Energy Security Safeguard

Office of Energy and Climate Change

Energy Savings Scheme

2023 rule change position paper



December 2023

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present and future.

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Updates to the ESS rule

The Energy Savings Scheme (ESS) is part of the NSW Energy Security Safeguard (the Safeguard). It reduces electricity consumption in NSW by creating financial incentives for organisations to invest in energy savings projects. Energy savings are achieved by installing, modifying, removing, or replacing energy saving equipment.

The ESS works by placing an obligation on NSW energy retailers and other liable parties to each year surrender Energy Savings Certificates (ESCs). These certificates are created by Accredited Certificate Providers (ACPs) when energy users undertake eligible Energy Savings activities.

The *Electricity Supply Act* 1995 (the Act) allows the Minister for Energy and the Minister for Climate Change to approve rules that set out how ESCs can be created, including the eligibility of activities and the methods used for calculating Energy Savings. These rules are published in a document called the *Energy Savings Scheme Rule of 2009* (the ESS Rule).

Annual updates keep the scheme up to date

Updating the ESS Rule annually helps ensure it reflects market developments and activity methodologies are informed by the latest available data sources. The process is a balance between addressing issues when they arise and managing the administrative impact of wholesale changes. This rule change focusses on the specific issues of revising the energy savings calculations for residential hot water systems and adding co-payment requirements for residential air-conditioning and hot water systems, and commercial hot water systems to improve customer outcomes.

This position paper explains changes to the ESS Rule published in the NSW Government Gazette on 19 December 2023 and presents the NSW Government's position on those changes. The paper summarises the consultation paper and stakeholder submissions received during the webinar and as written submissions.

Consultation and submissions

The consultation period began on 8 September 2023 with the release of a <u>consultation paper</u> and <u>draft ESS Rule</u>. A <u>webinar</u> held on 19 September 2023 attracted 130 participants and was a great opportunity for people to clarify issues and ask questions through the online poll. Of the 23 written submissions received, 15 are published on the website, with the rest being confidential.

Please be aware that even if you state that you do not wish certain information to be published, there may be legal circumstances that require the NSW Government to release that information (for example, under the <u>Government Information (Public Access) Act 2009</u>).

Summary of changes

The changes coming into effect on 19 June 2024 are summarised in Table 1.

This paper reminds ACPs to ensure service levels are maintained. ACPs should inform and seek consent from Energy Savers that:

- they are aware of and acknowledge the possible electricity bill and tariff impacts of an activity
- for activities undertaken for the purposes of the scheme, regardless of whether certificate creation takes place, that all aspects of the Australian Consumer Law apply and the details of all warranty and repair requirements have been provided and understood.

New changes are included for the installation or replacement of a residential air conditioner activity. The change applies the \$200 (ex GST) co-payment to Activity Definition D16.

Rule clause/method	Changes starting 19 June 2024
Clause 9.8.1(f) – Home energy efficiency retrofits	Add \$200 (ex GST) co-payment for residential and small business air-conditioning and hot water installations (Activity Definitions D16-D21)
Clause 9.9.1(e) – Installation of high efficiency appliances for business	Add \$200 (ex GST) co-payment for commercial hot water installations (Activity Definitions F16-F17)
Clause 10 - Definitions	Amend the definition of Eligible Fuel to specifically reference electricity Amend the definitions of Electricity Savings and Gas Savings to be consistent with other fuel savings definitions
Activity Definition D17	Amend baseline and adjustment factor to cover 2 heat pump hot water climate zones
Activity Definition D18	Amend baseline and adjustment factor to cover 2 heat pump hot water climate zones
Activity Definition D19	Amend baseline and adjustment factor to cover 2 heat pump hot water climate zones
Activity Definition D20	Amend baseline and adjustment factor to cover 2 heat pump hot water climate zones
Activity Definition D21	Amend baseline and adjustment factor to cover 2 heat pump hot water climate zones
Clause 9.9.1C	Insert clarifying definition of manifold hot water systems

Table 1 - Summary of changes to the ESS Rule

Administrative improvements to the ESS Rule include the clarification of electricity as eligible fuel and new terms to support the application of co-payments and the net amount paid. Other administrative changes not described in this paper can be seen on the tracked changes version of the rule available on the website.

Additional changes for residential air conditioning

The rule change process utilises data wherever possible as the basis for decision-making. Analysis of implementation data provided to IPART by ACPs is a crucial piece of that data. By collating information on the cost of implementations, the Office of Energy and Climate Change is able to track the average cost of an installation to consumers and study trends in the evolution of products implemented using scheme incentives.

Analysis of the implementation data to help set the customer co-payments for hot water revealed a series of \$33 air conditioning activities in Activity D16 (Install a new high efficiency air conditioner or replace an existing air conditioner with a high efficiency air conditioner). As a result, the \$200 (ex GST) co-payment has been extended to include Activity Definition D16 to address the same issues described below for hot water.

Hot water energy savings

Position

The energy savings calculations for residential and small business hot water systems are changing on 19 June 2024.

Baselines for residential and small business hot water systems will be reduced for all 5 Activity Definitions for hot water in Schedule D of the ESS Rule:

- D17 Replace an existing electric water heater with an air source heat pump water heater
- D18 Replace an existing electric water heater with a solar (electric boosted) water heater
- D19 Replace an existing gas water heater with an air source heat pump water heater
- D20 Replace an existing gas water heater with a solar (electric boosted) water heater
- D21 Replace an existing gas water heater with a solar (gas boosted) water heater.

Stakeholder responses on calculation changes

The consultation paper asked for views on amending the baselines for calculating energy savings from residential and small business hot water upgrades.

Stakeholder responses were split for and against the change, with a majority in support of the changes. To address requests for more information on the modelling of energy savings calculations, the supporting <u>EnergyConsult report</u> is provided as supporting evidence. The report's recommendations are accepted and used to determine the energy savings calculations. Stakeholder proposals for alternate per person hot water use and alternate energy savings calculations cannot be validated with current information but may be considered in later rule changes.

Stakeholder group	Summary
Manufacturers	All manufacturers agreed or partially agreed to the baseline change proposal. Manufacturers wanted sizing and warranty considerations introduced into the requirements. One manufacturer felt that more work needed to be done in determining energy savings on reduced loads from those stipulated in AS/NZS 4234:2021.

Table 2 – Summary of submissions on calculation changes

Stakeholder group	Summary
ACPs (including ESIA)	There was an equal split in opinions about increasing baselines. Those who did not support the change were concerned that reduction in incentives would result in ACPs abandoning plans to cover yet-to-be serviced regional areas. There were concerns that the baseline changes considered apartment buildings where it was not practical to install heat pumps. One ACP wanted more incentives offered for gas to heat pump upgrades as the current structure makes it difficult for low-income and tenanted households to participate. There were concerns about the misalignment of OECC's modelling based on an average consumption of 45L/person/day and IPART's recent factsheet which assumes 100L/bedroom. Many ACPs supported changing the baselines for commercial installations, too, as these are more generous and drives activity away from residential customers.
Advocacy	Did not provide an opinion on baseline changes but noted the scheme should support electrification and suggested the gas-boosted solar water heaters upgrade activity should be removed.
Scheme regulator - IPART	Supported changes in baselines.

Baselines used for residential heat pumps

The <u>consultation paper</u> and <u>rule change position paper</u> on the 2020-21 ESS Rule change thoroughly examined the introduction of heat pump hot water heaters to the ESS. Stakeholder responses were overwhelmingly positive for the introduction of these activities. The consultation and position papers also stated that the NSW Government was conducting a study into hot water usage to inform an appropriate value to use as a baseline in the long-term.

The 2020-21 consultation used inputs from AS/NZS 4234:2008 to model the NSW-specific outcomes for the heat pump climate zone HP3-Au. The model used 'annual hot water delivered' and 'heat loss for a representative household using 45L/day of hot water' to create the baselines. It did not consider the NSW cold region climate zone (HP5-Au).

Stakeholder feedback at the time suggested use of an alternative baseline of 60L/day and use of the AS/NZS 4234:2008 'Annual purchased energy consumption of reference hot water heaters in Australia other than air-source heat pumps' as the baseline. This approach was consistent with the Victorian Government's Victorian Energy Upgrades (VEU) scheme and the Commonwealth Renewable Energy Target (RET).

In response to that feedback, to align with the VEU and RET, and taking account of the potential uncertainty around hot water usage and appropriate load profiles, the NSW Government introduced Activities D17-D21 to the ESS Rule, with the baselines aligned to 60L/day usage and using the baseline energy use from Table A.10(A) of AS/NZS 4234:2008.

Information used to refine baselines

Given the delay to the hot water energy use study referred to in the rule change position paper, the Office of Energy and Climate Change (OECC) has analysed baseline energy use for existing residential resistance electric hot water heaters. The energy use of those existing hot water systems sets the counterfactual baseline used for the energy savings calculation.

OECC analysis in Table 3 compares AS/NZS 4234:2021 'Annual purchased energy consumption of reference hot water heaters in Australia other than air-source heat pumps' used in the ESS Rule against baselines proposed during the rule consultation and those recently updated for use in the VEU. The Victorian Government's <u>decision to reduce incentives</u> for hot water upgrades stepped down the reference values from standard to be more reflective of reductions in household hot water consumption. The table also highlights measured data from the Office of Environment and Heritage (OEH) Home Savings Rebate Program evaluation and recent data from Ausgrid. Both support that the baselines shared in the ESS Consultation 2020-21 better reflect real-world energy savings.

Source of baseline energy use	Small (kWh/yr)	Medium (kWh/yr)
ESS Rule – AS/NZS 4234:2021 HP3-Au 60L/day reference	2,565	4,230
ESS Consultation 2020-21 HP3-Au 45L/day model	1,950	2,959
VEU – AS/NZS 4234:2021 HP4-Au reference (small for medium systems and very small for small systems)	2,070	2,840
OEH 2013 – Home Saver Rebate Program report – Off-peak electric baseline		3,166
Ausgrid 2021-2022 Local Council Community Electricity Report – controlled hot water load per customer (average for the Sutherland LGA)		2,580

Table 3 - Baseline energy use for existing hot water systems

Sources: Ausgrid average electricity consumption by LGA 2022 <u>https://www.ausgrid.com.au/Industry/Our-Research/Data-to-share/Average-electricity-use</u>; Fyfe, J., Mohr, S., Milne, G., Rickwood, p. 2013, <u>Quantitative analysis of electricity savings from the Home Saver Rebates Program</u>, prepared for the NSW Office of Environment and Heritage by the Institute for Sustainable Futures, UTS.

Table 4 provides more detail by comparing the baselines used for the 2020-21 public consultation and those published in the ESS Rule. The MWh (megawatt per hour) baselines published in the ESS Rule include the lifetime savings awarded by the scheme – 12 years for heat pump hot water upgrades and 15 years for solar.

Table 4 – Comparison of current and previous baseline energy consumption values for standard hot water systems

Activity Description (existing)	2020-21 public consultation baseline (MWh)	2020-2021 published rule baseline (MWh)
D17 - Replace an existing electric water heater with an air source heat pump water heater	Small system: 23.40 Medium system: 35.51	Small system: 30.78 Medium system: 50.76
D18 - Replace an existing electric water heater with a solar (electric boosted) water heater	Small system: 29.25 Medium system: 44.39	Small system: 38.47 Medium system: 63.45
D19 - Replace an existing gas water heater with an air source heat pump water heater (D20 in the 2020-21 public consultation)*	Baseline A Small system: 0.58 Medium system: 0.58 Baseline B Small system: 28.38 Medium system: 47.93	Baseline A Small system: 0.58 Medium system: 0.58 Baseline B Small system: 48.68 Medium system: 69.05
D20 - Replace an existing gas water heater with a solar (electric boosted) water heater (D21 in the 2020-21 public consultation)*	Baseline A Small system: 0.73 Medium system: 0.73 Baseline B Small system: 35.48 Medium system: 59.92	Baseline A Small system: 0.58 Medium system: 0.58 Baseline B Small system: 60.85 Medium system: 86.32
D21 - Replace an existing gas water heater with a solar (gas-boosted) water heater (D22 in the 2020-21 public consultation)*	Baseline A Small system: 0.73 Medium system: 0.73 Baseline B Small system: 35.48 Medium system: 59.92	Baseline A Small system: 0.73 Medium system: 0.73 Baseline B Small system: 60.85 Medium system: 86.32

Note: * The original proposal for activity 'D19 - Replace an existing electric hot water heater with a solar (gas boosted) water heater' did not proceed as the ability to switch fuel source from electric to gas was removed in the ESS Rule.

Energy savings tailored to climate zones

NSW has 2 climate zones for heat pump hot water listed in AS/NZS 4234:2021:

- HP5-Au for alpine and cold areas
- HP3-Au for the rest of the state.

These 2 zones are used for product approvals. The calculation inputs for Bs and Be in Activity Definitions D17-D21 also utilise the energy use in those zones.

Revising the baselines to better suit a 45L/day usage pattern provides the opportunity to split the savings calculation across the 2 NSW climate zones for heat pumps and to remove the

additional complexity of assigning a separate Building Code of Australia climate zone. Aligning to the heat pump climate zone accounts for:

- better performance of heat pump hot water systems in warmer conditions
- increased heating needs and heat loss experienced in colder climates.

Solar hot water is similarly adjusted for usage, but the climate zones are unchanged.

The tables below show revised baselines and corresponding 'adjustment co-efficients' for the 5 water heater replacement methods adjusted in this rule change. In determining the savings factors, modelling was updated to use 2021 census data for average household sizes in NSW, inputs from AS/NZS 4234: 2021 (updated from AS/NZS 4234:2018) and to update the baseline gas hot water heater to 4 stars. The updates result in reductions between 27 and 54% on the energy savings calculations.

Table 5 – Activity Definition - D17 - Replace an existing electric water heater with an air source heat pump water heater. Baseline energy consumption by system size

System Size	AS/NZS 4234 climate zone HP3-AU		AS/NZS 4234 climate zone HP5-AU	
	Baseline A (MWh)	Adjustment coefficient (a)	Baseline A (MWh)	Adjustment coefficient (a)
Small	23.18	2.291	25.43	2.310
Medium	35.14	2.291	38.49	2.310

Table 6 – Activity Definition - D18 - Replace an existing electric water heater with a solar (electric boosted) water heater. Baseline energy consumption by system size.

System Size	AS/NZS 4234 solar water heater climate zone 3			
	Baseline A (MWh) Adjustment coefficient (a)			
Small	28.98	2.310		
Medium	43.93	2.310		

Table 7 – Activity Definition - D19 - Replace an existing gas water heater with an air source heat pump water heater. Baseline energy consumption by system size.

System Size	AS/NZS 4234 climate zone HP3-AU		AS/NZS 4234 climate zone HP5-AU		IP5-AU	
	Baseline A (MWh)	Baseline B (MWh)	Adjustment coefficient (a)	Baseline A (MWh)	Baseline B (MWh)	Adjustment coefficient (a)
Small	0.58	28.029	2.291	0.58	31.650	2.310
Medium	0.58	47.337	2.291	0.58	52.750	2.310

Table 8 – Activity Definition - D20 Replace an existing gas water heater with a solar (electric boosted) water heater. Baseline energy consumption by system size

System Size	AS/NZS 4234 solar water heater climate zone 3			
	Baseline A (MWh) Baseline B (MWh) Adjustment coefficient (a)			
Small	0.73	35.036	2.310	
Medium	0.73	59.171	2.310	

Table 9 – Activity Definition D21 Replace an existing gas water heater with a solar (gas boosted) water heater. Baseline energy consumption by system size

System Size	AS/NZS 4234 solar water heater climate zone 3			
	Baseline A (MWh) Baseline B (MWh) Adjustment coefficient (a)			
Small	0.73	35.036	2.322	
Medium	0.73	59.171	2.322	

Adjustment coefficient b = 4.167 (unchanged)

No changes for registered products

For Activity Definitions D17 to D21, the ESS Rule only allows certificate creation from products listed on the product registry maintained by the Independent Pricing and Regulatory Tribunal (IPART).

The existing product approval process for individual items of End User Equipment is unaffected. Instead, the baseline changes impact certificate calculations in a way that allows continued use of existing product registrations following the IPART process.

Adjusting co-payments

Position

Expanded changes to the co-payment are proceeding on 19 June 2024.

A new minimum \$200 (ex GST) co-payment is added for:

- each residential or small business air conditioner installed in Activity Definition D16
- each residential or small business water heater installed in Activity Definitions D17to D21
- each commercial heat pump hot water heater installation in Activity Definitions F16 to F17.

The existing \$30 (ex GST) co-payment for Home Energy Efficiency Retrofit activities in Schedule D and Schedule E remains unchanged, outside of the new requirements.

A small change to Activity Definition F16 for commercial heat pump hot water upgrades clarifies the treatment of manifold systems, made up of multiple smaller units set up with water balancing to operate as a single combined system.

Clarifications in the position paper below state the NSW Government's position on the link between unexplained changes to energy bills and the provision of spare parts and consumer guarantees to maintaining the production and service levels required to meet the requirements of clause 5.4(e) of the ESS Rule.

Stakeholder responses on co-payments

The consultation paper asked for views on adding co-payment requirements for residential, small business and commercial hot water upgrades. After further consideration, co-payments are also being added to residential air-conditioning activities, due to similarity with heat pump hot water systems and installation costs.

The majority of stakeholder responses support the changes, though suggest varied levels of co-payment ranging from \$100 to \$1000. The decision to set the co-payment at \$200 (ex GST) balances the spread of submission feedback and suggested levels. Continued monitoring will evaluate ongoing customer engagement, to test if this measure is successful and customers do become more invested in the decision-making process.

Stakeholder group	Summary	
Manufacturers	Submissions from manufacturers indicated support for increased co-payments. Some advocated for a higher co-payment than the proposed \$200 to reduce the installation of alleged low-quality products by market operators focussed on short-term outcomes.	
ACPs (including ESIA)	Almost all ACPs supported the proposal and felt it would enable greater customer engagement in the activity and better installations. Some felt that the co-payment could be increased further to weed out potentially unscrupulous behaviour. ESIA, though supportive, was concerned about its impact on vulnerable households.	
Advocacy bodies	Concerned that increasing the co-payment for the activity would make it less accessible for households on lower incomes.	
Scheme regulator - IPART	Supported increasing co-payments as it will reduce customer complaints. However, for manifold systems, the rule needs to be updated to require one co-payment.	

Table 10 –	Summary	of su	bmissions	on co-pay	ments
	Summary	01 30	011113310113	on co pay	monto

Increase customer engagement by updating co-payments

Co-payment requirements have been in the ESS Rule since 2014. They require customers to pay towards their upgrade project. If incentives are high enough for upgrades to be offered to consumers at little or no cost, co-payments can help ensure that consumers actively engage with the upgrade and receive a fit-for-purpose product.

An effective co-payment should account for the value of the product or installation. If the co-payment is too high, there may be limited incentive for the consumer to undertake the upgrade through the scheme. However, if the co-payment is set at a small fraction of the product value, consumers may not ensure the upgrade is fit for purpose.

Current co-payments for hot water system upgrades do not ensure sufficient customer engagement or account for the high value of the products being installed through the scheme. This risks low engagement for customers and could also result in customers choosing upgrades that may not meet their needs. This paper advises stakeholders of the changes government will make to co-payments for hot water system upgrades.

Customer engagement is key

Choosing the right hot water system can be a complex choice for customers. There are many factors to consider and options available for consumers looking to upgrade their hot water systems. These include switching from fuel to electric, what technology and system type might best suit their need, and other considerations like the space, system size and noise levels.

Customers should also be aware of the effect changing their hot water system will have on their energy bills. For example, where hot water systems are on controlled-load or off-peak

tariffs it is the ACP's responsibility to ensure the customer is aware of the effects changing their hot water system may have on energy bills.

Additionally, for activities undertaken for the purposes of the scheme, regardless of whether certificate creation takes place, all aspects of Australian Consumer Law apply and the details of all warranty and repair requirements have been provided and understood.

A co-payment will help ensure customer engagement

Consumers can currently receive a high value hot water system from as little as a \$30 (ex GST) co-payment for residential upgrades. Small businesses and commercial upgrades don't currently require a co-payment.

The existing \$30 (ex GST) co-payment under the Home Energy Efficiency Retrofits method is based on the minimum viable contribution to a small halogen lighting upgrade. In this case, the co-payment is for the whole implementation, allowing for the bundling of multiple lighting types and the calculation of ESCs from multiple Activity Definitions. The bundling approach and \$30 contribution is too low for high-cost equipment upgrades, where equipment and installation costs often exceed \$1,000.

The attractiveness of this proposition risks low customer engagement with the specific details of the upgrade and customers may pick a product that does not suit their needs. The offer of a minimal contribution also risks perceived legitimacy of the scheme and has led to widespread complaints of high-pressure sales tactics that undermine the scheme's reputation.

So as not the increase administration costs unnecessarily, where equipment costs are significantly more than the scheme incentives, co-payments have not been introduced. This applies to commercial air conditioning and other equipment eligible for the Installation of High Efficiency Appliances for Businesses method – outside or refrigerated cabinets and hot water systems – and to the project and measurement-based methods of the ESS Rule.

Details of the co-payment proposal

A co-payment of \$200 (ex GST) was proposed across all hot water activities. This includes residential, small business and commercial upgrades. As with other co-payments under the ESS, the purchaser needs to provide the payment and must not be reimbursed. In-kind payments are not an acceptable form of payment.

There is precedent for increasing co-payment levels in the ESS to better reflect product value. A \$200 (ex GST) co-payment was introduced in 2022 for refrigerated display cabinets (RDCs) in the Installation of High Efficiency Appliances for Businesses method. All stakeholder submissions supported the introduction of co-payment requirements and suggested that it needed to be paid per refrigerated cabinet. The co-payment is charged for each individual appliance/equipment from the list of accepted products maintained by IPART.

This distinction is important when comparing the approach to co-payment in Schedule E against that used in Schedule D and Schedule F. For lighting and other equipment upgrades in Schedule E, the whole implementation is covered by the co-payment. For Schedules D and F, the co-payment is for each item of end-user equipment listed on the product register.

This means that for hot water systems, a residence or small business with 2 existing hot water systems will need to pay the co-payment twice. In the case of manifold upgrades, where a combination of 2 or more hot water tanks (and for heat pumps multiple condensing units) replaces 1 existing system, those manifold systems must be listed on the product register before energy savings can be calculated. As a result, only one co-payment is required for registered manifold systems.

A clarification has been added to the ESS Rule to better describe manifold systems in Activity Definition F16.

Activating the changes

Position

This rule update, published on **19 December 2023**, commences on 19 June 2024. It will include a transitional arrangement where the previous rule applies where an implementation date is before 19 June 2024.

Stakeholder responses on transition arrangements

The consultation paper asked for views on transition arrangements for activating the Rule amendments. All responses preferred option 1, where a future date is set for the change to go live. The responses differed in the suggested duration of the transition period.

Stakeholder group	Summary
Manufacturers	Manufacturers supported immediate application of the change in baselines, as well as co-payment changes, or allowing a maximum transition time of 1 month. There were concerns that this consultation paper was already being used to close sales before new rules came into effect.
ACPs (including ESIA)	Most ACPs supported a transition time of 3 months for baseline changes as well as co- payments. Some supported immediate application to thwart rush tactics, while others suggested allowing a longer time for larger projects and to deal with committed stock purchases and existing inventory. An ACP was concerned that a shorter transition period would result in an unsafe work environment for employees and poor installations for consumers.
Advocacy groups	Advocacy groups supported option 1, given its lower administrative burden and costs.
Scheme Administrator - IPART	IPART support introducing both changes within 3 months to enable existing contracts to be fulfilled, without increasing their administrative burden with case-by-case determination.

Timing and rationale for the rule change

The NSW Government is amending the rule to add co-payments and change the energy savings calculations for hot water systems.

Transition options need to balance risk

Feedback was sought on 2 options for transitional arrangements to support rule commencement:

1. **Option 1**: the previous rule (meaning the current provisions) applies where an implementation date is within 3 months of the commencement date, or as agreed on a case-by-case basis with the scheme administrator, IPART.

Option 1 provides for a 3-month transition for implementations, is administratively simplest as it sets a deadline for the completion of works that can be tracked in the scheme registry. It accounts for scheduling complexity and the completion of building works.

2. **Option 2:** the previous rule (meaning the current provisions) applies where a contract to supply a hot water heater is in place prior to the commencement of the rule, or as agreed on a case-by-case basis with the scheme administrator.

This option, based on existing contracts, provides more time to implement projects, but adds regulatory burden through the requirement to track and audit compliance on contracts for work, and the uploading of implementations across different versions of the rule.

Energy Security Safeguard



For more information

To learn more about the Energy Security Safeguard, please visit our website or contact:

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