Independent Pricing and Regulatory Tribunal (IPART) Energy Savings Scheme

Cost of Participation Report 2013

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Energy Savings Scheme
Cost of Participation Report
July 2013

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1 Executive Summary

1.1 Introduction and methodology

Databuild Research and Solutions were commissioned by IPART to undertake a research project to understand the costs associated with delivering the scheme for participants in 2012. This follows a full cost effectiveness analysis of the Energy Savings Scheme, covering the first 18 months operation of the scheme, starting July 2009 – December 2010.

The scheme places an obligation on electricity retailers to save energy through the creation, trade and retirement of Energy Savings Certificates (ESCs).

The objectives of the research are to understand the experience of delivery and costs of participation in the scheme, in particular:

- For electricity retailers (also known as mandatory participants), identify the costs of compliance with the scheme
- For Accredited Certificate Providers (ACPs; also known as voluntary participants), identify the costs of creating ESCs.

Twenty in-depth interviews were conducted with electricity retailers and ACPs participating in the scheme in 2012.

As the results are based on a sample of scheme participants it should be noted that the findings/observations of individual ACP's and retailers (and the survey as a whole) may not necessarily represent the entire population (statistically).

1.2 Key findings – cost of participation

In 2012, almost 2.3million ESCs were created in total, with 88% generated by commercial lighting projects, 4% multiple industrial activities and 3% from HVAC or chiller projects. In 2011, 1 million ESCs were created, with commercial lighting activities accounting for 79%, with compressed air generating 5% and building upgrades 3%.

1.2.1 ACP Business Costs

The table below shows the total business costs to ACPs of participation in the Energy Saving Scheme. The costs have been represented in terms of a 'cost per ESC', and the relative value of each major cost (project delivery cost and business cost) is shown. Data are a weighted average of the number of ESCs generated by the interviewed sample[1].

As there was substantial variation in delivery costs for ACPs in 2012 a range has been presented. Data from 2010 and 2009 are shown for comparison.

[1] As opposed to an average of the responses of each ACP, which would not reflect the large scale differences between the number of ESC's generated by each ACP

Table 1: Total cost per ESC for ACPs (compared to sales price)

	2012		2010	2009
	High delivery cost	**Low delivery cost**		
Number of interviews	n=13		n=18	
Sales price per ESC	$25.36	$25.36	$25.05	$21.79
Total cost per ESC	$21.70	$14.84	$26.73	$23.16
Project Delivery	$15.92	$9.06	$19.28	$19.28
Business cost	$5.78	$5.78	$7.45	$3.88

Based on the interviewed sample, a total cost per ESC created is estimated at between $14.84 and $21.70. Even at the higher cost, this is a noticeable decline from the total cost reported in 2010 ($26.73).

Although there are some uncertainties in the estimates of delivery cost (as this is based on a small sample and ACPs had difficulty in identifying this cost; leading to variability in the data provided), the business cost data (around which there is greater certainty) also shows a decline from 2010.

Therefore, whilst the price per ESC appears to be similar across 2010 and 2012, the overall value of the scheme to ACPs appears to have improved.

1.2.2 Electricity retailer costs

The table below shows a breakdown of the costs incurred by retailers in administering the Scheme. Clearly the cost of purchasing the certificates is the main contributor. After this, the main areas are staff costs and audit costs.

Table 2: Costs to Retailers of participation (n=7)

Electricity Retailer Costs	**2012**	**%**	**2010**	**%**	**2009**	**%**
Total costs per ESC	$29.39	100%	$24.20	100%	$25.32	100%
Cost of purchasing ESCs	$29.08	99%	$22.96	95%	$20.18	80%
Internal additional costs	$0.31	1%	$1.25	5%	$5.14	20%
Internal additional costs	**$0.31**	**100%**	**$1.25**	**100%**	**$5.14**	**100%**
Staff, management and admin			$0.59		$3.24	
Annual energy statement			$0.10	62%	$0.26	70%
ESC purchase negotiations	$0.24	80%	$0.08		$0.27	
Auditing	$0.04	12%	$0.23	18%	$0.71	14%
Other costs	$0.02	8%	$0.25	20%	$0.66	13%

The 'other' costs were mainly described as IT systems and licences for financial systems.

Whilst the distribution of internal additional costs by cost categories has remained broadly similar since 2009, the actual value has decreased substantially. Reasons for this reflect:

- Efficiencies in scheme administration made by the retailers since the scheme was established
- The absence of investment costs in 2012; costs in 2009 and 2010 will have included costs in investing in systems to administer the scheme
- The fact that the scheme is now more embedded into retailers operations – there is therefore less visibility of the disaggregated cost of the scheme compared to other operations.

1.3 Key findings – experience of delivery

The main findings with regards to experience of delivery relate to:

- **The ESC Market.** In 2012, the price of ESCs fell from a high of around $31 to approximately $25. This trend looks to be continuing into the 2013 vintage of certificates. Both retailers and ACPs have found this change in price challenging, with one retailer acknowledging that with hindsight they paid a premium by choosing to purchase ESCs to meet their obligation through forward contracts.

  The other market trend highlighted by both retailers and ACPs was that the ESC market is weak during the middle of the year, as demand from the retailers is stronger at the start and end of the year – either with activity to plan how obligations will be met or, at the end of the year, to meet any outstanding obligation. Suggestions came from both sets of parties for a quarterly submission deadline, to level out the trading cycle. The main perceived benefit highlighted was stronger ACPs, more able to ensure a future supply of ESCs.

- **Feedback on IPART**. Overall, feedback on the interactions with IPART was positive, with respondents expressing that IPART contacts were helpful and gave good advice. However, as the scale of the Scheme increases, there appear to be some issues around losing direct interaction with IPART employees, with some less positive experiences with using the mailbox to interact / correspond with IPART. Respondents also noted some challenges around the timescales involved in obtaining approvals and the audit requirements.

- **Additionality.** Although not specifically investigated in this research, there are some questions around the level of additionality that the ESS is producing. Some organisations are receiving the benefits of ESCs for actions that would have been undertaken anyway. Examples of this are the three businesses operating in other industries that have become ACPs in order to generate ESCs on in-house activities. Other ACPs also cited relationships with product retailers as methods of generating new business – as the retailer would refer their customers to the ACP.

- **Future of ESS.** Two ACPs specifically discussed their fear that the scheme could be terminated by the state government (and therefore wanted to reduce their level of involvement in the scheme to minimise risk). Other ACPs talked about uncertainty with regards to which technologies would qualify for ESCs and they were therefore not confident in how they should develop their activities.
  .
- **National scheme.** Six of the seven Retailers interviewed expressed a preference for a national scheme, as this would clearly simplify their processes and obligations. However, if this was implemented, the advantage of the ESC liability for future years being set out at the start was highlighted as reducing risk and uncertainty by both retailers and ACPs.

2 Introduction

2.1 Background and Context

In July 2009 the New South Wales Government initiated the Energy Savings Scheme (ESS), which creates financial incentives to reduce consumption of electricity in NSW by encouraging energy savings activities.

The scheme is designed to increase opportunities to improve energy efficiency by rewarding companies who undertake eligible projects that either reduces electricity consumption, or improves the efficiency of its use. The objectives of the ESS are:

- To assist households and businesses to reduce electricity consumption and electricity costs
- To reduce the cost of, and the need for, additional energy generation, transmission and distribution infrastructure.

The ESS is governed by NSW legislation and places a mandatory obligation on scheme participants (electricity retailers and other parties licensed to buy or directly supply electricity in NSW) to obtain and surrender Energy Savings Certificates (ESCs[2]), which represent eligible savings under the scheme.

Scheme participants purchase ESCs from Accredited Certificate Providers (ACPs[3]), who create ESCs following the implementation of energy saving activities. ACPs are accredited by IPART (the Scheme Administrator) to create Energy Savings Certificates (ESCs) in respect of a Recognised Energy Savings Activity (RESA). RESAs are specific activities that increase the efficiency of (or reduce) electricity consumption by:

- Modifying equipment or its use
- Replacing equipment
- Installing new high efficiency equipment
- Removing equipment and reducing electricity consumption.

Databuild previously undertook a full cost effectiveness analysis of the program while it was early in its development[4]. The study quantified costs of delivery and explored how scheme participants delivered the scheme. Since the previous report was published, a number of changes have happened within ESS. These include

- Reduction/cessation of shower-heads schemes
- Increase in the number and type of lighting schemes, which now represent over 80% of the market
- Changes in the prices for ESCs – e.g. the spot prices have been lower this year, likely due to changes in supply and demand.

For this study, IPART require an understanding of the current costs of delivery of the scheme both for electricity retailers and for accredited certificate providers (ACPs).

[2] Also known as 'eskies'.

[3] Also known as 'voluntary participants'.

[4] http://www.ess.nsw.gov.au/News_Events_and_Updates/ESS_Cost_Effectiveness_Analysis_Report

2.2 Research Objectives

The objectives of the research are to understand the experience of delivery and costs of participation in the scheme, in particular:

- For electricity retailers , identify the costs of compliance with the scheme
- For ACPs, identify the costs of creating ESCs.

This project does not include the detailed cost effectiveness analysis that was undertaken for the last evaluation.

3 Methodology

Research was conducted with the following groups:

1. Seven in-depth interviews with electricity retailers, of which three were undertaken face to face and the remainder by telephone
2. Thirteen in-depth interviews with ACPs conducted on the telephone.

The research included participant's experience of the 2012 Vintage of certificates (i.e. those created between 1st January 2012 and 30th June 2013). The 2011 vintage is included where specific comparisons are useful.

3.1 Approach to the research

IPART provided Databuild with a database of eight electricity retailers and 15 ACPs involved in the ESS scheme. To recruit the respondents the following approach was taken:

1. IPART sent an introductory letter to each respondent explaining the purpose of the work and notifying them that Databuild would be in contact with them shortly to arrange an appointment to speak with them
2. Databuild made contact with the respondent to arrange a time and date to undertake interviews either face to face or over the telephone.

3.1.1 Mandatory Participants interviews – electricity retailers

Seven in-depth interviews were carried out with electricity retailer participants in the ESS scheme. Three interviews with the largest retailers were undertaken face to face, and a further four interviews were undertaken by telephone. The interviewed sample represents 93% of the total ESCs retired through the scheme for 2012 and 85% in 2011, the years of operation of the scheme covered by this review.

Each interview was recorded, and lasted between 30 minutes and an hour, with an overall average of just under an hour.

The following questions were explored with respondents:

1. Their recent experience of the ESS (including extent of involvement with the scheme, obstacles to involvement)
2. The costs associated with scheme compliance, including:
    - Purchasing ESCs (through direct ACP contracts; spot trading; working with aggregators; other routes e.g. working with their own customers)
    - Scheme strategy and compliance (including staff resources, audit requirements and other costs).

3.1.2 Voluntary Participant interviews – Accredited Certificate Providers (ACPs)

Thirteen in depth interviews were carried out with Accredited Certificate Providers (ACPs) by telephone. Each interview was recorded, and lasted between 30 minutes and an hour, with an overall average of approximately 45 minutes.

The sample interviewed covered a significant proportion of ESCs retired (57% of total in 2012, and 44% of total in 2011), which means the results provide a good indication of what the total market is doing. However, there are limitations associated with the sample size here, which are addressed in section 3.1.3.

These interviews were used to explore costs associated with the generation of ESCs through energy saving project delivery, and other costs associated with ESS participation. The following question areas were explored with respondents:

1. Their recent experience of the ESS (including motivations and barriers to involvement)
2. Costs of delivering ESCs, covering key project delivery areas,
    a. Project costs
    b. Marketing and trading costs, and
    c. Administration and scheme compliance (including auditing costs)
3. Sale of ESCs, by method – e.g. spot trading vs. under contract to specific retailers
4. Interviews with aggregators will include exploration of sourcing and costs of sourcing projects
5. Analysis / understanding of whether the ACP has a defined break-even point for profitable participation in ESC creation.

The types of participants varied widely, in terms of the type of organisation, size, business model and length in the scheme. For example, some of the ACPs were very small with only a few employees, whereas some of those undertaking equipment upgrade works were very large industrial businesses with very high energy use in NSW. As a result, the interviews were carried out using high level topic guides and were exploratory in nature to investigate the in depth individual approaches taken and to record as much information as possible.

Aggregators: Aggregators act effectively as managing agents for organisations undertaking energy efficiency projects in NSW, organisations that are unable or unwilling to become accredited under the scheme directly. Aggregators achieve economies of scale by working with several organisations undertaking similar energy efficiency projects, and for a fee, relieve their customers of the administrative and financial burden of activities such as auditing.

Further details on respondent confidentiality is summarised in Appendix 1. Topic guides for both Mandatory and Voluntary participants are provided in Appendix 2. A list of organisations interviewed is included as Appendix 3.

3.1.3 Research Limitations

There are a number of research limitations, noted in the methodology report and discussed with IPART during project meetings to date.

Research sample: A key limitation in the research is sample size, as the project has a limited number of participants. Added to this, there is a large variety of ways to generate ESCs. We have only researched a sample of the population, and found variation in approach and costs amongst ACPs. As a result, we have reported quantitative results based only on the sample we have researched.

As a result of the sample it should be noted that the findings/observations of individual ACP's and retailers (and the survey as a whole) may not necessarily represent the entire population (statistically).

Quality of information provided: The quality of the data provided in this report is limited by the quality of the information provided by respondents in estimating costs within the interviews. Although we requested supporting data for cost estimates provided by ACPs and retailers, we only received limited information via this route. Furthermore, there are commercial sensitivities involved with some aspects of the interviews (e.g. asking about prices of ESCs bought and sold under contractual arrangements), so in some cases respondents were unwilling to provide information.

Some respondents found it difficult to estimate costs within the interviews. For retailers, the main reason was that staff and systems are generally dealing with multiple schemes. In ACPs, respondents didn't always have an overview of the financials. So there is some uncertainty in response accuracy worth highlighting due to this. We have mitigated this uncertainty in responses by going back to re-check assumptions with some respondents; by using experienced staff in order to appropriately interpret cost estimates provided to us; and comparing between Scheme participants.

4 Quantitative Results

This section explores quantitative results in terms of costs incurred by ACPs and electricity retailers.

Again, it should be noted that the results are based on a sample of scheme participants. Therefore, the findings/observations of individual ACP's and retailers (and the survey as a whole) may not necessarily represent the entire population (statistically).

4.1 ACP Approaches, Selling Prices and Costs

4.1.1 Approaches

Eight of the thirteen ACPs interviewed were operating in the energy efficiency or sustainability sector, providing advice and solutions as well as creating ESCs. One respondent was identified as an aggregator and two others engaged in aggregation activities alongside their own ESC creation.

A further two ACPs were lighting companies, which had registered as ACPs because it complimented their core business. Three others were operating in entirely different industries and have become ACPs because activities they were already undertaking would qualify for ESCs.

4.1.2 Level of involvement in the Energy Saving Scheme

For more than half of the ACPs interviewed, creating ESCs is not the main purpose of their business.

Four ACPs said that the Energy Saving Scheme was the main focus of their business. The scheme contributed to between 70% and 85% of the businesses turnover.

Six ACPs said that there was a separate division that dealt with the Scheme. This led to the Scheme contributing to less than 50% of their turnover. Three ACPs reported that the Energy Saving Scheme was neither the main focus or separate, that it was more complimentary to the other energy saving activities that the company took part in. These respondents felt that between 10% and 20% of the business turnover was dedicated to the Energy Saving Scheme.

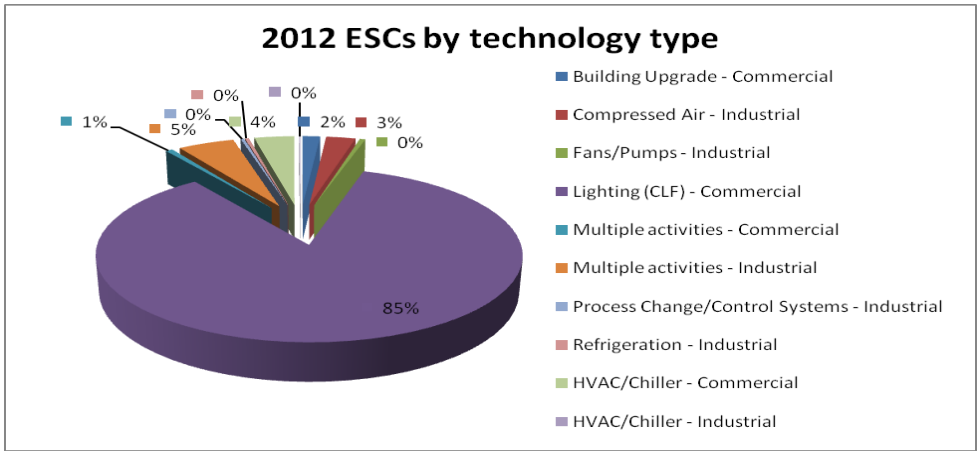
Two businesses were aiming to reduce the percentage of their revenue that comes from ESS, with both aiming for approximately 20%. Whilst they found that customers did like the Scheme, both businesses were aiming to diversify their incomes. Both businesses fear that the state government could and may terminate the scheme at any time and therefore want to minimise risk.

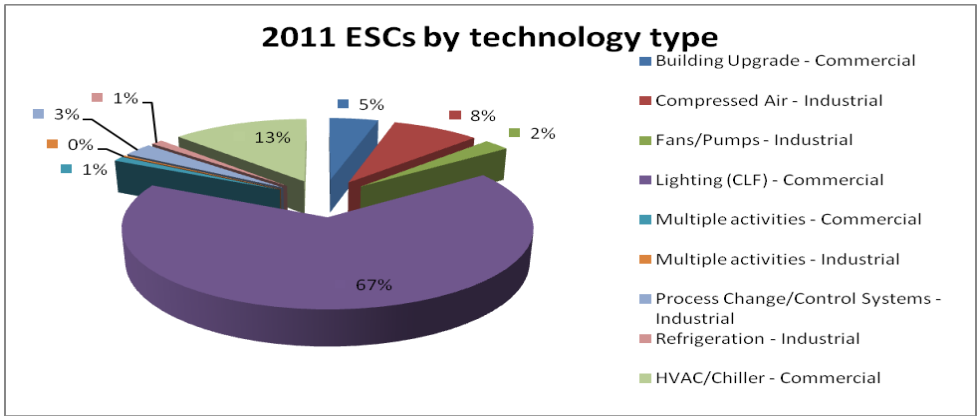
4.1.3 Technology types

In 2012, almost 2.3million ESCs were created in total, with 88% generated by commercial lighting projects, 4% multiple industrial activities and 3% from HVAC or chiller projects. In 2011, 1 million ESCs were created, with commercial lighting activities accounting for 79%, with compressed air generating 5% and building upgrades 3%.

Figure 1 below shows the numbers of ESCs generated by the interviewed ACPs, split by technology type.

Figure 1: Numbers of ESCs created by Technology Type for the interviewed sample (n=13)





As can be seen, 85% of the ESCs created in 2012 were for commercial lighting projects. In the later analysis it is therefore not meaningful to split out the costs to ACPs by technology type. Anecdotal evidence supports this. The business models for generating ESCs were not different for different technologies (for those ACPs generating ESCs by more than one technology). Suggesting technology does not lead to variation in participation costs.

4.1.4 Selling price - value

The table below outlines the weighted[5] average selling price for ESCs in 2012.

Table 3: Weighted average selling price (n=12)[6]

Weighted mean price	Highest price	Lowest price
$25.36	$31.00	$19.80

The average price provided by each ACP was weighted by the number of certificates generated by that ACP. It is possible however that the number of certificates generated is not the same as the number of certificates sold in 2012 – the weighted average could therefore be an underestimate of the actual selling price. This is borne out by anecdotal comments made by respondents that they were able to sell ECSs for $30 in 2012.

Three of the ACPs did not disclose a selling price and for these the average of those that did has been applied. The ACP's able and willing to disclose a selling price for ESCs in 2012 comprised 52% of the total ESCs generated by the interviewed sample. As a result, there are some questions about the level of confidence in this data – we do not know whether those unable and / or unwilling to disclose a selling price sold ESCs at a similar price to those who were able and willing.

In comparison, the average selling price for ESCs from lighting and aggregator schemes was $25.06 in 2010 and $21.79 in 2009.

4.1.5 Selling price - feedback

Whilst ACPs were not always willing to share details of actual prices, they were happy to discuss the question of ESC price in general. There was a broad concern both about price fluctuation and that the price of certificates is reducing and has been for the last 6-12 months. Nine of the 12 respondents commented on this. Respondents generally thought that the price would continue to fall; they attributed this to the fact that, in their view, supply of ESCs for 2013 would exceed demand.

However, one respondent thought the price would recover because *"there are less people playing in lighting now."*

Comments on price fluctuations and price drops included:

"[There was a] spike last year at $30, it has dropped to $20 in the past three months. My own expectation is that the price will continue to fall."

"The price has dropped down to $20 [from last year at $30]"

[5] Weighted by the sum of respondent estimations multiplied by the number of ESCs they generated and then divided by the total number of ESCs included in the sample.
[6] One ACP was removed from these calculations as although they generated certificates in 2012, they did not sell any.

"Four years ago the price was $16.50. At its highest the price was $33. The current price is $21 and falling."

4.1.6 Sales mechanism

There was a large variation in approaches to selling the ESCs, with some ACPs selling 100% through spot trades and others selling 100% through forward contracts. All ACPs tended to use predominantly one approach, selling a small proportion through the other to spread the risk. Overall, of the interviewed sample, 52% ESCs were sold through spot trades and 48% through forward contracts.

The reasons given for using spot trades included:

- The ACP was too small to enter forward contracts (so couldn't provide the required bundle sizes)
- Not being able to predict the flow of ESCs to ensure forwards could be fulfilled (one ACP had had to buy certificates themselves to fulfil a contract when they had been unable to generate sufficient ESCs themselves)
- Costs and requirements of obtaining a financial services licence in order to enter forward contracts.

The reasons given for using forward contracts were all around certainty, as they expect the ESC price to fall – i.e. securing future revenue, managing price fluctuations.

It is worth noting that this information was the finding from ACP's that responded to this question, but may not be representative of the market as a whole.

4.1.7 Costs of participation

Delivery costs

As with the previous study, it proved difficult to elicit project delivery costs for lighting and aggregator activities through interviewing ACPs due to lack of knowledge or commercial confidentiality concerns. In most cases, the ACPs had not been involved with installation of the equipment, as the end using customer had undertaken (and paid for) these activities separately. Even in the cases where an ACP had undertaken the project directly, it had been paid for under contract so figures were confidential.

However, four ACPs were able to estimate project delivery costs of between $9.06 and $15.92 per ESC. As there is some variation in this cost – costs of participation have been calculated with both values to provide a range.

In the previous study, project delivery costs were estimated based on a separate assessment of equipment and installation costs through desktop research and interviews with lighting manufacturers and experts. Through this analysis a project delivery cost of $19.28/ESC, was estimated of which half is due to the costs of the lighting equipment and half for installation[7].

[7] Based on an analysis of the following types of equipment: T8-T5 replacements, T8 delamping, T5 adaptors, Compact Fluorescent Lamps (CFLs), LED downlights and low energy halogen replacements.

Anecdotal comments from respondents support a reduction in project delivery costs as the cost of technology has decreased. As the market for LEDs has matured, the capital cost has reduced.

Another contributing factor to a reduced delivery cost is the Rule change with regards to the operating hours for which ESCs could be claimed.

Business costs

Table 4 shows the business costs, as a weighted average of the sample we interviewed. The costs have been represented in terms of a 'cost per ESC', and the relative proportion of each major business cost shown as a percentage of the total.

Data from 2010 and 2009 are shown for comparison[8].

Table 4: **Business costs to ACPs**

ACP Cost	2012	%	2010	%	2009	%
Total business cost per ESC	$5.78	100%	$7.45	100%	$3.88	100%
Marketing, trading and feasibility cost	$2.34	40%	$4.04	55%	$1.62	42%
Admin, compliance and audit cost	$2.74	47%	$2.71	36%	$1.55	40%
IPART Admin Fee	$0.70	12%	$0.70	9%	$0.70	18%

Scheme business costs increased from 2009 ($3.88) to 2010 ($7.45) due to a large increase in scale of delivery in 2010 by some participants. As ACPs settled into a more constant rate of delivery in 2011, it was thought this would improve. This was not evident in the business costs reported in 2010 but is reflected in the data for 2012. Whilst the costs of administration, compliance and auditing are very similar for 2010 and 2012; marketing trading and feasibility costs have reduced (resulting in an overall reduction in business costs).

This is mainly down to:

- Less effort in trading as customer / supplier relationships become more established
- More established marketing mechanisms.

Total costs

Table 5 shows the total costs, as a weighted average of the ESCs generated by the sample we interviewed. The costs have been represented in terms of a 'cost per ESC', and the relative value of each major cost (project delivery cost and business cost) is shown.

As noted above, as there was substantial variation in delivery costs for ACPs in 2012 a range has been presented. Data from 2010 and 2009 are shown for comparison[9].

[8] Staff costs in 2009 and 2010 have been split equally between marketing, trading and feasibility and admin, compliance and audit cost

[9] Staff costs in 2009 and 2010 have been split equally between marketing, trading and feasibility and admin, compliance and audit cost

Table 5: Total cost per ESC for ACPs (compared to sales price)

	2012		2010	2009
	High delivery cost	**Low delivery cost**		
Sales price per ESC	$25.36	$25.36	$25.05	$21.79
Total cost per ESC	$21.70	$14.84	$26.73	$23.16
Project Delivery	$15.92	$9.06	$19.28	$19.28
Business cost	$5.78	$5.78	$7.45	$3.88

Based on the interviewed sample, a total cost per ESC created is estimated at between $14.84 and $21.70. Even at the higher cost, this is a noticeable decline from the total cost reported in 2010 ($26.73).

Although there are some uncertainties in the estimates of delivery cost (as this is based on a small sample and ACPs had difficulty in identifying this cost; leading to variability in the data provided), the business cost data (around which there is greater certainty) also shows a decline from 2010.

Therefore, whilst the price per ESC appears to be similar across 2010 and 2012, the overall value of the scheme to ACPs appears to have improved.

4.1.8 New scheme entrants

ACPs that had recently entered Scheme had incurred investment costs, particularly around gaining accreditation for technologies, and therefore, their business costs were higher than participants who had been in the scheme for some time. One new scheme participant had business costs per ESC over double the average ($12.90 compared to $5.78). This was seen as an investment that would be recouped once they are able to create more ESCs.

One new scheme participant commented; *"We had to put time and money into coming up with a way to do it."*

4.1.9 Aggregator business model

The one ACP that was engaged solely in aggregation activities had built relationships with product retailers in order to drive new business. This model meant that the retailers would refer customers to the ACP and the ACP undertook practically no marketing. Marketing and project recruitment costs were estimated at less than $10,000 per year. The two ACPs that undertake some aggregation activities also cited low marketing costs, with word of mouth used.

4.1.10 Break-even points

The ACPs were not willing to disclose a standard break-even point for involvement in the ESS. Each project was assessed on its own merits and the general approach was that projects were accepted as long as they were profitable. However, ACPs were unwilling to disclose their definition of profitable.

"As long as we don't lose money, we take it on. Want to build a relationship and get a referral"

Some ACPs referred to preferring to work with reputable or known partners or contractors, and so made decisions based on additional factors other than the profit margin of a project.

4.2 Electricity Retailer Approach, Purchase Price and Costs

Seven electricity retailers were interviewed, including a range of large organisations, small established organisations and small new entrants. The sample interviewed covers 93% of all ESCs retired under the scheme in 2012.

4.2.1 Purchase Price estimates

ACPs and retailers were generally happy to discuss sales prices when talking in general. Whilst most of the ACPs were comfortable with discussing the actual sales prices, the Retailers were less happy to give details of actual prices they had paid as this was commercially sensitive.

The weighted[10] average purchase price estimated for electricity retailers was $29.08. A rise from the weighted average purchase price reported for 2010 ($24.10) and 2009 ($20.18).

However, four of the Retailers did not disclose a price and for these the average spot price for 2012 has been applied (with one exception, where the maximum spot price was used because the Retailer noted they paid above the market price)[11]. The retailers able and willing to disclose a purchase price for ESCs in 2012 registered 37% of the total ESCs registered by the interviewed sample. This raises questions about levels of confidence in the estimated purchasing price included in this report. However, the weighted average purchase price estimated for electricity retailers who were able to provide purchase price information is similar to the estimate for the total market; $29.97 compared to $29.08. This provides some assurance about the average purchase price estimate reported.

[10] Weighted by the sum of respondent estimations multiplied by the number of ESCs they generated and then divided by the total number of ESCs included in the sample.
[11] The average price was $28.50 and the maximum was $31. Source BusinessSpectator.com.au

This figure is higher than the average weighted sales price provided by ACPs, which again suggests that data are an underestimate.

4.2.2 Costs to participation

In general, we found that only one or two people within the organisation knew about the ESS scheme in detail (usually the compliance manager, who tended to have an overview of several energy efficiency or 'green' schemes). This person, or individuals in their team, tended to spend a small amount of time of ESS regularly. Staff in several other teams– from business areas including accounting, legal, risk management and trading - spent only a few days on the Scheme each year. As a result the Full Time Equivalent staff spent on the scheme varied between <0.25 and 1.5.

Effort on the ESS was focused at the start and end of the compliance period. At the start of the period, Retailers tended to set up processes, with some organisations setting up forward contracts for the year. Most Retailers monitored ESC prices throughout the year (some daily and others weekly to fortnightly), although few other activities were undertaken regularly. Much of the effort was spent towards the end of the compliance period, when Retailers collated data and carried out auditing. This is discussed further in Section 5.2 below.

Table 6 below shows the breakdown of the costs incurred. Clearly the cost of purchasing the certificates is the main contributor. After this, the main areas are staff costs and audit costs. Audit costs varied between $3,500 and $11,000 with five of the seven retailers citing audit costs of between $10,000 and $11,000.

The 'other' costs were mainly described as IT systems and licences for financial systems. Four of the retailers had a dedicated system for managing ESS compliance and could ascribe a cost to this. Three retailers (who between them registered 2.5% of the ESCs registered by the interviewed sample) used spreadsheets to manage their ESC obligations and didn't ascribe a cost to this.

In general, Retailers found it hard to provide figures for ESS related costs. This was for a range of reasons:

- The figures were classified as commercially sensitive (especially for the purchase price of ESCs, see below)
- The individuals involved did not have visibility of the accounts and were unable to obtain this information in the timescales of the data collection
- Respondents found it hard to disaggregate the cost that should be attributed to ESS where resources were used for several purposes (e.g. other energy efficiency schemes or other trading commodities).

Table 6: Costs to Retailers of participation (n=7)

Electricity Retailer Costs	2012	%	2010	%	2009	%
Total costs per ESC	$29.39	100%	$24.20	100%	$25.32	100%
Cost of purchasing ESCs	$29.08	99%	$22.96	95%	$20.18	80%
Internal additional costs	$0.31	1%	$1.25	5%	$5.14	20%
Internal additional costs	**$0.31**	**100%**	**$1.25**	**100%**	**$5.14**	**100%**
Staff, management and admin			$0.59		$3.24	
Annual energy statement			$0.10	62%	$0.26	70%
ESC purchase negotiations	$0.24	80%	$0.08		$0.27	
Auditing	$0.04	12%	$0.23	18%	$0.71	14%
Other costs	$0.02	8%	$0.25	20%	$0.66	13%

Whilst the distribution of internal additional costs by cost categories has remained broadly similar since 2009, the actual value has decreased substantially. Reasons for this reflect:

- Efficiencies in scheme administration made by the retailers since the scheme was established
- The absence of investment costs in 2012; costs in 2009 and 2010 will have included costs in investing in systems
- The fact that the scheme is now more embedded into retailers operations – there is therefore less visibility of the disaggregated cost of the scheme compared to other operations.

4.2.3 Penalty Payments

None of the Retailers interviewed made penalty payments in 2012. All Retailers preferred to meet their obligation through the purchasing of certificates and only one indicated that penalty payments might be an acceptable course of action. See Section 5.3 for further information.

5 Experience of scheme delivery

As noted in the objectives, in addition to exploring costs with ACP and energy retailer respondents, we qualitatively explored respondents' experience of ESS, to provide an understanding of the process by which they were delivering energy savings under ESS, their experience of the program and drivers and barriers to participation.

5.1 Interactions with IPART

Feedback was generally positive about the interactions that both ACPs and Retailers had experienced with IPART. Several respondents (two ACPs and two retailers) mentioned that the individuals they had contact with were pleasant and responsive.

However, there were some differing experiences around efficiency and response times, with both ACPs and Retailers noting instances of delay. Some respondents noted an improvement since February 2012, although others indicated that they hadn't noticed a change. This is explored further in Section 5.4 below.

ACPs' Queries and Guidance
Three ACPs mentioned that on occasions the guidance provided by IPART was insufficiently detailed and that they would require further clarification. There seemed to be two aspects to this issue - the first around the information being too high level to easily apply:

"Understanding what is and isn't allowed under the scheme is always difficult because you get referred back to legislation rather than effective guidelines - it's written in such a way that there are multiple interpretations."

The second part relates to the new mailbox used for submitting and receiving responses to queries. This was felt to be rather anonymous as well as potentially impacting the way the information is delivered:

"They obviously have a character limit so it'll be very blunt. They might put something that is not immediately clear to you."

The experience of using the mailbox contrasts with the positive feedback that respondents gave about the more personal interactions. This includes one case where an ACP felt that IPART's assistance reduced the administrative burden of being involved in the ESS:

"For us the scheme looked bigger than it is to do, but we were made aware by IPART of the approach and how it would work realistically. They suggested a different approach ... so it was less administration and easier to measure."

Electricity Retailers
Three Retailers noted that IPART are more formal in communication than other similar schemes. In general, this wasn't viewed negatively, but there were instances where the respondent felt that it had led to a less appropriate method of communication being used. For example, one Retailer found that a letter relating to a low level issue had been addressed to the CEO, when sending the information directly to the team involved would have meant the issue could have been dealt with more quickly.

5.2 ESC Market

Both ACPs and Retailers highlighted that the market for ESCs varies through the year - with demand from Retailers tending to be stronger at the start of the period (as forward contracts are arranged) and as the submission deadline approaches (as spot trades are used to ensure liabilities are met).

"They [retailers] can sit on their hands and watch the price go down. Quarterly surrender would smooth out the demand, have a true market price."

Several respondents (two ACPs and one retailer) suggested that a quarterly submission deadline would smooth out and strengthen the market. The benefit to ACPs of a more stable ESC price is clear, but Retailers acknowledged that the challenges ACPs face with inconsistency of cash flow can increase risk around future supply of ESCs. This risk may lead to higher costs and difficulty meeting their obligations. An interesting additional perceived benefit of quarterly submission cited by Retailers was that it could make the process easier to manage.

"You have a more consistent flow of work for your staff, can manage your risk, you could establish much better processes."

5.3 ACP ESC Market Scope for 2013

When looking to plans for 2013 there were different outcomes expected. Of those who answered, three ACPs thought that there would be a reduction in the number of certificates created. One respondent said that this was because of the constant parameter change involved in the Scheme (i.e. the number of certificates they were allowed to generate) and another commented that it was due to the constant drop in the price that they could sell certificates for. In addition to those three ACPs, one respondent did not say that they would be reducing the number of ESCs created but commented that it would be harder now because there was lots of competition in the market.

Six ACPs hoped to increase the number of certificates created. This was mainly because the business was planning on growing the side of the business involved with the Energy Saving Scheme. In addition, one respondent said that the number of certificates was likely to stay the same.

5.4 Retailers – size differential

The large and small Retailers[12] tended to approach the Scheme differently. In general, smaller Retailers were more focused on just meeting their liability as simply as possible and minimising the costs of participation. There tended not to be many staff or processes set up to handle ESS and the approach was fairly light touch.

"We don't really have a strategy for it [ESS] because our obligation is so small."

By contrast, the larger Retailers tended to have a greater focus on the Scheme. For example, their larger liability meant sourcing ESCs at the best price was more important. There was some involvement in direct creation of ESCs as a method of building relationships with customers, although the numbers generated were generally small. Retailers felt they could not create their own ESCs at a lower cost than purchasing them as they would incur more direct costs in running projects.

Overall, only one Retailer (a small retailer) suggested that penalty payments would be considered an acceptable approach to meeting the Scheme's obligations if the cost of ESCs exceeded the cost of penalties. The rationale was that they would take the most cost-effective route to compliance. However, all other Retailers stated that penalties were not an option for a variety of reasons, including the fact it would tarnish their reputation not utilising the investments that have been made in the teams and processes required for the Scheme would be unacceptable to management.

"If you're paying penalties, you're not really doing any energy efficiency, which is kind of the aim of the scheme."
"It's not something we want to do - you'd get named and shamed."

5.5 Scheme Processes

Auditing
A common theme among ACPs was the difficulties around the audit process. Some acknowledged that the rigorous process was necessary to ensure *"shonky"* operators didn't abuse the Scheme. However, six ACPs felt that audits took up a lot of time, were overly detailed and costly, and had potentially serious impacts on the business if ESC creation were put on hold. This mirrors feedback from the 2010 study.

"If we have to engage high price auditors, they have to be allowed to audit properly."
"[IPART] need to work on their probabilities & establish how many projects need to be audited & at what level."

Approval Timescales
Both ACPs and Retailers highlighted concerns around the length of time it can take to get new technologies or solutions approved. Timescales of up to six months were cited and this had implications for ACPs being able to retain customers (who might use another ACP

[12] As per the list of Retailers provided by IPART

that already has approval for that solution) and predict future business opportunities. The Retailers' perspective was concern around security and predictability of future ESC creation and availability.

"Our experience in timeframes has made it hard for us to take on new business."
"Puts us in an incredibly difficult position because we can't manage our risk."

Exemptions
Three of the seven retailers interviewed have been granted an Exemption from the Energy Savings Scheme[13]. They outlined issues around the handling of exemptions. There seemed to be two parts to the issue. The first was around the information provided about the exemptions - that the meter IDs (NIMIs) are not provided makes it difficult to match up sites with billing records.

The other issue was around a perceived waste of time and effort in replicating work that has likely already been done by a Government agency in order to prove that the exemptions are entitled to be exempt.

"Bizarre situation where the Government says these companies are exempt and then you have to provide all this information to IPART to prove that they're exempt. Presumably they have all this information anyway".

Alignment with other schemes
There was a strong preference among Retailers for more alignment between similar energy savings/efficiency schemes or for one national scheme (six retailers discussed this of the seven interviewed). Retailers felt that this would make the markets more predictable, make processes easier to manage and result in cost efficiencies.

"We'd like to see closer alignment of schemes across the States."
"Having some interchange or a single scheme in Victoria and New South Wales would have some benefits."

Two Retailers noted that aligning the submission dates alone for State schemes doesn't necessarily simplify participation. Some noted that this lead to concentration of the work into a shorter time window, leading to pressures on both internal staff and external resources (e.g. contractors and auditors).

[13] The Electricity Supply Act allows the Minister to grant full or partial exemption from the Energy Saving Scheme for any electricity load used in conjunction with emission-intensive and trade-exposed industries or activities. The exemption is provided by a Ministerial Order. The Order lists the exempted sites, their location, the emissions-intensive trade-exposed activity being carried out and the proportion of exemption granted. A further deduction is allowed for network losses.

5.6 Other Useful Findings

Ensuring that energy efficiency activities are for everyone
When discussing the costs of projects and the $500 Application Fee, two ACPs mentioned the importance of the ESS being accessible to a wide range of potential energy savers. The two main projects types they cited as likely to be impacted are small projects and projects in regional locations, due to smaller potential revenues and increased cost of delivery respectively. Some activities (for example, building upgrades by metered baseline methodology) were already described as marginal and excluding categories of projects was seen as 'not in the spirit' of ESS.

"It doesn't say by increasing some energy saving activities"

"Need to make sure that the scheme is equitable to little guys and big guys - make sure that energy efficiency is for small to medium size businesses as well as big ones."

Retailer ESC Liabilities
Three Retailers highlighted that knowing the ECS liabilities in advance aids with planning and reduces the risk associated with participation in the Scheme.

"Percentages of liabilities were set in legislation and haven't changed - that's really helpful. So we've had reasonable comfort about our liability volumes, which makes it easier for us to trade."

6 Summary of Findings and Implications

ACPs
Most of the ACP activity is now in lighting, contrasting with the previous dominance of showerheads. Whilst most ACPs were undertaking lighting work, there were a variety of approaches to doing so – ranging from traditional lighting companies that had become ACPs to 'energy efficiency' companies that provided lighting solutions. There were also variations in the costs of creating ESCs, although these seemed to align with the stage the ACP was at in the ESC business, rather than with the business models.

ESC Market
In 2012, the price of ESCs has fallen from a high of around $31 to approximately $25. This trend looks to be continuing into the 2013 vintage of certificates. Both Retailers and ACPs have found this change in price challenging, with one Retailer acknowledging that with hindsight they paid a premium by choosing to purchase ESCs to meet their obligation through forward contracts.

The other market trend highlighted by both retailers and ACPs was that the ESC market is weak during the middle of the year, as demand from the retailers is stronger at the start and end of the year – either with activity to plan how obligations will be met or, at the end of the year, to meet any outstanding obligation. Suggestions came from both sets of parties for a quarterly submission deadline, to level out the trading cycle. The main perceived benefit highlighted was stronger ACPs, more able to ensure a future supply of ESCs.

There was no consensus for ESCs to be bought or sold by either spot trading or forward contracts. Preferences depended on the organisation and the individual priorities or circumstances. This suggests that the flexibility in this area is appreciated and should be maintained within the Scheme.

Feedback on IPART
Overall, feedback on the interactions with IPART was positive, with respondents expressing that IPART contacts were helpful and gave good advice. However, as the scale of the Scheme increases, there appear to be some issues around losing direct interaction with IPART employees, with some less positive experiences with using the mailbox to interact / correspond with IPART. Respondents also noted some challenges around the timescales involved in obtaining approvals and the audit requirements.

Additionality
Although not specifically investigated in this research, there are some questions around the level of additionality that the ESS is producing. Some organisations are receiving the benefits of ESCs for actions that would have been undertaken anyway. Examples of this are the three businesses operating in other industries that have become ACPs in order to generate ESCs on in-house activities. Other ACPs also cited relationships with product retailers as methods of generating new business – as the retailer would refer their customers to the ACP.

Future of ESS

Two ACPs specifically discussed their fear that the scheme could be terminated by the state government (and therefore wanted to reduce their level of involvement in the scheme to minimise risk). Other ACPs talked about uncertainty with regards to which technologies would qualify for ESCs and they were therefore not confident in how they should develop their activities.

National scheme

Six of the seven Retailers interviewed expressed a preference for a national scheme, as this would clearly simplify their processes and obligations. However, if this was implemented, the advantage of the ESC liability for future years being set out at the start was highlighted as reducing risk and uncertainty by both retailers and ACPs.

7 Appendix 1 - Confidentiality

Databuild is a member of the Market Research Society, which means we comply with the market research code of conduct, which sets appropriate standards for conducting research, and the use of personal data.

In order to comply with the rules, we made clear to respondents that IPART wished for them to share their views in attributable form, which they could refuse if they wanted their responses to remain confidential. Importantly, we asserted that their views would remain confidential to IPART and would not be put out into the public domain.

In no cases did respondents refuse to allow us to attribute interview responses to IPART, although there were a few specific responses within interviews which they did not want to pass on in attributable form. We have followed their wishes in this respect.

The approach taken to reporting is to list the organisations we spoke to overall within the report, but where verbatim comments have been made, we have not directly attributed these back to the organisation making them.

8 Appendix 2 - Topic guides

8.1 Mandatory participants

Introduction to the respondent

Hello my name is X. I'm calling from Databuild, we are an independent research consultancy and we have been engaged by IPART who regulates the NSW Energy Savings Scheme (ESS) to undertake a research project. Previous research was undertaken in 2010, which this project will build on to inform on the costs and incentives for participants of the ESS.

The work involves identifying and quantifying current costs associated with participating in the ESS for Scheme Participants (electricity retailer) and Accredited Certificate Providers. This project is to help understand the incentives to participants and the efficiency of the scheme's operation.

I would like to have a discussion with you today about your role within the Energy Savings Scheme, your organisation's experience participating in the scheme and specifically explore costs and financial incentives to create Energy Savings Certificates. The information will be used by IPART to improve the operation and efficiency of the scheme in the future.

Would you be the most appropriate person to talk to about this? (if yes, proceed, if no – ask for details of a colleague who is).

If required

- The discussion will last approximately 30 minutes (allow an hour for face to face interviews)
- The objectives of the work are to understand costs associated with a specific ESC Vintage (i.e. 2012) and to understand trends in the market for ESCs.

Confidentiality

We would like to be able to share your views with IPART – would this be possible? If there are aspects of our discussion that you would like to share but in a way that does not identify you please let me know so I can make a record of that.

I would like to assure you that none of the information you provide will be put in the public domain (IPART is intending to publish a summary report, without individual company information).

Just to let you know the call will be recorded just so I can type up the notes after the interview. The recording will not be listened to by anyone outside Databuild.

If the respondent is unwilling to share their views with IPART they will not be interviewed.

Interviewer to check at the end of the interview if there are aspects of the discussion they wish to keep confidential (and therefore to Databuild to reflect anonymously within reporting, or to exclude from reporting).

Databuild is a member of the Market Research Society and as such operates to the MRS code of conduct.

Organisation profile

- I'd like to start the conversation by finding out a bit about you and the organisation.
    - What is your job title/ role with the organisation?
    - What are your key responsibilities?
    - How many employees does the organisation have?
    - What is the geographic reach of the organisation? E.g. local, national, international
    - What is the approximate market share of the organisation? (in terms of the electricity market for NSW)
    - Have there been any recent changes to the structure of the organisation? (e.g. company sale/merger)

Involvement in the ESS

- How are you involved in the ESS scheme (within your role)?
- Who else in the organisation is involved? How are they involved?

Scope: For the rest of the discussion I would like to explore your experience of the ESS and in particular, the costs your organisation has experienced over the 2012 compliance period.

The time period this relates to is activities for 2012 vintage ESCs. Please keep this in mind as we proceed through the rest of the interview and provide your experience of how this two periods have changed over time, in terms of costs, opportunities and any market dynamics you have experienced

Purchasing ESCs

- Are you aware of how your organisation met its ESC obligations in 2011 and 2012 (e.g. by surrender of ESCs, paying penalties in lieu of ESC surrender, or some combination of both)?
  Prompts:
    - What is the organisation's strategy for purchasing certificates? Has this been to purchase under contract or from the spot market? Has this approach changed since 2011?
    - Has the organisation considered other approaches such as direct participation in ESC creation? (*If no*) Is this considered outside your 'core activities'?
    - Are penalty payments considered an effective approach to achieving compliance? What has been the experience in 2012 compared to 2011
    - Have recent changes in (i) ESC spot prices, (ii) ESC supply and demand conditions or other factors affected your organisation's compliance strategy? (*If yes – ask why, if no, why not*)

ESC scheme compliance – costs of delivery

- I'd now like to discuss the areas of ESS activity which the organisation gets involved in to get a better understanding of the activities and operating costs that the organisation incurs to meet its ESS license obligations. These include the costs of purchasing ESCs and associated costs of participating with the scheme.

I'd like to explore some of these areas to compare any changes in costs between2011 and 2012 to understand any trends in costs and time **[Note to interviewer – ask for approximate % of costs and time spent on major activities]**

- **ESC prices:** What has been your experience of ESC prices during 2011 and 2012 vintages?
  Prompts
  - You mentioned earlier that your strategy for purchasing ESCs is to (*XX – either purchase under contract or trade on the spot market*). Is there price / cost differential required to change strategy from contracting to spot market
  - Do you monitor ESC prices and actively trade (buy and sell)
  - Have you noticed any trends in ESC prices and how has this affected your organisations behaviours (response)
  - (*If trading on the open market)* If there were greater market depth[14], would this change your approach (if yes, how?)
  - What is your view of market liquidity (ESC trading volumes). How do you think this could affect trading? Does this change when nearing the end of the compliance close off?
  - Do you consider IPART has a role in facilitating greater activity such as trading volumes, ESC supply and demand. (If yes, how? If no, why not?)
  - Have you noticed a material difference in the ESC price between different sources (spot and the forward contract market) during the two periods 2011 and 2012
  - What were the average prices you paid for ESCs in 2011 and 2012. Do you expect costs to be greater or less between the two periods (on a per ESC basis)
  - Has the company ever paid penalties to achieve compliance?
    - [If yes] Why was this? Was it a one off? [probe to see if this was a deliberate decision]
    - Did it result in greater or less cost compared to surrendering certificates
    - Would you consider paying penalties to achieve 2013 compliance
  - The future: what is your expectation of future ESC prices
  - What is your expectation of the availability of ESCs? Do you expect greater or lesser supply in the future

[14] Market Depth refers to the number of counterparties / participants in a market. It directly impacts market liquidity (i.e. number of buyers).

MAIN COSTS SECTION

- **Staff costs associated with ESS compliance:** Can you estimate, based on the staff time spent on scheme compliance, what the overall cost to the organisation is in terms of staff costs? [15] (*refer to previous discussion on number of staff involved*)
  - Does this include overheads? (*If not, probe to provide an estimate of this in addition to staff salaries)*
  - *(If ESS compliance represents a proportion of staff member's activities)* What proportion of XX staff member's time is spent on ESS scheme compliance?

- **Energy Savings Audit Costs:** I understand that each retailer lodges an audited Annual Energy Savings Statement.
  Suggested prompts:
  - What proportion of costs is spent on this activity?
  - What proportion of staff time is spent on this activity?
  - What is your overall experience of the annual audit? Are there ways in which the process could be improved?

- **Working with ACPS or aggregators:** I'd now like to explore your experience of working with ACPs or aggregators and the costs of this
  Suggested prompts
  - Do Accredited Certificate Providers and aggregators tend to approach you or have you sought them out?
  - In 2011 when you purchased ESCs what % was under contractual agreements? How did this change in 2012 such as the arrangements and % purchased from spot vs forward contract? Did you use a broker in 2011 or 2012 to help source ESCs?
  - Can you estimate your organisation's costs to work with ACPs to obtain ESCs, has it increased or decreased since 2011 (*As a percentage split of total staff costs. Identify and split out other costs as necessary)*.

- **Administration and other costs**:
  - Are there any other costs associated with your organisation's compliance with the ESS that need to be considered?

- **Overall experience of the ESS:** Are there any overall comments on your experience of working with the ESS which you would like to share with IPART?

Thank you for taking the time to share your views. Do you have any other comments you would like to make?

[15] Salary estimates will be used to estimate costs where respondents are not able to estimate costs.

8.2 Voluntary participants

Introduction to the respondent

Hello my name is X. I'm calling from Databuild, we are an independent research consultancy and we have been engaged by IPART who regulates the NSW Energy Savings Scheme (ESS) to undertake a research project. Previous research was undertaken in 2010, which this project will build on to inform the costs and incentives for participants of the ESS.

The work involves identifying and quantifying current costs associated with participating in the ESS for Scheme Participants (electricity retailer) and Accredited Certificate Providers. This project is to help understand the incentives to participants and the efficiency of the scheme's operation.

Would you be the most appropriate person to talk to about this? (if yes, proceed, if no – ask for details of a colleague who is).

If required

- The discussion will last approximately 30 minutes (allow an hour for face to face interviews)
- The objectives of the work are to understand costs associated with 2012 vintage ESC and in some cases compare this to 2011 to understand trends in the market. Recent experience (ie 2013) is also of interest.

Confidentiality

We would like to be able to share your views with IPART – would this be possible? If there are aspects of our discussion that you would like to share but in a way that does not identify you, please let me know so I can make a record of that.

I would like to assure you that none of the information you provide will be put in the public domain (IPART is intending to publish a summary report, without individual company information).

Just to let you know the call will be recorded just so I can type up the notes after the interview. The recording will not be listened to by anyone outside Databuild.

If the respondent is unwilling to share their views with IPART they will not be interviewed. Interviewer to check at the end of the interview if there are aspects of the discussion they wish to keep confidential (and therefore to Databuild to reflect anonymously within reporting, or to exclude from reporting).

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Organisation profile

- I'd like to start the conversation by finding out a bit about you and the organisation.
    - What is your job title/ role with the organisation?
    - What are your key responsibilities?
    - What does the organisation do?
    - How many employees does the organisation have?
    - What is the reach of the organisation? E.g. local, national, international.

Involvement in the ESS

- What is the level of your involvement in the ESS scheme and generating ESC projects?
  Suggested prompts:
    - How does the organisation approach ESS?
    - How much of the business is related to ESS work? E.g. is the organisation exclusively dedicated to ESS work or does it have a separate arm for ESS work?
    - Can you estimate the proportion of your overall turnover dedicated to ESS?

Scope: For the rest of the discussion I would like to explore your experience of the ESS and in particular costs of delivery. The principle time period this relates to is activities relating to the 2012 vintage of ESCs. Can you keep this in mind as we proceed through the rest of the interview?

Suggested prompts:

- What are the key motivations for becoming involved?
- Are there any barriers to being involved in the ESS scheme and generating ESCs? [If yes] What are these? How do you overcome them?

ESCs generated

- How many ESCs did the organisation create for 2011 vintage as compared to 2012 vintage. How does 2013 compare? [if data is known prior to the interview sense check that this is correct]
- What encouraged you to create more / less in 2012 compared to 2011. What are your plans for 2013?

ESC prices

- I'd like to move on to discuss ESC prices in 2011 compared with 2012 and 2013
- What approach do you use for selling the ESCs to electricity retailers?
  Suggested prompts:
    - Do you enter into forward contracts / any contractual arrangements with electricity retailers? Or trade certificates on the spot market?
    - [If both] What is the general split between the two?
    - What are benefits/ obstacles for each approach?
- What has been your experience of ESC prices over the two 1/2 years (2011 compared to 2012 and now 2013)? (*explore their view of why prices have fluctuated and how this has affected their business*)

ESC project delivery costs

- I'd now like to move on to have a discussion about the different elements of the scheme and the proportion of resources spent on generating ESCs. There are a number of different areas we have identified where resources can be spent, such as:
  i. Overall staff costs (to be apportioned across different activities)
  ii. Lodging applications (if relevant)
  iii. Marketing and project recruitment
  iv. Delivering projects
  v. Negotiations with electricity retailers
  vi. Auditing activities and scheme compliance
  vii. Systems and administration

I'd like to explore each one of these areas to understand how much resource is spent on each in terms of cost and staff time, and also the type of activities that are involved at each stage: **[Note to interviewer – for each area check % of costs and staff time spent]**

MAIN COSTS SECTION

- **Overall staff time and costs:** Can you estimate, based on the staff time spent on the scheme, what the overall cost to the organisation is in terms of staff costs?[16] (*refer to previous discussion on number of staff involved*)
  - Does this include overheads?
  - What proportion of XX staff member's time is spent on ESS scheme?
  - Have the number of employees increased since 2011, have additional calculation methods been applied

- **Lodging applications:**
  What costs are involved to lodge an application? If the current $500 application fee was changed to $500 per Application, how would this change your behaviour? (*Explore fully – i.e. how this would affect application numbers, number of ESCs per application and what the effect would be if application fees changed)*

  - What proportion of staff time would be used in administration compared to creating ESCs? Has this changed since creating 2011 vintage ESCs?

- **Marketing and project recruitment:** What are the main costs associated with marketing and project recruitment? I would like to explore both
  - Finding projects to create a sufficient number of ESCs to be profitable
  - Selling ESCs to retailers (either through contracts or via the spot market) and the uncertainty about future prices

  Suggested prompts:
  - Finding projects to deliver: What project / calculation methods do you specialise in (e.g. PIAM / DESM / MBM)

[16] Salary estimates will be used to estimate costs where respondents are not able to estimate costs.

- Do costs differ significantly depending on the calculation methodology (*if multiple methodologies are applied*) What costs are involved in specialising in multiple calculation methodologies? Have costs changed over time
- Selling to retailers: Do you have an established relationship with a retailer? Are they able to significantly influence the forward price of ESC under longer term contract?
- Are there cost implications involved with forward contracting? (*If so, what are these and how do they apply?)*
- What proportion of staff time is used negotiating contract prices
- What are the observable changes that have occurred in the forward market for ESCs, since 2011? (*i.e. fundamental market trends – such as prices, demand shifts etc.)*

- **Delivering projects:** I would now like to explore the types of projects you undertake and the costs associated with them. How does the organisation select projects? (E.g. cost, expertise of the business etc.)
  Suggested prompts:
  - What type of projects/ technologies does the organisation generate ESC from? Are their cost advantages in specialising in one type of technology / calculation method?
  - Has this changed from previous year's activities? (compare 2011 and 2012)
  - Do you budget for projects and monitor the income and expenditure. (if yes) What are the trends in profitability since 2011 Costs of delivering projects – can you estimate the overall cost to your business of delivering ESC projects? (explore in detail)
  - Do you have a pre-established understanding of the break-even point for a project, how many ESC need to be created and what costs will be incurred for a particular project.

- **Auditing activities:** thinking about the types of ESC generation methods used, what auditing activities does the company have to do?
  Suggested prompts:
  - What are your views on the level of auditing required? (specific to the different ESC creation approach used)
  - Has the organisation experienced any instances of significant non–compliance and it did not agree with?
  - [If yes] What was the reason for this? E.g. lack of documentation or poor energy performance?
  - What costs are involved in this?
  - What proportion of staff time is used for this?
  - Do you record costs based on the activities that staff perform

- **Systems and administration:** Are there any other internal activities in relation to system or administration that we haven't covered?
  Suggested prompts:
  - [If yes] What activities are these?
  - What costs are involved in this?
  - What % of staff time is spent on this?

- **Overall experience of the ESS:** Are there any overall comments on your experience of working with the ESS which you would like to share with IPART?

Thank you for taking the time to speak to me. Do you have any other comments you would like to make?

9 Appendix 3 - Respondents

9.1 Mandatory Participant Interviews

The electricity retailers interviewed were:

AGL
Australian Power & Gas
Dodo Power & Gas
Energy Australia
Momentum Energy
Origin Energy
Red Energy

9.2 Voluntary Participant Interviews

ACPs interviewed were:

Autonomous Energy
Demand Manager
Ecovantage
Essential Energy
Green Connection Group
Haron Robson
Investa
Knowledge Global
Lowa
Norske Skog
Out Performers
Sigma Global
The Green Guys