

27 November 2025

To: IPART

From: H2F Pty Ltd

Subject: Practical recommendations to strengthen the NSW Biodiversity Offsets Scheme (BOS) and market integrity

Dear IPART,

On behalf of H2F Pty Ltd, I write to provide feedback to IPART on improving the design and function of the **NSW Biodiversity Offset Scheme (BOS)**. H2F is a company that purchases land in NSW to generate and sell biodiversity credits, and its operations revolve entirely within the BOS. We are committed to and require a scheme that delivers credible biodiversity outcomes, investment confidence and market integrity (for the biodiversity credit market).

Purpose

This submission focuses primarily on the **operation of Strategic Offset Delivery Agreements (SODAs) and SODA-style reverse auctions**, as these mechanisms are now central to delivering large-scale infrastructure offsets. We believe that SODAs erode the biodiversity credit market and should not be used in their current form. However, with certain targeted improvements, SODAs can become a powerful delivery instrument that drives supply and restores confidence across the market.

Feedback regarding application of SODAs

Recent experience with the **Central-West Orana REZ SODA Reverse Auction** indicates that the **published weighting of selection criteria** (price primacy with location as a consideration) was not consistently applied in practice, with **location within the REZ area effectively overriding price**. Below we have listed the process and impacts from the Central-West Orana REZ reverse auction on H2F's business:

- H2F bid in the Reverse Auction and our bid met all the requirements of the **Eligibility Assessment** as outlined in the Participant's Guide. The **Competitive Assessment** section clearly stated that bids would be ranked based on cost per credit relative to other bids, with location preference to be considered. However, despite these guidelines, location within the REZ Area took precedence over price.
- H2F invested substantial funds and resources to ensure we were fully eligible. Had we been aware that location within the REZ Area would be prioritised over price—effectively ignoring cost competitiveness—we would not have committed significant funds to secure a qualifying site and submitting a bid.
- Our primary concerns with this approach are:
 - **Price:** The Guide explicitly stated that price was the primary criterion for bid assessment, which it should be given the BOS is a market-based scheme. Selecting higher-priced bids disregards the market-based principles of the BOS, does not necessarily deliver better conservation

outcomes, and imposes significant and unnecessary costs on proponents in NSW, including the NSW Government. For example, we are aware that the successful bids in the Reverse Auction were the same as the current market price of \$4,000 for White Box - Yellow Box - Blakely's Red Gum Grassy Woodland and Derived Native Grassland credits, compared to our bid of \$3,100, resulting in an additional cost of \$10.8 million to the proponent and government entity Energy Co for the 12,000 credits required. This represents a poor outcome for developers and for taxpayers if the developer is a government entity. It is worth noting that our property was less than 12 km from the REZ Area and contains some of the best White Box Woodland TEC I have ever seen.

- **Location:** The Guide does not state that bids from within the REZ Area would be preferenced above all other factors, including price. Applying this previously undisclosed preference contradicts the published rules and creates confusion and uncertainty for market participants. The BOS trading rules clearly define the geographic area over which credits can be traded and these should be adhered to for ALL projects – the SODA Reverse Auction created did not follow the BOS trading rules with respect to geography.
- This approach introduces uncertainty, elevates costs, and risks undermining confidence in market processes. These concerns echo key findings in the IPART **Biodiversity Credits Market Monitoring Report 2023-24**, which identified that:
 - **High transaction costs and uncertainty** discourage market participation (Chapter 6).
 - **Lack of transparency and information asymmetry** undermines confidence in the market and decision-making (Chapter 5).
 - **Market confidence** is damaged by unclear rules and perceived manipulation of trading processes (Chapter 7).
 - **Government interventions** that disregard market price signals undermine the scheme's integrity (Chapter 4).

Proposed SODA Solutions

1. Ensure clear and consistent assessment rules

We believe that the NSW Government should exclusively use the BOS geographic trading rules.

Undisclosed weighting and variations to the BOS trading rules undermines investor confidence and introduces sovereign risk signals that deter capital. The solution is simple:

- **Price should be weighted above all other factors.** Further, should the Department wish to impose other weightings, they should apply them transparently, with such rules being clearly advised well before a tender is conducted. However, we don't support weighting other factors above price.
- To increase Biodiversity Stewardship Sites in specific geographic areas, or to meet other conservation objectives, the credits generated on these sites should be increased relative to Sites outside these areas. With price being the determining factor, this would allow the market to reduce prices in these regions and therefore increase supply from these regions.
- **Require post-award disclosure of scoring outcomes** (e.g. prices, location criteria applied) within 30 days. Currently it takes many months for prices to be disclosed.
- Disclose all credits purchased and the prices paid on a biodiversity credit register to provide transparency to all within the market, both proponents and landholders. Clarity on prices paid and the price differential between use of a SODA and proponents negotiating with landholders directly should also be made clear by the Department.

This reduces ambiguity, improves trust and aligns SODA procurement with **best-practice probity and value-for-money principles**.

2. Fix timing barriers to supply to ensure better environmental outcomes

Currently, SODA Reverse Auction timelines allow participants less than one month to submit bids, making it virtually impossible to participate unless sites have already been assessed for their suitability. Not providing sufficient time for the market to respond inevitably will result in the government failing to supply like-for-like solutions and instead relying on avoidable variation pathways to offset proponents biodiversity impacts. We propose the following solutions:

- Extend the bid deadline to participate in a SODA Reverse Auction to at least 3 months.
- Release an **annual SODA Procurement Schedule** by OTG/species and region.
- Make it compulsory for project proponents to include offset obligations on the BOS Credit Demand register (on submission of EIS).
- SODA's to be a last resort option for developers particularly for credits available in the market. This will give the market **time certainty and procurement visibility** to invest in new BSAs, and by improving supply and market efficiency will ensure the best cost outcome for proponents.
- Run **regular quarterly micro-tenders** to address ongoing supply gaps.
- Introduce **payment time standards**—final settlement within 60 days to improve liquidity.

This unlocks supply, thereby reducing reliance on variation, and **lowering the long-term cost of offsets**. These steps align with IPART's diagnosis that **high transaction costs, information gaps and timing lags** impede participation and suppress efficient pricing.

3. Restore market signals and pricing confidence

The BOS is intended to be **market-based**, yet SODA outcomes are often opaque and price discovery is weak. Credits sought through the Credit Supply Fund (CSF) tenders (on behalf of SODAs) are subject to ceiling pricing imposed by the CSF (to allow for cost recovery) thus removing the ability for the market to dictate pricing. The result is uncertainty and **inefficient capital deployment**—an outcome also highlighted by the **IPART Biodiversity Credits Market Monitoring Report 2023–24**, which warns that **unclear rules and government market intervention continue to suppress market function**.

- Publish **SODA Award Summaries**: OTG, region and **actual credit purchase prices**
- Clarify **how SODA results interact with Biodiversity Conservation Fund (BCF) charge settings** to avoid reinforcing artificial price ceilings and allow for self-regulating market pricing.

Avoid **location-based outcomes that distort price competition** and undermine the BOS's intended design. This shifts SODAs from being "black box" procurements to **trusted market signals**.

4. Preserve price discovery and value-for-money

SODAs should signal **scarcity and value** rather than embed reference ceilings. Practitioners remain concerned that public **charge prices** can create focal points which flow back into future charge calculations, dampening supply incentives. We recommend:

- Anchor SODA selection to **competitive price ranking** within the eligible area, with **transparent and detailed award disclosures** (credit purchase price, volumes, locations) within **30 days**.
- Where the State acts as buyer, publish **method notes** on how SODA outcomes inform (or don't inform) **BCF charge calibration**, to avoid inadvertent price ceilings.
- Where location is determinative (although we do not support this outside the BOS trading rules), communicate that **beforehand** and then **maximise competition on price** within that subset.

IPART's monitoring underscores that **pay-in options and opaque procurement** can suppress market development and pricing signals; SODAs are a lever to reverse that dynamic.

5. Operate SODAs as catalysts for supply, not substitutes

To reduce reliance on variation and support net-positive objectives, SODAs should **pull forward supply**:

- Pilot **credit futures** for high-scarcity OTGs/species within REZ footprints, allowing staged delivery with verified milestones.
- Enable **offset banking** with modest uplifts for early supply to reward pre-emptive restoration or protection aligned to REZ requirements. This could be achieved by creating a **policy and financial framework** that encourages **early biodiversity credit creation** *before* demand peaks (such as before a Renewable Energy Zone projects receives DA approval). Currently, the BOS tends to be **reactive** — credits are only created once a development triggers demand. That leads to supply shortages, inflated prices, and over reliance on BCT variation. Offset banking could work as follows:
 - DEECCW establishes a **"Biodiversity Credit Bank"** under BOS, allowing landholders to **bank approved credits** linked to priority REZ OTGs/species.
 - Participants who create verified supply before the REZ offset window opens receive:
 - A **modest financial uplift** (e.g., 10-15% credit premium), or
 - **Priority tender access** in Credit Tenders and Reverse Auctions.
 - When REZ-related demand arises, these "banked" credits are drawn down first — ensuring like-for-like outcomes **without delay**.
- Use **price competition**, rather than location preferences that can be perceived as changing the rules.

This approach is consistent with the **BOS reform intent** and supports a transition to **clearer, more predictable procurement**.

6. Improve transparency and governance

Confidence follows transparency. Currently, market participants cannot trace how SODA and BCF acquisitions satisfy biodiversity obligations. That gap needs to close.

- Establish a **SODA Ledger** that links procurement outcomes to environmental obligations.
- Publish **delivery status** (contracted, in-progress, retired) to support accountability.
- Separate the delivery of SODA outcomes from the agency which reviews and approves BSA's. Furthermore, any BSA prepared by the government should be separated out into a separate agency to that which undertakes the review and approval process.
- Create a **Market Integrity Panel** to independently review procurement design, probity and fairness. IPART's market monitoring points to these transparency and confidence gaps. We suggest that the **Market Integrity Panel** is formed by either IPART; given that this agency has already been reviewing the biodiversity credit market. We strongly believe that a panel which is completely independent to the

government agency tasked with delivery is crucial. All reports by the market integrity panel should also be made publicly available.

Changes to s 6.31 of the BC Regulation (Mar 2025) are in contradiction to multiple red flags raised in the IPART Credit Market Monitoring Report (Dec 2024):

- **BCF pay-in keeps stifling the market.** IPART says the pay-in option “continues to stifle” market development and sets a de-facto price ceiling; yet the amendments **leave pay-in unrestricted at commencement** and newly allow the BCT to **pool** funds rather than match to specific obligations. That’s the opposite of tightening access to the BCF to let prices clear. SODAs increase the likelihood of pay-ins.
- **Variation rules use is expanded where IPART warned against it.** IPART found the BCT was **increasingly acquitting via variation rules** (27% of committed purchases in 2023–24) and warned this risks biodiversity outcomes; the new s 6.31(2)(a) explicitly lets CST acquit by **like-for-like or variation**, and the reforms **remove variation** for proponents while **retaining it for** CST —entrenching one-sided flexibility IPART flagged as problematic.
- **Profit-preserving mechanics vs market signals.** IPART documents that BCT must buy below the pay-in charge (i.e., it embeds a margin), and that BCF charges include **delivery fee and risk premium**. The new definition of “BCF individual offset amount” **excludes the delivery cost**, and s 6.31(2)(b)/(4) lets BCT meet obligations by spending **only the (lower) ‘individual offset amount’**, preserving the delivery-cost component. Net effect: structural surplus potential, reinforcing the **price-ceiling** dynamic IPART warned about.
- **Weaker accountability than IPART’s governance ask.** IPART emphasised restoring confidence and governance. While the amendments insert a **3-year acquittal clock**, non-acquittal merely triggers an **agreement with the Minister** and shields BCT from third-party claims (s 6.31(6)–(8)), which dilutes external accountability relative to IPART’s governance concerns.
- **Traceability & transparency cut against market integrity.** IPART stresses timely, granular market information. New s 6.31(3)(b)(ii) allows the BCT to retire credits **for a different BCF obligation** than the one paid for—breaking the line-of-sight between a proponent’s impact and the specific credit retirement, undermining transaction-level transparency IPART calls for.
- **Buyer concentration entrenched.** IPART shows the buyer side is already dominated by large infrastructure and the BCT; the reforms (exclusive BCT access to variation + pooling of funds) and now SODAs further centralise purchasing power, risking systematically **lower market prices** and deterring private supply—again, contrary to IPART’s competition and market-clearing objectives.
- **Prices remain too low to clear supply.** IPART evidences outstanding BCF obligations coexisting with unsold supply, because **BCF charges sit below seller bids**; the reform package doesn’t lift charges or restrict access at commencement, so the structural **non-clearing** problem persists. SODA credits will be priced lower than BCF charge prices thereby further exacerbating this issue.
- **Like-for-like integrity eroded in practice.** IPART’s concern that the BCT is **unable or unwilling to secure like-for-like** for scarce credits is now effectively codified as an **equivalent choice** between like-for-like or variation, rather than a genuine last-resort variation—at odds with IPART’s warnings on biodiversity outcomes.

Other issues:

- The CST establishes BSAs for landowners but does not require them to pay for the assessment (~\$150-200k), which puts those landowners at a competitive price advantage compared with landowners who establish and pay for their own BSA assessments.

- Credit purchases by the BCT don't adhere to price but appear to favour BSA's whose TFD has not been fulfilled, or some other publicly unknown conservation objectives.
- The time it takes for payments to be made to credit owners for successful Reverse Auction or Credit Tender bids is excessive (i.e. up to 12 months or longer).
- Conflicts of interest – the Government agencies involved in the BOS buy credits, sell credits and establish BSAs, while at the same time setting the price for credits. In the latest August 2025 Reverse Auction DCCEEW invited participants to offer prices for all their credits so now DCCEEW, an agency that also purchases credits, understands most credit sellers prices, giving DCCEEW an unfair advantage to other participants in the BOS.
- It is not understood whether the DCCEEW actively courts developers for SODAs and Reverse Auctions? We have heard rumours that they do. If so, they are acting as market sellers and eroding the true market.
- By the BCT advertising a Charge Price it creates a price ceiling, so the market responds by pricing below this ceiling. The "market price" then feeds back into the BCF Charge Price calculation, which will result in a new lower price. Over time this will reduce the Charge Price to a point where it is economically infeasible to create credits at that price. You are seeing this currently with the White Box - Yellow Box - Blakeley's Red Gum TEC credits, where the Charge Price has reduced from ~\$14k per credit when the Scheme started to <\$4k per credit presently.
- Under a SODA DCCEEW is allowed three years to source the credits, which is contradictory to the BOS' legislated intention, and strengthens their monopoly in the market because other sellers must provide their credits before a development starts construction. Additionally, because SODAs can't be signed before a DA is approved it doesn't provide enough time for the market to respond given it takes at least 18 months for a BSA application to be progressed, often much longer.

Structural solutions - How the BCT should interact with the BOS

1. Remove structural price suppression

- Cap or phase out the BCF/SODA pay-in option in constrained markets where supply exists.
- Introduce price floors and ceilings indexed to market transaction data to prevent under-pricing credit classes.
- Require independent price validation of BCT procurement actions by IPART or NSW Treasury.

2. Level the playing field between BCT and private buyers

- Prohibit the BCTs use of variation rules unless proponents can also access them under identical conditions.
- Require public justification and Ministerial sign-off when variation is used.
- Mandate like-for-like as the default rule for all BCT acquisitions, with variation only as last resort.
- Mandate the use of like-for-like credits for all BCT acquisitions, with the use of "other conservation measures" as a last resort.

3. Eliminate hidden margins and speculative acquisition

- Ringfence all revenue: no retention of delivery fees or risk margins for discretionary use.
- Require full pass-through of BCF funds to biodiversity outcomes, not administrative surplus.
- Introduce clawback provisions if BCT acquires credits below BCF charge and does not deliver offsets.

4. Match obligations to outcomes – credit traceability

- Introduce a public “Obligation Ledger” linking every BCF obligation to:
 - Date of payment
 - Credit class
 - Location
 - Final satisfaction (retirement ID)
- Ban pooled acquittal unless same ecosystem class and region.
- Make audit trail visible in the public register – currently it takes approximately 6 months for the results of Credit Tenders and Reverse Auctions to be published, and then it is only a summary (i.e. average price) of the price and number of the credits purchased, not the individual purchase details.

5. Mandate time-bound delivery for SODAs

- Replace weak 3-year acquittal with:
 - 12-month procurement trigger
 - 24-month mandatory acquittal
 - Default penalty payment to Biodiversity Investment Reserve if unmet.
- Remove immunity clause—allow third-party challenge on biodiversity outcome failure.

6. Independent procurement and oversight

- Establish a Market Integrity Unit (independent of BCT) to:
 - Run tenders for high scarcity credits
 - Validate equivalence compliance
 - Publish quarterly offset market integrity reports
- BCT to become market facilitator only, not buyer of first resort.

7. Market design improvements

- Implement Credit Futures Contracts to unlock supply ahead of demand.
- Enable offset banking with interest uplift for early supply.
- Run transparent reverse auctions for credit acquisition in shortage classes.
- Launch a National Credit Clearing Platform with API linkage to register.

8. Transparency as a design rule

- Publish weekly:
 - BCF balance by credit class & region
 - Obligations outstanding by age
 - Scarcity pricing index
 - BCT acquisition prices.
- All policy discretion decisions to require public reasoning statements.



We believe these refinements are **constructive enhancements** that align with Government intent for a **transparent, efficient and trusted offset system**.

Thank you for the opportunity to provide feedback on the BOS market.

Yours sincerely,

Dr Rhidian Harrington

Mrs Diana Fallon

Mr Harry Holden

H2F Pty Ltd