Dexus, a leading real estate group with a property portfolio valued at $31.8 billion, secured one of Australia’s first supply-linked renewable Energy Supply Agreements (ESA) in late 2018. The ESA which commenced in January this year powers the base building services of more than 40 buildings in Dexus’ New South Wales property portfolio. This style of renewable energy agreement presents a new lever for Dexus and the property industry to achieve net zero emissions.

The ESA is a key pillar in Dexus’ New Energy, New Opportunities strategy which aims to eliminate emissions from its portfolio and create value for Dexus’ customers and investors.

David Yates, Executive General Manager for Sustainability at Dexus stated: "The ESA satisfies the demand from customers and investors for more reliable, environmentally responsible energy. "Over seven years, we expect to source more than 300 gigawatt hours (GWh) of renewable energy via this ESA, which is equivalent to the energy consumed by 38,000 households for a year."

Energetics was engaged by DEXUS to assess the financial value of the offer based on expected future electricity market trends, as well as provide strategic commercial advice on the commercial terms during negotiations with Red Energy.

**Approach**

At the outset, Energetics assessed the opportunity for cost and emissions reductions, and how best the deal could be structured to meet Dexus’ objectives. The overall value proposition for Dexus hinged on both the attractiveness of the power side of the proposed transaction and the supply of Large-scale generation certificates (LGCs). Utilising Energetics’ proprietary electricity and LGC forecasting models, we developed a detailed financial model to support decision making. Energetics also examined the commercial risks and supported the negotiation with the successful retailer, Red Energy (Snowy Hydro). We highlighted potential mitigation strategies, assisted in developing a set of Special Conditions to meet Dexus’ requirements and supported negotiations with internal and external stakeholders as required.
Outcome
The ESA commenced in January 2020 and will be in place until December 2026, with an option to extend; allowing Dexus to both secure renewable energy a fixed price, while being able to respond to changes within the market and its portfolio of assets.

As Paul Wall, Head of Group Sustainability and Energy at Dexus, said: “This agreement allows us to hedge a portion of our power price, providing a buffer against energy market uncertainty. The deal has been struck at below current market rates and leverages the large-scale generation certificates subsidies, resulting in a fixed price for 50% of our energy load over the next seven years.”

Paul Broad, Chief Executive Officer of Snowy Hydro, said: “Red Energy’s ‘firmed’ renewable energy is backed by Snowy Hydro’s integrated renewables portfolio, which includes the recent addition of 888MW from offtake agreements with eight new wind and solar projects.

“This landmark ESA with Dexus represents one of the first direct off-takes for ‘firmed’ renewable electricity of this type. On-demand hydro from the mighty Snowy Scheme will underpin our contracted wind and solar generation, meaning Red Energy can supply Dexus with reliable renewable energy.” Mr Broad said.

Dexus plans to on-sell the certificates it receives over the first three years of the ESA. By the end of the seventh year of the ESA, Dexus will retain 100% of the certificates. This strategy will enable Dexus to reduce the price of energy to its customers, and leverage funding opportunities that are only available in the market until 2021, while supporting the growth of the renewable sector. This approach will also allow Dexus to extract the full economic and environmental benefit throughout the term of the contract.

Mr Yates concluded: “We see that the next decade will present many commercial opportunities to achieve net zero emissions and this ESA presents a new pathway to get there – one which we think is replicable and can move Australia’s entire property market.”

References
Dexus paves the way to net zero emissions with new renewable Energy Supply Agreement
Renewable energy is on the rise: how are companies capitalising on the opportunities?