

FAQs – EMSTRADEPOINT ANNOUNCES CARBON TRADING

Who is emsTradepoint?

emsTradepoint is New Zealand's trading exchange for natural gas. It is a wholly-owned subsidiary of Transpower.

What is happening?

We are announcing a new product for our market – we're expanding to enable carbon trading in NZUs (New Zealand Carbon Units).

We're giving traders choices about managing their carbon activities differently through our no-hassle service which promotes price transparency with clear offers. Our experience with the gas market is that a trusted trading platform enables participants to complement their portfolio by utilising the trading platform alongside ad hoc contracts and long-term bilateral agreements to fulfil their needs.

When is this happening?

Our market opened on 17 March 2020.

Why are you doing this?

Our established, successful trading platform will give those who buy and sell carbon credits new opportunities to trade. Our carbon exchange has no minimum parcel size, so trades of all sizes can be transacted. We enable full anonymity for traders and by acting as the central clearing house for all trades we provide confidence that transactions will be completed.

Our experience in the gas market is that a trading platform like ours enables parties to complement their portfolio by utilising the trading platform alongside ad hoc contracts and long-term bilateral agreements to fulfil their needs.

We believe our product is efficient, fair, and has broad accessibility for all players in the carbon market, large or small. As the range of obligations grows in New Zealand and the prospect of the MfE carbon auctions gets closer we see that there is significant change ahead for the carbon markets. In the development papers and consultation documentation around the ETS reforms, the Ministry for the Environment regularly refers to "the secondary market." A transparent, independent and trusted market like emsTradepoint can be a key component of that secondary market.

Why now?

We're doing this now to ensure our market is established ahead of the auction process that MfE has indicated will be introduced in early 2021. Our carbon trading market supports the auction process through the establishment of a secondary, liquid market with clear offers and

transparent price points, underpinned by the trusted reputation of our parent company, Transpower.

Why is Transpower supporting this?

Transpower is committed to enabling the decarbonisation of New Zealand's economy, by helping the energy industry understand the most efficient ways we can work together to get to net carbon zero by 2050. By facilitating the efficient and secure trading of natural gas – a transition fuel – and now carbon, emsTradepoint's purpose aligns with Transpower's decarbonisation goals, and supports a low-carbon future for New Zealand.

How big do I have to be to trade?

We accept NZU parcels of all sizes – from 1 NZU right up to the biggest aggregated land owners. It's no longer a requirement for small parties to use an aggregator to meet obligations or to get a "good" price to sell carbon units.

What about international units?

The platform will trade NZUs. While NZUs can be traded by international parties, the unit can't be traded internationally between markets. All units produced in New Zealand remain in the New Zealand market. All New Zealand emissions obligations must be met with NZU credits, not with carbon credits purchased offshore.

How does the ems Carbon platform sit in the current market?

Why do we need another exchange?

We believe our product is efficient, fair, and has broad accessibility for all players in the carbon market, large or small. As the range of obligations grows in New Zealand and the prospect of the MfE carbon auctions gets closer we see that there is significant change ahead for the carbon markets. In the development papers and consultation documentation around the ETS reforms, the Ministry for the Environment regularly refers to "the secondary market." A transparent, independent and trusted market like emsTradepoint can be a key component of that secondary market.

Our experience in the gas market is that a trading platform enables those in the market to utilise long-term bilaterals, ad hoc contracts and the spot market platform to manage their procurement to suit their needs.

We're also efficient: we believe we can offer a cost-effective service and known settlement times.

What do you know about carbon trading?

Our trading platform and practices are widely trusted, widely used, and already well refined through our continuous improvement process over the last seven years. We have over 22 years' experience in operating markets in New Zealand and Australia.

Our gas prices already have a carbon component built in. In October 2018 we consulted with our market participants on ways emsTradepoint could adapt our existing systems and processes to assist our participants to better manage their obligations under the New Zealand Emissions Trading Scheme (ETS). There is increased uncertainty and volatility in the carbon market, which we expect to last for a number of years. emsTradepoint will provide transparent pricing and transactional certainty to the carbon market.

What level of activity are you expecting on the platform?

It's hard to predict the level of activity that will establish on the platform. We have modest expectations within the first 12 months, as many businesses have established procurement processes.

We are taking a long-term view.

As the Government phases down industrial allocations of ETS assistance, more options for procurement can support those companies who need to increase their unit purchases. We also see a future role as part of the secondary market for the Government's recently announced auction process.

How does this work with the Government's price cap on carbon?

The fixed price process to meet carbon obligations is and remains a separate matter.

At present, anyone can purchase NZUs at a fixed price from the Government. Just before Christmas the Government proposed legislation to raise the fixed price option from \$25 to \$35 for surrender obligations arising from activities over the 2020 calendar year, and introducing a minimum rate for the price businesses pay for emissions. Raising these costs is designed to help reduce New Zealand's overall carbon output, by incentivising us all to reduce our emissions. If enacted, this would likely influence the prices of carbon that are traded, but it's hard to say how it would influence market trading activity.

How does your new trading platform work with the Government's auction process?

The Government's planned reform of the emissions trading scheme includes adding auctions, in which a specific supply of units will be auctioned over a particular year. emsTradepoint's addition of carbon to the existing exchange supports a future auction process. It provides an anonymous, transparent and clear market system that buyers, sellers and observers can interact with. At this stage the dates available relating to the auction service indicate early 2021.

Can speculators play in the market? Or is this just for those with obligations or forests?

Speculation could be a feature of current purchasing and can occur in markets. As an anonymous platform, the criteria for participation is extensively described in the market rules ([available here](#)) This could include brokers as well as obligators and unit holders participating.

Do I have to be registered under the ETS?

The New Zealand Emissions Trading Register is New Zealand's national registry for emission units. Anyone who needs to purchase and surrender units to meet their ETS obligations, or otherwise wants to own or trade emission units in New Zealand, must have an account in the Register.

Will you list agriculture units?

There has been no announcement on agriculture units yet. We are watching this space with interest.

How does settlement work?

All products traded on the emsTradepoint Exchange Platform are settled by a Central Counterparty – that's us. We're effectively the buyer to the seller and the seller to the buyer, which guarantees end-to-end anonymity for all transactions and reduces counterparty credit and delivery risk.

"emsTradepoint Limited" is the emsTradepoint Central Counterparty. emsTradepoint Limited's obligations as CCP are guaranteed under a parent guarantee granted by Transpower New Zealand Limited. Transpower New Zealand Limited has an AA- Positive investment grade rating by Standard & Poor's and an Aa3 Stable rating by Moody's.

Why is an SOE expanding its activities?

This is not new. Transpower has been operating (in one form or another) for over a hundred years. SOEs are expected to operate successfully as a business, as profitable as those not owned by the Crown. Where opportunities exist that build core capability or extend current focus areas, SOEs can undertake commercial activity. emsTradepoint is an independent, wholly-owned subsidiary of Transpower.

Our gas prices already have a carbon component built in. In October 2018 we consulted with our market participants on ways emsTradepoint could adapt our existing systems and processes to assist our participants to better manage their obligations under the New Zealand Emissions Trading Scheme (ETS). There is increased uncertainty and volatility in the carbon market, which we expect to last for a number of years. emsTradepoint will provide transparent pricing and transactional certainty to the carbon market.

Last year you said you were going to partner with an existing exchange. Is this that?

After careful consideration of the options we decided to use our existing technology platform and experienced team to diversify into this area.