AGL Energy Limited
T 02 9921 2999
agl.com.au
ABN: 74 115 061 375

Level 24, 200 George St
Sydney NSW 2000
Locked Bag 14120 MCMC
Melbourne VIC 8001

NSW Energy Savings Scheme and Peak Demand Reduction Scheme Statutory Review
Department of Climate Change, Energy, the Environment and Water
Email: energysecurity@environment.nsw.gov.au

6 Sept 2024

Dear Sir or Madam,

Discussion Paper – Energy Savings Scheme (ESS) and Peak Demand Reduction Scheme (PDRS) Statutory Review 2025

AGL Energy (AGL) welcomes the opportunity to provide feedback to the Department of Climate Change, Energy, the Environment and Water (DCCEEW) Discussion Paper (the Paper).

Proudly Australian since 1837, AGL delivers around 4.3 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. In New South Wales, AGL is a Tier 1 energy retailer to residential customers, with 24% electricity market share and 39% gas market share[1]. As one of the largest providers of essential services, AGL is committed to meeting the needs of its energy customers both now and through the transition to a net zero emissions future. AGL offers products and services that assist our customers in decarbonising and to reduce their energy consumption through carbon offsets, demand response programs and participation in AGL's Virtual Power Plant (VPP).

AGL recognises the important role of both the NSW Energy Savings Scheme (ESS) and Peak Demand Reduction Scheme (PDRS) in achieving the Energy Security Safeguard objectives of ensuring the energy system is "more reliable, affordable and sustainable"[2]. We note our broad support for both schemes, given their likely positive efficiency and cost impacts for scheme participants, and ultimately, NSW customers.

While it is too early in the PDRS' implementation to discern whether the scheme is meeting its objectives, we believe the ESS scheme objectives and design remains largely relevant. As a liable entity within both schemes, AGL has proudly met its targets every year since the scheme's inception and is committed to its ongoing role in decarbonisation and supporting a more reliable and affordable energy system.

AGL's responses to the consultation questions in the Paper are set out in Appendix A.

If you have any questions in relation to this submission, please contact Jenny Kiim on jkim2@agl.com.au.

Yours sincerely,

Liam Jones
Senior Manager Policy and Market Regulation

[1] Australian Energy Regulator, *Annual Retail Markets Report 2022-23*, November 2023, p 10-11.
[2] https://www.energy.nsw.gov.au/nsw-plans-and-progress/regulation-and-policy/energy-security-safeguard

Appendix A – AGL's Responses to Consultation Questions

Part 1: Statutory Review	
Consultation Question	**AGL Feedback**
1. *Do you support the proposed approach to determining whether scheme objectives remain valid?*	AGL supports the department's proposed approach to determining whether the scheme objectives remain valid by assessing whether (1) the objectives address an ongoing issue or opportunities and (2) whether there is still a need for policy support to address this issue or opportunity.
2. *Are the ESS objectives still valid, and what evidence should the Department consider to assess their validity? Please provide evidence to support your answer.*	Yes, AGL considers the ESS' principal objective – 'to create a financial incentive to reduce the consumption of energy by encouraging energy saving activities' – as still valid. Other supporting objectives, which relate to assisting households and businesses to reduce energy consumption; complementing national schemes which seek to reduce carbon pollution; and reducing the need and associated costs for additional energy generation, transmission, and distribution infrastructure also remain broadly relevant. Alternative objectives are explored further in our response to question 6.
3. *Are the PDRS objectives still valid, and what evidence should the Department consider to assess their validity? Please provide evidence to support your answer.*	AGL considers the PDRS' principal objective – 'to create a financial incentive to reduce peak demand for electricity by encouraging activities that create peak demand reduction capacity' – as broadly valid. Supporting objectives which relate to improving the reliability of electricity supply, reducing cost for customers, and improving the sustainability of electricity generation also remain relevant. However, we believe the PDRS is still in its nascent stage of implementation and think that the department would benefit from testing whether the scheme meets its objectives, and the validity of the objective after 1 - 2 years. As the PDRS commenced in 2022, and the expansion of eligible activities under the scheme such as the inclusion of residential batteries for commercial and industrial participants are yet to come into effect (i.e. commencing on 1 November 2024), it is too early to consider the impacts or effects of the scheme settings.
4. *Is the ESS design appropriate for securing its objectives? What evidence should the department consider to assess design appropriateness? Please provide evidence to support your answer.*	Yes, AGL considers the market-based, certificate scheme design as still broadly appropriate in incentivising households and businesses to reduce energy consumption through energy saving activities which would have otherwise occurred. Energy Savings Certificate (ESC) price movements have evidently and predictably followed market fundamentals of supply and demand, whereby a very large oversupply of activities and generation of ESCs, has seen a proportional reduction in ESC price, and vice versa. This has allowed AGL, as a liable entity within the scheme to buy and surrender ESCs and operate with other scheme participants transparently.
5. *Is the PDRS design appropriate for securing its objectives? What evidence should the department consider to assess design*	As mentioned in our response to question 3, we consider it too early to determine whether the market-based, certificate scheme design is the most appropriate for incentivising peak demand reduction in NSW.

appropriateness? Please provide evidence to support your answer.	Nevertheless, we consider smart meter data as an important source of evidence to measure the operation and future impact of the PDRS, as this would allow for retailers to accurately gauge customers' consumption during the relevant peak periods, providing evidence of what impact, if any, each of the proposed recognised peak activities has on peak demand. Similarly, to assess overall system level demand, the department could assess aggregated smart meter data.

Part 2: Reform Opportunities	
Consultation Question	**AGL Feedback**
6. *What alternative or complementary objectives should the schemes focus on? Please provide evidence to support your recommendations, including reasons why the ESS and/or PDRS would be the best way to address the issue or opportunity you have identified.*	The 2020 Statutory Review final report indicated that the ESS was meeting its main objective. This was however largely due to lighting upgrades in commercial and industrial settings which accounted for approximately 70% of the energy savings activities.[3] As the scheme matures, and as commercial lighting activities will soon be exhausted, the department will need to consider alternative activities which help continue to create a consistent supply of ESCs. There are valuable learnings to be taken from other jurisdictions such as the Victorian Energy Upgrades (VEU) program that highlight the critical need to have an ongoing sustainable pipeline of creation activities to replace those that are finishing or being phased out. Complementary objectives that the ESS could consider include: **i) Electrification** Naturally, the ESS could expand its remit to include electrification activities and move households and businesses off gas. In line with the Victorian Government's Gas Substitution Roadmap, the VEU program has pivoted towards electrification as a means to offset the ramping down of VEEC producing activities and to address the structural adjustment needed for the program. There is also increasing interest in how the program might be leveraged to support vulnerable consumers with cost-of-living pressures. The introduction of space heating and cooling (changing gas heating and cooling to reverse cycle air conditioning), and water heating changes (replacing of gas water heaters with solar electric or heat pump water heaters) came into effect in May 2023 and has seen broad uptake in Victoria. As outlined in the Green Energy Markets VEEC Monthly snapshot, high efficiency air conditioner (Activity 6) remained the highest creating activity in July 2024, registering its highest monthly volume to date, of 144k VEECs. Creation under this activity has continually increased month-on-month since the activity commenced mid-last year.[4] Shortly, DEECA will also include the replacement of gas stoves with induction cooktops as an eligible activity within the VEU. While cooktops only account for roughly 1.5 per cent of typical household gas consumption, they typically present as the last household upgrade

[3] 2020 Energy Savings Scheme Statutory Review Final Report, p 2
[4] Green Energy Markets monthly analysis of Victorian Energy Efficiency Certificates (VEECs) July 2024

required before disconnecting from mains gas or LPG completely[5]. DEECA has highlighted the significant potential of this inclusion, with research from the department showing that in 2022, 53 per cent of Victorian households used gas cooktops. Avoided gas charge supply is estimated to equate roughly to $350 - $400 per annum in potential savings per household.[6]

Similar electrification activities could be considered within the ESS, with the scheme potentially adding a complementary objective to support household and business electrification.

7. *Are there opportunities to improve how scheme costs and benefits are shared? If so, please provide evidence of how any proposed changes would result in more equitable outcomes.*

AGL acknowledges the challenge of achieving equity and increasing accessibility across both schemes, particularly for lower-income families and renters who do not have the means to access higher value, and costly activities such as installing residential batteries.

Recognising the needs of different customer segments across residential households – such as renters, landlords, owner-occupiers, and or more vulnerable cohorts may assist in providing more targeted supports for each sub-group. More specifically, schemes could also provide higher incentives for priority cohorts. For example, under the SA Retailer Energy Productivity Scheme (REPS) households who are considered low income, hold certain concession cards, or are pensioners (among other eligibility criteria that signify them as more vulnerable consumers) are identified as a 'priority group' and will have their eligible activities multiplied by a 'transition factor' to increase their incentives compared to non-priority cohorts.

8. *What adjustments could the department make to scheme settings to improve performance against the legislated or proposed objectives? How would this provide a net benefit to NSW? Please provide evidence to support your answer, including any assumptions you have made.*

i) PDRS Target Setting

AGL is concerned that the cost of Peak Reduction Certificates (PRCs) under the PDRS could rise sharply as a result of targets increasing rapidly – from about 8 million PRCs in 2023 - 24 to 24 million in 2024 - 25, and nearly 45 million in 2025 - 26. These fast-growing targets may outpace the creation of PRCs through eligible activities, ultimately leading to decreased rebates for customers.

The recent rule change limits the eligibility for heat pump water heaters with capacity over 425L which significantly impacts their contribution to PRC creation. Currently, these heaters account for about 83.3% of PRC creation based on GEM's data up to July 2024.

Additionally, the introduction of BESS1 and BESS2 activities are expected to contribute around 6-8 million PRCs annually. However, the adoption of batteries may not increase quickly enough to offset the reduction from heat pump water heaters. To make a significant impact on battery uptake, subsidies would need to be in the range of $4-5k. Given the sharp rise in PDRS targets in the coming years, it is crucial to diversify the range of activities to ensure that the supply of PRCs keeps up with the growing demand. Enabling large C&I customers access to demand-side participation schemes without onerous scheduling requirements under the WDRM, such as retail demand response could substantially increase certificate creation. Alternatively, the department could consider slightly lowering targets in the interim period of transition.

[5] Department of Energy, Environment and Climate Action, VEU – Induction cooktops consultation paper, April 2024, p 4
[6] Ibid p 4.

ii) Compliance - Training incentives for installers

AGL considers quality installations and installations of high-quality appliances as integral to building and maintaining consumer trust in the schemes. We have observed lower quality installations for particular appliances such as hot water pumps over the last few years and believe there could be stronger compliance incentives for installers to complete quality installations. Facing similar challenges, the VEU program published their compliance and enforcement priorities for the March 2024 which included Heat pump water heater installations.

In line with our submission to the VEU Warranty Requirements Consultation Paper in April 2024, AGL believes that minimum product and installation warranty requirements for heat pump water heaters (HPWH) and reverse cycle air conditioners (RCAC) would likely increase consumer trust and confidence in relevant upgrades under the VEU program, as well as the ESS and PDRS. This is timely and appropriate given recent industry and public concerns around low quality products and installations. The inclusion of these supplementary express warranties for products and installations would make it clear as to consumers' entitlements and recourse in the event of a fault or issue.

iii) Broadening eligibility criteria for activities

As mentioned in our submission to the PDRS Rule Change 2, with the PDRS target set to sharply increase in the coming years, there is a need to introduce a wide range of activities so that supply can keep pace with demand.

AGL was supportive of the intent of rule change 2 to increase the number of activities within the scheme. However, we advocated to the NSW Government to consider all viable options for Demand Response (DR), to maximise market participation while reducing costs for customers, and to ensure that energy remains reliable and affordable.

Where possible, the PDRS should leverage existing suitable activities from similar jurisdictional schemes to reduce costs and streamline roll-out and implementation. Potential activities to be included in the scheme have been discussed in our response to question 6.

iv) Insulation

Insulation serves as one of the most effective ways to keep Australian homes warm in winter and cool in summer. Both the ACT and Victorian Government have recently sought to introduce regulations which establish new minimum energy efficiency standard for ceiling insulation in rental homes. NSW also already requires ceiling insulation installations in residential rental properties to have a minimum thermal resistance (R-value) of at least R2.5. Not only this, double-glazed windows are also becoming increasingly popular due to their effective thermal protection. Effective insulation in turn reduces reliance on heating and cooling appliances regardless of their energy efficiency. These existing and growing insulation activities could be considered for inclusion as eligible activities within the ESS.

9. *How could the Department improve transparency around how it makes decisions and how it communicates changes to the schemes?*

Communication of scheme updates

AGL has noticed a recurring challenge around the communication of technical updates and critical information across platforms and teams for the ESS and PDRS. These updates, which can at times have significant implications for market dynamics, are sometimes shared inconsistently, often reaching only certain technical personnel or specific groups (depending on certain mailing lists). For example, on the 12th of April 2024, an Energy Savings Industry Association (ESIA) member briefing issued an alert around loopholes potentially being exploited within the ESS and PDRS in relation to:

- ESS - IHEAB Method High Efficiency Refrigeration activities (F1.1 - new installation and F1.2 - replacement).
- PDRS – RDUE Method activity RF2 – replacement

This information was provided to Accredited Providers but not AGL. A week later, IPART then issued the same alert to market participants, however this message was not comprehensively received from the AGL trading team.

Inconsistent communication can lead to unanticipated market activities, affecting pricing strategies and customer relations. We see the importance of standardising the communication process and channels to ensure that all relevant information is disseminated uniformly across a single platform, or channel to ensure it is accessible to all scheme participants. While improvements have been noted across the years, the issue persists. AGL recommends the department to implement a more effective mechanism for scheme participants to subscribe to relevant updates relating to the scheme, ideally with the option to select specific themes or to periodically review mailing lists.

Technical specifications for poor quality products

There is a lack of transparency around who is responsible for, and how, certain technical specifications are established as they relate to preventing poor quality products entering the market. For example, specifications for heat pumps have not limited the flow of cheap and inefficient heat pumps being used by companies taking advantage of rebates for low or even no upfront cost to customer offers.

Increased transparency is needed, particularly regarding the minimum requirements for these specifications. There is also the opportunity to harmonise these requirements across jurisdictions and schemes to there is a level of standardisation around compliance.

10. *How could the Department improve the delivery of the schemes? Please provide examples of other jurisdictions and schemes where possible to support your recommendations.*

Please see our responses to question 6 – 9, 11 and 12 which relate to alternative objectives, shared benefits, scheme settings, improved transparency and governance, and data collection.

11. *How could the government improve the governance and administration of the schemes? Please provide examples to support your recommendations.*

There is a need for better alignment and harmonisation across related energy efficiency schemes to avoid duplicative governance objectives. For example, heat pumps currently have access to multiple schemes like ESCs, VEECs, and PRCs, each with their own governance and administration processes. These processes are not aligned, leading to

	inefficiencies in administration and potential confusion from consumers as to where to go to access grants.
12. *What additional scheme data should the department or IPART collect and for what purpose? How could the Department make better use of new and existing scheme data?*	**Post-installation data on product performance and lifespan** There is currently a lack of data collected after appliances have been installed in a customer's home or in a commercial building. Post-installation data on product performance and lifespan can benefit the schemes by: • Verification of energy savings - collecting post installation data allows both the customer and other scheme participants to confirm that the appliances are delivering the promised energy savings. This ensures that the expected benefits of the upgrade, such as reduced energy consumption and lower utility bills, are being realised from the upgrades. • Product reliability – monitoring product performance over time helps assess the reliability and durability of the appliances. This data can identify whether the products maintain their efficiency throughout their expected lifespan or if they degrade prematurely, leading to lower-than-expected savings. • Informed decision-making – this information can ultimately better inform future program adjustments, such as refining eligibility criteria, enhancing product standards, or adjusting rebate amounts to reflect real-world performance. **What data is collected?** It is not clear to AGL what ESS and PDRS related data is currently being collected by IPART or the department and for what purposes. We would benefit from a canvassing of data that is collected by both parties to comment on how existing scheme data can be better utilised and published.
13. *What additional reform opportunities should the Department consider for the ESS and/or PDRS? Please provide evidence to support your recommendations.*	No further comments. Please see our responses to previous questions.