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as the world turns

I seem to recall my dear old mom watching that daytime soap. Great title. I'm reminded of the basic sentiment each day as I scan the seemingly unchanging headlines – most now dedicated to climate or the weather in a broad sense. Not in a good way, either. One day I read that the UN claims we have lost the battle with climate change and the next day comes news that the world has invested such a vast sum in renewables generation and EVs that there's no chance of failing to waylay climate disaster. If you stopped and tallied all the many carbon offset, carbon mitigation, green bonds, futures and options, ESG-tagged ETFs, and all the rest, you'd be convinced we've spent our way out of disaster, twice-over. By way of derivatives, anyway.

So many products, so little time. There is truth to this statement. Much like the idea that all the major oil- and gas-producing nations (OPEC members in particular) of the world are cheating (and will continue to cheat) on output quotas, simply because they know they can only sell the stuff for a few more decades. So, sell it while the going is good in other words. Green products are more or less in the same boat. In a couple decades, who needs carbon offsets in a world mostly powered by solar, wind, nuclear and batteries? I have a sense every time I read another story on our fast-growth green markets, that few analysts put the sector in the limited time frame it deserves.

Same story for natural gas, oil and traded coal markets for generation. In a couple

decades, we will likely only be trading electricity markets. I was reminded of this bit of foresight by Nodal Exchange's Paul Cusenza as we discussed the evolving nature of climate or otherwise green markets. "If all goes well," he tells us, "they will also go away."

Enviro markets have been around several decades, of course, but nobody can argue we've seen a true step change in the past decade or so. With the proliferation of national and international climate policy has come the proliferation of exchange-traded tools (among others) to manage the risk.

Nodal Exchange is one of several major players in the sector, and this year has been particularly good for its growing suite of environmental products, futures and options in particular. We asked Nodal Exchange chief Paul Cusenza how he sees the current iteration of these markets evolving. What's next? Will we see global connectivity and liquidity for environmental markets?

"I think that the environmental markets are continuing to grow, but I don't think they ever become as large as the energy-underlying markets that they're reflecting. I do think that the compliance markets, which is what these markets mostly are, are very useful, valuable and growing, and will continue in that direction."

Nodal covers RECs, offsets, allowances and everything in between for state-based, carbon-related programs from coast to coast. He noted that Washington state is developing new compliance markets, and, as

such, companies will need to adhere to it. It's all very fine and good, he says, relevant to the goal of reducing carbon in the US, but, it's also very bespoke, "given that as a country we lack a federal compliance program. It's a big element we're missing ... no big, federal carbon program. Though the vast majority of states have fairly robust carbon programs of some sort, they are all quite different. Will we ever see a national program? I think it might be too big of a challenge because of some state holdouts, differing politics among states." That said, he sees the level of current activity among most states as "positive, relevant and high growth."

In time, he says, perhaps sometime in the next 20 years, we will likely reach an inflection point where a vast majority of infrastructure is carbon compliant. "When what we see is mostly renewable generation, perhaps battery storage and other elements, there will be less need for the environmental markets as a way to promote decarbonization or reward people who are creating the renewables and leading that charge."

Voluntary markets are another thing entirely. Huge potential, of course, but lots of trust issues.

"If that can be solved that could change the voluntary market, hugely. But in the meantime, the compliance markets are very real, very good and, and are accomplishing exactly what they're supposed to be doing."

Offset markets, voluntary or otherwise, are indeed big business right now and attracting a lot of regulatory scrutiny. We asked Cusenza if NODAL might be considering a run at that space. "It's certainly possible. We will continue to listen to our participants. If and when they want and desire a particular product, we will certainly list it. The issue is that you can either buy the carbon offsets on one hand and the energy on the other, right? Or together. We can certainly accommodate that, we can package that, if we felt there was sufficient demand."

We're all in this together.

Earlier this Summer, the CFTC hosted an open meeting on voluntary markets regulation, enforcement and managing associated risk. We were a bit surprised by the

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lack of discussion on anything beyond making money and averting fraud in voluntary markets, like, for example, cleaning up the earth. Cusenza sees possibly a broader role for voluntary markets. He says that much of the discussion on decarbonization markets generally has focused on the US and Europe, though the impact of climate change is much more global, impacting societies everywhere. “The Global South is a topic that deserves much more attention in the context of decarbonization. Much of the world still lacks electricity, and these regions all want better life standards, like we have here ... and they’re not going to tolerate us saying, ‘We will help you with electrification, but only if it’s clean energy.’ They are going to choose what is the most economical. And if coal is cheaper, so be it. ‘And don’t, yell at me for polluting, you did it for 30 years ... ’ ”

China is another issue, as the world’s largest polluter and propagator of more: For developing countries, China will build you a free coal plant so long as you agree to a 50-year coal supply contract, or some such.

“Somehow leaders in the US, Europe and other nations who care about the environment need to somehow help the global South build clean energy rather than accept the cheap energy from those who will pollute the earth. We need to better support the investment in clean energy in the Global South ... which will probably translate to greater donations on our part. Otherwise, we’re kind of just playing with deck chairs on the Titanic.”

Technology transfer on a massive scale? That’s the idea. Or, a whole new crop of financial tools and strategies that emphasizes clean energy in and for the Global South? Clean tech and more robust voluntary markets? That’s the ticket.

“I don’t think this idea has been fully formed yet, but we must think beyond just leveraging the rain forest and keeping it, but it’s maybe building a clean energy plant, too. I raise the Global South issue often when I travel abroad. There may be a true market solution here ... recall that cap-and-trade programs were developed because we needed a way to financially motivate people to do the right thing, to change their behavior. If not for the financial incentive, you often can’t get the actions you want. So, maybe an incentive is created, a tax, or a financial product or new product market, that’s skewed toward helping the Global South.”

Given the wide range of political opinion on decarbonization efforts across the globe, a more concerted, connected market concept would likely be a tough one to establish, he says. Heck, a national carbon market in the US is a nonstarter. But, what if such a carbon market, an offset market, voluntary or otherwise, was created by an entity other than national governments or international bodies? A commercial operation such as Goldman or Morgan to establish market standards, instruments, a marketplace and an acceptable compliance regime. Could that work, where national or international bodies have fallen flat? “I believe a solution for the global South is out there, somewhere,” Cusenza says.