Certificate solutions

Driving the carbon credits market

AFR Thu 24 MAR 2022

Australia's key carbon markets are maturing after corporate demand sent prices rocketing in early 2022.

Although political and foreign policy issues are weighing heavily today, the fundamentals of the once-in-a-generation opportunity remain in place: the global trend for companies to become carbon neutral.

The private sector is beginning to take the lead in Australia's key carbon markets, which are worth some $4 billion annually and growing.

In February, the price of Australian Carbon Credit Units (ACCUs) soared to a peak above $57 a tonne, driven up over the last 12 months by corporate buyers turning to this market as a straightforward way of offsetting their carbon emissions.

Prices have since fluctuated due to federal policy changes and negative trading sentiment from Europe as it copes with the prospect of war-induced energy shortages, but in Australia carbon markets remain robust.

Australia has five main carbon certificates: ACCUs for carbon-offset projects, energy-focused Large-scale Generation Certificates (LGCs) derived from large-scale renewable energy projects, Small-scale Technology Certificates (STCs), the credits that back the residential solar panel rebates, the Victorian Energy Efficiency Certificates (VEECs), and NSW's Energy Saving Certificates (ESC).

The latter two are designed for energy efficiency improvements.

ACCUs and LGCs typically spin out a set number of credits each year, creating annual revenue streams for the owners. Smaller schemes such as the STCs, ESCs and VEECs create upfront certificates to recognise energy-efficient upgrades to a factory, for example, or the installation of a small array of solar panels.

ACCUs are corporate Australia's preferred offsetting mechanism, with some 112 million certificates still to be delivered to the government over the next seven years.

It is the largest market in Australia, compared to the 5 million ESCs created annually, the 7 million VEECs, 40 million STCs and 33 million LGCs.

"Price fluctuations aside, the demand by corporate Australia for locally produced carbon credits is not abating," says Jeff Bye, chief executive of carbon certificate creator Demand Manager.

"Corporate Australia wants Australia-based certificates, which come with a perceived higher level of verification than international ones and also support local green jobs and investment."

Demand Manager is one of just a small group of companies that operate across Australia's five carbon markets, collectively worth $4 billion annually. It creates credits for – and trades in – each market, and offers hedging products to clients, including options and forward contracts.

"Our role is central to all five certificates," Bye says. "Our main role is as an originator, ensuring that companies' projects comply with the wide range of regulations and are eligible to produce carbon credits. What that means for us is that rather than printing money, we print certificates that make money.

> "The demand by corporate Australia for locally produced carbon credits is not abating."
> Jeff Bye

"We work for a wide variety of customers, from small electricians doing solar installations to large building owners upgrading their premises."

An increasingly profitable by-product of carbon credit origination is hedging, providing clients with greater financial certainty.

Demand Manager and its limited number of rivals are protected by high barriers to entry, with long lead times to become accredited, regular and extensive audits, and the institutional knowledge of buyers and sellers, subtle differences in regulations, and the nuances of trading conditions.

Energy retailers have also been active in making acquisitions in the space over the last few years and agreeing to sophisticated trading partnerships with companies like Demand Manager.

Demand Manager has been operating for almost two decades and, with annual revenues of $60 million, it is now looking for capital investment to fund a range of high-growth initiatives.

Growth plans are under way, both with a technology platform and into more sophisticated forms of financing for a range of new clients.

The tech platform is LightWork, an award-winning app that is funnelling new solar and lighting projects into Demand Manager. And it is leaning into an emerging field of finance, pay forward, that Bye expects to become a dominant and lucrative feature of Australia's maturing carbon markets.

"The biggest area of growth we are seeing is in medium to large solar systems," Bye says. "For example, you might have a remote mine that installs a large solar system to reduce their diesel consumption. They wish to partly offset the cost of installation so we pay an upfront sum for the forecast future value of their carbon credits. They have certainty, and we have an investment stream from the certificates that we can monetise over time.

"We manage the future price risk and give them a lump sum today, helping them to improve their site's environmental and economic performance."

With few competitors willing to service this growing cohort, Bye believes Demand Manager is in the box seat as more companies recognise the cost benefits of renewable energy over fossil fuels and the financial rewards of participating in Australia's growing carbon markets.