

UPDATE 41

July 2011

Section 3.11 – Environmental Products

In conjunction with the Environmental Products Committee, Johnson Winter & Slattery has updated Section 3.11 of the *Guide*.

The Environmental Products Addendum has been amended to:

- remove references to RECs. Changes to the REC scheme split RECs into large-scale generation certificates (LRECs) and small-scale technology certificates (SRECs). The Addendum deals with LRECs and SRECs separately and so references to RECS are no longer required;
- restructure the Addendum so that the provisions applicable only to forwards and those applicable only to options are covered in paragraphs 5 and 6 respectively. These changes principally affect definitions (Number of Units to be Cash Settled, Number of Units to be Physically Delivered and Settlement Date, all previously in paragraph 4), the settlement provisions (previously in paragraph 7) and the Multiple Exercise provisions (previously in paragraph 9);
- move the provisions relating to Settlement Disruption Events (other than the definition) to paragraph 7;
- amend paragraph 6 so that it applies separately to swaptions and other options and to provide that the option (rather than the swaption) allows the option buyer to nominate the number of units on which settlement will take place. Once that nomination is made, the party with the delivery obligation can nominate Physical Settlement or Cash Settlement;
- allow for Cash Settlement of GRECs. Previously, only Physical Settlement of GRECs applied but now that GRECs are a subcategory of LRECs, Cash Settlement is also applicable using the same Cash Settlement Price used for LRECs; and
- override the GST gross up requirement if an ABN is not provided.

A marked-up comparison between the July 2011 and August 2010 versions of the Addendum is in section 3.11.4.10 of the *Guide*.

A new confirmation for swaptions has been included in the *Guide* in section 3.11.4.40 with a commentary on it at 3.11.3.40. The Underlying Transaction for the swaption is a forward.

The option confirmation has been structured into three sections which define the commodity, define the option and provide for settlement. The Cash Settlement Amount has been deleted and the definition of Cash Settlement Price replaced on the basis that the point is now covered by paragraph 6(f) of the Addendum and the Cash Settlement Price definition in part 3 of the confirmation.

The spot contract has also been updated to remove references to RECs.

The *Environmental Products Market Conventions* will be updated shortly.