



4 December 2015

Manager Energy Projects

Operations and Programs Branch

NSW Department of Industry – Division of Resources and Energy

energysavings.scheme@industry.nsw.gov.au.

RE: NSW Energy Savings Scheme Rule

Dear Sir/Madam

Thank-you for the opportunity to comment on your proposed changes to the NSW Energy Savings Scheme Rule.

We broadly support the Rule changes, and congratulate the NSW Government on its continued innovation and support for market based energy efficiency policy.

However there five aspects of the proposed Rule, that we believe could be dealt with more effectively. These are:

1. The new net increase in greenhouse gas emissions obligations
2. Calculation of baselines for the sale of high efficiency appliances
3. Pausing the PIA M&V sampling method
4. Clarification of sampling at equipment level for single site models
5. Replacement of electric water heaters with gas

Our concerns and proposed solutions to these issues are as follows.

The new net increase in greenhouse gas emissions obligations

We believe the proposed requirement for Accredited Certificate Providers to prove that energy savings activities to not result in a net increase in greenhouse gas emissions is both onerous and unnecessary.

It is onerous in the context of the PIAM&V method because it requires two energy models to be developed instead of one. As you have rightly proposed, for dual fuel projects a single energy model is developed based on primary energy values, which does not differentiate between electricity and gas use. This maximises the accuracy of the energy model as it allows variations in electricity and gas consumption to cancel each other out. However, to properly meet the proposed new greenhouse gas requirement, separate models for electricity and gas consumption would need to be developed. This is counterproductive, and may not be possible in some cases.

Secondly, it is unnecessary because the rule already protects against inefficient

technologies. The only case where an energy savings activity could result in a net increase in greenhouse gas emissions is where gas-consuming end-user equipment (EUE) is replaced with inefficient electricity-consuming equipment, such as resistive heating or an inefficient heat pump. However, the ESS Rule already (section 5.3B) requires that new EUE be more efficient than market-average end-user equipment. That would rule out inefficient heat pumps or resistive heaters replacing gas EUE.

We submit that the proposed greenhouse gas emissions test not be included in the ESS Rule.

Calculation of baselines for the sale of high efficiency appliances

We believe that the current market average approach for calculating high efficiency appliance baselines pays too great an incentive for free-riding, and penalises genuinely additional activity.

Under the current and proposed method, appliance retailers can create high volumes of certificates without any changes to their business as usual activity. This means that hundreds of thousands of non-additional ESCs could be created at almost zero marginal cost each year. This risks the credibility of the scheme. It also risks crashing certificate prices, crowding out genuinely additional projects from the scheme.

In addition, if appliance retailers develop projects using this method that drive genuinely additional increases in sales of high efficiency appliances efficiency, they will be penalised. They will be penalised because the ESS baseline will be revised annually to a higher efficiency level to reflect the new market average. However, the true counterfactual baseline is better reflected by the market prior to the intervention.

The current approach to raise baselines annually simply reduces the incentives for either additional or non-additional projects. It does nothing to address the fundamental contradictions in the market average baseline methodology.

Instead, we propose that baselines should be set at a retailer level, using forecasts (trends) based on their historical sales data. Baselines should be fixed at the point of accreditation (potentially including a decay factor to reflect trends). This data is the same data required for evidence of sales under the current method (and could test the retailer's ability to collect and retain this data at the point of accreditation). However, this alternative approach would ensure that appliance retailers who continued with business as usual sales activities receive zero certificates. Instead, retailers who innovate and lead genuine market transformation, would receive significant incentives that their free riding competitors could not access.

Pausing the PIAM&V sampling sub-method

We sympathise with the NSW Government's desire to further develop the sampling sub-method and guidance before accepting further accreditations. Our understanding of the NSW energy efficiency market is that there is sufficient M&V expertise to conduct activities under the PIAM&V sampling sub-method and that there are many opportunities for such projects, especially in the crucial small to medium enterprise (SME) sector. We hope that the Scheme Administrator will accept and process applications prior to the 1 October 2016 restart in the Rule, so that ACPs can

immediately commence creating ESCs after that date.

Clarification of sampling at equipment level for single site models

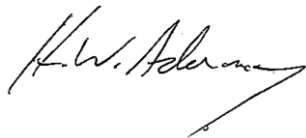
There are two levels at which sampling can occur under the International Performance Measurement and Verification Protocol (IPMVP) – equipment and sites. It is common for example under IPMVP to measure the performance of a sample of identical lights on a site and use those measurements to estimate the energy consumption of all of the lights on the site. The challenges of multiple-site sampling do not apply to these simple measurements of equipment performance. Explicitly allowing this under the current single site method would allow some efficiencies in measurement and verification where the equipment cannot be all individually sub-metered for practical or cost reasons. The PIAM&V method should aim to allow valid M&V methods as much as possible to broaden the types of projects that can use this method, and minimise the cost of M&V.

Replacement of electric water heaters with gas

We understand that replacing a domestic electric resistance water heater with a high efficiency gas water heat will attract significant incentives under the scheme. This is almost certain to occur at the end-of-life for the electric resistance water heater. This has potential for significant free-riding. At the very least, you should ensure that the baseline for this activity is a market average for new water heaters (including electric resistance, electric heat pump, solar water heater and gas water heaters), rather than the performance of the old water heater.

Please do not hesitate to contact us with regard to any questions you may have on +61 412 622 915 or at henry.adams@commoncapital.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'H. W. Adams', with a long, sweeping horizontal stroke extending to the right.

Henry Adams
Director