


Department of Climate Change,
Energy, the Environment and Water

Energy Savings Scheme and Peak Demand Reduction Scheme statutory reviews 2025

Discussion paper

August 2024





Acknowledgment of Country The Department of Climate Change, Energy, the Environment and Water acknowledges that it stands on Aboriginal land. We acknowledge the Traditional Custodians of the land and we show our respect for Elders past, present and emerging through thoughtful and collaborative approaches to our work, seeking to demonstrate our ongoing commitment to providing places in which Aboriginal people are included socially, culturally and economically.

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Introduction

The NSW Government is undertaking statutory reviews of the Energy Savings Scheme and Peak Demand Reduction Scheme

Under the [NSW Electricity Supply Act 1995 \(ES Act\)](#), the Minister for Energy must review the operation of [Energy Security Safeguard](#) schemes every 5 years. The next statutory review of the [Energy Savings Scheme](#) (ESS) is due to be tabled in Parliament by 30 June 2025. The Department of Climate Change, Energy, the Environment and Water (the Department) will conduct the first statutory review of the [Peak Demand Reduction Scheme](#) (PDRS) at the same time.

Each review must determine whether the scheme policy objectives remain valid and if the scheme design is appropriate for securing those objectives.

This paper seeks stakeholder views on:

- the Department's proposed approach to the statutory reviews
- the validity of scheme objectives
- the appropriateness of scheme design for achieving those objectives.

The NSW Government will consider opportunities to reform the schemes

The statutory reviews are also an opportunity for the Department to consider reforms to the schemes. Past reviews have considered reforms to fuel switching activities, regional access and scheme administration.

The Department will use these reviews to consider scheme reform opportunities including:

- supporting accelerated uptake of consumer energy resources, such as household electrification upgrades
- addressing barriers to scheme access for consumers across NSW, for example in regional areas
- ensuring the schemes support high-quality upgrades that are fit-for-purpose, perform as expected and provide adequate consumer protections

- maximising the schemes' contribution to meeting NSW's legislated emissions reduction targets.

This paper seeks stakeholder views on reform opportunities and evidence to support why reforms may be required.

Statutory review and reform consultation

The Department will use consultation responses to:

- inform its approach and evidence base for the reviews
- identify key issues and opportunities potential reforms could address.

Consultation structure

This consultation has 2 parts:

- Part 1: statutory reviews
- Part 2: reform opportunities.

The Department is seeking stakeholder feedback on the consultation questions outlined in each of the sections of this discussion paper.

Key dates and how to make a submission

This paper was released on 9 August 2024.

The submission period for this consultation will close at 5 pm AEST on 6 September 2024.

To make a submission before the closing date, email a PDF of your responses on your organisation's letterhead to energysecurity@environment.nsw.gov.au

Publishing submissions

The Department is committed to an open and transparent process. All consultation responses and submissions will be made available on the [Climate and Energy Action website](#).

If you wish for your written submission to remain confidential, please clearly state this in your submission. Only your organisation's name will be published.

Submissions made by individuals will have personal details removed.

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 Department to release that information (for example, under the *Government Information (Public Access) Act 2009*).

Part 1: statutory reviews

Legislated objectives

The statutory reviews of the ESS and PDRS must consider whether:

1. the policy objectives of the schemes remain valid
2. the scheme design remains appropriate for securing these objectives.

ESS objectives

Principal objective:

- To create a financial incentive to reduce the consumption of energy by encouraging energy saving activities.

Other objectives:

- To assist households and businesses to reduce energy consumption and energy costs.
- To complement any national scheme for carbon pollution reduction by making the reduction of greenhouse gas emissions achievable at a lower cost.
- To reduce the cost of, and the need for, additional energy generation, transmission and distribution infrastructure.

PDRS objectives

Principal objective:

- To create a financial incentive to reduce peak demand for electricity by encouraging activities that create peak demand reduction capacity.

Other objectives:

- To improve the reliability of electricity supply.
- To reduce the cost of electricity for customers.
- To improve the sustainability of electricity generation.

Proposed approach

Do the objectives remain valid?

To determine the validity of objectives, the reviews will focus on 2 main questions:

1. Do the objectives address an ongoing issue or opportunity?
2. Is there still a need for policy support to address this issue or opportunity?

This approach is consistent with previous reviews. For example, the 2020 statutory review of the ESS considered whether there was an ongoing need to encourage energy savings. It considered evidence of available cost-effective energy savings opportunities and market barriers.

Consultation questions

1. Do you support the proposed approach to determining whether scheme objectives remain valid? Please provide evidence to support your answer.
2. Are the ESS objectives still valid, and what evidence should the Department consider to assess their validity? Please provide evidence to support your answer.
3. Are the PDRS objectives still valid, and what evidence should the Department consider to assess their validity? Please provide evidence to support your answer.

Does the scheme design remain appropriate to secure scheme objectives?

The reviews will address the following questions to determine whether the scheme design remains appropriate for securing the legislated objectives.

1. Is a certificate scheme an effective policy instrument to deliver these objectives?
2. How has the scheme performed against its objectives?
3. Are key design features still appropriate?

To address these questions, the Department intends to undertake:

- updated economic analysis on projected scheme costs and benefits
- an assessment of scheme impact on electricity prices and electricity system events since the last review.

The department acknowledges that the impact of the PDRS will be limited, given it only commenced in 2022.

Consultation questions

4. Is the ESS design appropriate for securing its objectives? What evidence should the department consider to assess design appropriateness? Please provide evidence to support your answer.

5. Is the PDRS design appropriate for securing its objectives? What evidence should the department consider to assess design appropriateness? Please provide evidence to support your answer.

Part 2: reform opportunities

Reform areas

To structure stakeholder feedback, the department has identified 3 broad areas of reform. These are:

1. scheme design
2. scheme delivery
3. data and evaluation.

The Department has identified potential issues and opportunities under these themes that reforms may seek to address. The department also welcomes stakeholder feedback on issues and opportunities outside these 3 areas.

The following sections introduce the reform areas in more detail and present consultation questions for feedback at the end of each section.

Scheme design

Scheme objectives

The ESS and PDRS create financial incentives for activities that reduce energy consumption and peak demand.

The schemes could address many opportunities and issues, such as electrification or minimum demand. However, the schemes may not necessarily be the most effective way to address them.

The Department invites stakeholder feedback on whether there are other objectives the schemes should focus on and why.

Sharing costs and benefits

The ESS and PDRS contribute to reducing energy consumption. This places downward pressure on wholesale electricity costs and helps avoid investment in additional generation and transmission infrastructure. Reducing energy costs benefits all households and businesses, even for those who do not directly receive scheme incentives for eligible upgrades.

The schemes could be reformed to improve equity, for example by addressing issues with scheme access or revising scheme liability settings.

The department invites stakeholder feedback on whether scheme costs and benefits could be shared more fairly and, if so, how.

Scheme settings

Scheme settings include targets, penalties, exemptions, and other parameters such as the peak demand reduction period. The NSW Government last consulted on scheme settings in 2020, when the ESS was expanded and the PDRS was established.

Scheme settings could be adjusted to improve performance against legislated objectives, to increase the net benefit to NSW and to further contribute to NSW's legislated emissions reductions targets.

The Department invites stakeholder feedback on opportunities to improve scheme settings.

Consultation questions

6. What alternative or complementary objectives should the schemes focus on? Please provide evidence to support your recommendations, including reasons why the ESS and/or PDRS would be the best way to address the issue or opportunity you have identified.
7. Are there opportunities to improve how scheme costs and benefits are shared? If so, please provide evidence of how any proposed changes would result in more equitable outcomes.
8. What adjustments could the department make to scheme settings to improve performance against the legislated or proposed objectives? How would this provide a net benefit to NSW? Please provide evidence to support your answer, including any assumptions you have made.

Scheme delivery

Making and communicating decisions

As scheme targets and the level of financial incentives increase, so does the impact of government action or inaction. The Department must be able to act decisively in response to issues that threaten scheme credibility and consumer outcomes, such as allegations of high-pressure sales tactics or safety issues from low-quality products or installations. However, the

Department recognises that frequent changes to the schemes can be disruptive and create uncertainty.

Transparent and consistent decision-making and communication can improve scheme integrity and build stakeholder trust to participate in the schemes.

The Department invites stakeholder feedback on opportunities to improve transparency around how scheme decisions are made and communicated.

Delivery of the schemes

The Department reviews and updates the ESS and PDRS rules annually to ensure they stay relevant to the technical and market conditions in which they operate. Successful delivery of the schemes involves:

- market analysis
- industry consultation
- harmonising with other state schemes
- leveraging complementary policies and programs.

The Department invites stakeholder feedback on how it could improve the delivery of the schemes and encourage innovation.

Governance and administration

The Department is responsible for designing and developing the policy framework and legislation for the schemes. The NSW Independent Pricing and Regulatory Tribunal (IPART) is the Scheme Administrator and Regulator. Its powers and functions are governed by the ES Act and the regulations and rules under the ES Act.

As the schemes continue to evolve, other government bodies are becoming increasingly involved in supporting scheme functions such as product installation compliance and information sharing.

Improved governance and administration could better support changes to the schemes and enhance stakeholder outcomes on matters including safety and consumer protections.

The Department invites stakeholder feedback on opportunities to improve scheme governance and administration.

Consultation questions

9. How could the Department improve transparency around how it makes decisions and how it communicates changes to the schemes?

10. How could the Department improve the delivery of the schemes? Please provide examples of other jurisdictions and schemes where possible to support your recommendations.

11. How could the government improve the governance and administration of the schemes? Please provide examples to support your recommendations.

Data and evaluation

Scheme data collection

Improved data collection could enable the Department and IPART to better identify risks and opportunities. It could also enable tracking of scheme impacts across broader metrics such as product performance. However, the Department acknowledges that increased data collection can present cost and administrative challenges.

The Department invites stakeholder feedback on whether additional scheme data should be collected and for what purpose.

How scheme data is used

The Department and IPART collect a range of data from scheme participants and accredited certificate providers to monitor scheme performance and compliance. This data could be used more broadly to inform policy development.

The Department invites stakeholder feedback on how existing data collected through the scheme could be better utilised.

Consultation question

12. What additional scheme data should the department or IPART collect and for what purpose? How could the Department make better use of new and existing scheme data?

Other reform opportunities

The Department welcomes suggestions from stakeholders on additional reform opportunities that do not fall into the 3 areas identified in this paper.

Consultation question

13. What additional reform opportunities should the Department consider for the ESS and/or PDRS? Please provide evidence to support your recommendations.
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For more information

For more information about the Energy Saving Scheme and Peak Demand Reduction Scheme statutory reviews 2025 consultation, visit our website or email us.

www.energy.nsw.gov.au | energysecurity@environment.nsw.gov.au