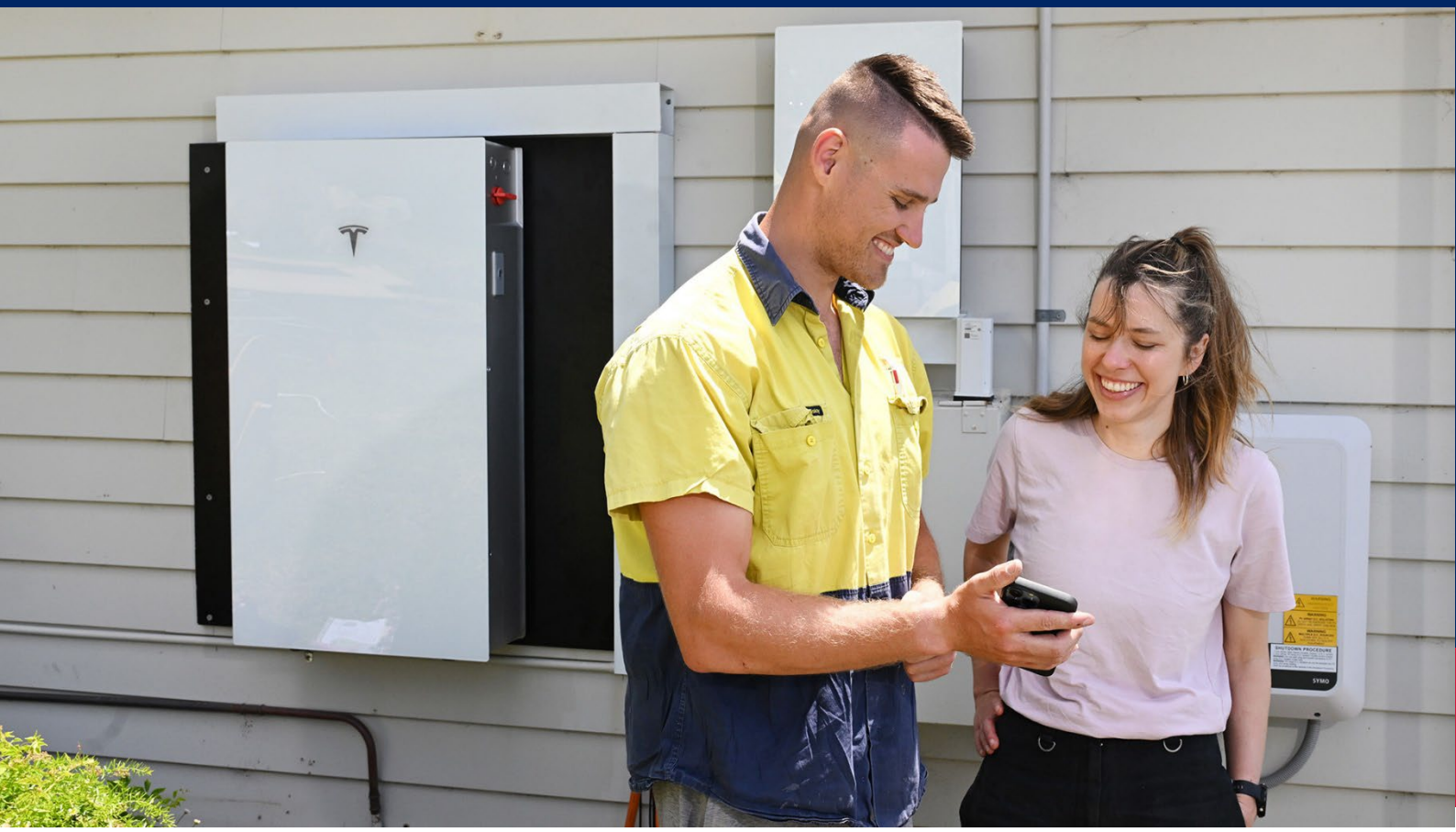
Department of Climate Change, Energy, the Environment and Water

Stakeholder feedback summary

Discussion Paper: Energy Savings Scheme and Peak Demand Reduction Scheme Statutory Reviews 2025

21 May 2025



NSW GOVERNMENT

Acknowledgement of Country

Department of Climate Change, Energy, the Environment and Water acknowledges the traditional custodians of the land and pays respect to Elders past, present and future.

We recognise Australian Aboriginal and Torres Strait Islander peoples' unique cultural and spiritual relationships to place and their rich contribution to society.

Artist and designer Nikita Ridgeway from Aboriginal design agency – Boss Lady Creative Designs, created the People and Community symbol.

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Executive summary

This report summarises the feedback received by the NSW Department of Climate Change, Energy, the Environment and Water (Department) on the discussion paper for the statutory reviews of the Energy Savings Scheme (ESS) and Peak Demand Reduction Scheme (PDRS). The paper was published on 9 August 2024 and invited submissions until 6 September 2024. The Department received 27 public responses and 3 confidential responses.

The discussion paper sought stakeholder views on:

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

The paper also sought stakeholder views on reform opportunities for the scheme, as well as evidence to support why reforms may be required.

As a summary of stakeholder responses, this document does not reflect any view that the NSW Government may have of the current or future settings of the ESS and PDRS.

Part one: Statutory reviews

In Part one, respondents were asked to provide feedback on the policy objectives of the schemes and whether the scheme design remains appropriate to secure these objectives.

Most respondents supported the Department's approach to conducting the review, agreed that the schemes' objectives remained valid and supported the scheme design.

Some respondents did not agree that the schemes' objectives remained valid and suggested alternative objectives for the schemes. Respondents also recommended changes to the schemes' design, including in responses to Part 2 of the discussion paper on reform opportunities.

Part 2: Reform opportunities

In Part 2, respondents provided feedback on potential reform options for the schemes, including reforms to:

- address the certificate surplus in the ESS
- increase electrification uptake in the ESS
- improve scheme access, particularly for households.

1 Introduction

1.1 Background to the discussion paper

Under the *Electricity Supply Act 1995*, the Minister for Energy must review the operation of the ESS and PDRS every 5 years.[1] The reviews consider whether the policy objectives remain valid and if the design of the schemes is appropriate to achieve those objectives. The statutory reviews are also an opportunity for the Department to consider reform opportunities.

The Department undertook statutory reviews of the ESS in 2015 and 2020. This is the first review of the PDRS, which commenced in 2022.

On 9 August 2024, the Department published a discussion paper which sought feedback on:

- its proposed approach for the reviews
- the validity of the schemes' objectives
- the appropriateness of the schemes' design to achieve their objectives
- opportunities for reform.

The Department received 27 public responses and 3 confidential responses to the consultation. Table 1 categorises the 27 public responses.

Table 1 Respondents to the discussion paper

Respondent category	No. of respondents
Service provider	5
Peak body	4
Energy retailer	4
Individual	3
Non- profit and community-based organisation	3
Consultancy	3
Research agency	2
Manufacturer	1
Distributed Network Service Provider	1

[1] The PDRS commenced in 2022 but will be reviewed in 2025 to align with the 5 yearly review cycle for the ESS.

Respondent category	No. of respondents
Regulatory agency	1

For more information on the discussion paper, please visit our website.

1.2 Approach to this consultation

To assess the performance of the ESS and PDRS against the objectives, the review sought to answer the following questions:

1. **Are the scheme objectives still valid?**
   a. Do the objectives address an ongoing issue or opportunity?
   b. Is policy support still required to achieve the scheme objectives?
2. **Is the scheme design still appropriate to achieve the objectives of the schemes?**
   a. How has the scheme performed against the objectives?
   b. Are key design features appropriate to achieve the objectives?

1.3 Schemes' objectives

The objectives for the ESS and PDRS are found in Table 2, below.

Table 2 Summary of schemes' objectives

Scheme	Objective
Energy Savings Scheme (ESS)	• **To create a financial incentive to reduce the consumption of energy by encouraging energy-saving activities, by:** — assisting households and businesses to reduce energy consumption and energy costs — complementing any national scheme for carbon pollution by making the reduction of greenhouse gas emissions achievable at a lower cost — reducing the cost of, and need for, additional energy generation, transmission and distribution infrastructure.
Peak Demand Reduction Scheme (PDRS)	• **To create a financial incentive to reduce peak demand for electricity by encouraging activities that create peak demand reduction capacity, by** — improving the reliability of electricity supply — reducing the cost of electricity for customers — improving the sustainability of electricity generation.

2 Key findings

2.1 Part A: review of scheme objectives

2.1.1 Validity of the schemes' objectives

Q1: Do you support the proposed approach to determining whether scheme objectives remain valid?

Response received	No response received
7	20

This question asked respondents whether they supported the approach taken by the Department for the reviews. The proposed approach sought to answer the following two questions:

1. **Are the schemes' objectives still valid?**
    a. Do the objectives address an ongoing issue or opportunity?
    b. Is policy support still required to achieve the schemes' objectives?
2. **Are the schemes' design still appropriate to achieve the objectives of the scheme?**
    a. How have the schemes performed against the objectives?
    b. Are key design features appropriate to achieve the objectives?

Respondents generally supported the Department's proposed approach and commented that assessing the ongoing need for policy support is essential for the ESS and PDRS schemes to adapt to the evolving energy landscape.

Q2: Are the ESS objectives still valid? What evidence should the Department consider assessing their validity?

Q3: Are the PDRS objectives still valid? What evidence should the Department consider assessing their validity?

Scheme	Response received	No response received
ESS	18	9
PDRS	17	10

Most respondents considered the objectives of the ESS and PDRS to still be valid. However, several respondents suggested revising existing objectives to address alternative or additional issues.

Increasing urgency for action on climate change

Some respondents commented that the increasing urgency of the need to address climate change rendered the objectives valid. Respondents highlighted the contribution of energy efficiency to emissions reduction.

Ongoing transition to renewable energy

Respondents stated that the schemes' objectives supported the transition to renewable energy. One respondent commented that the ESS and PDRS schemes delivered 325,412 implementations across the state in 2022 alone, which have resulted in significant energy savings, as well as reductions of 3.22 million tonnes of CO2-equivalent greenhouse gas emissions. Given this success, the respondent stated that the schemes should remain a central plank of the government's energy transition strategy.

Reducing energy costs

Respondents highlighted the role of schemes in reducing energy costs. Respondents commented that cost-of-living pressures are a key concern for many households and the schemes can help reduce these pressures.

Shifting consumer preferences

One respondent suggested the schemes' objectives remain relevant as consumer preference and behaviour have shifted towards greater uptake of electric appliances, devices and vehicles which increase pressure on electricity generation. The objectives address this pressure by incentivising energy-efficient technologies and behaviours.

Electrification, optimising energy use and emissions reduction

Several respondents suggested the schemes' objectives should have a greater or principal focus on emissions reductions and electrification.

Two respondents suggested that a primary objective of the ESS and PDRS should be to enhance the flexible use of energy. Similarly, another respondent suggested that the primary objective of the ESS should become optimising energy use. This would better account for when energy is used, given its increasing importance for energy costs and system management.

One respondent suggested that the principal objective for the ESS should be to optimise energy use and promote electrification, given the Government's emissions reduction commitments.

Focus on scheme outcomes

Some respondents proposed that scheme objectives should focus on the intended outcomes of the schemes (e.g. deliver energy savings), and not the mechanism to achieve them (e.g. creating a financial incentive). Respondents suggested the current drafting means the schemes could be assessed as meeting the objective (e.g. creating a financial incentive) without achieving the intended outcome (e.g. deliver energy savings).

Relationship between schemes' objectives

One respondent recommended that the Government considers unifying objectives for both schemes, noting the schemes' impact on each other. Respondents also highlighted the risk of unintended consequences, where energy efficiency upgrades risk increasing peak demand. Respondents also commented that scheme objectives could be reframed to align with other government policies, including the Consumer Energy Strategy.

2.1.2 Appropriateness of schemes' design

Q4: Is the ESS design appropriate for securing its objectives? What evidence should the Department consider to assess design appropriateness?

Q5: Is the PDRS design appropriate for securing its objectives? What evidence should the Department consider to assess design appropriateness?

Scheme	Response received	No response received
ESS	14	13
PDRS	13	14

Most respondents supported the ESS and PDRS design. However, several respondents suggested opportunities to improve scheme design.

Certificate schemes

Respondents considered market-based certificate schemes to be effective at encouraging energy-saving activities. One respondent stated that the market-based design has allowed it to buy and surrender Energy Savings Certificates (ESCs), and to operate transparently with other scheme participants.

Equity of access

Some respondents raised concerns around equity of access in both the ESS and PDRS. Respondents commented that scheme delivery was lower in regional areas and for households facing additional barriers, including low-income households and renters. Several respondents suggested introducing sub-targets for priority groups to improve equity of scheme access.

Consumer protection

One respondent proposed that the Department should prioritise reviewing the schemes' objectives and design to improve consumer protection and safety. According to the respondent, this issue is increasingly important given the introduction of new technologies such as heat pumps and batteries, which can present a higher safety risk. Other respondents highlighted the importance of the scheme ensuring safe and quality installations with adequate consumer protections.

Insufficient data to assess the PDRS design

Several respondents expressed support for the PDRS' objectives and indicated it has met its targets. However, other respondents stated that the PDRS is still in its early implementation stage and it was therefore difficult to assess its design based on scheme performance.

2.2 Part B: reform opportunities

2.2.1 Proposed reforms to scheme objectives

Q6: What alternative or complementary objectives should the schemes focus on? Provide reasons why the ESS and/or PDRS would be the best way to address the issue or opportunity you have identified.

Response received	No response received
14	13

Question 6 of the stakeholder consultation invited respondents to propose alternative or complementary objectives for the schemes. The main themes in responses included:

Electrification

As noted in section 2.1.1, several respondents advocated for including electrification as a core scheme objective. Respondents commented that incorporating electrification into the ESS would align with long-term emission reduction targets and facilitate a transition to renewable electricity sources. They advised electrification not only reduces direct emissions but also enhances energy efficiency in buildings and households.

Industry development

Three respondents commented that objectives could include a focus on industry or technology development. This could help drive market transformation.

Emission reduction

As noted in section 2.1.1, respondents suggested scheme objectives could be redefined to focus on achieving emissions reductions.

Cost-minimisation

One respondent suggested that the scheme objectives for the ESS and PDRS include a cost-minimisation objective to promote best practice regulation.

Focus on outcomes

As noted in section 2.1.1, some respondents recommended that the objectives focus on the outcomes the schemes seek to achieve (e.g. peak demand reduction), and not the proposed mechanism to achieve them (e.g. by creating a financial incentive).

Consumer protection and safety

As noted in section 2.1.3, a respondent suggested consumer protections and safety could be included in the ESS and PDRS as a sub-objective.

2.2.2 Proposed reforms to sharing scheme costs and benefits

Question 7 of the stakeholder consultation asked respondents to consider how the costs or benefits of the schemes could be shared more equitably.

Q7: Are there opportunities to improve how scheme costs and benefits are shared? How would any proposed changes result in more equitable outcomes?

Response received	No response received
11	16

Prioritising household access and ensuring equitable access

As noted in section 2.1.2, several respondents emphasised the importance of prioritising equitable access for households, particularly for low-income households or households in regional areas. Respondents also proposed a 'priority household target' or certificate multipliers to help the ESS reach households and reduce energy costs for residents in underserved regions. Respondents also stated that implementing regional targets or providing additional incentives could address discrepancies in scheme access, allowing more tailored interventions that suit the specific needs of different areas.

Incorporating gas retailers and major gas consumers as liable parties

Several respondents recommended that gas retailers and large gas consumers should be incorporated as liable parties under the ESS. Respondents suggested this expansion would place additional responsibility on high-consumption entities to participate actively in reducing their emissions.

Supporting Australian manufacturing

One respondent suggested that the schemes should prioritise Australian-made products where possible, which would sustain local manufacturing and supply chains and make the products used in the ESS and PDRS more affordable.

Improving administration

Respondents advocated for the Department to make additional changes such as regulating audit processes. Another respondent proposed reducing the costs and administrative burden associated with certificate generation. The respondent suggested that National Australian Built Environment Rating System (NABERS) assessors could play a role in creating ESCs to avoid administrative duplication between the NABERS rating scheme and the ESS and PDRS.

2.2.3 Proposed reforms to scheme settings

Question 8 asked respondents to consider whether the Department should adjust scheme settings to improve its performance against legislated or proposed objectives.

Q8: 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?

Response received	No response received
14	13

Including a wider range of energy-saving technologies

Several respondents commented that the Department should consider including insulation in the scheme. Respondents advised that insulation reduces reliance on heating and cooling appliances and keeps homes warmer in winter and cooler in summer, which also helps reduce peak demand.

Some respondents further suggested expanding the ESS to wider activities including:

- switching from gas to electric heating and cooking
- integrating solar power systems
- installing electric vehicle (EV) chargers
- thermal storage.

Ensuring quality products and installation

Some respondents raised concerns about product and installation quality under the schemes, particularly for heat pump water heaters. Respondents recommended stricter quality control measures, including mandatory certifications for installers and compliance checks to ensure that products meet Australian Standards. A respondent suggested that relevant products should meet the requirements of the Clean Energy Council's approved product list. Additionally, respondents advocated for a feedback mechanism for consumers to help administrators monitor and address any product-related issues.

Considering alternative baseline measurement for energy savings

Several respondents commented that the current deemed activity methods in the ESS relied on historical data and standardised baselines, which may not always accurately capture the unique energy-saving potential of emerging technologies or varied participant activities. Respondents suggested that alternative measurement methods could provide a more accurate reflection of real-world energy savings.

Adjusting the peak demand period

A respondent suggested amendments to the peak demand reduction period in the PDRS to consider high demand occurring in Winter and after 8:30pm in Summer. Four respondents further commented that the PDRS should seek to encourage shifting demand to the middle of the day when the emissions intensity of the electricity grid is lower and minimum demand challenges exist.

Audit costs and availability

A respondent raised concerns about ESS and PDRS audit costs. To address this, the respondent suggested that the Department explores ways to increase the number of qualified auditors for the schemes to improve availability.

Certificate price stability

Several respondents advised that the "boom-bust cycle" in the ESC market has impacted the viability of businesses that rely on stable ESC prices. Respondents commented that the cyclical nature of the ESC market created an unstable environment that made long-term business planning and investment difficult for service providers within the ESS. A respondent further suggested that the surge of certificate creation from "questionable activities" led to a significant drop in certificate prices. Another respondent commented that certificate prices have predictably followed supply and demand.

Oversupply of ESCs

Five respondents noted the oversupply of ESCs in recent years and how it has constrained industry activity and development. Respondents suggested a variety of ways to address this, including accelerating ESS targets and ensuring that energy saving calculations are correct.

Supporting PDRS activities for commercial and industrial demand response

Several respondents supported expanding PDRS activities, such as Battery Energy Storage Systems (BESS), to include Commercial and Industrial (C&I) sectors. One respondent advised that including C&I sectors could increase the supply of PRCs required to meet increasing targets. Respondents further commented that larger entities would likely benefit from behind-the-meter battery systems that enable them to maintain operations without relying on high-cost grid electricity, particularly during peak demand times.

Scheme metrics

One respondent commented that the Department should consider using a carbon emissions metric rather than an energy metric (megawatt hours) in the ESS. The respondent commented that this could make the scheme more tangible to householders who understand the need to address climate change through reduced-carbon activities, such as increased incentives for electrification.

Conversion factors to drive electrification

To encourage electrification, several respondents suggested changing the ESS certificate conversion factors or, in the case of higher temperature industrial processes, creating a new factor category.

2.2.4 Proposed reforms to scheme delivery, transparency and governance

Q9: How could the Department improve transparency around how it makes decisions and communicates changes to the schemes?

Q10: How could the Department improve the delivery of the schemes? Please provide examples of other jurisdictions and schemes where possible to support your recommendations.

Q11: How could the government improve the governance and administration of the schemes?

Criteria	Response received	No response received
Q9: Improving transparency	8	19
Q10: Improving delivery	13	14
Q11: Improving governance and administration	14	13

Respondents provided a wide range of proposals in response to these questions.

Alignment with other state and territory government schemes

Many respondents advocated for increased alignment and collaboration between NSW and other state governments and territory governments on matters including standards and product lists. Respondents further suggested improved alignment would reduce the regulatory and administrative burden on businesses and energy consumers.

However, one respondent did not support greater alignment with other schemes. The respondent commented that the ESS has avoided the complexities and costs imposed by other jurisdictional energy efficiency schemes and maintained flexibility for liable entities and service providers to respond to targets and market conditions.

Improved coordination between NSW Government Agencies

One respondent commented that there have been delays in addressing issues in the schemes due to the separation between scheme governance and rule development. The respondent further suggested increased collaboration with regulators such as the Building Commission on activity design and delivery to improve compliance with relevant regulations. Another respondent recommended improved coordination between agencies and cited a regulatory taskforce in Victoria as an example the NSW Government could seek to replicate.

Enhancing data transparency and accessibility

Respondents indicated that while TESSA (The Energy Security Safeguard Application) provided some data visibility, publishing more detailed information could give the industry a clearer understanding of the market. Respondents further commented the need for transparency and visibility on emission-saving data and scheme costs and benefits. Another respondent stated there was a lack of transparency around how poor-quality products were entering the ESS and PDRS markets.

Improving communication on scheme updates

One respondent stated that there have been inconsistencies in how the government has communicated technical updates on the schemes, which reach only select personnel or groups, leading to market disruptions. The respondent recommended a standardised communication platform where all scheme participants can access information uniformly.

Regular consultation through a working group and seminars

One respondent emphasised the importance of regular consultation with industry and recommended establishing a working group comprising the Department, IPART and industry representatives.

Respondents proposed that the Department organise seminars and workshops to engage local installers, manufacturers, importers and ACPs. These events could serve as platforms to disseminate information, address queries and foster collaboration among respondents.

Coordination with the Greenhouse and Energy Minimum Standards register

Many respondents raised concerns about low-quality or unsuitable products, such as certain heat pumps, that may not meet performance standards but still qualify for incentives. To address this, respondents recommended aligning the ESS with the Greenhouse and Energy Minimum Standards (GEMS) Register, which sets standards for energy efficiency and product quality. They suggested this could enhance the schemes' credibility and maintain the value of ESCs.

However, a respondent cautioned against using the GEMS Register as a basis for qualifying products. The respondent suggested that a separate product register, as used in Victoria, would address some issues, particularly for refrigeration upgrades.

Addressing the knowledge and education gap among households

Respondents commented that many households, particularly in low-income areas, were unaware of the financial and environmental benefits of energy-efficient technologies and the incentives

available through schemes like the ESS. They stated that this knowledge gap limited the schemes' reach and prevented households from fully benefiting from potential energy savings. Respondents emphasised that addressing this issue required a multifaceted educational approach, including outreach campaigns, partnerships with community organisations and targeted advertising centred on the long-term benefits of energy-efficient technologies. Related to this, another respondent suggested distinctive branding and online presence for the ESS and PDRS could increase public trust.

Consumer protection

Respondents suggested a range of options to improve consumer protections. This included:

- banning door-to-door sales and 'high pressure' sales practices
- minimum product and installation warranty requirements for heat pump water heaters and reverse cycle air conditioners
- mirroring the approach taken by the Victorian Energy Upgrades (VEU) program by creating an installer register from which poor operators would be removed and ineligible to deliver further installations.

2.2.5 Proposed reforms to data collection and evaluation

Q12: 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?

Many respondents provided feedback on what additional scheme data the Department or IPART should collect and for what purpose it should be collected.

Response Received	No response received
9	18

Collecting post-installation product performance data

One respondent stated that collecting data (including smart meter data) on product performance and lifespan after installation was crucial for verifying energy savings, assessing product reliability and informing future program adjustments. In their view, this data could help:

- to confirm that appliances achieved their expected energy reductions and maintained efficiency
- support evidence-based adjustments to eligibility criteria, product standards, or rebate structures.

Similarly, a respondent proposed collecting user feedback and satisfaction data following an energy savings upgrade. This would refine future scheme designs, ensuring they meet user needs effectively and could also help participants assess the impact of the schemes in real-world applications.

Enhancing ESC data tracking

Another respondent proposed implementing real-time visibility of ESC creation to provide valuable insight into market trends. In their view, this would allow participants to assess scheme effectiveness and enable IPART to track end-of-year targets and surplus quantities. The respondent

further stated that a live online dashboard displaying targets and surpluses could further enhance transparency.

Using National Meter Identifier (NMI) data for programmatic verification

Respondents commented that the Department could collect NMI data from scheme activities to facilitate performance measurement and verification. They commented that this would enhance credibility, transparency and support broader research, a critical priority under the National Energy Transformation Partnership.

Regular evaluation of deemed energy savings methods

Other respondents commented that the methods used for calculating deemed energy savings should be regularly evaluated to avoid overstating savings, which could risk compromising emissions reduction goals and adding unnecessary costs to consumers. They advised this would be particularly important for methods with known discrepancies, such as those for commercial heat pumps, where ex-post evaluations should verify actual savings against deemed estimates.

Data sharing with energy market bodies for targeted interventions

Respondents also raised the importance of better data-sharing arrangements among scheme administrators, retailers, and distribution network service providers (DNSPs). DNSPs could support network reliability by enabling targeted energy upgrades in high-demand areas, and access to postcode or NMI-level data could improve planning, reduce overbuilding, and avoid unnecessary investments in energy infrastructure.

2.2.6 Other reform opportunities

Q13: What additional reform opportunities should the Department consider for the ESS and/or PDRS?

Finally, the consultation asked respondents what other reform opportunities the Department should consider for the ESS and/or PDRS.

Response Received	No response received
9	18

Respondents recommended several reform opportunities.

Improving website accessibility and user experience

One respondent recommended that the Department should enhance its website to improve accessibility, making it easier for users to locate essential information about the schemes. The respondent suggested that a more user-friendly website would facilitate increased user engagement and promote a clearer understanding of the schemes' details.

Promoting frequent and ongoing reforms through 'lessons learned'

Another respondent stated that when designing new activities and methods, the Department should incorporate lessons from past initiatives to avoid launching poorly-designed activities that may lead to low-quality products. They stated that hasty introduction of new activities could result in market flooding, risking the sustainability of the scheme and discouraging participation. They also

suggested that well-developed products with strong after-sales support would foster market stability and confidence among NSW consumers and industry participants.

Automating lists of eligible models

Another respondent suggested automating the generation of eligible model lists based on energy performance data from the GEMS database. According to this respondent, this would streamline compliance and participation for manufacturers and installers, ensure alignment with energy efficiency standards and simplify compliance and participation.

Continuous monitoring of energy storage units

One respondent commented that energy storage units should be consistently and actively controlled to meet peak demand needs. In their view, challenges identified in inverter responses through AEMO and CSIRO studies emphasised the importance of stringent technical specifications and testing protocols for battery types and inverters. They also stated that ensuring firmware updates and mandatory parameter settings were applied would maintain network stability and user safety.

Creating a shared registry platform

Finally, another respondent suggested that government agencies could develop a shared platform for scheme oversight, potentially creating a central registry for accredited products and installers. This could foster collaboration between NSW, Victoria and other states. Such a system could support better data sharing, enhance compliance tracking and harmonise incentive structures, ultimately making the programs more effective and accessible.