

Second Reading

The Hon. IAN MACDONALD (Minister for Primary Industries, Minister for Energy, Minister for Mineral Resources, and Minister for State Development) [2:53 p.m.]: I move:

That this bill be now read a second time.

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

Leave granted.

The New South Wales Government is strongly committed to encouraging energy efficiency and reducing greenhouse gas emissions. We are committed to doing this at least cost and with measures that complement the Commonwealth Government's efforts. This is one of the key areas where New South Wales can make a meaningful contribution to the fight against climate change. This bill, which seeks to establish the New South Wales Energy Savings Scheme, demonstrates our commitment. New South Wales strongly supports the introduction of a national emissions trading scheme to deliver the most cost-effective and equitable reduction of greenhouse gas emissions. The Commonwealth's proposed Carbon Pollution Reduction Scheme [CPRS] will achieve that outcome.

In 2003 New South Wales commenced one of the first mandatory greenhouse gas emissions trading schemes in the world. The New South Wales Greenhouse Gas Reduction Scheme, or GGAS, was designed to reduce emissions from the use of electricity in New South Wales, and to encourage activities that offset the production of emissions. The Rudd Government has followed on from New South Wales's State-based efforts and announced the development of the Carbon Pollution Reduction Scheme, with commencement now proposed to occur in 2011. Most parts of the Greenhouse Gas Reduction Scheme will transition to the Carbon Pollution Reduction Scheme in 2011, and the New South Wales Government is working with the Commonwealth on those transitional arrangements.

However, the Carbon Pollution Reduction Scheme will not include an energy efficiency component. The Carbon Pollution Reduction Scheme is a versatile market mechanism to reduce the emissions produced per unit of electricity used, but it does not seek to directly reduce the total amount of electricity demand. That is why on 18 June 2008 the New South Wales Government announced a major initiative—the New South Wales Energy Efficiency Strategy. The New South Wales strategy seeks to complement the proposed Carbon Pollution Reduction Scheme by promoting energy efficiency to reduce overall energy demand. The \$150-million New South Wales Energy Efficiency Strategy includes a range of measures, including \$63 million for upgrades in low-income households, as well as \$35 million in assistance for business programs.

We are also rolling out a \$20-million energy efficiency skills development program to ensure our tradespeople and professionals are properly prepared and skilled to deliver the Government's ambitious energy efficiency programs, including the Energy Savings Scheme. The new Energy Savings Scheme is a key component of the New South Wales Energy Efficiency Strategy. The scheme will start on 1 July 2009. The Energy Savings Scheme will set annual energy savings targets. These targets will help New South Wales households and businesses manage the costs of electricity, and better position the New South Wales economy for a low-carbon future. The bill amends the Electricity Supply Act 1995 to establish new targets for energy savings and establish a new regime for creating certificates that represent energy savings that will be used to demonstrate that the targets have been achieved.

These two features are at the core of the new Energy Savings Scheme. Their effect is to create financial incentives to overcome the market failures that can prevent the adoption of cost-effective energy-saving practices by households and businesses. Countries that have adopted such schemes include the United Kingdom, Italy, France and Belgium where the schemes complement the European Union Emissions Trading Scheme. A number of States in the United States of America, such as California, have adopted similar approaches. Like the schemes in these other jurisdictions and like the Greenhouse Gas Reduction Scheme here in New South Wales, the Energy Savings Scheme will harness the innovative capacity of the private sector to find cost-effective methods to overcome the barriers to energy efficiency improvement. The new scheme will ensure incentives for energy efficiency are maintained without hindering the objectives of the proposed Carbon Pollution Reduction Scheme. I will now describe the scheme in more detail.

The first core feature of the Energy Savings Scheme is that it will set mandatory energy savings targets for electricity retailers and other liable parties. Liable parties under the new scheme will include all holders of New South Wales electricity retail licences, New South Wales electricity generators that supply directly to retail customers in New South Wales, and market customers in New South Wales who purchase their electricity directly from the National Electricity Market. Retailers and other liable parties will achieve their target by obtaining and surrendering energy saving certificates that represent delivered energy savings. The incentive to surrender sufficient certificates will be in the form of a penalty for any shortfall of certificates.

The bill allows exemptions from the scheme for industrial activities that are trade exposed and emissions intensive. Trade-exposed and emissions-intensive industrial activities will be given assistance under the proposed Carbon Pollution Reduction Scheme and will be given partial exemption from the Commonwealth Renewable Energy Target. The rationale for these exemptions is that these activities face competition from industries in countries that are not faced with meeting similar environmental obligations. The Energy Savings Scheme is intended to complement these two national schemes. For this reason, the intention also is that the exemptions under the Energy Savings Scheme should align with the approach the Commonwealth is taking in implementing its expanded Renewable Energy Target and the Carbon Pollution Reduction Scheme.

Alignment with the Renewable Energy Target and the Carbon Pollution Reduction Scheme will reduce the compliance costs under the Energy Savings Scheme. Because the Commonwealth's exemptions may not be in place by 1 July 2009, the bill allows the Minister to list exempt activities or the companies undertaking them, and the level of exemption that will apply. The New South Wales Government will list exempt activities for 2009 before the scheme commences, using the most up-to-date information from the Commonwealth available at the time of listing. This will provide the necessary certainty to the companies involved in these activities and their retailers for the first compliance period of the Energy Savings Scheme. The most recent information from the Commonwealth indicates that the industrial activities to be granted exemptions from the Renewable Energy Target would be for the higher level of exemption for aluminium smelting, cement clinker production, lime production, silicon production and integrated iron and steel manufacturing, and for the lower level of exemption to be provided for alumina refining, petroleum refining and liquid natural gas production, the pulp and paper manufacturing sector, the iron and steel sector, the plastics and chemical manufacturing sector, the other non-ferrous metals sector and the glass manufacturing sector.

Exemptions will apply to an industrial activity regardless of whether the industry would otherwise be liable or the industry would not be directly liable and takes its electricity supply from a liable retailer. This means that retailers will bear no cost of compliance with the scheme for the exempt part of the electricity used by emissions-intensive trade-exposed customers and there will be no excuse for retailers to pass scheme compliance costs on for the exempt part of this electricity use. The second key feature of the new Energy Savings Scheme is that, like the Greenhouse Gas Reduction Scheme, the new scheme will use energy savings certificates that represent energy savings to demonstrate achievement of targets. An Energy Savings Rule will define the energy savings activities recognised for certificate creation, as well as how the number of certificates is calculated. The bill allows for the creation of energy savings certificates by accredited energy savings certificate providers, who carry out recognised energy-saving activities.

The Greenhouse Gas Reduction Scheme framework has worked well by providing market certainty, through a robust greenhouse gas benchmark and a penalty regime, while allowing the flexibility to make adjustments by amending the rules. These amendments to establish the new Energy Savings Scheme will adopt a similar framework to the Greenhouse Gas Reduction Scheme. The bill gives liable parties the flexibility to create certificates by delivering energy efficiency upgrades directly or to purchase certificates from specialist companies accredited to conduct energy-saving projects. It is anticipated that the incentives will encourage the participation of many third parties in the scheme—as occurred with the Greenhouse Gas Reduction Scheme. The benefit of this approach, compared with a prescribed regulatory target on liable parties without market incentives, is that the lowest-priced and most cost-effective measures available will be adopted.

The Energy Savings Scheme will be comprehensive in its recognition of a wide range of energy savings activities across the residential, commercial and industrial sectors. This will maximise the potential for energy savings across the New South Wales economy and, compared with more specific types of energy efficiency programs, lets the market determine the most efficient and innovative ways to deliver energy savings. For most of the simpler measures that are likely to occur under the scheme, the scheme will pay up front for a number of years of energy savings. This will help overcome the barriers to improving energy efficiency and will ensure that cost-effective energy saving will provide an effective alternative to building more power stations and powerlines. Energy savings will be converted to certificates in tonnes of carbon dioxide equivalent. This will make the New South Wales Energy Savings Scheme consistent with the Victorian Energy Efficiency Target Scheme and with the Greenhouse Gas Reduction Scheme.

The bill ensures that energy savings that are used for compliance with the Energy Savings Scheme cannot also be used in other similar schemes. Further, only activities that go beyond mandatory minimum energy efficiency standards will be eligible to create certificates under the scheme. The new scheme will operate from 1 July 2009 until 31 December 2020, unless a national market-based energy efficiency scheme is established. The Government would prefer a comprehensive, national, market-based energy efficiency scheme as we believe that would make the national greenhouse gas reduction task achievable at a lower cost to families and businesses. But in the interim, and to the extent that it is possible, New South Wales will seek to harmonise this scheme with similar schemes in other States, such as the Victorian Energy Saver Incentive Scheme and the South Australian Residential Energy Efficiency Scheme.

The bill to establish the Energy Savings Scheme will create a new part of the Electricity Supply Act 1995 based on the existing part of the Act that set up the New South Wales Greenhouse Gas Reduction Scheme. Likewise, the Energy Savings Rule will be based on the existing Demand Side Reduction Rule of the Greenhouse Gas Reduction Scheme. We have already undertaken several stages of consultation on the proposed Energy Savings Scheme, commencing with a forum for stakeholders and followed by a discussion paper and public submission phase last year. There was a further workshop in April this year on energy savings measures that should be included in the scheme. Over the next two weeks there will be further consultation by the Department of Environment and Climate Change and the Department of Water and Energy on the bill as well as the draft regulation and rule.

The bill refers to the scheme's target starting at 1 per cent and increasing to 5 per cent of annual liable electricity sales in New South Wales over 4½ years. It is important to explain the difference between this headline target and the effective target due to the exemption of trade-exposed emissions-intensive industries. The targets in the bill are expressed as a fraction of liable electricity sales. However, in reality the actual targets will be calculated after the subtraction of the electricity used by trade-exposed emissions-intensive industrial activities, which are exempted from the scheme. When expressed as a percentage of total annual electricity sales, including the exempt electricity, as I announced earlier this year, the effective targets are 0.4 per cent in 2009 and up to 4 per cent in 2014.

The bill states that the target for the first year is 1 per cent, which is for a full calendar year. However, as the first year of the scheme commences on 1 July 2009 with a compliance period of only six months, the effective target for 2009 will actually be 0.4 per cent of total electricity sales for the full year, including exempt electricity. When the targets reach their maximum level, for each 1,000 gigawatt hours of liable electricity sales a retailer or other liable party will be required to source energy savings of 50 gigawatt hours of electricity from recognised energy-saving activities. The steady build-up in the target will allow time for the market to develop the new business models that are required to

deliver the energy savings.

From 2014 to 2020 the scheme will deliver energy efficiency improvements that will save approximately 3.2 million megawatt hours each year, which is equivalent to approximately 3.2 million tonnes of carbon dioxide each year. I want to emphasise that electricity retailers will be legally required to meet these targets, and penalties will apply if they are not met. To provide an incentive for compliance, the bill includes a penalty for any retailer that does not surrender sufficient certificates to achieve their energy savings target. The bill sets the penalty rate at \$24.50 per megawatt hour [MWh] for any shortfall of certificates. So that the financial incentive to comply maintains its real value over time, the penalty rate will be adjusted each year to take account of inflation.

As I mentioned, the New South Wales Government's intention in implementing the Energy Savings Scheme is to ensure that the incentives for energy efficiency that have been effectively provided under the Greenhouse Gas Reduction Scheme are continued when the rest of the Greenhouse Gas Reduction Scheme ends, which coincides with the start of the Carbon Pollution Reduction Scheme. All businesses currently accredited to undertake end-use energy efficiency activities under the Greenhouse Gas Reduction Scheme and which comply with the Energy Savings Scheme will be accredited under the Energy Savings Scheme without reapplying. This bill will not change the Greenhouse Gas Reduction Scheme greenhouse gas benchmark. Apart from the removal of end-use energy savings projects to the new scheme, the Greenhouse Gas Reduction Scheme will continue unchanged until the proposed Carbon Pollution Reduction Scheme starts.

Businesses engaged in lower emissions generation, large-user emissions reduction and forestry sequestration under the Greenhouse Gas Reduction Scheme will not be affected by the Energy Savings Scheme. On-site generation, which is currently part of the Demand Side Reduction Rule, will continue under the Greenhouse Gas Reduction Scheme until it ends and will not be eligible under the Energy Savings Scheme. There will be a clear separation of the Energy Savings Scheme from the Greenhouse Gas Reduction Scheme from 1 July 2009. Existing energy savings projects under the Greenhouse Gas Reduction Scheme will be able to create New South Wales greenhouse reduction certificates under the Demand Side Reduction Rule from activity taking place until 30 June 2009. For activity taking place from 1 July 2009, existing and new energy savings projects will be able to create energy savings certificates only under the Energy Savings Scheme.

New South Wales greenhouse reduction certificates created from demand side reduction activities taking place up to 30 June 2009 can be used only to comply with Greenhouse Gas Reduction Scheme benchmarks, but cannot be used to comply with the new Energy Savings Scheme target. Energy savings certificates can be used only to comply with the new target and cannot be used to comply with existing Greenhouse Gas Reduction Scheme benchmarks. To smooth the transition from the Greenhouse Gas Reduction Scheme to the Energy Savings Scheme the new scheme will be regulated and administered by the Independent Pricing and Regulatory Tribunal [IPART], the same body that performs these important roles for the Greenhouse Gas Reduction Scheme.

In summary, the Energy Savings Scheme, and the new legislated energy savings targets it sets for electricity retailers and other liable parties, will mean that New South Wales will have in place real measures for stimulating new energy efficiency activities for households and business. This scheme will deliver environmental benefits, new green jobs and support the overall strength of the New South Wales economy. The bill before the House provides for amendments to the Electricity Supply Act 1995, which create financial incentives to overcome the market failures and barriers to the delivery of energy-saving activities. The amendments will save electricity customers money by reducing electricity consumption and electricity costs for households and businesses as well as reducing the cost of, and the need for, additional electricity generation, transmission and distribution infrastructure, which saves all of us money.

Economic modelling undertaken for the development of the scheme indicates the average household electricity bill will be reduced by about \$45 to \$50 each year between now and 2020. The overall economic benefits of the scheme that will result from the benefits to the economy of more efficient energy use are greater than the scheme's costs. In achieving these savings, the scheme also will drive a greater take-up of low-cost greenhouse gas reductions than the proposed Carbon Pollution Reduction Scheme price signal alone would be able to deliver without such complementary measures. The scheme will also help New South Wales in its transition to a low-carbon economy. We expect the scheme to create or protect more than 1,000 jobs in New South Wales and assist in the development of the many green businesses that will help to deliver energy efficiency upgrades under the scheme.

By adding new types of energy-saving activities to those already allowed under the Greenhouse Gas Reduction Scheme, the Energy Savings Scheme will create opportunities for the new businesses and jobs that we need to enable us to take action on climate change. For example, we will be moving on from installing light bulbs into mass rollouts of activities such as lighting retrofits for office blocks, factories and shopping centres, higher-efficiency industrial motors, and upgrades to heating, ventilation and air-conditioning systems. These new activities will create opportunities for electrical workers and other tradespeople and professionals, and will help them to develop their energy efficiency skills and knowledge during a downturn in construction work.

Importantly, the New South Wales Energy Savings Scheme will be complementary to the Commonwealth's proposed Carbon Pollution Reduction Scheme, which is due to commence in 2011, and will uphold the Council of Australian Governments principles for complementarity to the Carbon Pollution Reduction Scheme. To ensure this complementarity, the scheme will be reviewed every five years to assess the continuing need for the scheme. This will provide regulatory certainty and market stability to businesses making energy efficiency investments. I commend the bill to the House.