Department of Climate Change,
Energy, the Environment and Water

Peak Demand Reduction Scheme

Rule change 3 position paper

June 2025

NSW GOVERNMENT

Acknowledgment 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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Peak Demand Reduction Scheme: Rule change 3 position paper

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1. Introduction

This position paper explains the intent and detail behind changes to the New South Wales (NSW) Peak Demand Reduction Scheme (PDRS) Rule. The changes have been made in response to the Australian Government's Cheaper Home Batteries Program (CHBP)[1] commencing 1 July 2025 and delivered under the Small-scale Renewable Energy Scheme (SRES). These changes integrate both the PDRS and SRES and enable consumers who install batteries under the CHBP to receive additional incentives to connect their battery to a Virtual Power Plant (VPP).

This paper assumes prior knowledge of the PDRS and legislative and administrative instruments. The Independent Pricing and Regulatory Tribunal (IPART) is the PDRS's administrator. More information about the administration of the PDRS can be found on IPART's website. Information about previous amendments to the PDRS, including consultation papers and stakeholder responses, is available on our website.

1.1. Next steps

The changes detailed in this position paper will come into effect from 1 July 2025, with a transition period for activity under the PDRS (also known as implementations) between the publication of this paper and before 1 July 2025.

We will be undertaking a full consultation in the second half of 2025 on further improving activities and considering potential new activities under the PDRS.

[1] https://www.dcceew.gov.au/energy/programs/cheaper-home-batteries

2. Changes to the NSW battery market

2.1. Introduction of Peak Demand Reduction Scheme incentives for batteries

On 1 November 2024, the Peak Demand Reduction Scheme (PDRS) expanded to include 2 new battery activities. Under the PDRS, different activities compete to create Peak Reduction Certificates (PRCs). PRC prices reflect how much incentive is required to encourage enough PRC creation to meet the PDRS's targets.

The BESS1 activity (*Install a new behind the meter battery energy storage system*) enables PRCs to be created by installing eligible batteries. BESS1 rewards households and small businesses for using batteries charged by solar to meet their electricity demand instead of drawing from the electricity grid at peak times.

The BESS1 incentive has encouraged significant battery uptake in NSW, with over 11,400 batteries installed through the PDRS between 1 November 2024 and 15 May 2025 by more than 800 installers across NSW. Since the BESS1 activity started, it has created about 86% of total PRCs, the PRC price and incentive have remained stable, and PRC creation is on track to meet PDRS targets.

The BESS2 activity enables PRCs to be created when a household or small business connects their battery to a Virtual Power Plant (VPP). BESS2 rewards households and small businesses for making their spare battery capacity available to export to the grid at times of peak electricity demand.

The BESS2 incentive has not driven significant registration with VPPs. Just 5% of households and small businesses that have installed batteries with the BESS1 incentive have opted to make their spare capacity available through BESS2. This indicates that BESS2 is not competitive in creating PRCs under the PDRS's current settings.

2.2. Introduction of the Australian Government's Cheaper Home Batteries Program

The Australian Government's Cheaper Home Batteries Program (CHBP) is set to commence on 1 July 2025. On 23 May 2025, the Australian Government published a policy paper which provided more information on the CHBP's intent and eligibility. The CHBP is expected to

provide a 30% discount on the typical upfront cost of installing eligible small-scale battery systems. It also requires batteries to be capable of being coordinated through a VPP.

The PDRS Rule prevents PRCs being created for battery installs if they are also eligible to create certificates under the Australian Government's Small-scale Renewable Energy Scheme (SRES). The CHBP will be delivered by expanding the remit of the SRES. This means that batteries that are installed under the CHBP will not be eligible to create PRCs.

2.3. Integrating the Peak Demand Reduction Scheme and Cheaper Home Batteries Program

The Cheaper Home Batteries Program's discount will be considerably higher than the BESS1 incentive. BESS1 has driven 86% of the PDRS's activity since it started on 1 November 2024 and encouraged sufficient uptake against the PDRS's targets without requiring an increased PRC price.

This battery uptake under BESS1 means that we can expect the larger discount available through the CHBP to further accelerate battery uptake in NSW beyond its current trajectory under the PDRS. The CHBP presents a fundamental change to the NSW battery market and the context in which the PDRS's battery incentives operate.

We publicly consult on significant changes to the PDRS. This enables us to gather stakeholder input on key opportunities and risks to support robust decision making. We do not intend to change the PDRS Rule to permit BESS1 incentives to be combined with CHBP discounts without public consultation and an opportunity to monitor the market response to the CHBP.

The CHBP requires batteries to be capable of being connected to a VPP. However, the CHBP does not provide a financial incentive for consumers to sign up to a VPP. This makes BESS2 a highly complementary activity and initial basis for the CHBP and PDRS to integrate.

Just 5% of batteries installed through the PDRS with the BESS1 incentive have proceeded to sign up to a VPP with the BESS2 incentive. This means about 40% of current spare battery capacity is not available to help NSW electricity consumers during peak periods. For larger household batteries, this figure can be higher than 75%.

We expect the CHBP to complement the PDRS by providing significant battery uptake in NSW that the PDRS can leverage through its BESS2 activity.

Section 3 includes further detail on proposed changes to BESS2 to further support this market transformation.

2.4. Future integration of the Peak Demand Reduction Scheme and Cheaper Home Batteries Program

We will continue to work with the Australian Government and industry through public consultation to assess further opportunities for CHBP and PDRS integration. We will also consider broader PDRS reform opportunities later in 2025.

3. Changes to increase Virtual Power Plant connections

The BESS2 incentive for customers to connect batteries to Virtual Power Plants (VPPs) commenced on 1 November 2024. Uptake has been low as Accredited Certificate Providers (ACPs) continue to navigate how to make their business models more appealing to consumers.

Changes to BESS2 will:

- better reflect battery capacity available for VPPs based on implementation data analysis
- simplify the incentive structure to reduce administrative burden
- make the upfront incentive to join a VPP more attractive and drive uptake.

These changes will apply from when the new PDRS rule commences on 1 July 2025. A transition period has been provided to account for implementations that occur between the release of this position paper and before 1 July 2025.

The below table outlines the impact the changes to the BESS2 activity will have on incentive amounts at a Peak Reduction Certificate (PRC) price of $2.50 (as at 24 April 2025). Incentive levels are not fixed and will change as the PRC price fluctuates.

Battery capacity	Previous incentive ($30/kWh)	New incentive ($55/kWh)
10 kWh	$302 (121 certificates)	$550 (220 certificates)
20 kWh	$605 (242 certificates)	$1,100 (440 certificates)
27 kWh	$817 (327 certificates)	$1,485 (594 certificates)

Table 1 Impact of changes to BESS2 on incentive amounts based on PRC price as at 24 April 2025.

3.1. Implementation date and activity name

Previously, BESS2 defined the Implementation Date as the date when the BESS2 contract was signed by a customer. The Implementation Date will now be changed to the date that the customer's battery is onboarded to their VPP.

Stakeholders have provided feedback that for some VPPs there is a significant time delay between contract signing and onboarding. This delay has reduced the likelihood of customers returning to provide evidence of connecting to a VPP.

Stakeholders have also noted that to comply with the current PDRS rule, ACPs require that customers:

- nominate them as their ACP when the contract is signed
- provide evidence at a later date that their battery was onboarded to the VPP.

The change will still require the ACP to be nominated on or before the date of onboarding, but reduces the time between nomination and collecting the evidence of onboarding.

The wording of clause 9.1.2 in the PDRS Rule has been changed to: '*The Implementation Date is the date that the Capacity Holder's Battery Energy Storage System is onboarded with the Demand Response Aggregator.*'

These changes mean that the:

- Implementation Date coincides with the date the battery becomes available to the VPP, making it consistent with other PDRS activities
- customer journey is streamlined, reducing complexity and administrative burden, and increasing the likelihood of the customer completing onboarding with their VPP.

BESS2's Activity Description will be changed to '*Onboard a Behind the Meter Battery Energy Storage System with a Demand Response Aggregator'* to align with the new definition of implementation date.

3.2. Open up eligibility to small businesses

Eligibility for the BESS2 activity has been expanded to include small businesses. Please see the definition of 'small business' in the PDRS Rule.

This change creates new access to VPP incentives for small business owners who own batteries that meet BESS2 requirements. This includes batteries installed under both the PDRS and SRES.

3.3. Increased lifetime with one upfront opportunity to claim

Changes to BESS2 will result in a lifetime increase from 3 years to 6 years.

Originally, the BESS2 incentive could be claimed twice for a period of 3 years each time. The rationale for this original incentive structure was to encourage people to remain in a VPP over a longer period. However, splitting the incentive across 2 payments over the 6 years has made it less effective in motivating customers to complete the initial administrative requirements.

BESS2 will now reward customers with the equivalent of 6 full years' worth of incentives upfront, with the incentive only able to be claimed once per National Metering Identifier (NMI).

The risk of people dropping out of a VPP during the 6-year period has been accounted for with an adjustment to BESS2's Firmness Factor.

3.4. Reduction in BESS2 Firmness Factor

Targeted consultation with stakeholders suggests that the rate at which customers drop out of VPPs varies significantly depending on each VPP's business model. We will continue to investigate and collate data on average customer retention rates.

Some customers also switch between VPP providers, so battery capacity is still available to and being used by NSW's energy system.

The risk of customers leaving their VPP provider and not connecting to another provider will be reflected in the BESS2 Firmness Factor which is reduced from 1 to 0.8.

3.5. Updated demand reduction component

The demand reduction component has been revised based on updated analysis. The ACT's NextGen dataset was used to derive the parameters used in the certificate calculations for BESS1 and BESS2.[2] This dataset contains anonymised 5-minute battery, solar and load operational data for recipients of NextGen battery subsidies (approximately 3,000 installations). There is also accompanying standing data containing the size of the batteries in kWh. We have now incorporated data from over 11,400 batteries delivered under the PDRS.

From our analysis of battery size and remaining capacity after the peak demand reduction period, we determined that 44% is available on average from the PDRS battery cohort. This corresponds to a revised factor of 0.0734 kW/kWh.

[2] https://dl.acm.org/doi/10.1145/3307772.3331017

Appendix

Glossary

Acronym	Term
ACP	Accredited Certificate Provider
BESS1	Battery Energy Storage System PDRS activity 1: Install a new behind the meter battery energy storage system
BESS2	Battery Energy Storage System PDRS activity 2: Onboard a behind the meter battery energy storage system to a demand response aggregator
CHBP	Cheaper Home Batteries Program
IPART	Independent Pricing and Regulatory Tribunal
NMI	National Metering Identifier
NSW	New South Wales
PDRS	Peak Demand Reduction Scheme
SRES	Small-scale Renewable Energy Scheme
VPP	Virtual Power Plant

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For more information

Learn more about the Peak Demand Reduction Scheme here.

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