Electricity Supply Amendment (Energy Savings Scheme) Bill 2015 (Proof)

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ELECTRICITY SUPPLY AMENDMENT (ENERGY SAVINGS SCHEME) BILL 2015

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Second Reading

The Hon. SARAH MITCHELL (Parliamentary Secretary) [3.03 p.m.], on behalf of the Hon. John Ajaka: 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 Australia's leader in energy efficiency, this Government is committed to driving down the cost of living, improving energy productivity and reducing environmental impacts from energy use.

We have a genuinely ambitious energy savings target to assist households and businesses to save 16,000 gigawatt hours each year by 2020 above business as usual levels in 2010. This target is driving policy and programs that are making New South Wales number one on energy efficiency.

Amongst other things, we have released a progressive Energy Efficiency Action Plan, an ambitious Government Resource Efficiency Policy, and given $61.5 million in new funds to energy efficiency programs, including $26.8 million to help low-income households become more energy efficient.

I am very pleased to be introducing this bill today to enhance the NSW Energy Savings Scheme, further demonstrating this Government's strong commitment to energy efficiency for the people of New South Wales.

Part 9 of the Electricity Supply Act establishes the Energy Savings Scheme [ESS], New South Wales' largest energy efficiency program.

The ESS is a market-based mechanism. It sets legislated targets, and provides financial incentives for households and businesses to save energy, but leaves it to the market to innovate and find the lowest cost ways of delivering energy savings and meeting these targets.

Since 2009, the ESS has helped to implement energy efficiency projects that will already save more than 12,000 gigawatt hours of electricity over the lives of these projects. These existing savings will deliver more than $1.7 billion in bill savings to energy consumers by 2025.

The Department of Industry and the Office of Environment and Heritage have conducted a broad review of the ESS, with extensive stakeholder consultation. The review was underpinned by robust economic analysis.

In November 2014, the New South Wales Government announced its intention to strengthen the ESS, and that it would consult on further enhancements in April 2015.

The Minister for Industry, Resources and Energy and the Minister for the Environment jointly released an ESS review report package for public consultation on 21 April.

The consultation sought stakeholder feedback to inform the statutory review of the Energy Savings Scheme required under the Electricity Supply Act 1995; and to refine options on enhancements to the scheme following the Government's announcements in November 2014—including to expand the scheme to recognise gas efficiency measures.

In November 2014, the New South Wales Government announced its intention to reform the Energy Savings Scheme and released the ESS Review Information Paper outlining these reforms.

This bill will implement the key recommendations from that review, and create more opportunities for households and businesses to save energy and reduce the cost of their energy bills.

When the now Opposition introduced the bill to establish the ESS in 2009, the Coalition did not oppose it. In fact, we asked why the scheme only included electricity savings, and did not include gas as well. Now we are delivering on our long interest in gas efficiency.

This bill will enhance the ESS in key areas, including extending it to 2025 and increasing the energy savings target. The bill expands the ESS to facilitate gas saving activities, addressing a significant opportunity not taken up by the now Opposition back in 2009.

It will mean that more households and businesses will be investing in energy efficiency, saving money, and creating new green jobs in the energy efficiency sector.

The bill will extend the automatic termination of the ESS by five years from 2020 to 2025.

Making energy efficiency part of everyday life and everyday business in New South Wales requires transformation of the energy efficiency services market. That can only happen over the long term.

Extending the ESS to 2025 will encourage the energy efficiency industry to invest in long term and sustainable business models, and will help avoid the need for costly energy infrastructure in the medium term.

There are opportunities to implement cost-effective energy efficiency projects in New South Wales beyond 2020. Extending the ESS to 2025 will help make sure those opportunities can be realised.

The bill will expand the ESS to provide incentives to save gas as well as electricity.

Gas is a vital source of energy for many households and businesses.

Including gas in the ESS will drive the efficient use of gas in New South Wales, and help households and businesses save on their gas bills.

This is particularly important at a time when gas prices are rising and placing increasing pressure on households and businesses.

Victoria, South Australia and the Australian Capital Territory [ACT] include gas in their energy efficiency schemes, as do similar schemes in the United States and Europe.

Accredited certificate providers will be able to create energy savings certificates when they implement energy savings activities that reduce gas consumption.

Accredited certificate providers will be also able to create certificates when they implement activities that provide a net energy saving by replacing gas consumption with electricity consumption, and vice versa.

The changes to the ESS will introduce two separate conversion factors to allow for energy savings activities that involve gas, electricity or both.

This will provide a clear system for rewarding both gas and electricity savings on an equivalent basis.

The New South Wales Government supports having a single target on electricity, with equivalent value gas certificates being able to be counted to that electricity target.

This is simpler administratively than having separate targets for gas and electricity, and will drive the most cost-efficient measures between gas and electricity.

This bill will increase the energy savings targets to deliver more energy savings and greater reductions in energy bills.

ESS targets will increase from 5 per cent in 2015 to 7 percent in 2016, 7½ per cent in 2017, 8 per cent in 2018 and 8½ per cent in 2019.

This gradual approach to increasing the energy savings targets provides certainty to the energy efficiency industry in New South Wales, and will facilitate its sustainable growth.

The new targets will significantly increase the amount of energy saved by households and businesses, and will deliver net economic benefits to New South Wales by avoiding costly electricity generation and gas supply, deferring investment in electricity networks, and reducing carbon emissions and air pollution.

The increase in targets will also make a significant contribution to meeting the New South Wales energy savings target of 16,000 gigawatt hours each year by 2020.

In addition, we will avoid upward pressure on energy bills due to the increase in targets by using savings in the Climate Change Fund.

We will also revise the ESS Rule to fairly reward energy savings in regional New South Wales.

Saving energy is important for these customers who typically pay more for energy than those in metropolitan areas, and face larger costs for energy efficiency products and services.

More energy is lost in the long transmission and distribution networks that deliver electricity to households and businesses in regional New South Wales.

To fairly reward the greater value of energy savings activities in regional areas, we will introduce a "regional network factor".

This factor will multiply the number of energy savings certificates created for energy efficiency activities undertaken within the Essential Energy regional network area by 3 per cent.

The bill will facilitate the New South Wales ESS linking with other State-based energy efficiency schemes, which New South Wales has long supported.

The New South Wales Energy Efficiency Action Plan puts forward our vision to harmonise energy efficiency schemes with other States and Territories to build the market for energy efficiency.

Currently, if the Minister approves a corresponding interstate scheme under the Electricity Supply Act 1995, there is nothing preventing energy savings made outside New South Wales from being used to meet participants' New South Wales targets.

The New South Wales Government prefers enabling a "staged" approach to the harmonisation of corresponding schemes.

This bill allows us to approve a corresponding interstate scheme, without interstate certificates being used to meet the New South Wales target, to harmonise schemes across the States and Territories.

This will allow an eventual second stage for a seamless national market in energy efficiency by allowing interstate trading.

This will reduce red tape, whilst enabling a staged approach to harmonisation and opening the door for New South Wales businesses to expand their operations interstate.

One of the problems identified in the review was that the scheme was somewhat inflexible when responding to changing market conditions.

The two principal triggers are a sustained undersupply of energy savings certificates, as evidenced by scheme participants being required to pay a substantial energy savings shortfall penalty for two or more consecutive years, or a sustained oversupply of energy savings certificates, as evidenced by the total number of certificates created substantially exceeding the total number of certificates required to meet all individual energy savings targets for two or more consecutive years.

These are qualitative triggers, which create uncertainty in the market due to their lack of clarity on triggers for changing targets.

This is a problem for a market-based scheme, and is clarified by the regulatory changes that allow quantitative targets.

The bill allows for regulations to prescribe conditions under which energy savings targets and base penalty rates may be changed based on an undersupply or oversupply of certificates.

By clarifying how and when changes may occur, the ESS will be more responsive to market conditions.

The bill will also require the scheme regulator to report each year on the extent of any oversupply or undersupply of certificates, as well as provide advice at the request of the Minister.

The bill will enhance and modernise the scheme administrator's enforcement powers.

To date there have been relatively few material instances of noncompliance under the ESS.

For example, in its role as scheme administrator for the ESS, the Independent Pricing and Regulatory Tribunal [IPART] has managed compliance by negotiating voluntary remedies with accredited certificate providers.

But these negotiations can be protracted and costly in terms of staff resources and the cost of court action. The large and often disproportionate criminal penalties may lead to delay in enforcing compliance with the full powers available.

As the scheme expands in size and complexity, the risk of noncompliance may also increase.

The proposed changes will provide the scheme administrator and scheme regulator with a greater range of compliance powers.

The bill will give the scheme administrator the power to order an accredited certificate provider to surrender certificates if the scheme administrator is satisfied on the balance of probabilities, on the basis of an audit or information obtained, that the accredited certificate provider has improperly created certificates or contravened their accreditation conditions.

Currently, the Act requires the scheme administrator to take court action and the accredited certificate provider to be found guilty of an offence before the scheme administrator can require the provider to surrender certificates.

The Act already provides an avenue to appeal these decisions. These reforms will maintain due process and the right of appeal.

The bill also introduces the concept of an enforcement officer to issue penalty notices, if so prescribed in future regulations.

This will make enforcement under the Act much more efficient and avoid disproportionate responses to minor breaches.

In addition to the major changes I have already mentioned, the bill will also make a number of minor amendments to improve the administration of the ESS.

Orders to exempt emissions intensive and trade-exposed industries will be able to take immediate effect. This will streamline the process for changes to exemptions, avoiding what can be up to a 13-month delay until an emissions intensive trade-exposed site would receive an exemption.

Under the bill, the purchase of a megawatt hour of electricity by scheme participants will only be captured once as a liable acquisition. The current drafting of the Act can create circumstances in which purchases of electricity can accidentally be counted twice as a liable acquisition.

This is a simple housekeeping measure that will reduce the administrative burden for the scheme regulator and scheme participants.

ESS certificate registration fees have remained at the same level since the scheme was established in 2009, while penalty rates are adjusted over time, in line with the Consumer Price Index.

The bill provides that certificate registration fees may be adjusted over time for movements in the Consumer Price Index, in accordance with the regulations, to help the Government to cover the costs of administering the scheme from the businesses that benefit.

The bill will also clarify that a certificate created before these amendments come into effect will still be recognised as a certificate under the ESS, even though certificate conversion factors will be changing to include gas savings in the scheme.

This will provide continuity and stability for stakeholders active in the ESS.

In summary, these reforms to the ESS, including expanding the scheme to facilitate gas saving activities, increasing the scheme targets, and extending the scheme to 2025, are a sign of this Government's genuine commitment to energy efficiency.

These reforms will deliver an additional $8.2 billion in much-needed energy bill savings for New South Wales households and businesses over the next 25 years.

The enhancements to the ESS are clear proof that this Government can strengthen our economy while delivering environmental benefits.

These reforms will deliver an additional $853 million net benefit to our State by avoiding costly electricity generation and gas supply and deferring investment in electricity networks, while protecting the environment by reducing carbon emissions and air pollution.

This bill before the House provides for amendments to the Electricity Supply Act 1995 that can provide households and businesses in New South Wales with billions of dollars in much-needed relief through energy bill savings.

Expanding the scheme to facilitate gas saving activities will help to alleviate energy bill pressures on households and businesses.

Including gas in the scheme would generate gas savings of 5.2 petajoules in 2020, delivering an additional $1.6 billion in gas bill savings for households and businesses over the next 25 years.

Increasing scheme targets to 7 per cent in 2016 and up to 8½ per cent from 2019 will help us to deliver these bill savings and unlock this economic benefit, as will extending the scheme until 2025.

All of these changes will enhance the ESS, so that it continues to deliver economic benefits and unlock new energy efficiency opportunities for households and businesses across New South Wales.

More than 3,000 people are employed in this industry across Australia with the help of initiatives like the ESS.

Importantly, these reforms will also help the New South Wales energy efficiency industry to grow sustainably.

These reforms are crucial in preparing our economy for the challenges of the twenty-first century. These reforms will drive innovation and improvements in energy productivity in households and businesses across the State.

I am impressed by how our State's ambition in energy efficiency has seen the private sector, families and communities step up and raise their ambitions on sustainability. The Energy Saving Scheme is a key driver of new sustainable jobs, and is helping all parts of the community save energy, and save on bills.

I commend the bill to the House.