

Jemena Gas Networks (NSW) Ltd

2015-20 Access Arrangement

Response to the AER's draft decision and revised proposal

Appendix 3.6 - Energy Savings Scheme information paper

Public

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Enhancement of the Energy Savings Scheme Information Paper

The NSW Energy Savings Scheme (ESS) has been highly successful to date. The ESS has supported projects that will deliver around 9000 GWh of electricity savings over their lifetimes. These electricity savings are estimated to deliver around \$1.4 billion in bill savings for NSW households and businesses over the next decade.

Following a review of the ESS conducted over the last 12 months, the NSW Government has agreed on a number of important enhancements to the ESS.

The NSW Government intends to enhance the ESS by:

- expanding the scheme to include gas;
- extending the scheme to 2025;
- introducing a regional network factor; and
- improving administration and effectiveness of the scheme.

These reforms will deliver greater bill savings to NSW households and businesses, economic benefits to NSW, and will reduce the impact of the energy system on our environment.

The NSW Government will also consult on further reforms next year as part of the scheme's forthcoming statutory review. The statutory review will be tabled in the NSW Parliament by 30 June 2015.

Expansion of the ESS to gas

The NSW gas market is in a period of change with wholesale gas prices expected to increase in the short term and remain relatively high in the medium term.

There are significant opportunities for NSW households and businesses to reduce their gas bills, but the ESS currently only provides financial incentives to save electricity.

The NSW Government intends to expand the ESS to cover gas and create a financial incentive for gas efficiency. This will unlock significant opportunities for NSW households and businesses to place downward pressure on their gas bills, and minimise the impact of rising gas prices.

Gas will be incorporated into the ESS through an increase in ESS targets, and the introduction of a new conversion factor in the ESS Rule to enable gas savings activities to generate energy savings certificates. This means that there will be no new obligation on gas customers.

Legislative amendments will be brought forward to expand the ESS to gas. It is expected that these amendments will take effect from January 2016.

Extension of the ESS to 2025

The *Electricity Supply Act 1995* provides that the ESS will terminate at the end of 2020. Cost effective opportunities to implement energy efficiency projects in NSW are expected to be available beyond 2020.

The NSW Government intends to extend the duration of the ESS to 2025. This will provide more households and businesses with the opportunity to access financial incentives under the ESS to save on their energy bills. Extending the duration of the ESS will also deliver ongoing economic benefits to the NSW economy and business certainty.

Legislative amendments to the *Electricity Supply Act* 1995 will be brought forward next year to extend the duration of the ESS to 2025.

Introduction of a regional network factor

More electricity is lost in transmission and distribution for networks that supply regional customers compared to metropolitan customers. Regional customers have higher energy bills and less access to energy efficiency services.

The NSW Government proposes to create a level playing field for regional customers by introducing a regional network factor of 1.03 into the ESS Rule. This regional factor reflects the additional 3 per cent value of saving energy in regional areas.

Amendments to the ESS Rule will be brought forward next year to introduce a regional network factor.

Improvement of the administration and effectiveness of the ESS

As technology changes over time, and the market for energy efficiency products and services evolves, energy efficiency opportunities will continue to grow. Continuous improvement of the ESS will ensure the scheme remains effective, and will keep pace with changes in the market.

The NSW Government is committed to continuously improve the administration and effectiveness of the ESS. The NSW Government is developing a comprehensive evaluation, measurement and verification framework for the ESS, and will publicly report on outcomes. This includes:

- improved public reporting on energy saving projects and the costs of participation;
- measurement and verification studies to build confidence in energy savings;
- monitoring and assessing the remaining energy efficiency opportunity in NSW; and
- economic analysis of the costs and benefits of the scheme.

The NSW Government will introduce a regular process to update the ESS Rule. This regular process will:

- maintain the effectiveness of the ESS Rule through updates to savings factors based on evaluation results and changes to building and equipment standards;
- include new activity schedules for opportunities that are not already covered; and
- incorporate stakeholder feedback to remove unnecessary red tape.

These improvements are designed to make sure that the ESS continues to unlock new opportunities for households and businesses to save on their energy bills, provide businesses with better information to drive investment in energy efficiency, and remove unnecessary red-tape.

Consultation on further reforms in 2015

The *Electricity Supply Act* 1995 requires a statutory review of the ESS every five years to determine whether the objectives of the scheme remain valid and whether the objectives are being met.

The NSW Government will consult on the statutory review and further proposals to enhance the scheme in April 2015. These include:

- revising cost recovery fees for IPART's administration services to reduce budget dependence;
- enhancing targets and penalty rates; and
- improving IPART's compliance powers as scheme administrator to enable better targeting of poor performers and reduce costs to business.

The statutory review will be undertaken early next year and will be tabled in the NSW Parliament by 30 June 2015.