



## NSW Legislative Council Hansard

### Electricity Supply Amendment Bill

Extract from NSW Legislative Council Hansard and Papers Tuesday 3 May 2005.

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#### Second Reading

**The Hon. HENRY TSANG** (Parliamentary Secretary) [8.40 p.m.]: I move:

That this bill be now read a second time.

I seek leave to have the second reading speech incorporated in *Hansard*.

#### Leave granted.

As the New South Wales population and economy grow there is an ongoing need to ensure that households, businesses and industry have access to reliable, affordable, sustainable and secure electricity supply.

Over the last ten years, overall electricity demand in NSW has been increasing at 2.8 per cent per annum due to strong economic growth and an increasing population. Summer peak electricity demands have increased at 4 per cent, driven largely by strong growth in commercial and residential air-conditioning.

If this trend continues, and under very conservative planning and forecast assumptions, NEMMCO suggest that a new peaking power plant may be required to meet electricity peak demand from 2008 or 2009.

This Government is taking the initiative and acting prudently to ensure that NSW maintains its strong and reliable electricity supply system and prepares the electricity system for a transition towards a lower greenhouse emissions future.

In addressing these challenges I released the Energy Directions Green Paper on 6 December 2004.

The Green Paper seeks comments from interested parties on a range of important issues including:

- options for meeting future electricity needs
- possible ways of reducing greenhouse gas emissions
- regulatory and pricing certainty for investors
- transparency in planning requirements for new power stations and energy saving strategies to improve energy efficiency.

This Government has invested more than \$4 billion in the last five years in distribution and transmission networks and will spend another \$6.2 billion in the next five years. By any measure, this is a significant investment.

The Government's preference is that new investment in power stations be financed by the private sector.

Public submissions on the Green Paper will support and inform the Government's decision-making on NSW's future energy direction. The Government will provide private sector investors with the required regulatory and policy certainty through an Energy Directions White Paper outlining the Government's policy positions.

The White Paper is due for release in mid-2005.

This demonstrates my level of commitment in doing whatever is necessary to secure NSW's electricity needs into the future.

This Government's continuing commitment to electricity reform is also demonstrated in the legislation before us today. This legislation is consistent with the Government's initiatives, to date, in greenhouse policy, electricity market reform, consumer protection and safety measures in relation to electricity supply.

I will today outline amendments to the Electricity Supply Act 1995 that will allow for

- the more effective operation of the Greenhouse Benchmarks Scheme
- enhance customer protection mechanisms

- improve the effectiveness of the licensing regime and
- clarify electricity network safety and maintenance responsibilities.

Electricity generation is the source of around 40 percent of NSW greenhouse gas emissions.

The NSW Government has taken a lead role in developing Australian greenhouse policy by implementing the NSW Greenhouse Benchmarks Scheme. This is in stark contrast to the Liberal Government which continues to bury its head in the sand and seeks to do the same with its emissions.

The NSW Government is continuing to take real action in relation to emissions under the NSW Greenhouse Benchmarks Scheme and is now taking further steps to allow for the more effective operation of the Scheme. I will now outline two separate amendments to the Electricity Supply Act that will further enhance these achievements.

Firstly, the voluntary surrender of abatement certificates will be allowed. This will improve compliance with, and enforcement of, the Scheme as well as providing opportunities to use the certified abatement created under the Scheme more widely.

The Benchmarks Scheme requires that electricity retailers reduce the greenhouse gas emissions associated with the electricity they supply. A supplier whose attributed emissions exceed its emissions benchmark can purchase and surrender abatement certificates rather than paying a financial penalty. There are currently only two circumstances in which abatement certificates can be surrendered. The first relates to benchmark compliance by electricity suppliers who must surrender certificates to IPART in order to comply with their benchmarks. The second circumstance relates to accredited abatement certificate providers who have been ordered to surrender abatement certificates by IPART, where they have been convicted of improperly creating abatement certificates, or having breached conditions of their accreditation.

In order to enhance the Scheme's operation and provide a desired level of flexibility, a mechanism will now be included to allow for the voluntary surrender of abatement certificates in these circumstances. This mechanism allows accredited abatement certificate providers to voluntarily surrender any inadvertent over-creation of certificates, without being convicted of an offence.

A further benefit of allowing the voluntary surrender of certificates is that the Scheme is broadened beyond the existing mandatory requirements on electricity suppliers. This has the advantage of allowing, for example, environmental groups, or other parties seeking to achieve an environmental goal, the opportunity to purchase and voluntarily surrender abatement certificates.

This extension of the Scheme will build on the experience and expertise of the Scheme Administrator—IPART—which has developed world class accreditation, verification and registry services. The use of certificates for non-liable parties under the Scheme will also extend the abatement of greenhouse gas emissions.

The second important change to the operation of the Greenhouse Benchmarks Scheme will be to increase the flexibility for large electricity users by allowing all sites under a company's control to be included for the purposes of their election as benchmark participants. Such large electricity users must then manage their own greenhouse benchmark under the Scheme, rather than having it managed by their electricity supplier.

In the past the Act required that a benchmark participant must supply or purchase electricity. This was a narrow interpretation of the Scheme's intent and objectives. In a few cases where commercial arrangements of related companies have been different, this has required novation of electricity contracts in order to satisfy the eligibility criteria for election. The proposed amendments to the Act will overcome this unintended requirement and the unintended compliance difficulties for business, while not compromising the abatement delivered.

The initiative has been taken to provide opportunities for further abatement activities by broadening the interpretation of the Scheme under the Act. This will allow some company structures, including holding companies, that do not meet the current eligibility criterion to now elect as benchmark participants. This change will allow a parent company to be able to elect on behalf of subsidiaries and other related entities.

This amendment will deliver important additional benefits to NSW by allowing a number of companies to bring to account a wider range of greenhouse abatement activities than previously possible. In turn, this provides the potential for further opportunities for abatement activities leading to the creation of additional Large User Abatement Certificates. A further benefit is the reduction of costs of the Scheme to industry while encouraging additional abatement activities.

Electricity plays a vital role in our everyday lives. Securing the supply of electricity to consumers is a

responsibility this Government takes seriously.

The Government is taking this opportunity to strengthen and clarify existing powers for regulation and effective operation of the competitive electricity retail market.

The retailer of last resort scheme is a customer protection mechanism established to support the retail market. In the event of a retailer's suspension from the National Electricity Market or licence cancellation in New South Wales, the affected electricity retailer's customers would be transferred to retailers of last resort appointed under the powers of the Minister for Energy and Utilities. At present, the retailers of last resort in NSW are EnergyAustralia, Integral Energy and Country Energy.

In order to more effectively manage the circumstances in which customers must be transferred to a retailer of last resort, the Minister for Energy and Utilities needs to be directly informed by the responsible agencies if such an event occurs, or appears likely to occur.

Under the proposed amendment, a head of power will be created enabling commercial-in-confidence information to be obtained from the National Electricity Market Management Company with respect to 'retailer of last resort' events in New South Wales. The use of such information will be limited to the management of potential retailer of last resort events. This power is consistent with the power of other jurisdictions for these circumstances.

The Government is also taking steps to improve the administration and enforcement of the electricity distribution and retail licensing regime.

The Electricity Supply Act provides for certain obligations to be imposed on electricity suppliers by attaching "endorsements" to their licence. An endorsement can be either an obligation to act as a retailer of last resort or an obligation to offer small customers a standard regulated supply contract. The process for imposing, varying or revoking an endorsement requires clarification.

The Independent Pricing and Regulatory Tribunal, as the electricity licence administrator, has proposed an opportunity to more effectively administer endorsements, by clarifying the responsibility for imposing an endorsement on a supplier. As endorsements have a similar purpose and effect to licence conditions it was appropriate that the powers and processes be made consistent. For consistency with similar powers, the Act has been amended so that this power resides with the Minister for Energy and Utilities.

A process has also been established for the varying or revoking of endorsements. This not only improves the effectiveness of the licensing regime but also creates certainty to minimise the potential for legal challenge.

IPART also identified the potential to improve its powers to monitor and enforce compliance with endorsement conditions. In order to fulfil its responsibilities IPART's licence auditing functions have been extended to include endorsements attached to a licence. Distribution network service providers and retail electricity suppliers will be required to concurrently comply with IPART directions to keep specified records and furnish specified information.

The Government is also taking this opportunity to establish a regulation making power for the introduction of prepayment meters in NSW to small electricity customers on a voluntary basis. Prepayment meters offer customers choice and flexibility.

Prepayment meters allow customers to pre-purchase credit for electricity supply. Customers would also be able to use the meter to monitor their electricity consumption, thereby assisting in household budgeting.

The Government has consulted broadly with the electricity industry, consumer groups and the Energy and Water Ombudsman NSW on the use of prepayment meters. In general consumer groups and retailers were supportive of the introduction of prepayment meters in NSW. Prepayment meters will only be offered to customers on a purely voluntary basis under a negotiated contract.

On the basis of this consultation, regulations are being prepared to establish an appropriate and fair regulatory framework for prepayment meters which includes consumer protection mechanisms and technical market rules.

As the Parliament would be aware this Government is committed to high standards of safety and maintenance across the electricity network and electrical installations.

The Bill now before Parliament extends this commitment by clarifying the safety and maintenance responsibilities for electricity networks and electrical installations. The Bill clearly defines the boundary between an electrical installation and an electrical distribution system.

Uncertainty surrounding the location of the distribution system boundary created the potential for disputes as to who was responsible for the safety and maintenance of some electricity assets. This is of particular relevance to electricity distributors who are taking initiatives to ensure private overhead lines are safe. This is a crucial aspect of an electricity distributor's operations to assist with bushfire prevention.

Two new definitions have been included in the Act to clearly define the point of supply between a distribution system and an electrical installation. The definition for electrical installation in the Act has also been amended to ensure maximum consistency with the Electricity (Consumer Safety) Act 2004 while avoiding any unintended consequences.

In conclusion, I would like to remind the House that this Government has a continuing commitment to an electricity industry which delivers safe, reliable, affordable and sustainable energy for NSW.

The legislation before the House provides for the more effective operation of the Greenhouse Benchmarks Scheme and will further enhance customer protection mechanisms, improve the effectiveness of the licensing regime and clarify electricity network safety and maintenance responsibilities.

This legislation delivers ongoing benefits to the people of New South Wales.

I commend the Bill to the House.