

19 June 2020

Director, Climate Change and Energy Savings Policy
NSW Department of Planning, Industry and Environment

Submitted by email: energysecurity@environment.nsw.gov.au

Dear Sir/Madam,

Energy Security Target and Safeguard – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the NSW Energy Security Target and Safeguard consultation paper.

We support the NSW Governments' goal of achieving net zero emissions in the state by 2050. Origin has supported a net zero goal for the electricity sector in Australia for many years and has also set its own targets to reduce emissions in the medium term. This involves halving our direct emissions by 2032, off a 2017 base year. Significantly for NSW, this will involve the closure of the Eraring power station which we have indicated will occur by the end of its technical life in 2032.

Origin considers the current NSW Energy Savings Scheme (ESS) to be relatively well designed and managed and supports its extension. We also support demand response activities being contained in a separate scheme as good policy design. This will allow for similar but distinct policy objectives to be pursued in a more effective manner.

Our overarching approach is to be mindful about any additional costs imposed on customers by the three schemes discussed in the consultation paper. This is especially pertinent considering the current economic conditions. We therefore do not support a separate NSW energy security target, which would be in addition to numerous energy security and reliability policies at the NEM level.

Our key points on the current consultation paper include:

Energy security target

- We do not support a separate state-based scheme aimed at energy security. Such a scheme is likely to raise costs for electricity consumers for little or no benefit.
- We note that the NEM Reliability Standard will become significantly more conservative (tightening from 0.002% to 0.0006% of unserved energy p.a.). A range of other reliability measures are being enhanced, with the Retailer Reliability Obligation (RRO) and the introduction of an out-of-market capacity reserve to operate alongside the Reliability and Emergency Reserve Trader (RERT).
- Any government intervention should be viewed as a last resort with incentives targeted at encouraging investment in new generation capacity only.

Energy efficiency scheme

- The key issue for the ESS is how to incentivise new supply when commercial lighting activities are phased out.
- Targets for the next few years of the ESS should be mindful of this uncertainty on the supply side.
- We support the penalty remaining at its current level. The cost impacts on consumers are of heightened importance with current difficult economic conditions.
- Generally, the existing ESS is well managed and we commend IPART and the NSW Government on their management of the scheme.

Peak demand reduction scheme

- We support aligning the structure of the new scheme with the current ESS as much as possible.
- The potential activities discussed in the consultation paper are appropriate and we have been investigating many of these over the past few years. In particular, we support residential behavioural demand response, load shifting through the control of appliances and batteries, controlled hot water and electric vehicle charging as possible priority activities. We would be pleased to discuss potential opportunities in more detail.
- Some activities may rely on the installation of new smart meters. We suggest some improvements to the current regulatory regime that will reduce the cost of installing these meters.
- We support a start of 1 July 2022 for the new peak demand reduction scheme but would also support the creation of certificates from an earlier date, as long as robust methods were in place.

More detailed comments on specific consultation questions are contained in the attached table.

Thank you for the opportunity to provide feedback on these proposed changes. If you wish to discuss any aspect of this submission further, please contact Matthew Kaspura at matthew.kaspura@originenergy.com.au

Yours sincerely,



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Attachment: Response to specific consultation questions

Energy security target

Issue	Consultation question	Origin comment
General approach		<ul style="list-style-type: none">• We do not support a separate state-based scheme aimed at energy security.• We note that since the announcement of a proposed NSW energy security target the COAG Energy Council has agreed to a number of enhancements to energy security and reliability. This includes the NEM Reliability Standard becoming significantly more conservative (tightening from 0.002% to 0.0006% of unserved energy p.a.). A range of other reliability measures are being enhanced, with the Retailer Reliability Obligation (RRO) and the introduction of an out-of-market capacity reserve to operate alongside the Reliability and Emergency Reserve Trader (RERT).• We suggest that NSW continue working through this COAG process instead of also developing an additional scheme, which will inevitably add another layer of cost for electricity consumers.• We refer to the submission of the Australian Energy Council (AEC) which provides additional detail on why a separate NSW energy security scheme is not required.
Power to gather information	5-8	<ul style="list-style-type: none">• We understand that the NSW Government is seeking further information on supply and demand in NSW so that it has the most accurate and timely information available.• We support a relatively straight-forward approach which aligns with existing information gathering processes as much as possible.• AEMO has recently increased the information it gathers about new generation. This was the result of an AEMC rule change from last year. The information provided for new units includes: location, technology, fuel, Nameplate Capacity (MW) and forecast output for 10 years (summer, winter and summer typical). Additionally, project scheduling is reported using a 'traffic lights' approach for factors including site, components and planning finance.• We suggest that the NSW Government work with AEMO as far as possible to minimise any further reporting burden on industry.
Other comment		<ul style="list-style-type: none">• The most important factor in determining supply reliability in NSW will be investor confidence. While investors in the NEM have historically

		<p>demonstrated a strong track record in managing market and technology risks, in an uncertain policy environment they are less well placed to deal with the risk of government intervention, including direct investment.</p> <ul style="list-style-type: none"> Any government intervention should be viewed as a last resort with incentives targeted at encouraging delivery of new generation capacity only. We support the NSW Government working closely together with the private sector so that a reliable, low emissions future can be supported at lowest possible cost to taxpayers and energy consumers.
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Energy savings scheme

<i>Issue</i>	<i>Consultation question</i>	<i>Origin comment</i>
Implementation timeframes	9-11	<ul style="list-style-type: none"> We support both schemes running on a financial year basis. Aligning both schemes with similar data will provide for efficiencies of implementation. We suggest that 1 July 2022 is a feasible start date for both the new peak demand scheme and the new version of the ESS. The last 'year' of the current ESS could then become an 18-month period running from 1 January 2021 to 30 June 2022. Earlier accreditation of certificates under the new peak demand scheme is supported, so long as credible methods are in place. An aspirational date for this soft start could be about 1 July 2021.
Targets	12-16	<ul style="list-style-type: none"> The key issue when deciding on new targets are possible constraints on the supply side of activities. This stems from the impending phase out of large volume activities from commercial lighting. Until market confidence increases in new supply options, we suggest that targets for the next few years be relatively conservative. Banking and borrowing between years will be important to smooth any price shocks between years.
Penalty rate	17	<ul style="list-style-type: none"> We strongly support maintaining the current penalty rate. Costs to customers should be a key consideration when making any changes to this policy, particularly in the current economic circumstances. As discussed in the consultation paper, the market has generally traded well below the current penalty and overall scheme compliance has been very high. This is clear evidence that the penalty is set at an appropriate level.
Exemptions	18	<ul style="list-style-type: none"> We do not support exemptions being applied to small retailers. We have experienced some potential competition issues in Victoria when small retailers

		have been able to secure tenders for large customers because they have not had to pass on equivalent costs from similar green schemes.
Activities	19-22	<ul style="list-style-type: none"> Generally, fuel switching activities should be incentivised by the scheme if they lead to efficiency gains. We note that many of the potential options being suggested in the consultation paper appear to be longer term options though (such as clean hydrogen) and would be unlikely to make a significant contribution in the next few years as commercial lighting activities are phased out. SRES eligible activities such as heat pumps and solar hot water should in theory be supported for their full efficiency gains. However, providing a partial subsidy under the NSW ESS will need to be carefully implemented.
Liability beyond the electricity sector	23	<ul style="list-style-type: none"> We do not support extending liability to also cover gas sales. Calculation of liability under the scheme should be kept as simple as possible. We have experience under the similar Victorian scheme which has been extended to gas sales and we believe this adds a layer of complexity that is of marginal benefit. As the consultation paper points out, there is significant overlap between electricity and gas customers anyway.

Peak demand reduction scheme

<i>Issue</i>	<i>Consultation question</i>	<i>Origin comment</i>
Measuring peak demand reductions	24-25	<ul style="list-style-type: none"> The general approach to measuring peak demand reductions appears reasonable and is similar to that used under the Retailer Reliability Obligation (RRO). However, there is likely to be some trade-off between accuracy and simplicity. We support a pragmatic approach. Overall, the purpose of the scheme is to incentivise new capacity in peak demand reductions at an acceptable cost to NSW energy consumers.
Eligible activities	26-27	<ul style="list-style-type: none"> We support a range of cost-effective peak demand response being incentivised by the new scheme. This could include: <ul style="list-style-type: none"> Residential behavioural demand response Controlled devices, such as air conditioning and batteries Routine shifting of demand, such as hot water and pool pumps Electric vehicle charging which incentivises charging at off-peak times We would be pleased to discuss these opportunities with the NSW Government in more detail.

		<ul style="list-style-type: none"> • Whether the scheme can provide material support for such activities will depend on the detailed methods developed. We support the NSW Government undertaking further modelling and analysis of a range of potential activities to enable their timely development in the new scheme. • As noted below, some activities may require smart meters to be installed. There are currently some regulations which add significant costs to their installation. We suggest these be removed as they may erode the incentives intended under this new scheme.
Complementary to other policy	28	<ul style="list-style-type: none"> • Our understanding is that the new NSW peak demand scheme will incentivise new capacity in demand response and that other policies may still provide additional incentives to activate that response. We support this approach. • We question whether some types of demand response capacity will need to be activated in order to earn certificates under the NSW scheme? We understand that some evidence of a contractual arrangement to create an incentive at peak times may be required. This will need to be carefully worked through when detailed methods are devised so as to balance maintaining the scheme aim whilst also providing a sufficient incentive to promote new activities.
Consumer protections	29	<ul style="list-style-type: none"> • We support strong consumer protections for new retail offerings. • In our submission to the related AEMC consultation on <i>Consumer protections in an evolving energy market</i> we suggested a principles-based approach which did not lock in assumptions about how future technology develops. • In particular, we emphasise that it is important for any consumer protection regime to be flexible enough to allow for rapidly changing technologies and market offerings.
Calculating reductions in peak demand	30	<ul style="list-style-type: none"> • We support using both deeming and measured methods, depending on the particular activity. This aligns with the ESS which uses both types of methods. • We suggest that the following activities could be considered for priority when developing methods: <ul style="list-style-type: none"> ○ Residential behavioural demand response ○ Controlled devices, such as air conditioning and batteries ○ Routine shifting of demand, such as hot water and pool pumps ○ Electric vehicle charging which incentivises charging at off-peak times • When setting the deeming methods for such activities, it's important that residential activities are not disadvantaged relative to more easily measurable C&I activities. • Whilst EV charging is less mature than other potential activities, we believe it should be a priority activity to develop because it can be considered as a

		<p>precaution against over investment in localised networks. The output from any scheme calculation needs to recognise the current cost of smart chargers versus the alternatives - uncontrolled fast charges, some which come included with certain vehicle purchases and uncontrolled trickle chargers which come included with all EV purchases in Australia.</p>
Location based incentives	31	<ul style="list-style-type: none"> • We suggest that more specific location-based incentives, such as those based on localised constraints, may be too complicated to build into this scheme. • Such matters could be considered further when more detailed methods are developed.
Liability	32	<ul style="list-style-type: none"> • The approach to calculating liability should be aligned with the ESS as far as possible. • Allocating the target – we support the Government’s preferred approach which would be based on total liable electricity purchases less exemptions. • Regarding the determination of individual liabilities, this should also be aligned with the ESS. We strongly reject an alternative model (which is similar to the SRES) as this would greatly increase uncertainty over scheme targets for no benefit. In our experience, the SRES has proven to be a clumsy mechanism to manage and has added unnecessary cost.
Shortfall (borrowing)	33	<ul style="list-style-type: none"> • A modest amount of borrowing (at least 10%) should be allowed for under the scheme. This aligns with the ESS and many other environmental schemes. • The purpose of allowing borrowing is to smooth potential price shocks. A good example of this is provided by current restrictions on energy efficiency activities due to COVID-19, which has impacted supply of activities in other similar state schemes. Those schemes which allow borrowing (such as the NSW ESS) have coped far better with this exogenous shock and have not required intervention by Government. • Additionally, allowing the early creation of certificates (if possible) before the formal commencement of the first scheme year will help allow for a smooth start to the first formal compliance year.
Peak demand reduction certificates	35	<ul style="list-style-type: none"> • Peak demand reduction certificates should not expire each year but should be allowed to be banked for later years if needed. This will make for a much more efficient scheme which will help to minimise the costs to customers. Most other traded environmental schemes allow for banking and borrowing (as discussed above) as key design features.
Other issues – metering, network tariff reform		<ul style="list-style-type: none"> • We note that some proposed activities may rely on the installation of new smart meters to operate. We are aware of some regulatory requirements that may add to the costs of smart meters and thereby the cost of some peak demand response activities. The extra cost may even create a barrier to the

		<p>activities going ahead. We would be pleased to discuss these costs in more details.</p> <ul style="list-style-type: none"> • We suggest that the NSW Government consider removing or reducing these costs. • Further, we suggest that there are related potential benefits derived from network tariff reform for controlled load. Currently, there is no network tariff benefit from shifting controlled load in NSW as the charge remains the same throughout the tariff window. In contrast, South Australia are about to implement a 'solar sponge' tariff which incentivise customers to consume energy in the solar window and off-peak periods, including controlled load. If this was implemented in NSW it could provide significant peak demand reduction capacity.
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