



Mr Liam Ryan
Energy Savings Scheme Review 2015
Department of Trade and Investment
GPO Box 7060
SYDNEY NSW 2001

Via email: energysavings.scheme@trade.nsw.gov.au

22 May 2015

Re: Energy Efficiency Council - ESS Review 2015

Dear Mr Ryan,

The Energy Efficiency Council ('the Council') welcomes the opportunity to provide input on the *Review of the NSW Energy Savings Scheme Part 1: Draft Statutory Review Report* ('ESS Statutory Report') and the *Review of the NSW Energy Savings Scheme Part 2: Options Paper* ('Options Paper').

The Council is the peak body for energy efficiency in Australia, and brings together our nation's top experts in this area to support the development of sensible, stable and economically prudent energy efficiency policy and programs.

The attached submission sets out our views in detail. In summary, the Council:

- Supports the Energy Savings Scheme (the ESS) as an important mechanism to address a combination of distortions in energy markets and barriers to investment in energy efficiency. Correcting these distortions results in a more cost-effective balance of supply-side and demand-side investments, lowering costs for energy consumers.
- Recommends that the Government adjust its modelling, and estimate additional targets of up to 24 per cent, for three reasons:
 - The proposed NSW target of 8 per cent is around 40 per cent smaller than the current Victorian Energy Efficiency Target (VEET) on a per capita basis. New modelling by the Victorian Government found that the VEET should be raised even further to deliver the greatest net benefits, which suggests that an optimum NSW target would be in this range.
 - While we endorse the approach of separately modelling the size of the target, the length of the target and inclusion of gas to identify key parameters, this will underestimate the benefits of a higher target. We recommend that modelling team estimate the best target for a scheme that runs to 2025 and includes gas.
 - Sensitivity modelling needs to be carried out on all externalists. In particular, the modelling underestimates energy market benefits caused by the current transformation of the energy sector, substantially under-estimates the value of carbon mitigation, whether that value is set as a social cost of carbon or a likely future carbon price and health impact costs are at the lowest range of international estimates.
- Recommends that the ESS include projects that use waste heat to offset electricity or gas use, irrespective of whether the waste heat is used directly or converted into electricity. Utilisation of waste heat in industry is an important targeted solution to reduce grid energy consumption, particularly in the industrial sector. Including savings from electricity generated by waste heat in the ESS will not lead to any duplication with the Renewable Energy Target.

- Recommends raising the regional network factor to 1.1. The proposed regional network factor of 1.03 for activities undertaken from the 2016 compliance year onwards does not reflect the costs of undertaking projects in regional areas. Additionally, the limitation of the regional network factor to the Essential Energy distribution network area should be removed.
- Recommends a much more pro-active approach to peak demand management by setting minimum required levels of investment for Distribution Network Service Providers to invest in localised demand-side projects that offset the need for more expensive network augmentation projects.
- Supports the increase in registration fees, application fees and product registration fees, as long as these increases in fees are accompanied by a substantial improvement in service. However, we oppose the introduction of the \$1,000 'investigation fee' to assess novel or highly complex applications that require additional assessment effort. These 'investigation fees' would be a barrier to the development of diverse and innovative projects under the ESS.
- Strongly recommends harmonisation of the ESS with energy efficiency schemes in Victoria, South Australia and the ACT. The ESS is currently the best-designed scheme in the country, and we are encouraging other states to adopt many features from the ESS, including the use of Measurement and Verification methodologies. However, there are a number of administrative features from other jurisdictions that are significantly more efficient. The Council's highest priority for harmonisation is in the registration of products, which will significantly reduce timelines and costs and lower the cost of the ESS. Ideally, we recommend that NSW and Victoria would set up an independent expert-based organisation that registers products for both schemes but at minimum mutual recognition should be seriously considered as it would substantially reduce the administrative burden.

The Council looks forward to working closely with the NSW Government in enhancing and expanding the ESS. If you require any further information please contact Shauna Coffey, Manager, Policy and Advocacy at shauna.coffey@eec.org.au or 0410 227 031.

Yours sincerely



Luke Menzel
Chief Executive Officer
Energy Efficiency Council

REVIEW OF THE NSW ENERGY SAVINGS SCHEME - SUBMISSION FORM

Name of submitter	Energy Efficiency Council
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?	<p>In an ideal market, energy users would optimise their investments in energy services by balancing investment in energy (supply-side) and appliances (demand-side). However, market failures that interact with distortions in the energy market result in over-investment in supply and under-investment in the demand-side.</p> <p>The Energy Savings Scheme (the ESS) is a key mechanism to address a number of barriers to optimal investment in demand-side services and products by:</p> <ul style="list-style-type: none"> • Enabling third-parties to help consumers undertake coordinated demand-side activities at scale, addressing a combination of information failures and biases in energy markets; • Creating an incentive for third-parties to find ways to overcome well-known market failures that prevent the take up of privately cost-effective energy efficiency; • Creating a vital incentive that addresses organisational failures and skill gaps in energy users, supporting the take-up of socially cost-effective energy efficiency; and • Overcoming a range of intersecting market failures to enable market transformation in the supply of energy efficiency goods and services. <p>The Draft Statutory Review Report contains ample evidence that the ESS is creating a financial incentive to reduce the consumption of electricity by encouraging energy saving activities and that this goal is still valid.</p>

Section	Issue	Comments
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 Draft Statutory Review Report contains ample evidence that the ESS is assisting households and businesses to reduce electricity consumption and costs and that this goal is still valid.
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?	The Draft Statutory Review Report contains ample evidence that the ESS is complementary to the ERF, is lowering the cost of emissions reduction and that this goal is still valid.
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?	The Draft Statutory Review Report contains ample evidence that the ESS is helping to reduce expenditure on network infrastructure, and this goal remains valid. It is notable that expenditure on network infrastructure was the main factor driving up energy prices in the period 2008-13.

Part 2: Options Paper

Section	Issue	Comments
<p>Section 2.2: Targets</p>	<p>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.</p>	<p>The Council supports setting targets at the point at which they deliver maximum net economic benefit to the NSW economy. The Council does not support a target that is too low, as it would drive a suboptimal number of energy efficiency measures. By the same token, a target that is too high should be avoided, as it would result in higher certificate prices.</p> <p>While we support the overall approach of the NSW government on modelling the target, we believe the modelling underestimated the level of the target that delivers maximum net economic benefit. We believe the maximum net benefit would be delivered by a target in the region of 8 to 15 per cent (including gas), because:</p> <ul style="list-style-type: none"> ○ The proposed NSW target of 8 per cent is around 40 per cent smaller than the current Victorian Energy Efficiency Target (VEET) on a per capita basis. New modelling by the Victorian Government found that the VEET should be raised even further to deliver the greatest net benefits, which suggests that an optimum NSW target would be in this range. ○ Separately modelling the size of the target, length of the target and inclusion of gas will have underestimated the benefits of a higher target. We recommend that modelling team estimate the best target for a scheme that runs to 2025 and includes gas. ○ Sensitivity modelling needs to be carried out on all externalists. In particular, the modelling underestimates energy market benefits caused by the current transformation of the energy sector, substantially underestimates the value of carbon mitigation, whether that value is set as a social cost of carbon or a likely future carbon price and health impact costs are at the lowest range of international estimates. <p>Therefore, the Council recommends that the NSW Government revise its modelling and model additional targets up to 24 per cent (including gas), allowing the Government to consider this higher target alongside other potential targets when making a final decision.</p> <p>We also note that substantial increases in the target could be introduced in steps over a number of years.</p>

Section	Issue	Comments
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.	The Council supports in the increase in the increase penalty rates from the tax effective penalty rate from \$37 to \$42 from 2016.
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.	The Council supports the NSW Government's preferred option of codification of conditions requiring an adjustment in targets or penalty rates and annual review and reporting. We recommend that the target set is a minimum target, and that the target should be raised if oversupply occurs for over 12 months. However, we do not support downward adjustment of the target, as the penalty price already provides a 'safety valve' to address this issue.
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.	The NSW Government's decision to extend the duration of the Scheme until 2025 will provide greater certainty to industry, including retailers and energy efficiency providers, allowing for the development of more innovative delivery models and reduce the cost of delivering energy efficiency. The Council believes the ESS should remain in place until there is a package of measures introduced that comprehensively addresses the supply-side bias in energy markets and other market failures, or until there is a national white certificate scheme in place.

Section	Issue	Comments
<p>Section 3: Fuel coverage</p>	<p>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.</p> <p>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.</p>	<p>The Council supports the primary focus of the ESS on electricity savings, but recognises the benefits of expanding the ESS to include gas efficiency on a transitional basis to help households and businesses adjust to the rapid jump in east coast gas prices.</p> <p>Gas efficiency activities should include process improvements as well as and the replacement of inefficient gas boilers and low-efficiency electric boilers with high-efficiency boilers and cogeneration. However the ESS should not support households switching from electric boilers to gas boilers, as rising gas prices mean that gas boilers with low upfront costs could have very high running costs.</p> <p>Further, through the inclusion of gas savings in the ESS, it would appear that the ESS is set to allow capture and re-use of waste heat to offset gas use. Therefore it would be logical to allow the use of waste heat to offset electricity use at a site as well. The ESS currently excludes electricity generation as an eligible activity and as a result some significant energy saving opportunities have been lost.</p> <p>As an example, the waste heat from food processing could be used to pre-heat water used in that process, reducing the need for gas-fired pre-heating. This type of project would result in a total reduction of energy use (electricity and/or gas) and should be eligible under the ESS through project-based measurement and verification. It appears that the ESS allows this type of project, but this should be clarified.</p> <p>A waste heat electricity generation project would use waste heat from a process to produce electricity, which reduces or replaces electricity inputs in another process. For example, an industrial site could use waste heat from a kiln to generate electricity through an Organic Rankine Cycle generator, which is then used to reduce electricity consumption on that site. There is no sound basis for excluding this type of project simply because it converts waste heat into electricity. Helping energy users generate their own electricity from waste heat is a speciality of a number of EEC members, and a core part of the energy efficiency technology suite.</p> <p>The Council recommends that the ESS include projects that use waste heat to offset electricity or gas use, irrespective of whether the waste heat is used directly or converted into electricity. We note that the NSW Government has reasonable concerns that allowing generation into the ESS would result in the ESS being used to support projects that it was not intended to support (e.g. improvements in the efficiency of coal-fired generators). However, utilisation of waste heat in industry is an important targeted solution to reduce grid energy consumption, particularly in the industrial sector. Including savings from electricity generated by waste heat in the ESS will not lead to any duplication with the Renewable Energy Target.</p>

Section	Issue	Comments
<p>Section 4.1 Support for Regional Customers</p>	<p>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.</p> <p>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.</p>	<p>The NSW Government intends to assist regional customers to undertake energy efficiency projects by introducing a regional network factor of 1.03 for activities undertaken from the 2016 compliance year onwards.</p> <p>The Council supports recognition of the additional value of saving energy in regional areas, but believes a factor of 1.1 would be more appropriate to reflect the costs of delivering projects in the regions. The proposed factor of 1.03 is insufficient to incentive significant additional activity in regional areas, depriving these communities of energy efficiency savings.</p> <p>In addition, the limitation of the regional network factor to the Essential Energy distribution network area should be removed. Regional barriers to uptake and regional community benefits of energy efficiency are not confined to this geographic area. There are also challenges in accurately defining the Essential Energy distribution network area and requiring this delineation is likely to result in significant additional administrative burden.</p>
<p>Section 4.2 Support for vulnerable households</p>	<p>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.</p>	<p>Vulnerable households face a number of specific barriers to energy efficiency, particularly access to capital. The Council strongly supports the NSW Government's low income household energy efficiency package to complement the ESS and believes programs such as this are the most efficient and effective way to support vulnerable households.</p> <p>It will be critical that program funding is maintained over time. If the low income household energy efficiency package were to be discontinued at any time, alternative support to low income households would be required.</p>
<p>Section 4.3 Energy Savings at Peak</p>	<p>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.</p>	<p>The Council agrees that the ESS should not include a peak multiplier.</p> <p>We note that the NSW Government's preferred option for addressing peak demand is providing information to energy efficiency service providers and network service providers on constrained network locations and the impact of energy efficiency on peak demand in the hope that improved information will overcome market barriers.</p> <p>The Council does not support this approach to addressing peak demand. Providing information will be highly ineffective at overcoming the entrenched energy market incentives that result in poor management of peak demand. As such, the Council recommends a more proactive approach, setting minimum required levels of investment for Distribution Network Service Providers to invest in localised demand-side projects that offset the need for more expensive network augmentation projects.</p>

Section	Issue	Comments
<p>Section 4.4 Emissions Intensive Trade Exposed Industry</p>	<p>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.</p>	<p>The Council supports the retention of existing exemptions for Emissions Intensive Trade Exposed Industry activities, and to not impose restrictions on certificate creation at exempt sites.</p>
<p>Section 5.1: Scheme administrator responsibilities</p>	<p>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</p>	<p>The Council supports the NSW Government's preferred option to clarify IPART's responsibilities in the administration of the ESS. The Council also recommends similar clarification of responsibilities for the NSW Office of Environment and Heritage and the Department of Trade and Investment.</p>
<p>Section 5.2: Enhancing compliance powers</p>	<p>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.</p>	<p>The Council supports the NSW Government's preferred option to enhance IPART's current range of regulatory and non-regulatory enforcement tools.</p>
<p>Section 5.3: Certificate price transparency and trading regularity</p>	<p>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.</p>	<p>The Council supports greater transparency of certificate prices, but does not have a preferred option at this time.</p>

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<p>Section 5.4: Funding and cost recovery</p>	<p>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.</p>	<p>The NSW Government is proposing to increase or introduce fees to cover costs associated with scheme administration from 2016 onwards.</p> <p>The Council is generally supportive of the proposed fee changes provided they are linked to a service guarantee that would eliminate some of the current frustrations on service time and lack of standardisation.</p> <p>However, the Council opposes the introduction of the \$1000 'investigation fee' to assess novel or highly complex applications that require additional assessment effort. The NSW Government should be encouraging innovation and a diversity of projects under the ESS and such a fee would be a significant barrier. Rather, the focus should be on supplying sufficient detail of required information in novel or highly complex applications to ease the assessment process.</p>
<p>Section 6.1: Continuous improvement of the Energy Savings Scheme</p>	<p>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.</p>	<p>The Council supports the NSW Government's preferred option of codification of conditions requiring an adjustment in targets or penalty rates and annual review and reporting.</p> <p>We recommend that the target set is a minimum target, and that the target should be raised if oversupply occurs for over 12 months. However, we do not support downward adjustment of the target, as the penalty price already provides a 'safety valve' to address this issue.</p>
<p>Section 6.2: Interaction with the Emissions Reduction Fund</p>	<p>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.</p>	<p>The Council agrees that energy efficiency projects that access the Emissions Reduction Fund ('ERF') should not be eligible for financial incentives under the ESS. However, projects that contain multiple, separate elements (e.g. landfill projects and energy efficiency) should be able to bid those separate parts into the ESS and ERF.</p> <p>In either scenario, there is not a significant risk of overlap given the unsuitability of the ERF for supporting efficiency measures in commercial buildings, small to medium manufacturers and many other types of energy efficiency projects. Nevertheless, we support the proposal that the NSW and Commonwealth government would share information to prevent double counting of energy savings from the ESS and ERF.</p>

Section	Issue	Comments
General Comments	Stakeholders are encouraged to provide any other comments on the Options Paper.	