliant ACCU, also issued under the CFI Act. ACCUs and KACCUs are issued for greenhouse gas sequestration or abatement projects. Each ACCU or KACCU represents a credit of 1 tCO₂-e from eligible offsets projects. The Carbon Farming Initiative is a voluntary scheme and so not subject to a surrender obligation. Some ACCUs and KACCUs will be eligible for surrender under the emission trading scheme established under the Clean Energy Act 2011 (Cth).

The CFI Act sets out the arrangements under which projects can be accredited to earn ACCUs and the rules for the issue of ACCUs. ACCUs are electronic certificates issued by the administrator of the Carbon Farming Initiative into an account held in the Australian National Registry of Emissions Units. The rules for opening accounts are in the Australian National Registry of Emissions Units Act 2011 (Cth) (ANREU Act) and underlying regulations. The rules about transfer of units are in the CFI Act and are affected by the ANREU Act.

Further information about the Carbon Farming Initiative is available from the Department of Climate Change and Energy Efficiency Website. <http://www.climatechange.gov.au/cfi>

2. Products

There are currently four products available for transacting each Commodity.

2.1. Spot Contract

A Spot contract is a contract for a physical exchange of a specified Commodity, quantity, and price. The Payment Date and Transfer Date are the dates specified in the Contract.

2.2. Forward Contract

A Forward contract is a contract for the exchange of a specified Commodity, quantity and price on a fixed date. This exchange can take three forms:

- Physical (this is the default method)
- Cash
- Cash and Physical

Where the transaction allows for both physical and cash settlement then the Seller must notify the Buyer not less than 2 Business Days before each settlement date if cash settlement, or a combination of cash and physical settlement will apply on that settlement date.

The Commodity sold under a Forward contract must be created on or before the date specified in the relevant legislation in order that the Commodity can be surrendered by the Buyer on the next date for surrender of such Commodities following the settlement date.

Different rules apply to ACCUs and KACCUs, principally because they are issued as part of a voluntary scheme. Only physical settlement applies to ACCUs and KACCUs and the creation date is not specified.

2.3. Option Contract

The option buyer pays a premium to the option seller to acquire the right, but not the obligation, to buy (Call Option) or sell (Put Option) a quantity of the Commodity at a predetermined price. The Option has an expiry date and it can be either exercised on the expiry date (European Option) or at any time preceding the expiry (American Option).

The settlement date can be different to the Option expiry date.

2.4. Swaption Contract

The option buyer pays a premium to the option seller to acquire the right, but not the obligation, to cause the Underlying Transaction to become effective. The Underlying Transaction is a Forward contract.

3. Dealing

3.1. Methods of Dealing

Negotiated bilaterally between counterparties, through a broker or directly by telephone, email or other process as may be agreed.

3.2. Electronic Dealing

At the discretion of the parties.

3.3. Business Days

Business Day means a day on which the banks are open in the capital cities of the State or Territory in Australia in which the parties' head offices are located.

Counterparties may negotiate variations to this convention on a bilateral basis at the time of dealing.

3.4. Standard Transaction Size ('Market Parcel')

Standard Market Parcels (and therefore assumed for quoted prices, unless otherwise specified) are:

Commodity	Number of units
ESC	5,000
GAC	25,000
GEC	25,000
VEEC	5,000
LGC	5,000
STC	5,000
GREC	5,000
ACCU	5,000
KACCU	5,000

3.5. Two Way Pricing

This is where a counterparty quotes simultaneous bid and offer prices for a product.

Counterparties are not obliged to quote two way prices, and may choose only to quote either a bid or an offer.

3.6. Quotation and Dealing

Commodity prices are quoted as a price per Unit.

The Buyer is liable for any fees payable under the relevant Act in order to transfer the Commodities to the Buyer.

The quoted price per Unit is increased to incorporate any GST payable on the sale and transfer of the Unit to the Buyer.

3.7. Other Commodity Conventions

Not applicable.

3.8. Basis

Not applicable.

3.9. Maturity Conventions

Commodities other than STCs, ACCUs and KACCUs

Parties should consider specifying forward deals to mature a month before acquittal date for the particular scheme. If the seller elects to cash settle, this still gives a buyer who is a liable party, adequate time to source replacement certificates to acquit. This maturity methodology is used to determine forward prices in the weekly AFMA “Environmental Products Curve”.

In the case of LGCs, it will also align with the expected specification of ASX LGC futures contracts.

Settlement dates for Commodities other than STCs, ACCUs and KACCUs would therefore be:

Commodity	Date
LGC	15 January
ESC	18 February
GAC	18 February
GEC	1 April
VEEC	1 April
GREC	1 March

STCs

STCs are subject to quarterly surrender under the REC Act and so a 14 day convention applies. If a date is not confirmed at the time of dealing, then the settlement date will be assumed to be the 14th day before the end of the month in which the trade date falls (or the following month if that day has already passed). If that day is not a Business Day in any one of the counterparty regions, the date will be the Business Day preceding the 14th day before the end of the relevant month.

Parties are encouraged to use this standard date for STC settlement for all quotes and curves.

ACCUs and KACCUs

In the case of ACCUs and KACCUs, the parties should consider specifying forward deals to mature a month before the surrender date under the Clean Energy Act 2011 (whether or not the commodity is also an eligible emissions unit under that Act).

During the first three years of the scheme under the Clean Energy Act there are two surrender dates. Parties will need to specify which applies. Settlement dates for ACCUs and KACCUs would therefore be:

Year	Date
2012/13, 2013/14 and 2014/15	15 May or 1 January*
Other years	1 January*

* Since 1 January will not be a Business Day, the date will be the first Business Day following 1 January.

3.10. Settlement Rate or Index

Not applicable.

3.11. Premium Payment Date(s)

Parties should confirm the premium payment date at the time of dealing.

Parties should consider specifying that premiums will be payable on the next NEM settlement date (being the date a market participant, as defined in the National Rules, would be obliged to make a payment under the National Rules) after the Trade Date of a Transaction unless that date is within two local Business Days of the next NEM settlement date, in which case the payment shall be made on the subsequent NEM settlement date.

3.12. Options Expiry Conventions

Counterparties should confirm the precise date for the Option's expiration at the time of dealing. Option expiry time will up to 3:00pm AEST on the Option expiry date. If this day is not a Business Day in any one of the counterparty regions, the expiry date will be the following Business Day.

The standard exercise practice is 'all or nothing' and partial exercise should be negotiated bilaterally on a deal by deal basis between the parties.

3.13. Dealer and Broker Conventions

3.13.1. Firmness

Dealers and brokers must clearly indicate whether prices being quoted are firm or indicative. A price quoted is firm unless otherwise stated in an unambiguous manner.

A price given to a broker by a counterparty remains firm even if the dealer who has placed the order is unavailable and/or away from his/her desk.

If a dealer provides a firm order with a broker, and is hit on that order, the dealer must deal at the level specified for the specified transaction size. It is not necessary for the broker to communicate to the counterparty that the live price has been hit in order for the deal to be completed. Prices displayed on broker screens must be firm unless clearly indicated otherwise.

A transaction is entered into at the time that the terms of the transaction are agreed between the dealers (whether orally or otherwise). This occurs when a dealer communicates to another dealer its acceptance of an offer that the other dealer has made however that dealing occurs (see *Section 3.1*).

Offers to enter into a transaction communicated by a broker on behalf of a dealer must be firm offers (unless unambiguously expressed otherwise) which can be accepted until they are withdrawn by the broker at the offering dealer's request. A broker must communicate offers only in the exact terms instructed by the offering dealer and must not vary any offer which a dealer requests be communicated by the broker. An offer communicated by a broker may be accepted by another dealer communicating acceptance to the broker (which is received by the broker on behalf of the offering dealer). The transaction is agreed, and the dealers are bound to its terms, from the time that the acceptance of the offer is communicated to the broker, whether or not acceptance has been communicated to the offering dealer.

If the terms of a transaction accepted by a dealer differ from the terms which the offering dealer made, and instructed the broker to communicate, then the offer made by the offering dealer has not been accepted and no transaction is entered into. This applies whether or not the difference was caused by an error of the broker. A broker is authorised only to communicate the offers made by a dealer and receive acceptance of them on behalf of the dealer. A broker is not authorised to vary any offer made by a dealer or to negotiate its terms and an offering dealer is not responsible for any error of the broker or anything done by the broker outside its limited authority.

3.13.2. Credit Constraints

Brokers must maintain up to date knowledge of any counterparty credit constraints. Dealers must inform brokers of their credit availability with their counterparties and any specific limits, such as tenor, that may be applicable for each counterparty. Credit constraints cannot be revised at the point of execution.

Dealers must not cite the non availability of credit limits for the purpose of avoiding a deal with a counterparty or completing an agreed deal when this is not true.

3.13.3. Referencing Prices

If an order is placed with a broker 'under reference' then that price should not be displayed on the broker screen unless clearly marked as being under reference and the broker should refer to the trader before dealing at the specified price.

A broker may only 'reference' their entire broker screen if all the respective traders have specifically referenced every price on that particular screen. If this is not the case, then the broker must instead remove the prices that have been specifically referenced, leaving only live prices on the screen.

3.13.4. Refreshed Prices

End of day prices must be cleared before trading hours commence the following day or otherwise clearly marked as referenced until all prices shown on the broker screen are firm.

All prices displayed on brokers' screens should be live and firm by 9:30am (EDST) each day. Any prices that haven't been refreshed by this time must be removed from the screens.

3.13.5. Off Screen Prices

Off screen bids/offers are a genuine trading strategy. However, dealers and brokers should continue to apply OTC Conventions and Code of Conduct principles in the use of off screen bids/offers. For example:

- Firmness of quotation rules are the same whether a price is on screen or not.
- Timing of stack rules still apply, eg. first bid at a given price is the first one to trade if a price is given.

3.13.6. Artificial Markets and Market Manipulation

Dealers must not carry out trading that:

- Will interfere with the normal supply and demand factors in the market for a Commodity;
- Has the potential to create artificial markets or prices; or
- Is not based on a genuine trading or commercial intention.

3.14. Confidentiality

3.14.1. Point of Dealing

Brokers must not pass names of counterparties prior to dealing, unless both parties have agreed to the passing of names.

3.14.2. Subsequent to Deal Execution

When dealing directly or through a broker, neither of the parties should disclose the name of the counterparty to other market participants.

3.15. Credit

Deals are subject to credit limits. If a party is unable to deal with a counterparty due to credit constraints, the relevant counterparty must be informed of this as soon as it is practicable. This should be done prior to informing brokers of any credit constraints.

The quoting of a firm price direct to a counterparty signifies that the counterparty has credit lines in place sufficient to cover the transaction quoted OR the standard sized dealing parcel if no amount has been stated.

3.16. Exercise of Options

There is no automatic exercise for an Environmental Commodity transacted under an Option contract. A party wishing to exercise an option must notify the counterparty by the nominated expiry time, on the expiry date, whether they intend to exercise the option.

3.17. Data Source

Not applicable.

3.18. Pricing Formulae

Not applicable.

3.19. Other

3.19.1. Capacity to Deal

It is the responsibility of the counterparty to a transaction to ensure that their counterpart dealer is an authorised dealer for that entity.

However, if an authorised dealer enters into negotiations or shows a price for a transaction, all other dealers are entitled, without further enquiry, to assume in all dealings that the counterparty's authorised dealer has in place all necessary authorities and delegations to enter into the transaction. It is inappropriate for a counterparty to require other dealers to take the risk that the counterparty's dealer is trading without authority by advising the counterparty of the dealer's dealing limits.

3.19.2. Exclusions

Unless otherwise agreed, the transaction of an LGC, STC or GREC Commodity under any Product will exclude any generated from wood waste.

4. Confirmations

4.1. Timing

Written confirmation of transactions will be initiated by the Seller and then authorised and returned by the Buyer. The parties may agree to vary these arrangements from time to time.

The Seller should send the Confirmation on the Business Day following the trade date and the Buyer should return it signed by the next Business Day after that.

4.2. Obligations of Dealers

The trader should enter the deal in a timely manner to enable written confirmations to be sent out in accordance with Section 4.1.

If one party to a deal wishes to affirm it, the trader, or another suitably authorised employee, should contact the counterparty to verbally affirm it. Ideally such affirmations should be done within one hour of the trade but at the latest by close of business the same day.

4.3. Documentation

4.3.1. Spot Contract

For each Commodity, counterparties should refer to the AFMA documentation "[Environmental Products](#)" and the Spot Contract and accompanying Explanatory Note.

4.3.2. Forward Contract

For each Commodity, counterparties should refer to the ISDA®-based documentation, with the terms and conditions as outlined in section 3.11 of the subscription-based "[Guide to Australian OTC Transactions](#)".

5. Settlements

5.1. Spot Contract Settlement

Spot contracts must be physically settled. The Payment Date and Transfer Date are the dates specified in the Contract.

5.2. Forward Contract Settlement

Whilst the expectation in the market is that forward transactions will normally be physically settled, the standard ISDA®-based agreement allows for both physical and cash settlement, or a

combination of both, at the election of the Seller. The default position, if no election is made, is physical. Care should be exercised as, if cash settlement is not specified, a failure to effect physical delivery of the specified Commodity could trigger default of all transactions under an ISDA Master Agreement, including those in unrelated products.

Only physical settlement applies to spot contracts and transactions for ACCUs and KACCUs.

Where a forward contract is to be cash settled in whole or part, the default cash settlement price as specified in the "Pro-Forma Confirmation for Environmental Products, using Australian Environmental Products Addendum" in the AFMA "Guide to Australian OTC Transactions" is:

$$\text{Cash Settlement Price} = \left(\frac{P}{1 - T} \right) \times 1.2$$

P = penalty rate per Commodity unit

T = company tax rate in Australia

1.2 = a multiplier designed to encourage physical delivery and recognise that the market may trade at or above the tax adjusted penalty level for a particular Commodity.

The expression in parentheses is referred to as the "Tax Adjusted Legislative Charge" in the Addendum.

If cash settlement applies then, by virtue of sections 2(a) and 2(c) of the ISDA Master Agreement and the definition of 'Cash Settlement' in the "Australian Environmental Products Addendum", the Seller must pay the Buyer the difference between the cash settlement price and the fixed price multiplied by the number of Commodity units to which cash settlement applies.