

4th December 2015

Manager Energy Projects
Operations and Programs Branch
NSW Department of Industry – Division of Resources and Energy
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ESS Energy Savings Scheme – Rule Change Amendments – Consultation Paper

Dear Sir/Madam,

APA Group is pleased to have an opportunity to provide comments to the NSW Department of Industry – Division of Resources and Energy in relation to the “NSW Energy Savings Scheme – Rule Change Amendments – Consultation Paper” and commends the New South Wales Government for preparing the paper and inviting public comment.

About APA Group

APA Group (APA) is Australia’s largest natural gas infrastructure business, owning and/or operating approximately \$19 billion of energy assets.

Its gas transmission pipelines span every state and territory in mainland Australia, delivering approximately half of the nation’s gas usage. APA has direct management and operational control over its assets and investments.

APA also has an ownership interest in, and operates the Allgas gas distribution network as well as operating the Australian Gas Networks (formerly Envestra Limited). Together the two networks have approximately 27,000 kilometres of gas mains and approximately 1.3 million gas customers, with well over 180,000 customers in Queensland. APA also owns other energy infrastructure assets such as gas storage facilities and a wind farm.

In addition to the Allgas Distribution Network, APA also has equity interests in a number of energy infrastructure assets, including SEA Gas Pipeline, Energy Infrastructure Investments (EII2) and the Ethane Pipeline Income Fund. APA is listed on ASX and is included in the S&P ASX 50 Index.

Benefits of Natural Gas

Natural gas is a key fuel for the transition to a low emission economy.

Whilst natural gas is a fossil fuel, it is more greenhouse efficient than coal or oil, and indeed is only half as emission intensive as black coal and a third as intensive as brown coal. Natural gas is the cleanest burning of all fossil fuels. It is colourless, odourless, and non-toxic. Natural gas is currently the cleanest commercial form of reliable and scalable base-load generation.

Natural gas provides low emission energy for a wide range of applications including home appliances, vehicles, and commercial buildings through to large industrial processes.

As well as its traditional application for hot water, cooking and space heating, natural gas is also suitable for a range of distributed generation technologies including conventional engines, fuels cells, micro-turbines, co-generation and tri-generation.

Introductory comments

APA congratulates the Energy Savings Scheme (ESS) team on the further development of the ESS scheme, which will shortly see natural gas included. APA endorses the strong focus that the ESS team has placed on providing regular opportunities for stakeholder consultation.

APA is generally supportive of the proposed rule changes, to accommodate the addition of natural gas to the ESS. The one aspect of the scheme that is a departure from APA's views, however, is the primary objective of the Energy Savings Scheme (ESS), i.e. energy reduction. APA considers that the ESS should have as its key objective, emissions reduction, as opposed to energy reduction.

APA's reasons for that view are, firstly, the ESS should reflect the fundamental objective of the national Emission Reduction Fund (ERF) scheme; and secondly, that the ESS should also reflect the fundamental objective of the largest market based energy efficiency scheme in Australia, the Victorian Energy Efficiency Target scheme (VEET), which also focusses on emissions reduction

APA considers that the other key objective of the ESS should be for it and the other Energy Efficiency schemes in Australia, to transition to a single national energy efficiency scheme that would have as its core objective, emissions reduction. Such a scheme, of course, should fully articulate with ERF.

“NSW Energy Savings Scheme - Rule Change Amendments - Consultation Paper” – brief discussion

As expressed in our introductory comments, APA supports an emission based objective for the ESS, on the basis of consistency. Specifically, if state based energy efficiency schemes do exist, then they should be consistent with each other. Further, if state based schemes do exist, they should be consistent with the leading national scheme. In this way therefore, given the focus of the VEET scheme, for example, and the ERF scheme, then an emissions reduction focus should also be the ESS's focus

However, although this is a point of difference, APA nevertheless supports the other work of the ESS team, and the ESS more generally.

The key points that APA would like to briefly comment upon are as follows.

Scheme harmonisation with ERF and other schemes

Throughout the consultation process much emphasis was given to harmonising the ESS with other state and federal schemes. In particular, the VEET and ERF, plus other schemes like the South Australian Retailer Energy Efficiency Scheme (REES), have significant commonalities of process and methods. However, as each acknowledges, differences do exist and that efforts need to be made to harmonise the schemes.

APA supports the extension of the ESS to 2025 and notes that this timeframe provides ample opportunity to pursue harmonisation with the other schemes.

Certificate 'double dipping' not allowed under the ESS

APA is a strong advocate for 'level playing fields' to exist in competitive markets, and is therefore very supportive of the ESS's approach to excluding activities or appliances that are already provided with incentives under other government schemes.

Peak electricity and emissions

APA is supportive of the ESS's earlier approach in regard to peak electricity, which expresses concerns that activities that could increase peak electricity consumption should be limited in terms of reward, under the ESS¹.

Scenario 2 in **Table 19**, where a consumer is replacing inefficient gas space heating with high efficiency electrical space heating could have perverse impacts in terms of increased peak demand for electricity.

If the ESS is expanded to cover gas, the ESS Rule may need to limit access to financial incentives for some fuel switching activities to mitigate the risks of increased peak demand. This could include limiting eligibility to:

- air to air heat pumps which only provide heating rather than reverse cycle air conditioners which could be used in summer for space cooling
- products fitted with a demand response mechanism that enables network service operators to switch them off during peak events.

APA also notes although the ESS is an energy reduction scheme, the ESS will not reward an energy reduction activity that results in net increases in GHG emissions, even if energy reduction is achieved².

To ensure that the ESS continues to be consistent with all of the objects of the Act, the NSW Government is proposing fuel switching projects that result in a net increase in greenhouse gas emissions would not be eligible.

APA supports this approach.

The above discussions in relation to both the peak electricity issues and the net GHG activity increase are very relevant, given that the operators of the Victorian VEET scheme and the operators of the NSW ESS scheme have declared their intentions to continue to work towards greater harmonisation of their respective schemes.

As such, APA urges caution as that harmonisation process continues and scheme organisers continue to look for potential unintended consequences, such as increasing greenhouse gas emissions, or increasing peak electricity demand.

Co-generation and tri-generation

APA supports the addition of co-generation and tri-generation to the ESS, under the conditions prescribed i.e. for installations of up to five MW where waste heat recovery or similar energy recovery technologies provide energy to the same end user.

The single certificate approach

¹ Review of the NSW Energy Savings Scheme – Part 2:Options Paper – April 2015 – page 65

² NSW Energy Savings Scheme – Rule Change Amendments – page (5)

For reasons relating to liquidity and complexity, APA is pleased that the ESS will see a single energy certificate used. APA was concerned that if any other approach was adopted, the complexity may have been increased substantially and liquidity levels in the market would have remained low. In APA's view, either of those outcomes, let alone potentially both, would have impacted the ESS performance negatively.

Certificate Trading transparency

Although some information is available from market based sources, as well as information provided by the ESS team, periodically, subject to appropriate levels of commercial confidentiality for individual participants, APA urges the ESS team to continue to review the type and amount of information available. From its experience in other markets, APA is confident that with more transparency and availability of ESS data, the greater the uptake and participation there will be in the ESS.

Regional factor

APA's experience with the VEET scheme, where regional factors are also a feature of the scheme, has been positive. For that reason, APA is very supportive of the inclusion of a regional factor in ESS, as its inclusion gives the scheme broader appeal; acknowledges the higher cost of electricity delivery to regional areas; and from an equity perspective for regional participants and customers, is a fair and reasonable inclusion in ESS.

Various

Methods

In principle, APA supports the proposals in the paper, concerning amendments to schemes/methods such as NABERS, Aggregated Baseline methods, Home Energy Efficiency Retrofit (HEERs), and the Project Impact Assessment with Measurement and Verification (PIAM&V) to allow the inclusion of natural gas in the ESS.

However, APA will continue to monitor and review the actual performance of these schemes/methods, to assess how the 'actual' performance of the schemes reconciles against the 'intended' performance.

Major Scheme Review

APA supports the intention of the ESS to conduct major scheme reviews, every 3 years, although APA also considers it prudent to allow for more frequent intervention if exceptional circumstances require it.

Baseline no older than the years

APA agrees that if a Baseline Energy Model is being used, than measurements completed should be based on data no more than ten years before the claiming period.

Please contact either Josh Hankey (07 3215 6632) or myself ((08) 8113 9197), if you would like to discuss the matters raised, in this submission further.

Yours sincerely

Peter Gayen
Manager – Networks Commercial - APA Group