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Energy Savings Scheme Rule Change Consultation
2013

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ESS RULE CHANGE CONSULTATION 2013

The Independent Pricing and Regulatory Tribunal (IPART) is both the Scheme Administrator and Scheme Regulator of the NSW Energy Savings Scheme (ESS). As the ESS Rule governs the operation of the scheme, we provide comment on the Government's proposed changes to the ESS Rule.

IPART supports the Government's objectives of improving the accuracy of measuring energy efficiency savings and ensuring that energy savings are real and verifiable. As the ESS is currently funded through electricity prices, any changes to the scheme should be actively monitored to ensure that they are efficient, effective and deliver value for money.

A tradeable certificate scheme allows the market to determine what is the most efficient - or least cost - means of achieving Government's policy objectives as long as:

- ▼ Participants see the full costs of their activities including the compliance and administrative costs; and
- ▼ There is no targeting of technologies or sectors.

To the extent that the proposed rule broadens the scope of activities and reduces barriers to entry without an increase in costs or threatening the integrity of the scheme, it will improve the efficiency of the scheme.

Areas where we see a potential for increased costs are in relation to the more complex and untested method for measurement and verification for PIAM, difficulty in managing compliance for the home energy efficiency retrofit program and the proposed increase in reporting requirements. If the proposed changes proceed, we may need to introduce new requirements for accrediting businesses, registration of ESCs and audits. Inevitably these will require more resources and may also affect participation in the scheme and compliance costs for participants.

In finalising the package of Rule change proposals, the Government's objective of reducing red tape demands that the additional administrative costs be less than the expected benefits of the information obtained.

We are currently reviewing our risk management procedures to accommodate the proposed Rule changes, and further changes may be required once the new Rule takes effect. Ultimately any increase in costs will be borne by NSW electricity customers.

IPART is developing performance standards for assessing new applications and undertaking compliance activities. We intend to release these standards in the near term, and note additional funding will be required for these standards to be maintained under the revised Rule.

Attached is IPART's submission on the Rule change consultation where we offer specific comment on the key proposals.

If you have any queries regarding this matter, please do not hesitate to have your staff contact Ms Margaret Sniffin, General Manager, ESS, on (02) 9290 8486.

Yours sincerely



Hugo Harmstorf
Chief Executive Officer

Encl: IPART submission to the 2013 ESS Rule Change Consultation



Independent Pricing and Regulatory Tribunal

IPART Submission to the 2013 Energy Savings Scheme Rule Change Consultation

IPART Submission
December 2013

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1 Overview

IPART is both the Scheme Administrator and Scheme Regulator for the NSW Energy Savings Scheme (ESS). The proposed changes to the Rule provide for the *expansion* of some allowed activities and methods and *contraction* of other methods.

Given the current targets, the proposed expansion of activities should create a better energy savings outcome by allowing the market to identify the best opportunities. Allowing more activities provides scope for a reduction in the price of certificates, which will lower the compliance costs of the retailers.

However some of the proposed changes will mean that administration costs are likely to increase. In such cases, it is important that the increases are more than offset by reduced costs of creating certificates by allowing lower-cost activities into the scheme (and therefore reduced certificate prices and ultimately reduced pressure on electricity prices).

However, it is also important to protect the integrity of the scheme. We need to ensure that energy savings are real and verifiable to make sure that the scheme is delivering its targeted energy savings.

IPART supports the Government's objectives of improving the accuracy of measuring energy efficiency savings and ensuring that energy savings that generate certificates are a direct result of the ESS. As the ESS is currently funded through electricity prices, any changes to the scheme should be actively monitored to ensure that they are efficient, effective and delivering value for money.

It is important that any proposed changes be tested against the principles of best practice regulation. A tradeable certificate scheme allows the market to determine what is the most efficient - or least cost - means of achieving the policy objective, as long as:

- ▼ Participants see the full costs of their activities including the compliance and administrative costs (if these are not held to broadly similar levels across activities), and
- ▼ There is no targeting of technologies or sectors.

To the extent that the proposed rule broadens the scope of activities and reduces barriers to entry without an increase in costs, it will improve the efficiency of the scheme. However, the costs and benefits of the individual components of the proposed rule change should be carefully considered. It is not clear, for example, that the benefits of the increased data collection or revised measurement and verification (M & V) for PIAM projects exceed the additional costs.

Our comments on the specific proposals in the Rule change package are discussed below.

2 The proposed rule change

2.1 Inclusion of additionality 'test'

We support the inclusion of an additionality 'test' as it ensures that ESCs are created from projects that were implemented, or had their implementation brought forward, as a result of the ESS. It also reduces compliance costs arising from auditors and the scheme administrator dealing with incomplete documentation to support ESC creation by requiring their inclusion in the project administration from project commencement.

We do, however, note that some Accredited Certificate Providers (ACPs) will have to change their current business model to comply with this change.

IPART position

- 1 We support the proposed introduction of the additionality test.

2.2 Definition of 'Energy Saver'

We support the clarification of the definition of 'Energy Saver' as it:

- ▼ Reduces the risk of differing interpretation between ACPs, Auditors and IPART; and
- ▼ Is likely to reduce administration costs, because it is defined for each method and will reduce the need for nominations.

We note, however, that the proposed definition change will prevent nominated Energy Savers from onselling the right to create certificates. This will require a significant change in delivery model for some businesses.

IPART position

- 2 We support clarifying the definition of 'Energy Saver' in the Rule.

2.3 Inclusion of the Aggregated Metered Baseline Method

We support the inclusion of this method to increase access for the residential sector to the ESS, as it should lower administration costs by:

- ▼ Using a statistical model for estimating energy savings, which should lower compliance costs for both IPART and ACPs; and

- ▼ Improving the veracity of energy savings measurement through the use of an Independent Statistician, though their exact role will need to be clarified.

IPART position

- 3 We support including the Aggregated Metered Baseline Method in the Rule, subject to clarification of the role of the Independent Statistician.

2.4 Tightening of requirements for Commercial Lighting

We believe the proposed changes to the Commercial Lighting Formula will improve the operation of this part of the scheme and will provide the following benefits:

- ▼ Reduce the risk of 'cheap giveaways' not realising claimed energy savings and increase end user engagement in the product decision by requiring co-payments. We consider that co-payment is more likely to encourage the end user realising energy savings;
- ▼ Provide increased assurance of energy savings by removing some technologies where verification of savings was uncertain or difficult; and
- ▼ Increase the certainty of savings by removing Extended Operating Hours.

We also note the likelihood of:

- ▼ A short-term increase in IPART administration load as ACPs seek to sell stock of soon to be removed technologies; and
- ▼ Increased costs associated with the verification of the additional requirements.

Product acceptance times may reduce through IPART publishing a list. However, the scope for this may be offset to the extent that manufacturers submit multiple products for acceptance that may not be used. This risk will be greater if manufacturers see a marketing advantage beyond ESS in having their products endorsed and there is not a cost-reflective charge for this 'service'.

IPART position

- 4 We support the tightening of requirements for Commercial Lighting in the proposed Rule. However, if Government pursues the use of a products list we recommend that any additional costs should be recovered from fees on participants.

2.5 Inclusion of High Efficiency Appliances for businesses

We support this proposed change as it broadens the activities eligible for ESS, which provides scope to lower certificate costs. This allows the market to determine the most efficient - or least cost - means of creating certificates.

Further, the administration and compliance of this method is likely to be straight forward.

IPART position

- 5 We support the inclusion of High Efficiency Appliances for businesses in the Rule.

2.6 Home Energy Efficiency Retrofit program

We are concerned that this proposed change has substantial compliance costs to ensure energy savings have occurred but may not be taken up by many participants. This will add to the cost of the scheme.

We will need to develop a risk management strategy for this proposed program. Some energy savings under this program will be difficult to verify and could threaten the integrity of the scheme.

IPART position

- 6 We do not support this proposed change. If the proposal is implemented it will require substantial resources to be dedicated to ensure compliance. This will need to be funded. Further, we recommend that it be a requirement for ACPs to provide 'consent of entry for audit' from all homes for which ESCs will be created. This is likely to increase compliance costs, but is critical if risks are to be held to levels comparable with other activities within the ESS.

2.7 Project Impact Assessment Method with Measurement & Verification (PIAM M&V)

We are concerned that:

- ▼ The method is complex, and untested;
- ▼ The additional requirements, beyond the current PIAM method, are likely to add to the administration costs to IPART and ACPs;
- ▼ The number of Independent M&V Specialists in NSW is currently limited, which adds the risk of delay and cost for approval during high-volume periods in the short term; and
- ▼ The requirement for IPART, as Scheme Administrator, to publish a process for determining an accuracy factor adds to the administration costs.

IPART position

- 7 We recommend a cost-benefit assessment be undertaken before this proposal is adopted. If this proposal is implemented, we recommend that the costs associated with publishing an M&V guide should be recovered by fees from

participants applying to be accredited under the new PIAM M&V method. This is important to ensure that participants see the full costs of certificate creation.

2.8 Additional data requirements (clauses 6.8 & 6.9)

While the added data requirements (clauses 6.8 & 6.9) provide Government with increased information:

- ▼ The administration costs of ACPs will increase, as they will have to provide the information twice - both upfront and at the time of ESC creation - and may have to register ESCs in smaller batches than is current practice;
- ▼ The administration costs for IPART will increase, as it is an additional step and captures additional data;
- ▼ There is a risk of an ACP mistaking IPART's receipt of the data as a form of 'validation' of the data. Data validation can only occur at the time of audit, and
- ▼ It increases overall red-tape of the scheme.

IPART position

- 8 We do not support IPART collecting this data in its role as Scheme Regulator. If the data is required for policy purposes and the Government wants IPART to collect the data, we should be funded for this task and given the appropriate data collection powers.

2.9 Multi-Site Activities

The current Rule provides sufficient flexibility for IPART to determine whether a project is a single or multi-site activity.

Removing the discretion of IPART, to determine what types of projects can be logically grouped under a single Recognised Energy Savings Activity (RESA) will lead to difficulty in accurately reporting energy savings and potentially increase administration costs.

IPART position

- 9 We do not support the removal of the discretion of the Scheme Administrator to determine whether a project is a single or multi-site activity because it will make the administration of the scheme less efficient. Therefore, we propose it be reinstated.