REVIEW OF THE NSW ENERGY SAVINGS SCHEME - SUBMISSION FORM

Name of submitter	**Energy Networks Association (ENA)**
Is this a confidential submission?	**No**

Please set out your responses against the sections of interest, referring to sections by number where possible.

Submissions should be sent to: energysavings.scheme@trade.nsw.gov.au. The final date for submissions is 5:00pm on **Monday 18 May 2015**.

Part 1: Draft Statutory Review Report

Section	Issue	Comments
Objective 1 - to create a financial incentive to reduce the consumption of electricity by encouraging energy saving activities	Is there any other evidence that should be considered that would indicate whether or not this objective is being met and remains valid?	Both electricity and gas distribution network prices will fall significantly in NSW in the next few years, as energy networks pass on the benefits of lower costs and improved efficiency to customers. While schemes such as the ESS can deliver clear benefits to consumers and the economy as a whole, the design of schemes such as ESS need to recognise that the costs are ultimately recovered from energy users. In the face of significant changes in the network pricing outlook and Australia's energy market more broadly, the design of the ESS needs to be carefully considered to ensure that it does not increase energy costs for NSW customers more than necessary. The Draft Statutory Review Report states that 2013 saw 70% more certificates being created than were required in the scheme, yet the Report also suggests that objective one is being met. Ultimately it is the consumer who pays for this oversupply of certificates – increasing bills for those that are unable to afford efficient appliances. There is no metric in the ESS that relates the objectives to either reduced requirement for electrical power in NSW specifically caused by the ESS program (as opposed to for example appliance labelling) or lower electricity bills for consumers. At the very least, the review of the ESS should consider the metrics being used to suggest that the scheme is meeting its objectives. Focussing the ESS on energy (rather than just electricity) and aligning the objectives of the scheme more effectively with the objectives of VEET, REES and the ERF would ensure a nationally consistent scheme.

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Objective 2(a) - to assist households and businesses to reduce electricity consumption and electricity costs	Is there any other evidence that should be considered that would indicate whether or not this objective is being met and remains valid?	The NSW Government should reassess the continuing relevance of this objective in the context of the costs and benefits of the scheme. The objective of reducing electricity consumption should be reconsidered given sustained falls in electricity consumption, as reflected by significantly lower levels of network augmentation and significantly oversupplied electricity generation capacity. The oversupply of certificates in the market may indicate reduced consumption, however this does not necessarily suggest reduced costs to consumers. The cost of an oversupply of certificates is borne not by those that reduce their demand by buying an efficient appliance – but by those that can't. In addition, in determining the need for the scheme and its objectives, it would be appropriate to evaluate its relative cost-effectiveness compared to other State and Federal government policy measures aimed at reducing consumption or lowering costs to consumers.
Objective 2(b) - to complement any national scheme for carbon pollution reduction by making the reduction of greenhouse gas emissions achievable at a lower cost	Is there any other evidence that should be considered that would indicate whether or not this objective is being met and remains valid?	ENA believes that the objective is valid, however to effectively complement any national (or state based) scheme, the ESS must avoid overlap with other schemes. ESS should not provide incentives for customers to undertake activities which are already incentivised under schemes such as the SRES or ERF. The ERF already covers energy efficiency methods such as allowing for aggregation of small energy users, commercial building energy efficiency and industrial electricity and fuel efficiency, with more to be added. Significantly the small energy users method in the ERF is based on the NSW ESS Aggregated Metered Baseline Method. Any method covered by a national scheme such as the ERF should be automatically removed from ESS to ensure that consumers pay for least cost measures and that efforts to increase efficiency and reduce GHG emissions are not double counted. Prescribed activities should be carefully monitored to avoid duplication with other schemes. In addition SRES provides a significant incentive for solar and heat pump water heaters which distorts the market in favour of these technologies, despite gas water heaters having very similar abatement to electrically boosted solar and up to 13% better abatement outcomes than heat pump water heaters. In order to ensure that this objective of ESS can be achieved in the future, a greenhouse gas emissions-based conversion factor should be utilised to compare electricity and gas savings.

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Objective 2(c) - to reduce the cost of, and the need for, additional energy generation, transmission and distribution infrastructure	Is there any other evidence that should be considered that would indicate whether or not this objective is being met and remains valid?	ENA does not believe that energy efficiency schemes are the most cost-effective way of managing demand in order to reduce the need for future investment in energy infrastructure. With surplus generation capacity available in the NEM, an energy efficiency scheme such as ESS will have little impact on the requirement for extra generation capacity. As noted in this submission, the scheme is premised on lowering electricity consumption to provide peak demand benefits and lower gas consumption based on a forecast gas supply shortfall. Whilst the installation of energy efficient systems may reduce the potential for energy consumption, the scheme is unable to control the use of the appliance and the effect on peak demand. Peak demand issues would become even more of an issue should a poorly designed ESS unintentionally increase the requirement for extra transmission and distribution infrastructure, by, for example, providing incentives to customers to switch to reverse cycle air conditioners from gas heaters. This is likely to result in increased costs for all energy consumers and would clearly be contrary to the other objectives of the scheme. To lower the potential for augmentation of networks, the NSW ESS should consider including other technologies such as commercial gas fired air conditioning for industries or co and tri generation systems.

Part 2: Options Paper

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Section 2.2: Targets	Stakeholders are encouraged to provide feedback on the preferred option to increase targets from 5 per cent to 6.5 per cent from 2016 onwards, to maximise the net economic benefit of the ESS.	It is difficult to comment on the increase in targets without understanding the activities that are intended to be included. The market barriers identified in the options paper that prevent uptake of more efficient options are listed as information gaps, the 'hassle factor' and high upfront costs. The design of the ESS must therefore include minimal red tape for applications, an information campaign and reasonable incentives in order to encourage the uptake of more expensive energy efficient appliances. ENA suggest that targets should be energy-neutral (i.e. not mandate minimum savings from any particular fuel), and include a conversion factor to enable the comparison of savings from different fuels.

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Section 2.3: Penalty rates	Stakeholders are encouraged to provide feedback on the preferred option to increase penalty rates from the tax effective penalty rate from $37 to $42 from 2016, to reflect the avoided short run marginal costs of electricity supply.	ENA has no comment.
Section 2.4: Future approach to setting targets and penalty rates	The NSW Government has committed to regular reviews of the ESS targets and penalty rates. Stakeholders are encouraged to provide feedback on the preferred option which is to prescribe by regulation quantitative thresholds for when the conditions in the Act, which allow the Minister to amend targets and penalty rates by regulation, have been met.	ENA has no particular views on reviews other than the period chosen should be predictable and gives time for the market to adjust to the findings of the previous review.
Section 2.5: Scheme duration	The NSW Government has committed to extend the ESS to 2025. Stakeholders are encouraged to provide feedback on the proposal to reform the ESS Rule to prevent projects creating certificates using a baseline under the Metered Baseline Method that is more than 10 years old.	Regular reviews should however consider whether the scheme remains necessary or targets likely to be reached and suggest actions should these targets fail to be achieved or certificate prices are significantly higher than originally anticipated. Should targets fail to be achieved on a regular basis the extension of the scheme should be reconsidered.

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Section 3: Fuel coverage	The NSW Government has committed to expand the ESS to provide financial incentives to save gas. Stakeholders are encouraged to provide feedback on the preferred mechanism to expand the ESS to gas by increasing targets for existing scheme participants to 7 per cent from 2016, increasing to 8 per cent by 2018, and to provide a certificate conversion factor for gas savings to create certificates. Stakeholders are also encouraged to provide feedback on the proposed gas certificate conversion factor, the treatment of fuel switching activities and the need, if any, to reform exemptions for emissions intensive trade exposed activities under an expanded scheme.	ENA supports fuel neutrality and therefore the inclusion of gas within the scope of the ESS program while it remains in place. The inclusion of gas creates a scheme that is focussed on overall energy efficiency rather than just focussing on electrical efficiency. This also allows harmonisation of ESS with programs such as VEET, REES, and the ERF. Of the Options available, ENA supports Option 2 – Including gas in a target for electricity retailers. The Options paper suggests Options 1 and 3 would cost $1 million more to administer and these costs would be passed onto participants – reducing the net benefits of the program Setting a conversion factor based on GHG rather than primary energy may help achieve targets (and avoid inconsistency with objective 2(b)) by encouraging a greater uptake of gas appliances. A conversion factor based on GHG reduction would also allow harmonisation with VEET, REES and the ERF. It should be noted that measures contained in the Victorian VEET program actually increased gas consumption by around 134 TJ between 2009 and 2012 as electrical systems were changed for gas-fired equipment. The Oakley Greenwood Analysis of the impact of the VEET on energy consumption and Victorian energy markets stated that *39% of the more than 45,000 installations that concerned water heating equipment involved the replacement of electric water heating equipment by gas-fired equipment Clearly, the impact of these change-outs will have been to increase gas consumption. By contrast, only 19.8% of the water heating installations involved measures that would have reduced gas consumption* The ESS should not allow for ESS activities to also receive incentives under other schemes for the purpose of achieving similar outcomes (e.g. emissions reduction, energy consumption reduction). Allowing applicants to receive funding under the ERF and ESS would effectively double count the emissions reduction effort of a single action and contribute to higher costs of abatement to the community than necessary. For similar reasons the ESS should not allow for eligible activities to also receive STCs under the SRES. ENA supports the proposal for ESS rules to limit access to financial incentives for some fuel switching activities to mitigate the risks of increased peak demand including limiting eligibility to products focussed on heating rather than reverse cycle air conditioners. ENA suggests that NSW adopt design elements of REES and VEET including the prescribed activities listed in these schemes. Using similar prescribed activities would limit the ability to undertake fuel switching, reducing the risk of electrical peaks, and allow for common compliance responses and marketing by retailers and appliance manufacturers. This would reduce costs for retailers and manufacturers and encourage public awareness, an issue that is raised by the options paper but not discussed in depth.

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Section 4.1 Support for Regional Customers	The NSW Government has committed to providing a regional network factor of 1.03 and to provide regional coordinators to link energy efficiency service providers with regional communities. Stakeholders are encouraged to provide feedback on the preferred option to apply the regional network factor to electricity savings in the Essential Energy distribution network area.	Whilst the additional support to regional customers proposed under the ESS is reasonable, it is entirely possible that this will not result in changes in non-metropolitan networks. The cost of marketing energy efficiency options to non-metropolitan customers may prove to be prohibitive – especially in regard to larger appliances or areas that are not covered by an alternative fuel. If the additional support is implemented the level should be reviewed regularly to ensure that the effects of the program in regional areas are comparable to those in metropolitan areas.
Section 4.2 Support for vulnerable households	Stakeholders are encouraged to provide feedback on the preferred option to provide support for vulnerable households through supplementary programs rather than introducing a sub-objective into the ESS.	ENA supports the intention to provide assistance through supplementary programs rather than the ESS. Indeed, we suggest that this targeted support for vulnerable consumers a higher priority issue that should be addressed by the NSW Government as a whole rather than using the ESS. ENA recently commissioned the HoustonKemp report, *Supporting Vulnerable Energy Customers* to assist consideration of these issues. In preparing their report, HoustonKemp drew on earlier reports on energy affordability and benefitted from consultations with a number of key stakeholders. The HoustonKemp report proposes some key options for Governments to enhance their assistance to vulnerable consumers in an effective manner. These are: 1. harmonising the value of government assistance across jurisdictions; 2. effective targeting of government assistance based on need; 3. maintaining the relative value of energy concessions over time; 4. providing assistance to finance household or community investments in technology or energy efficiency improvements; 5. transitioning vulnerable customers to more cost-reflective electricity network pricing; and 6. improving customers' access to information and decision tools.

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Section 4.3 Energy Savings at Peak	Stakeholders are encouraged to provide feedback on the preferred option to work with industry stakeholders and network service providers to collect and publish information that could be used to value the benefit of energy efficiency projects in constrained network locations.	Targeting peak demand, whilst a worthy goal, may be difficult to achieve via the ESS and is unlikely to be the most efficient way of reducing peak demand. The introduction of new technologies can change peak profiles considerably and the impact is hard to predict. The public interest in electric vehicles and battery technology and their potential uptake may change peaks. Whilst batteries can store power generated by PV panels in the day and return it to the house when most needed, electric vehicles are likely to be charged at off peak rates at night – potentially creating new constrained locations. ENA suggest that the estimates of savings of over $2.25 billion for the preferred option through peak demand reduction may not be achievable. The preferred option includes $372 million in deferred network investment and $285 million in avoided gas supply. Augmentation expenditure, which is typically triggered to address growth in maximum demand, is not a key driver of AusGrid's and Endeavour Energy's capex for 2014-19 regulatory control period. The key driver of investment will be replacement of ageing assets to maintain network reliability. For example, augmentation expenditure relates to 9.5 per cent of AusGrid's total forecast capex and 17.7 per cent of Endeavour Energy's total forecast capex, whereas replacement expenditure relates to 52.4 and 41.6 per cent respectively of total forecast capex (Source: final determinations by the Australian Energy Regulator).In comparison with the previous period augmentation expenditure is forecast to be significantly lower in 2014-19 regulatory control period. This is because of the reasonably flat forecast demand over the upcoming regulatory period and the change in licence conditions. The final determinations by the AER for AusGrid and Endeavour Energy include forecast expenditure of $590m ($2013-14) for network augmentation. This compares to an amount of $3.3 billon ($2013-14) of augmentation expenditure that was incurred by these businesses in the 2009-14 regulatory period. There are unlikely to be any benefits arising from deferring the need for augmentation to gas distribution networks. We also consider it unlikely that any gas savings achieved under the ESS would defer investment in upstream gas infrastructure, given the forecast rapid increase in demand from LNG exporters over the short to medium term. Regional areas are least likely to be serviced by third party companies marketing energy efficiency products and alternative fuels such as gas. Essential Energy's customers may not be able to participate due to a potential lack of third party services to these regional areas – meaning that expected peak reductions through ESS in these areas do not eventuate. Any ESS prescribed activities that involve switching from gas to electricity can have a negative effect on summer or winter electricity network peaks, leading to costly infrastructure upgrades and higher prices for customers. ENA notes that the Government prefers Option 2 – improved information. Network service providers would need to be consulted on the type of information required and their ability to provide information on peak constraints.

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Section 4.4 Emissions Intensive Trade Exposed Industry	Stakeholders are encouraged to provide feedback on the preferred option to retain existing exemptions for Emissions Intensive Trade Exposed Industry activities, and to not impose restrictions on certificate creation at exempt sites.	ENA has no comment
Section 5.1: Scheme administrator responsibilities	The NSW Government will formally appoint IPART as the scheme administrator and scheme regulator Stakeholders are encouraged to provide feedback on the proposed additional functions and reporting requirements for IPART	ENA has no comment
Section 5.2: Enhancing compliance powers	Stakeholders are encouraged to provide feedback on the preferred option to enhance IPART's compliance powers. In particular, stakeholders are encouraged to provide feedback on appropriate settings for penalty notices for the offences listed in the Act. Stakeholders are also encouraged to provide feedback on appropriate setting for the requirement for an undertaking to 'set aside' certificates.	ENA has no comment
Section 5.3: Certificate price transparency and trading regularity	Stakeholders are encouraged to provide feedback on the preferred option for IPART to estimate average costs paid for certificates through an annual survey of scheme participants.	Transparency is crucial for any trading scheme. Any information provided to the market will be useful – in particular information that either suggests that targets are either too large or small. Matching targets to supply is critical for an effective certificate scheme and average price of certificates will give some indication as to the 'health' of the scheme and the likelihood of having reasonable targets.
	Stakeholders are encouraged to provide feedback on the preferred option to increase existing fees charged by IPART by a modest amount, and to set fees for services that are currently provided for free.	ENA has no comment

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Section 6.1: Continuous improvement of the Energy Savings Scheme	The NSW Government has committed to continuously improving the ESS including regular updates to the ESS Rule, implementing a comprehensive evaluation, monitoring and verification framework, and engaging with industry so they understand the opportunities under the ESS. Stakeholders are encouraged to provide feedback on the proposed approach for an annual Rule change cycle, what the scope of the evaluation, monitoring and verification framework should be and how best to engage with industry on the ESS.	ENA supports the principle of this recommendation, although noting that a ready supply of publicly available information will be critical to allow for an effective evaluation of the scheme. ENA would not support reviews on an adhoc basis. Review periods should be set and indicators of scheme success or failure should be defined and fully understood before a review begins. However ENA would support regular review of the technologies able to receive certificates under ESS. These technologies could include: • Gas clothes dryers; • Gas Powered Air conditioning technologies; • Co-gen and Tri-generation technologies • Gas Powered Chillers; • Gas Fuel Cells; • Electrical and Natural Gas Vehicles Reviews should consider ongoing appropriateness of activities (& their certificate values), as well as whether the overall target remains appropriate in light of these activities Any review cycle of the ESS should ensure that the effects of other schemes are considered to ensure maximum efficiency of funds and to avoid double counting efficiency gains and emissions abatement
Section 6.2: Interaction with the Emissions Reduction Fund	The NSW Government will work with the Commonwealth Government to establish formal information sharing arrangements between the two schemes to harmonise the schemes and prevent double counting of energy savings.	ENA supports the harmonisation of ESS with Commonwealth schemes such as the ERF however the ENA does not support the ability of applicants to apply for both Commonwealth and NSW incentives.