



energy savings
Industry Association

**ESIA Submission:
NSW Government
Energy Security Safeguard
IPART – Changing audit conditions and
increasing certificate creation limits**

28 March 2024 (Extended to 3 April)

Submitted to Independent Pricing and Regulatory Tribunal (IPART)
New South Wales Government, ess@ipart.nsw.gov.au

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1. Introduction

The Energy Savings Industry Association (ESIA) welcomes the opportunity to provide this submission to the New South Wales Government for the NSW Energy Security Safeguard Consultation: Changing audit conditions and increasing certificates volumes which commenced on 4 March 2024. This consultation is being managed by the Independent Pricing and Regulatory Tribunal (IPART).

The ESIA has referred to

<https://www.energysustainabilityschemes.nsw.gov.au/documents/consultation/changing-audit-conditions-and-increasing-certificate-creation-limits-consultation-paper-march-2024> including documents that form this consultation, and attended a public online information webinar.

About ESIA

The Energy Savings Industry Association (ESIA) is the peak national, independent association representing and self-regulating businesses that are accredited to create and trade in energy efficiency certificates in market-based energy savings schemes in Australia. These activities underpin the energy savings schemes which facilitate the installation of energy efficient products and services to households and businesses. Members represent most of the energy efficiency certificate creation market in Australia. Schemes are established in Vic, NSW, SA and ACT. Members also include product and service suppliers to accredited providers under the schemes. As well, the ESIA represents member interests in national and state initiatives that include energy efficiency and demand reduction, such as the Federal Government's Carbon Farming Initiative energy efficiency methods and the NSW Peak Demand Reduction Scheme.

Further engagement

We welcome the opportunity to discuss this submission further, please contact the ESIA Executive Director at comns@esia.asn.au.

This submission can be made public.

2. Overarching insights

- a) There is a major concern that inexperienced and opportunistic ACPS (including vertically integrated ones that provide products, installation and create and trade certificates) will have the ability to create three-quarters of a million dollars of ESCs between audits. If this is considered in comparison to a line of credit from a bank with no security, it would not be approved so easily due to the significant financial risk to the finance providers - in this case the people of New South Wales. E.g. a case study of the fridge activity would reveal that unscrupulous ACPs can shut down before the last audit having already banked the certificate values and without having honoured trades, resulting in significant financial damage to counter parties and scheme reputation.
- b) It is a challenge to suggest at which precise volumetric limit points audits are required. However, more audits earlier for new entrants is essential to ensure the business acquires the learning and skills from the process of an audit.
- c) Having a clear progression at regular intervals supports overall scheme integrity.
- d) The opportunity for business to apply for an increase in limit at any time should be encouraged to avoid rigidity, especially for businesses proven to deliver at high volumes, and for new entrants that are providing low risk.
- e) The timing of audits is critical i.e. essential to have tight starting conditions and tight minimum volumes in the first 1-2 years of a business participating.
- f) IPART's risk matrix should include years of experience and the compliance record of the participating business, with some guidance to inform IPART of any major staff changes within the business that impact on the skills of that team.
- g) Note that businesses may be more vulnerable to taking short cuts when faced with a deadline on a trade. Businesses that have weaker risk policies and financial reserves may be tempted to rush into creating certificates at certain times. (E.g such as in the current market in Australia which is seeing some major schemes having certificate liquidity challenges and a domino effect occurring where one or two businesses may not be able to honour major trades which may have a flow on effect across the market.)
- h) Whatever the changes, the IPART method guide needs to be clear on these.

3. Responses to consultation questions

1. Would the introduction of an application form for amendments pose any issues or challenges for your business? Please provide details or examples where possible.

- This seems a positive step and is well supported. I.e. transparency and clarity are positive.
- Moving away from paper-based documentation to a portal is reasonable, however TESSA needs to be up to the task and well tested prior to introduction.
- The ESIA welcomes the opportunity to provide feedback on the proposed digital form and to test it online prior to launch.

2. Do these proposed information requirements pose any issues or challenges for your business? Is there other information you could provide us to support your application? Please provide details or examples where possible.

- The new application form may pose challenges, but these can be addressed by testing with ESIA members via TESSA prior to launch and allowing for a window for immediate feedback post launch to address any nuances.

- ESIA members noted that IPART has held accreditation introduction meetings which are very useful to talk about scheme compliance complexity and get learnings. ESIA members still want these meetings. Such meetings will still be useful for every new accreditation to share learnings and compliance priorities two-way: IPART-ACPs.
- It is important that ACPs are not meeting IPART for the first time at audit close out meetings.
- Learnings to be shared during meetings and at industry forums etc can include IPART sharing with ACPs photographs of excellent installations as well as poor installations, falsified photographs, other evidence etc to alert them to what to look out for from installers. E.g. faulty wiring or inappropriate placing of equipment. The VEU regulator, the ESC has done this in the past which was very useful. It makes sense to provide such insights as they unfold on a more regular basis. (Perhaps short Vimeos with visuals and basic voiceover available to key stakeholders.)
- The general tone from IPART which ESIA members support is that all stakeholders need to step up and be better at picking up inappropriate behaviour and reporting it directly to the regulator confidently and in confidence.

3. Does the proposal to automatically progress from pre-registration to periodic audit conditions (providing the first audit is satisfactory and there are no compliance issues) raise any issues or challenges for your business? Please provide details or examples where possible

Reference, IPART Consultation paper, p3, Table 1:

Table 1 Our typical approach to audit conditions and certificate creation limits

| Starting conditions | Minimum audit volumes ^a | New conditions |
|--|---|---|
| Pre-registration | 1 audit over 5,000 ESCs or 50,000 PRCs (see also section 4.1) | Annual audits 25,000 ESCs or 250,000 PRCs |
| Annual audits 25,000 ESCs or 250,000 PRCs | 2 audits over 50,000 ESCs or 500,000 PRCs | Annual audits 100,000 ESCs or 1,000,000 PRCs |
| Annual audits 100,000 ESCs or 1,000,000 PRCs | 2 audits over 100,000 ESCs or 1,000,000 PRCs | Annual audits 200,000 ESCs or 2,000,000 PRCs |
| Annual audits 200,000 ESCs or 2,000,000 PRCs | Considered on a case-by-case basis | 2 or more audits per year More than 200,000 ESCs or 2,000,000 PRCs, set on a case-by-case basis |

a. This is the minimum number of audits covering the minimum number of certificates that we expect an ACP to complete at its current conditions (starting conditions) to progress to the next stage (new conditions).

- ESIA members request that IPART makes the final volumetric limits table clearer and easier to understand than the current proposed table i.e. there were a variety of ESIA member interpretations.
- ESIA requests clarity on how many audits must generally occur between each of the proposed steps.

- ESIA members agree with automatic transfer from pre-registration to periodic audit provided the first audit is satisfactory.
- There are major concerns from ESIA members about the proposed automatic progressions including from pre-registration to periodic audit conditions. i.e.
 - moving from pre-registration to 25,000 ESCs is an exposure of \$¾million – currently possible for an ACP with no experience; and
 - a 100,000 ESC limit represents a total monetary value between \$2million to \$2.5 million based on current pricing trends of ESCs at \$25. (The recent historical average is higher, noting that a significantly lesser current value is likely due to a current oversupply of ESCs against target.)
- ESIA members generally support an automatic progression from pre-registration to periodic audit conditions, but that the proposed Table 1 requires an additional step between 25,000 and 100,000 ESCs: likely to be 50,000 certificates with a minimum of two audits over 50,000 ESCs necessary to progress to 100,000 certificates. (This recommendation is based on the proposed too hasty a progression for new participants to gain proportionally large volumetric limits with only three audits covering a minimum of 55,000 ESCs required to gain a 100,000-ESC limit.)
- Alternatively, a possible interval may be Eg. zero ESCs to 50,000 ESCs, to 75,000 ESCs, then to 125,000 ESCs etc and ensuring there are at least 3-5 audits from pre-registrations to 100,000 ESCs. The number of audits could then be reduced post 100,000 ESCs whilst ensuring that reasonable and regular touch points are achieved between the regulator and ACPs.
- ESIA requests that IPART is clear on both quantitative and qualitative evidence being used to determine that an ACP is ready to move up the volumetric limit ladder. E.g. an ACP with a lesser number of highly reputable counter parties and a high level of oversight of their contractors may have a different risk profile to one with a higher volume of less proven counter parties and/or a higher volume of contractors with less direct oversight (e.g. broader geographic upgrade spread).

4. Are you likely to need to apply for limits higher than 200,000 ESCs or 2,000,000 PRCs? Do you see any challenges or issues with the proposed approach to setting audit conditions for these higher limits? Please provide details or examples where possible.

ESIA members will make their own submissions in response to this question.

ESIA members noted the following:

- The PDRS target is going to be 80 million PRCs per year in a few years. It would be helpful for IPART to clarify if there will be only one PRC allocation as it may make sense to enable two allocations as new PDRS activities are added.
- It would help for IPART to clarify when ACPs are best placed to explore requests for changes in allocation requirements as the targets shift up i.e. how will accreditations align under the PDRS as the target moves from 26 million PRCs up to 80 PRCs by 2030. Periodic requirements with no limits would address this.

For more information regarding this submission, please email ESIA Executive Director, comns@esia.asn.au