

22nd June 2020

Director, Climate Change and Energy Savings Policy
NSW Department of Planning, Industry and Environment
Email: energysecurity@environment.nsw.gov.au

Dear Sir/Madam,

RE: Energy Security Target and Safeguard 2020

Brickworks Building Products Pty Ltd ("Brickworks") welcomes the opportunity to comment on the Energy Security Target and Safeguard Consultation Paper.

Brickworks is a domestic manufacturer of building products and has plants located in all Australian states. In NSW, Brickworks produces more than 200 million bricks each year at our Austral Bricks plants located in and near Sydney. Brickworks is a large electricity consumer and a very large consumer of natural gas; consuming approximately 40 GWh/pa and up to 1.5PJ of natural gas each year in NSW to manufacture bricks and other building products.

In the past few years, Brickworks energy costs have increased significantly following large price increases for both gas and electricity compared to historical pricing levels. Energy costs represent a sizeable component of the operating costs of brickmakers. This has provided strong incentives to undertake energy management activities as a business as normal practice. Some of the energy management activities undertaken by Brickworks include weekly senior management review of plant energy efficiency, becoming a direct wholesale gas participant in the Sydney gas short term trading market, installing live metering to monitor gas consumption in real time, and conducting annual reviews to identify energy management opportunities.

Brickworks manufactures bricks 24 hours a day, 7 days a week except for shut-down periods required to conduct maintenance activities. Unlike residential electricity consumption, brick manufacturers do not vary their electricity consumption due to temperature, seasonality or time of day. Manufacturers consume electricity on a base load basis and do not contribute to creating a peak demand issue. It is primarily residential electricity consumers, and not large energy consumers, that cause demand to increase just as the sun sets and solar generation declines.

Any energy scheme should be paid for by the consumers that either cause an issue to occur and/or are the primary beneficiaries under the scheme. One consumer group should not be worst off from effectively cross subsidising the cost of activities that primarily benefit another consumer group. Currently, the existing NSW Energy Efficiency Scheme provides exemptions to only those businesses that are Emission Intensive Trade Exposed Entities. This limits existing exemptions to only a very small number of large energy users located within NSW. Brick manufacturing is not an EITE and is not currently exempt under the existing NSW Energy Efficiency Scheme. As a large energy consumer, Brickworks is highly concerned that expanding the existing Energy Efficiency Scheme and introducing a new Peak Demand Reduction Scheme will result in a

Brickworks Building Products Pty Ltd
ABN 63 119 059 513

738 - 780 Wallgrove Road, Horsley Park NSW 2175
PO Box 6550, Wetherill Park NSW 1851

T +61 (2) 9830 7800
F +61 (2) 9830 7797

info@brickworks.com.au
brickworksbuildingproducts.com.au

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significant cost increase to large energy users while the scheme primarily provides benefits to, and address issues created by, small energy consumers.

Large user exemptions under the NSW Safeguard should be broadened to include large energy consuming manufacturers in addition to businesses that are an EITE. An exemption could be set by reference to minimum annual thresholds for gas consumption and electricity consumption at a site. If a site exceeded the minimum threshold for either gas or electricity consumption, the site would be fully exempt under both the Energy Efficiency Scheme and the proposed Peak Demand Reduction Scheme. Expanding the large user exemption will avoid local manufacturers paying scheme costs that relate to small energy users.

Brickworks provides further comments to the detailed consultation questions in the attached appendix.

If you would like to discuss this submission further, please do not hesitate to contact myself.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Melissa Perrow', with a stylized, flowing script.

Melissa Perrow
General Manager Energy
Brickworks Building Products Pty Ltd

Appendix – Specific Consultation Questions

Consultation Question	Brickworks Comments
Setting an Energy Security Target	
1. Is the approach to assessing firm capacities from generators, interconnectors and demand response used to meet the EST reasonable and appropriate? Is there an alternative approach?	
2. Is the approach to applying the capacity factors for wind and solar generators reasonable and appropriate?	
3. Are AEMO's maximum demand forecasts appropriate for use in determining the EST? Should alternatives be considered (e.g. TransGrid's forecasts)?	
4. How often should EST updates be published?	
Powers to gather information	
5. Are the entities required to provide information to the EST register that are listed above suitable and adequate?	
6. Is there other information that should be provided for the register beyond that listed above?	
7. Are the types of projects that may contribute to meeting the EST described above suitable and adequate? How could prospective projects, beyond those identified as committed, be considered within the EST forecast for firm capacity?	
8. Many market participants already have requirements to report to AEMO or other market bodies. Where do you consider there may be overlap with these existing requirements that the NSW Government could leverage to ensure industry does not need to report twice? Are there other ways the NSW Government could obtain this information?	
Implementation timeframes for the Safeguard	
9. What would be a reasonable commencement date for the new energy saving and peak demand reduction targets? Please provide an explanation for your response.	A cost benefit analysis for large energy users and/or a review of the large user exemptions should be conducted prior to setting a commencement date. While residential electricity consumers are expected to save \$15.50/year, there is no information available to allow Brickworks, and other large electricity users, to evaluate the net cost impact on their business from the proposed changes. In addition, the primary beneficiaries of the scheme appear to be small energy consumers with limited opportunities available to large energy users.

10. Could elements of either scheme, such as the early accreditation of certificates ahead of surrendering requirements, be brought forward? Please provide an explanation for your response.	Brickworks supports upfront deeming to allow certificates to be created for the expected life of the project. This should apply to all activities and projects capable of creating certificates under the schemes. A project-based methodology should be created for the Peak Demand Reduction Scheme to provide an opportunity for large electricity consumers to reduce peak demand where this may be practical.
11. What support does industry need to prepare for the introduction of the scheme? Please provide an explanation for your response.	It would be helpful to industry for the Department to provide information sessions and actively engage with large electricity consumers on the available opportunities. The scheme should also be designed to minimise any costs incurred by large energy consumers to investigate and apply to accredit projects under the scheme.
The NSW Government will extend the ESS to 2050 and increase targets	
12. What issues should the NSW Government consider when setting targets to 2030? At what rate should the targets be increased to reach 13% by 2030?	Any increase in target should not out-pace the availability of projects and activities to meet it. With lighting nearing saturation, it is unclear what level of cost-effective activities are available to meet an increased target. A higher target with low availability of activities will significantly increase the cost pass-through to consumers from both a higher target and a higher certificate price.
13. What are the most promising opportunities once commercial lighting reaches market maturity? What is the likely size and cost of these opportunities?	
14. What would prevent the uptake of new opportunities? What support (including new standards and calculation methods) does industry need to transition to new opportunities?	
15. What additional data sources are available that could inform assessment of the size and cost of the energy efficiency opportunity in New South Wales? Refer to Appendix B for technical assumptions.	
16. What feedback can you provide to improve the other modelling assumptions set out in Appendix B?	
Penalty rates and exemptions	
17. Is the current penalty rate set at an appropriate level to incentivise retailers to buy and surrender certificates?	Brickworks does not support an increase to the current penalty rate. The scheme should incentive activities that are cost effective to end consumers.
18. Should small retailers be exempt? If so, up to what size?	The large user exemption should be broadened to include manufacturers and EITE businesses. Both manufacturers and EITEs should be exempt from both the Peak Demand Reduction Scheme and the expanded Energy Efficiency Scheme. This would recognise that manufacturers and EITE businesses are not the causers of the peak demand issue and are not the primary beneficiaries of the Safeguard. An exemption could be set by reference to minimum annual thresholds for gas consumption and electricity consumption at a site. If a site exceeded the minimum threshold for

	<p>either gas or electricity consumption, the site would be fully exempt under both the Energy Efficiency Scheme and the proposed Peak Demand Reduction Scheme. Expanding the large user exemption would avoid local manufacturers paying scheme costs that relate to small energy users.</p> <p>Under the proposed Peak Demand Reduction Scheme, retailers should be liable for their customer's share of the peak demand excluding customer's that are exempt. There are some retailers who primarily sell electricity to business customers who may have a small number of very large manufacturing and industrial consumers. These retailers can have a high annual electricity volume but only share a very small proportion of peak demand. Retailers should incur a liability under the Peak Demand Reduction Scheme based on their non-exempt customer's share of the peak demand. This will ensure that all electricity customers receive similar pass-through costs regardless of which retailer they buy electricity from.</p> <p>Small retailers should be exempt from both schemes given the high administrative cost to comply with the schemes.</p>
The NSW Government will expand fuel switching activities	
19. Which cleaner fuel switching activities should the scheme provide incentives for?	Brickworks is a large natural gas user. The energy efficiency of our brick kilns is dependent on the gas specification of gas delivered from the Jemena distribution network. Injecting bioenergy and hydrogen into Jemena's network would change the gas specification and could impact the energy efficiency and operation of sensitive manufacturing equipment. Brickworks recommends that an assessment on the impact to manufacturing and industrial gas users is conducted for any activity that could lead to a change of gas specification in NSW. Government support may be required to assist large gas users upgrade equipment in order to transition to a hydrogen future.
20. Should the scheme cover technologies that are being wound down under the SRES? If so, what is the best way to do this?	Small- and large-scale solar generation has reached technical maturity and now have a low cost that can compete with other electricity generation technologies. Solar generation does not require additional subsidies once the Federal Renewable Energy Target expires in 2030.
21. How should energy savings be counted for these cleaner fuel switching activities?	
22. What would be the likely scale of uptake of cleaner fuel switching activities? Please consider the number, size, and cost of projects.	
23. Under what circumstances should the NSW Government consider extending scheme liability beyond the electricity sector?	Brickworks opposes expanding the liability beyond the electricity sector. The liability determines what consumers incur the cost pass-through for the scheme. The cost of the scheme should be borne by those consumers that create the issue that needs to be addressed and/or primarily receives the benefit of the scheme. Expanding the liability to natural gas consumers would

	significantly increase the cost pass-through to large gas users who do not cause a peaking demand issue and have limited ability to fuel switch away from natural gas. If the liability was extended to natural gas consumption, large gas users should be exempt from the scheme.
The purpose of a peak demand reduction scheme	
24. How can the scheme's certificates best capture capacity, timing, duration and availability factor?	
25. Who is best placed to manage the financial risk that capacity is not made available when needed?	
Eligible peak demand reduction activities	
26. Are there other activities the NSW Government should consider for inclusion in the peak demand reduction scheme?	The Peak Demand Reduction scheme should not require a demand management contract to exist between an end user and a third party. A large electricity user may become a direct AEMO participant under the Wholesale Demand Response Mechanism and does not need to enter a contract with a third party to provide demand response into the National Electricity Market.
27. What is the size and cost of the peak demand reduction opportunity available in New South Wales?	
28. Are there alternative ways in which the peak demand scheme could complement national schemes?	
29. What are the key issues, and potential mitigation measures, the NSW Government should consider on consumer protection?	
30. Which calculation methods should be developed first?	Priority should be given based on those methods that can contribute the greatest potential reduction within the short to medium term. Priority should also be weighted to ensure methods are developed that cover both large and small energy consumers.
31. Should location-based multipliers or activities that are specific to certain locations be considered?	
Establishing liability for the scheme	
32. What are your views on the proposed approach to scheme liability? Please align your response with the topics above.	The liability of the Peak Demand Reduction Scheme should be based on the retailer's share of the total peak demand less exempt peak demand. The liability should be based on peak demand and not annual energy consumption. Refer to our answer for question 18.