

## FEX Global Sets December Date for Listing Large-Scale Generation Certificate (LGC) Deliverable Environmental Futures Contract

SYDNEY-- November 14<sup>th</sup>, 2023 -- The Australian Market Licence Operator, [FEX Global](#), will make its physically deliverable Large-Scale Generation Certificate (LGC) Monthly Futures Contract available for trading on Monday December 11<sup>th</sup>, 2023 (subject to the completion of final regulatory steps). The LGC futures contract will complement FEX Global's suite of Australian Power and Gas Contracts.

FEX Global's LGC futures contract will be the only centrally cleared environmental derivatives contract available for trading on a licenced futures market in Australia. The underlying physical is a Large-Scale Generation Certificate as defined in the *Renewable Energy (Electricity) Act 2000*.

The creation and surrender/cancellation of LGCs are regulated by the Clean Energy Regulator (CER). Each cancellation of an LGC by the CER proves the use of one megawatt hour of renewable energy. Hence, the retirement of LGCs reduce the net scope 2 electricity emissions. The process of retiring LGCs is relied upon by various government bodies and schemes including Green Power, Climate Active and the Corporate Emissions Reduction Transparency Report. In addition, the ACT government and Corporate Entities also utilise the retirement of LGCs to prove the use of renewable energy. The LGC regulatory scheme is mandatory on the demand side and voluntary for accredited power stations by the CER under the RET on the supply side. The integrity of the issuance of LGCs on the supply side is regulated by the CER. In addition, voluntary surrender/retirement of LGCs is a significantly expanding aspect of the market. The current mandatory retirement of LGCs collectively represents 33,000 gigawatt hours (33,000,000 LGCs). The CER's current estimate of voluntary LGCs retirement for 2023 to be representing 8,000 gigawatt hours (8,000,000 LGCs). The CER has recently stated that they expect the number of voluntary cancellations to be materially higher than the earlier estimate to be representing 8,000 gigawatts hours.<sup>1</sup> The CER regulates the surrender and cancellation of all LGCs. On the supply side, the CER estimates LGC supply to be between 45 – 48 million in 2023.<sup>2</sup>

The contract is physically deliverable, it is Australian Dollar denominated and has a contract unit of 1,000 LGCs per contract. The contract will be made available for calendar months out 12 months and each successive January out to 2031.

LGCs are created under the Renewable Energy Target (RET), an Australian Government scheme designed to incentivise investment in and development of new renewable energy power stations, reduce greenhouse gas emissions in the electricity sector and encourage the generation of power from sustainable and renewable resources. LGCs support the clean

---

<sup>1</sup> [https://www.cleanenergyregulator.gov.au/Infohub/Markets/Pages/qcmr/june-quarter-2023/Large-scale-generation-certificates-\(LGCs\).aspx](https://www.cleanenergyregulator.gov.au/Infohub/Markets/Pages/qcmr/june-quarter-2023/Large-scale-generation-certificates-(LGCs).aspx)

<sup>2</sup> <https://www.cleanenergyregulator.gov.au/Infohub/Markets/Pages/qcmr/march-quarter-2023/Large-scale-generation-certificates.aspx>

energy transition in that the cancellation of each LGC by the CER proves the use of one megawatt hour of renewable energy and hence reducing net scope 2 electricity emissions.

FEX Global is in the process of exploring multiple other environmental derivative solutions, including working on the introduction of a centrally cleared physically deliverable Australian Carbon Credit Unit (ACCU) contract. The future development of a Carbon Exchange including ACCUs has been previously announced by the CER.

Thomas Price, Director of FEX Global commented, “We have chosen the LGC certificate as our first environmental futures contract because it is a standardised instrument, with each LGC certificate fungible with each other. We have chosen a physically deliverable specification so that the contract can be used to make and/or take delivery of LGC certificates and thereby provide a direct link to the LGC spot market.”

Les Hosking, FEX Global Market Structure Advisor and former Sydney Futures Exchange CEO commented, “Licensed and supervised derivative markets introduce additional elements important for the operation of fair and orderly markets. Price transparency, market integrity rules, compliance, credit risk transfer, cyber security and stable market structures all assist with enabling and promoting further market participation. The substantial elimination of bilateral counterparty risk and the market anonymity provided via on exchange trading further incentivise and facilitate larger traditional financial market institutions to support these markets”.

Daniel Crennan KC, FEX Global Group Executive commented, “This contract should augment current market mechanisms for trading large-scale generation certificates (LGCs). Both the mandatory demand side and the voluntary supply side of the LGC regulatory framework is regulated by the CER. The CER regulates the accreditation of renewable energy power stations for participation in the LGC scheme, the integrity of the creation of the LGCs and the retirement and cancellation of the LGCs. A deliverable contract reduces transaction friction and eliminates many of the difficulties of entering bilateral negotiated individual agreements as well as risks of delivery, payment methodology and credit risk. The emergence of less opaque forward pricing may unlock funding that may not otherwise have been available for renewable energy transition. With carbon reduction commitments now being tested both by shareholders and regulators, we anticipate participants can benefit from the integrity that licensed exchanges providing regulated environmental products can bring to the carbon markets.”

## **About LGCs**

LGCs are created under a scheme to incentivise investment in and development of new renewable energy power stations in Australia regulated by the CER.

LGCs are created per net<sup>3</sup> megawatt hour (MWh) of eligible electricity generated by a power station as approved by the CER. Mandatory demand for LGCs arises from government legislation which obligates liable entities, predominantly electricity retail suppliers, to surrender certificates to acquit an LGC liability. An entity may also surrender LGCs voluntarily to prove the use of renewable energy.

The registry for LGC creation, trading and surrender/cancellation is the Renewable Energy Certificate (REC) Registry administered by the CER. As the RET scheme ends in 2030, LGCs

---

<sup>3</sup> Discounts for auxiliary losses, for example of consumption of power in the operation of a wind farm and any marginal loss factors.

are anticipated to be replaced by a proposed certificate currently referred to as the Renewable Energy Guarantee of Origin (REGO).<sup>4</sup>

For further information as to the operation of the RET and LGCs, visit the CER website: <https://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/Power-stations/Large-scale-generation-certificates>

## **About FEX Global**

FEX Global is an Australian Market Licence Operator of exchange traded and centrally cleared derivatives contracts.

FEX Global is focused on enabling the optimisation of hedging and risk management for market participants by providing futures and options for both commodity and energy markets, as well as emerging renewable energy and carbon markets.

<https://www.fexglobal.com.au/>

Follow FEX Global @FEX\_GLOBAL

Bloomberg (BNWA)

Refinitiv (0#AFEX-FEX/FUTEX1)

Contacts

MEDIA:

FEX Global: [media@fex.com.au](mailto:media@fex.com.au)

---

<sup>4</sup> <https://www.dcccew.gov.au/energy/renewable/guarantee-of-origin-scheme>