NSW Government
Department of Climate Change, Energy, Environment and Water

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Energy Security Safeguard Policy Reform

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the NSW Department of Climate Change, Energy, Environment and Water's ('NSW DCCEEW') consultation on the Treasury's consultation on the *Energy Security Safeguard Policy Reform* ('Policy Reform Consultation Paper').

The Australian Energy Council is the peak body for energy retailers and generators operating in competitive markets. Our members generate and sell energy to over 10 million homes and businesses and are committed to delivering a reliable, affordable and decarbonised energy system for consumers. The AEC supports net zero by 2050 and recognises the electricity sector's role in reducing Australia's emissions. Our members are major investors in renewables, firming and storage technologies that are critical to ensuring customers continue to receive reliable and sustainable energy supply as we navigate the energy transition.

Last year the AEC commissioned a consultancy report that analysed the design and performance of various jurisdictional energy efficiency schemes in Australia, including the NSW Energy Savings Scheme ('ESS') and Peak Demand Reduction Scheme ('PDRS'). Relative to other schemes, the report found that the ESS and PDRS have delivered energy efficiency at low cost to NSW customers, noting that "low cost" still represents an additional cost on electricity bills.

It is still too early to confidently analyse the PDRS. However, the AEC considers that the success of the ESS is attributable to the market-based certificate scheme design and the willingness of policymakers to avoid over-engineering the supply-demand dynamics. These dynamics have resulted in healthy market liquidity, illustrated through the certificate surplus which should be treated as a feature of the scheme, not a policy issue.

While ESS certificate supply is currently high, there is no assurance it will remain that way, especially now that the main activity, commercial lighting, is being phased out. The Policy Reform Consultation Paper shows awareness of this and the AEC supports the proposal to encourage new electrification activity.

At the same time, other aspects of these policy reforms are counter to what has made the scheme low cost and effective to date. The experience of other jurisdictional schemes shows that policy interventions like sub-targets (as in South Australia) and emissions reduction targets (as in Victoria) materially increase scheme costs and administrative complexity.

As for vintage requirements, a small certificate surplus should not be viewed as a policy issue, and even if it is, there first should be greater confidence in the forward-looking certificate supply. This confidence could come in the form of the Department publishing a three-to-five year supply forecast so market participants can understand the target setting process and manage their liabilities well ahead of time.

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The AEC has responded to the consultation questions below. In short, the AEC's main positions are:

- Incentivise electrification activity through an energy saved metric.
- Prepare and publish forecast of ESS certificate supply over a three-to-five-year horizon. At minimum, this should form part of the detailed cost-benefit analysis on different target options.
- Do not introduce a specific emissions reduction metric as this will substantially increase scheme costs and complexity and is unlikely to be accurate anyway.
- Treat the certificate surplus as a feature of a market-based certificate scheme that improves liquidity and enables liable entities to better manage compliance costs.
- Do not introduce a priority household sub-target as it will significantly increase the administrative complexity and costs of the scheme.
- Publish PDRS targets at least three years in advance to match the time horizons many retailers use to hedge and manage their liability.
- Maintain the PDRS' primary focus on addressing summer peak demand.

Bill impacts of energy efficiency retailer schemes ($/MWh or $/GJ)

	Electricity ($/MWh)	gas ($/GJ)
NSW Energy Savings Scheme (ESS)	2.71	n/a
NSW Peak Demand Reduction Scheme (PDRS)	0.71	n/a
Victoria Energy Upgrades Scheme (VEU)	13.26	$1.34
South Australia Retailer Energy Productivity Scheme (REPS)	4.57	$0.51
ACT Energy Efficiency Improvement Scheme	**3.5**	**n/a**

Source: Newgrange Consulting, p22.

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Response to consultation questions

Question	AEC Response
Energy Savings Scheme (ESS)	
How should the Energy Security Safeguard provide incentives for electrification upgrades in the longer-term? Please include reasons and evidence to support your answer.	With the phasing out of the predominant form of certificate supply, commercial lighting, there is uncertainty of what future certificate supply will look like. Electrification upgrades should be encouraged, and the ESS' existing energy-saved design should make its inclusion easier. The AEC prefers *Option 1a) – Electrification within the ESS with a revised metric* as it is the most likely to source electrification activities at the lowest cost. If it does result in one type of fuel saving being favoured, this is because price discovery has realised it to be the most efficient so should not be classed as a disadvantage. Meeting targets with the lowest-cost activities possible should be the intent. *Option 1b) – Electrification within the ESS with sub-targets* will create too much administrative complexity and increases the risk of inadvertent double counting. Given uncertainty of level of supply, it will likely precipitate constant "tinkering" to the target which reduces overall confidence in the scheme. While *Option 2) – Standalone electrification scheme* would simplify design features, it is not clear what other new activities there would be to maintain the original ESS. Furthermore, having three separate schemes will be a significant administrative burden that will be difficult to monitor and enforce, and could create regulatory confusion. For example, would there be different participation thresholds for each scheme?
What objectives should any Energy Savings Scheme (ESS) target change seek to achieve?	The Consultation Paper notes "achieving a specific level of emissions reduction from savings achieved in the ESS".

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	While it is instructive for the Strategic Review to estimate the emissions reduction impact of the ESS, placing this as an objective in the scheme's design would have distortionary impacts. It will depend on the framing; however, the Consultation Paper's note reads as setting a specific emissions reduction target to be achieved. The certificate scheme review mentioned earlier found that under the Victorian Energy Upgrades (VEU) scheme, an emissions reduction metric materially increases scheme costs and administrative complexity and is not that accurate anyway. This is because: • The electricity grid is decarbonising but not in a linear fashion. This increases the margin of error of forward emissions factors. The VEU example showed that forward emissions factors are often too ambitious which increases the costs of meeting the targets (less emissions reduction per activity with a lower emissions factor) and is not accurate (the emissions factor is lower than the actual emissions intensity of the grid). • Each activity will need to have a deemed lifetime and a projection of emissions impact that can range from 5 to 20 years. If electrification is added, this means having formulas in place to calculate the emissions displacement of gas to electric substitution. This invites significant administrative complexity (and risk) to maintain and update and address misestimates as they arise. The review concluded that, in the Victorian context: *the rapidly declining emissions factor means that the same activity generates ever fewer certificates and has undoubtedly been a key driver in the increase in certificate prices over the years*.[1] With respect to the overall target setting process, there is currently uncertainty over what the future certificate supply looks like. Aside from the predominant certificate supply, commercial lighting, being phased out, it is unknown how quickly electrification upgrades can scale. This uncertainty increases compliance risk for liable entities, especially as some of the proposed reforms here increase scheme complexity (e.g. sub-targets) and reduce liquidity (e.g. certificate expiry).

[1] Australian Energy Council, Stocktake of Certificate Schemes, p12.

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	As part of the cost-benefit analysis for the target setting process, the AEC encourages the Department to publish a certificate supply forecast over a three-to-five-year horizon. Incorporating these forecasts into the target-setting process would support scheme stability and provide greater confidence to market participants.
Do you support the NSW Government's proposal to introduce Energy Savings Certificate (ESC) expiry in the Energy Savings Scheme (ESS)? If so, do you support the proposed 5-year timeframe?	The AEC does not support introducing a certificate expiry. Certificate surplus is a feature of market-based certificate schemes as it improves liquidity and enables liable entities to more efficiently manage compliance costs. The current share of certificates over 5 years old is only 2 per cent. While the Consultation Paper raises concern that the surplus share could grow over time, there are variables that will affect this. Firstly, there is the setting of the 2028-2030 targets which retailers will look to manage ahead of time. Secondly, the phasing out of commercial lighting (the predominant certificate activity) and the uncertainty of new activity means a surplus might help manage volatility until these new activities fully scale. The AEC's preferred position is removing vintage rules entirely. They do not materially contribute to scheme objectives and instead impose administrative burden - particularly given the lag between compliance year end and surrender.
Peak Demand Reduction Scheme (PDRS)	
Do you support the NSW Government's proposal to review and set the Peak Demand Reduction Scheme's (PDRS) targets annually to 2030? If not, what would be a better approach?	While the AEC appreciates the intent behind annual target setting, it would create significant uncertainty for retailers with respect to managing their liability. Many retailers hedge at least three years ahead so annual targets will reduce certificate liquidity and increase costs of compliance. The AEC recommends targets be set at least three years in advance to account for this.
What factors and additional evidence should the NSW Government consider in evaluating target options for the Peak Demand Reduction Scheme (PDRS)?	

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Do you support the NSW Government's proposal to maintain the Peak Demand Reduction Scheme's (PDRS) primary focus on addressing summer peak demand while monitoring its contribution to other reliability risks? If not, please provide an alternative proposal for the role of the PDRS to 2030 with supporting evidence.	The AEC supports the proposal to maintain the primary focus on addressing summer peak demand. Certificate schemes are most effective when they have a clear single objective. There are other regulatory processes underway aimed at addressing minimum system load.
Improving customer outcomes	
Do you agree that use of third-party product registers is suitable for products eligible for Energy Security Safeguard incentives? If not, why not? What other opportunities could the NSW Government consider to ensure the Energy Savings Scheme (ESS) and Peak Demand Reduction Scheme (PDRS) support products that perform as expected?	
Do you support the Independent Pricing and Regulation Tribunal (IPART) being empowered to suspend or ban persons from participating in the Energy Savings Scheme (ESS) and Peak Demand Reduction Scheme (PDRS) and publishing a list of suspended persons? If not, why not?	
How should bans from participating in the Energy Security Safeguard's schemes be structured? For example, what should their duration be?	
Are there additional or alternative actions the NSW Government should consider to	

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improve installation quality in the Energy Savings Scheme (ESS) and Peak Demand Reduction Scheme (PDRS)?	
What further actions could the NSW Government take to improve consumer protections and experience within the Energy Savings Scheme (ESS) and Peak Demand Reduction Scheme (PDRS)?	
Do you support the NSW Government publishing guidance to help set market expectations around when different types of Energy Security Safeguard Rule changes can be expected?	
Do you support the NSW Government publishing guiding principles for activity development? If so, please provide any feedback on the draft principles set out above.	
Sharing costs and benefits	
How should demand-side barriers to participation in the Energy Savings Scheme (ESS) and Peak Demand Reduction Scheme (PDRS) be addressed? If you support policy options, including a sub-target or certificate multiplier, please outline proposals to mitigate risks of poor consumer outcomes.	The AEC does not support a priority household sub-target. Sub-targets significantly increase the administrative complexity and costs of the scheme. As flagged earlier, there is currently no certainty of new activity supply levels, and the Consultation Paper has not stated how the sub-target would operate (e.g. what percentage of the total target it would be and whether there is even enough new supply to meet that target). These unknowns will significantly influence the cost of compliance. Alternative policy options, like incentive stacking or other forms of direct government support for vulnerable groups, are strongly preferred over sub-targets. If the Department does proceed with a sub-target, then a certificate multiplier is necessary to mitigate these negative impacts. For regional households, there could be certificate multiplier

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	approach similar to the SRES which 'deems' STCs at different rates depending where you are in Australia (postcode basis).
Do you support the proposal for the NSW Government to develop expanded market stimulus capacity to address supply-side barriers to participation in the Energy Savings Scheme (ESS) and Peak Demand Reduction Scheme (PDRS)?	The AEC supports the proposed measures to address supply-side barriers to participation.
Should any storage technologies be added or removed to those proposed? Please include evidence to support your answer.	
Do you support the proposed 10,000MWh participation threshold for the Energy Savings Scheme (ESS), including for Small Resource Aggregators (SRAs) operating virtual power plants (VPPs)? If not, please include evidence to support your answer.	

Any questions about this submission should be addressed to Rhys Thomas, by email Rhys.Thomas@energycouncil.com.au or mobile on 0450 150 794.

Yours sincerely,

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