

Dorado's response to IPART 2024-25 Biodiversity Market Monitoring Review

Please see the below statements and recommendations with respect to various parts of the NSW Biodiversity Offset Scheme that Dorado considers needs urgent attention and change.

SODA's replicate existing operating systems and an inefficient use of government resources

The intent of the SODAs are unclear and the process appears to replicate existing processes.

SODAs are available to proponents within the REZs as a method for acquitting their offset liability whereby the proponent pays an (untransparent) amount to the Environment Agency Head and then DCCEEW sources these credits via retirement of like-for-like biodiversity credits (via reverse auctions) or funding conservation actions. This process directly replicates the process followed when a proponent makes a payment into the BCF, just via a separate NSW Government agency, adding unnecessary doubling of existing department roles and responsibilities.

The intent of SODAs is unclear, other than we have heard that proponents are able to acquit their offset liability cheaper via a SODA than via payment into the BCF. There is also a lack of transparency on how DCCEEW intends to acquit the liability generated by SODAs, but the Government has not proven effective at delivering cheaper credits, with the BCT and DCCEEW Credit Supply Fund representing just over 25% of credits by volume but more than 45% by value, indicating that they are securing credits at a higher price per credit than available in the private market.

Dorado recommends that SODA's are discontinued and the existing market operations, including sourcing of like-for-like credits or payment into the BCF, are fully embraced and utilised. This isn't to say that POTSE can't still work to help increase 'in demand' credit supply through their programs that work with landowners to sell directly to proponents or into BCT Tenders.

SODA's lack transparency on pricing and are damaging biodiversity market operation

SODA's lack transparency on pricing, with POTSE refusing to publish or provide pricing information when requested. This is detrimental to the proper functioning of a market because it is impossible for a market participant to know what price they can charge a proponent (what the competition of the SODA is). This therefore stops new landowners entering the market, destroys confidence and ensures failure of the scheme's intended market operation.

Further, we understand that SODAs are attempting to reduce the costs of delivering offsets for energy transition projects. By POTSE artificially interfering into the biodiversity credit market with SODAs, they are damaging market operation because artificial downward pressure on credit prices reduces confidence of landowners to enter the scheme, thereby restricting the scheme's intended market operation. We have seen this from numerous landowners since SODAs were introduced, with landowners deciding not to enter into BSAs or putting projects on hold.

Dorado recommends that if SODA's are to remain (which we don't think they should), then there MUST be transparency on pricing to proponents released publicly.

SODA's are further damaging market operation by making up their own arbitrary rules

SODA's have been introducing new arbitrary self made up rules outside of the Biodiversity Conservation Act statutory rules. The recent Central-West Orana REZ Reverse Auction was a prime example of this. First, POTSE created an arbitrary geographical area of the REZ plus an outer ring around the REZ that they were only seeking credits from, albeit under normal trading rules many other landowners could participate who were now arbitrarily restricted from participating – this meant that there were highly likely many potential landowners with credits or proposed/pending credits who had made past investment decisions years ago intending to sell to these REZ projects and now couldn't. Secondly, after landowners submitted based on POTSE's new 'rules' (Dorado submitted on behalf of a landowner outside the REZ but within the outer ring, expending significant money), some parties (including us) were then told that their credits were competitive but not accepted because they chose not to accept any credits within the outer ring.

A market operates by way of its participants learning the rules of operation of the particular market and making investment decisions based upon them. The more stable and trusted the market rules are, the better a market will function. It is completely reckless to have POTSE come in and create their own new rules to an existing operating market which add artificial trading restrictions like they have done. This blatant, reckless and pointless moving of goal posts absolutely destroys confidence in the operation of the biodiversity credit market and costs market participants large amounts of money unfairly who are trying to operate within the ever changing rules (also note that there was no warning of the geographical eligibility change prior to the Targeted Reverse Auction being announced). To 'add salt into the wound', to then have POTSE not even adhere to their own created rules when they award the successful credit sellers is astonishing. On top of this market destruction that this behaviour is causing, the end result is the government purchasing higher priced credits for no reason that costs us taxpayers more money.

REPEAT: Dorado recommends that SODA's are discontinued and the existing market mechanisms are utilised. This isn't to say that POTSE can't still work to help increase in demand credit supply through their programs that work with landowners.

Normal Reverse Auctions (non-targeted) are good and assist with market liquidity

The normal POTSE Reverse Auctions are very good and function well to match Landowners / market participants to Credit Buyers. These simply provide a central marketplace for buyers and sellers to find one another.

Dorado recommends that the normal POTSE Reverse Auctions continue.

Reverse Auction reports need to provide more information

The BCT Tender reports on credits offered and purchased provide exceptional levels of data and are brilliant for a well functioning market. The POTSE Reverse Auction reports on credits purchased lack a level of detail to gain any meaningful data.

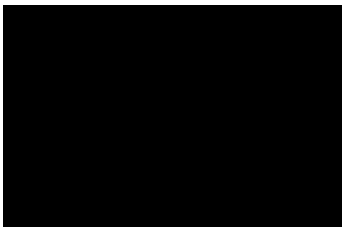
Dorado recommends that POTSE brings its Reverse Auction reports in line with the standards of the BCT.



BCF Charge Report needs live pricing

The BCF Charge Report is published quarterly, and Section 2.4 of the Biodiversity Offsets Payment Calculator Order 2022 requires the BCT to publish all charge quotes between 180 and 270 days after they are issued. This is an inadequate level of transparency which undermines the credit market as a whole, particularly in the wake of the new rules within which the BCT now operates. The BCT is permitted to apply the variation rules, or even bypass the market entirely by applying “any conservation measure”, if it cannot find credits priced below the BCF Charge amount paid for the relevant credits. This seems superficially appropriate, but how can the market price their credits appropriately, particularly during tenders, if the BCT does not disclose the BCF Charge amount it has received for the tendered credits.

Dorado recommends that the BCT be required to disclose all BCF Charge amounts paid as they are paid.



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