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New South Wales Department of Climate Change, Energy, the Environment and Water

Submitted via email - energysecurity@environment.nsw.gov.au

Energy Savings Scheme and Peak Demand Reduction Scheme statutory reviews 2025

Nexa Advisory welcomes the opportunity to provide a submission on NSW Department of Climate Change, Energy, the Environment and Water's discussion paper on the statutory review of the Energy Saving Scheme (ESS) and Peak Demand Reduction Scheme (PDRS).

Nexa is a 'for purpose' advisory firm. Our unwavering focus is accelerating the clean energy transition in a way that provides secure, reliable, and affordable power for consumers of all types. Nexa Advisory is a team of experienced specialists in the energy market, policy and regulation design, stakeholder engagement, and advocacy. We work with public and private clients including renewable energy developers, investors and climate impact philanthropists to help them get Australia's clean energy transition done.

Our submission will focus on the PDRS (specifically relating to consultation questions 1,3, 5, 6, 7 and 13) given its significant – currently untapped - potential to support demand-side participation (DSP). DSP is an 'energy resource' that could not only provide additional "insurance" over the coming years to allow the timely closure of the coal power stations such as Eraring and Vales Point but also deliver lower costs and higher reliability to consumers.

New South Wales has fallen behind on its energy transition and is failing to meet these objectives. This has resulted in the extension of Eraring coal power station closure date, increasing wholesale electricity prices – with a year-on-year increase of \$36/MWh (26%) to \$173/MWh in Q2 2024, driven by increased volatility¹. Consumer energy resources (CER) and DSP – particularly for commercial and industrial (C&I) consumers – remains a significant untapped resource which, if leveraged, can get the state's transition back on track.

In the recently released 2024 Electricity Statement of Opportunities, the PDRS is the only demand-side participation scheme considered by the Australian Energy Market Operator (AEMO) to be 'committed', resulting in New South Wales being the only state which experiences an increase in DSP. Outside of the energy efficiency and battery storage initiatives which form 25% of the PDRS target (and is accounted for separately by AEMO), the scheme target will grow to nearly 6% of the forecast peak demand by 2031/32, representing almost 900 MW of reliability response². There is significant potential to further increase this response capacity through reform of the PDRS.

We have previously discussed the potential for New South Wales to accelerate DSP for C&I consumers, noting the focus on the residential sector which leaves C&I participation to rely on the Wholesale Demand Response Mechanism (WDRM) – which has failed to deliver as a result

¹ AEMO, [Quarterly Energy Dynamics Q2 2024](#), July 2024

² AEMO, [2024 Forecasting Assumptions Update](#), August 2024

of its design and methodology³. Given the recent delay of reviewing the WDRM by the Australian Energy Market Commission (AEMC), New South Wales should leverage the opportunity to lead DSP initiatives across the National Electricity Market (NEM) jurisdictions.

While the recent PDRS Rule amendment⁴ showed some understanding of the role for C&I (through the Wholesale Annual Response Mechanism (WARM)), it is disappointing to see this has not yet been further progressed. While there has been significant DSP from large industrial consumers - as they are large and savvy enough to have their own market and network arrangements - there is a significant number of medium and 'large' sized New South Wales business consumers who cannot access the benefits of DSP. This is largely due to a lack of policy, sophisticated incentives and knowledge for this cohort.

We consider that better enabling DSP within the C&I segment would therefore improve the equity of outcomes delivered by the PDRS.

There is a clear need to broaden the policy objectives of the PDRS to support DSP in the C&I sector. We have previously recommended⁵ that this can be achieved by:

- Broadening eligibility of the PDRS (e.g., this can be achieved through C&I-focused PDRS activities);
- Enhancing price signals (e.g., around 'critical peak' times); and
- Improving data visibility and access.

We note DCCEEW's acknowledgement⁶ of the role of data visibility to ensure additionality over C&I DSP resources (in the context of developing the WARM). We also note this is a major theme of national reform – such as in the AEMC's recent CER-focused pricing review⁷ - and urge the New South Wales to more actively and transparently progress work to overcome this challenge.

Urgently progressing the inclusion of C&I in the PDRS – whether through the WARM or other mechanisms – is a key opportunity for reform in the 2025 Review. The PDRS Review should consider whether the legislated objectives should be expanded to more explicitly reflect the potential net benefits of improved inclusion of the C&I sector. This could include an economic analysis to determine the additional net benefits of expanding the scheme to take advantage of these untapped opportunities (whether through the WARM or via other activities). However, the Review should be conducted with expediency, leveraging the existing work which highlights there is a clear case for reform.

The New South Wales Government must urgently get the transition back on track. The PDRS presents a great opportunity that can be leveraged not only to provide additional insurance to ensure reliability as coal power stations close over the coming years, but also to reduce the impact of high electricity prices during peak periods for electricity consumers across the state.

³ Nexa Advisory, [Accelerating Commercial & Industrial Demand Side Participation in NSW](#), February 2024

⁴ NSW DCCEEW, [Peak Demand Reduction Scheme Rule Change 2](#), May 2024

⁵ The recommendations of our [Accelerating Commercial & Industrial Demand Side Participation in NSW](#) report were developed with demand response aggregators and retailers

⁶ Ibid. p.25

⁷ AEMC, [Electricity pricing for a consumer-driven future](#), accessed 5 September 2024



Thank you for the opportunity to provide input on the Review. We welcome the opportunity to further discuss any aspect of our submission - please contact either myself or Jordan Ferrari, Director - Policy and Analysis, jordanferrari@nexaadvisory.com.au.

Yours Sincerely,

Stephanie Bashir
CEO and Principal
Nexa Advisory