

# Preparing for the Energy Savings Scheme



**New South Wales  
Government**

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## Introduction

The Energy Savings Scheme (ESS) will help NSW families and businesses save money on their power bills. It will cut electricity use and help shield customers from rising electricity prices and from future increases caused by the introduction of the proposed national Carbon Pollution Reduction Scheme (CPRS).

ESS works by setting an energy savings target for electricity retailers. Retailers meet their target by obtaining and surrendering energy saving certificates (ESCs) which represent delivered energy efficiencies.

Retailers can obtain ESCs in two ways:

- by delivering energy efficiency upgrades directly
- by purchasing them from specialist companies accredited to conduct energy saving projects.

Householders will be able to participate directly in the scheme if an energy retailer or specialist energy efficiency company approaches them to participate in a program accredited under ESS.

Examples of activities that ESS will encourage include:

- discounts to households for upgrades to high-efficiency fridges, washing machines, clothes dryers, dishwashers, shower heads and down-lighting, and for floor and wall insulation
- installation of high-efficiency lighting, air-conditioning and motors in office buildings, factories, schools and hospitals.

### **Why is the Government implementing the Energy Savings Scheme?**

ESS is necessary because the proposed CPRS's carbon price alone will not be sufficient to overcome obstacles to the take-up of energy efficiency.

Common obstacles include the:

- time and cost of getting reliable information about making energy savings
- absence of specialist companies which are able to provide reliable information and make energy saving easy and affordable
- split incentive between landlords and tenants where building owners would bear the cost of improving air conditioning or lighting, but are not motivated to do so because tenants will receive the benefits in lower electricity bills.

These obstacles mean that people and businesses are unlikely to implement energy saving upgrades even when they could save money. As part of the NSW Energy Efficiency Strategy, which includes \$63 million to retrofit the homes of low income earners, \$35 million for businesses to save energy, and requires the State's largest energy users to implement specific savings measures, ESS will provide financial incentives to implement cost-effective energy efficiencies.

## Energy Savings Scheme target and operation

The ESS target will start from 0.4 per cent and increase to four per cent of total annual NSW electricity sales over four-and-a-half years to allow time for the market to develop the new business models required to deliver these savings.

The target will be allocated each year to electricity retailers in proportion to their liable electricity sales, which are total sales less sales to exempt electricity-intensive trade-exposed activities. The list of activities which are exempt under ESS will take into account the national approach to exemptions for the Renewable Energy Target. If exemptions were included, the mandated energy savings requirement for retailers would start at 0.5 per cent of liable sales, then increase to five per cent by 2014 and continue at that level until 2020.

### Energy Savings Scheme target

Year	Effective scheme target (% of annual NSW electricity sales)	Retailer compliance obligation (% of annual liable electricity sales)
2009 (half year from 1 July)	0.4%	0.5%
2010	1.2%	1.5%
2011	2.0%	2.5%
2012	2.8%	3.5%
2013	3.6%	4.5%
2014–2020	4.0%	5.0%

An Energy Savings Rule will define the energy efficiency activities eligible to create ESCs and how the number of ESCs is calculated. The rule will:

- build on the existing Demand Side Abatement (DSA) Rule of the NSW Greenhouse Gas Reduction Scheme (GGAS)
- increase the number of activities that are eligible
- make it simpler for businesses to create ESCs.

Retailers who do not surrender sufficient ESCs will be subject to a penalty for the shortfall. The penalty rate will be \$24.50 per Megawatt-hour (MWh) to provide an incentive for compliance. This is equivalent to an after-tax price for energy savings of \$35 per MWh and caps the ESS cost at this level.

The ESS target was chosen as the energy savings that could deliver optimal levels of both electricity bill savings and net economic benefits. It is expected that these energy savings can be delivered for less than \$35 per MWh.

ESS legislation will provide a transparent, rule-based mechanism for adjusting the target while giving stakeholders sufficient notice of any changes. This will allow the NSW Government to increase or decrease the target, depending on the demonstrated availability and cost of energy savings.

The ESS administrator and regulator will be the NSW Independent Pricing and Regulatory Tribunal (IPART), which currently has these roles for GGAS.

## **When will it start and finish?**

ESS will start on 1 July 2009 and continue until 2020, unless a comprehensive national energy efficiency scheme is established. It will be subject to five-yearly reviews to ensure that it continues to deliver net benefits and is complementary to the CPRS.

The NSW Government will introduce legislation which will amend the existing GGAS legislation to establish ESS in the first half of 2009.

Following a workshop on the new Energy Savings Rule in April 2009, the NSW Government will seek comments on the draft rule in May 2009.

## **How will current activities under the NSW Greenhouse Gas Reduction Scheme be affected?**

GGAS will end when CPRS starts. ESS will ensure that cost-effective energy savings continue to be implemented in NSW, and will complement the proposed CPRS by overcoming obstacles to the take-up of energy efficiency.

ESS is modelled on the end-use energy efficiency parts of the Demand Side Abatement (DSA) component of GGAS and similar energy saving schemes in Victoria, South Australia, the UK and Europe.

All businesses currently accredited to undertake end-use energy efficiency activities under GGAS will be accredited under ESS without reapplying. This is subject to IPART being satisfied that the activity meets the requirements of the amended Act, Regulation and Energy Savings Rule.

Businesses engaged in lower emissions generation, large user emissions reduction and forestry sequestration under GGAS will find these components of GGAS will be covered by the proposed CPRS. On-site generation, currently part of the DSA Rule, will continue under GGAS until it ends and will not be eligible under ESS.

There will be a clear separation of ESS from GGAS from 1 July 2009. Existing energy efficiency projects under GGAS will be able to create NSW Greenhouse Abatement Certificates (NGACs) under the DSA Rule from activity taking place until 30 June 2009. For activity taking place from 1 July 2009, existing and new energy efficiency projects will only be able to create ESCs under ESS and the new rule.

NGACs created from DSA activities taking place up to 30 June 2009 can be used to comply with GGAS benchmarks but cannot be used to comply with the new ESS target. ESCs can only be used to comply with the new target and cannot be used to comply with existing GGAS benchmarks.

## **An example of how it will work**

A hypothetical electricity retailer sells 10,000 MWh of electricity in 2014 (excluding any sales to exempt electricity-intensive trade-exposed users). The energy savings requirement for 2014 is five per cent of liable sales. This means that the retailer will be required to obtain and surrender ESCs equivalent to 500 MWh of savings.

In this situation the retailer obtains ESCs in two ways:

- 1 The retailer runs an energy savings program that provides audits and subsidised upgrades for white goods, lighting, and heating and cooling systems in customers' homes or business premises. The energy savings program, which also helps the retailer retain existing customers and win new customers, delivers 250 MWh of savings to its

customers. As the savings comply with the standardised ESS methodologies for verification and audit, the retailer can register ESCs with IPART.

- 2 Through the open market for ESCs, the retailer purchases an additional 250 MWh worth of ESCs from an energy savings company which has developed a cost-effective program of upgrading compressed-air systems in industry, with computer controls, more efficient pumps and leak reduction, thereby delivering significant reductions in energy consumption for small- and medium-scale manufacturing businesses. The company's savings are verified by IPART as it has accredited the company as an ESC provider. The retailer buys these ESCs because they are the lowest-priced ESCs in the market at the time.

At the end of the year, the retailer surrenders 500 MWh worth of ESCs to IPART, thereby fulfilling its ESS obligations for that year.

### **What are the expected outcomes of the Energy Savings Scheme?**

Between now and 2020 it is estimated that the operation of ESS will result in the average household electricity bill being \$45–50 less each year compared with business as usual. Households or businesses which directly take part in energy efficiency activities will save even more.

Over the life of the efficiency upgrades that are implemented as a result of ESS, it is estimated that the energy savings will deliver customer bill savings of between \$330 million and \$1.3 billion and State-wide economic benefits which exceed the costs. ESS will also stimulate jobs growth in the companies that provide energy efficiency products and services to homes and businesses.

The current cost of GGAS has already been factored into regulated retail prices for small customers. The expected cost to retailers is less than one-third of the current cost of GGAS, and even less in the early years. The cost to electricity retailers will be more than offset by wholesale price benefits over the life of ESS.

### **Why do we need a State-based scheme?**

Action is needed now to maintain the energy-saving benefits of GGAS, and to start delivering savings in advance of the proposed CPRS.

The NSW Government has strongly supported the establishment of a national energy efficiency scheme to provide a comprehensive market-based framework to overcome the obstacles to energy efficiency. To date, the Australian Government has not adopted this proposal.

The Victorian and South Australian governments have established energy efficiency schemes similar to ESS. The NSW Government is committed to working closely with these governments to improve consistency among the three schemes for stakeholders and has established an intergovernmental working group to achieve this.