element MARKETS

Building green markets

Element Markets' Randy Lack talks to *Environmental Finance* about the opportunities and challenges navigating North America's carbon and renewable fuels markets

***Environmental Finance*: What's the outlook for US carbon markets?**

Randy Lack: On the West coast, the California Air Resources Board (CARB) finalised the rules for AB32 in 2019, and that gave the market participants confidence to push the market higher. We expect additional volatility going into 2020 waiting for updates around the PG&E bankruptcy and watching emissions data.

Heading into 2021, when we enter the next phase of the programme, we expect to see increased interest and increased prices. One of the things that is interesting about California is that it has a floor price which rises at inflation plus 5% – the market is predestined to go higher and that will bring a continued flow of new money into the market looking for yield with upside.

EF: What about the Regional Greenhouse Gas Initiative?

RL: There's a lot going on in RGGI. In 2020, New Jersey is joining, Virginia is likely to join in 2021 and now Governor Wolf of Pennsylvania said he wants to join. Pennsylvania is a huge emitting state. If it joins, you'll have the whole of the PJM power market in the programme, which would remove the current arbitrage you have between states with and without a carbon price – it will provide a system for better pass-through in power prices.

I see it as bullish for the market over the next few years. The presidential election is also likely to boost prices next year. If there's a Democratic president, the market will anticipate some sort of convergence of RGGI into a federal programme – assuming that the race will be pretty close, prices will respond to that ahead of the November vote. There seem to be a lot of tailwinds to pricing.

EF: I understand demand for carbon offsets has also been growing in the voluntary markets.

RL: Demand in the US has at least doubled for voluntary offsets in the last 24 months, marked with monumental purchases by companies like Lyft, which is buying over a million tons

▲ Randy Lack, Founder and Chief Marketing Officer of Element Markets

a year. Carbon offset prices have, since the beginning of 2018, have more than doubled in the United States. Corporations feel they need to do something on climate because the federal government isn't stepping up. We are working hard to bring new supply on line through investments in new projects and new pathways.

EF: It's been a challenging year for the Renewable Fuel Standard (RFS) – how have your clients been responding?

RL: At Element Markets, we're a bit insulated from that. We work with operators of landfill gas, agricultural methane and wastewater treatments facilities to provide LNG and CNG suppliers with renewable gas, and create a unique type of Renewable Identification Note (RIN) called a D3 or cellulosic RIN – that, historically, has been an undersupplied part of the RIN market.

It's difficult to navigate an ever-changing regulatory environment, but we have entrenched relationships with our clients and with offtakers, so we can create structured products that offer a win for both sides.

EF: What's the outlook for cellulosic RINs?

RL: Given that the cellulosic market has historically been undersupplied, demand for D3 RINs is supposed to be set by EPA at supply. There is therefore tremendous growth potential going into the future. Historically, most volume has come from landfill gas, but with lower RIN pricing, there's been a shift in focus to agricultural methane. Under California's Low-Carbon Fuel Standard, operators generate both a Federal RIN and an LCFS credit. Because of the ultra-low carbon intensity of agricultural methane, it generates as much as ten times more LCFS credits than landfill gas on a per MMBtu basis.

As a company, we have been very successful in the landfill gas and municipal waste water treatment space, with over 20 projects under management. Moving forward, we are focused on helping ultra-low carbon intensity projects reach the market. One such example of this is our relationship with Smithfield Foods, the largest pork producer in the world, and Roeslein Alternative Energy, a pioneer in the agricultural biomethane space. We were recently awarded a five-year contract extension with Roeslein to market the renewable natural gas produced by Smithfield's pig farms, which received the lowest ever registered carbon intensity scores from the California Air Resources Board. This follows a three-year contract where we formed a strong bond with the team at Roeslein, so we were honoured to continue the relationship.

Smithfield, along with its partners, has recently announced that it is going to invest in excess of $500 million for the build-out of renewable natural gas market throughout their supply chain in the US. It's an exciting time for the industry and we are grateful for our partners in Smithfield and Roeslein.

EF: Element Markets has performed strongly in the EF Market Survey for eight years in a row – to what do you attribute that recognition?

RL: One of the things that makes us unique is that we are solely focused on environmental commodities. We've also created a unique position in the market as an asset manager, and our ability to focus and grow within those markets is one of the things that has contributed to our success. Finally, we've also worked hard developing and retaining amazing talent, as well as working hard to grow and retain our clients, to whom we're enormously grateful. ■