

**Legislative Assembly**  
**Public Accounts Committee**  
**Inquiry into the Economics of Energy Generation**  
**Public Report 6/55**

**NSW Government Response**  
**June 2013**

## Introduction

The NSW Government welcomes the report of the Legislative Assembly Inquiry into the Economics of Energy Generation (the Report), and notes the substantial work undertaken by the Public Accounts Committee in examining this important policy area.

## Response to recommendations

- 1 *That the NSW Government continue to support the National Electricity Market to operate freely, subject to appropriate regulation. The NSW Government should not seek to invest further in electricity generation.*

### **NSW Government response:**

The NSW Government continues to support the operation of the National Electricity Market and actively engage in the development of the National Electricity Market to supply safe, reliable and affordable electricity to consumers.

The NSW Government is proceeding with the sale of the State's electricity generators to free up funds for spending on critical infrastructure projects across NSW, create more competition in energy markets and encourage private sector investment in generation.

Legislation to enable the sale process, the *Electricity Generator Assets (Authorised Transactions) Act 2012*, was passed by Parliament in May 2012.

- 2 *That the NSW Government not consider further implementation of sustainable energy supply schemes that add further costs to consumers.*

### **NSW Government response:**

In line with the NSW Government's commitment to put downward pressure on electricity prices, additional costs will not be imposed on customer bills for the purpose of funding ineffective renewable energy schemes.

The NSW Government has already taken action to reduce additional costs to consumers by closing the Solar Bonus Scheme in July 2011 and the Greenhouse Gas Abatement Scheme in 2012.

In addition, in 2012 the NSW Government reviewed its Climate Change policies and programs to eliminate unnecessary duplication and focus on the most effective programs.

- 3 *That the Minister for Resources and Energy, through his position on the Standing Council on Energy and Resources, support the rule changes proposed by the Australian Energy Market Commission to increase the powers of the Australian Energy Regulator.*

### **NSW Government response:**

The NSW Government considers that this Rule change will effect better regulatory outcomes and has therefore supported the development and implementation of these changes through the Standing Council on Energy and Resources "Putting Customers

First" package that was approved by the Council of Australian Governments in December 2012.

The Rule change commenced on 29 November 2012 with transitional arrangements to apply in NSW for the next electricity price determination that commences on 1 July 2014. The new rules will address ambiguities, improve transparency, strengthen the role of the Regulator and improve the efficiency of network expenditure.

In addition, in 2012 the Standing Council on Energy and Resources agreed to strengthen the performance and accountability frameworks of both the Australian Energy Regulator and the Australian Energy Market Commission by December 2013.

The NSW Government believes that there should be complete separation between the Australian Energy Regulator and the Australian Competition and Consumer Commission to create a stronger umpire with greater independence and clearer accountability. In the absence of this complete separation, the new rules and strengthened reporting framework will assist in providing outcomes that better serve the long term interests of customers.

- 4 *That the NSW Government remove price regulation when competition is found to be effective in NSW by the Australian Energy Market Commission.*

**NSW Government response:**

The Australian Energy Market Commission is currently conducting a review of competition in the retail electricity and natural gas markets in NSW. The terms of reference for the review specifically request the Commission to advise on possible strategies for future removal of regulation.

The Australian Energy Market Commission will provide its final advice to the Standing Council on Energy and Resources by 30 September 2013. The NSW Government is committed to making customers the focus of any decision on price regulation and recognises that any transition from regulated prices to a fully competitively priced market is complex and needs careful implementation, particularly in relation to information availability for customers.

- 5 *That the NSW Government expedite the sale of remaining electricity generation assets.*

**NSW Government response:**

The NSW Government is committed to realising the optimum value of its electricity generation assets and is proceeding with the sale of the State's electricity generators to free up funds for spending on critical infrastructure projects across NSW, create more competition in energy markets and encourage private sector investment in generation.

Legislation to enable the sale process, the *Electricity Generator Assets (Authorised Transactions) Act 2012*, was passed by Parliament in May 2012.

The commencement of the sale process was announced on 15 November 2012 and is ongoing. The generation assets will be transacted sequentially.

6 *That the NSW Government sell or lease the Cobbora Coal mine.*

**NSW Government response:**

The NSW Government is proceeding with the sale or lease of the Cobbora Coal Mine and legislation to enable the sale process, the *Electricity Generator Assets (Authorised Transactions) Act 2012*, was passed by Parliament in May 2012.

7 *That the NSW Government convene an expert panel, including scientific input, to explore strategies to maintain affordable supplies of gas in New South Wales.*

**NSW Government response:**

The NSW Government continues to encourage the sustainable development of NSW gas reserves to meet NSW gas supply needs.

The NSW Government is committed to ensuring that gas supply policy is informed by expert advice and an approach based on evidence and scientific analysis will continue to be followed.

In addition, in February 2013 the NSW Government requested the Chief Scientist and Engineer, Professor Mary O’Kane, to conduct an independent review of all coal seam gas activities in NSW and identify any gaps in the management of risks, particularly as they relate to human health, the environment and water catchments. A preliminary report is to be delivered to the Government in July 2013.

The Government recognises that, as experienced in the United States, competition in the supply and production phase assists in keeping prices at lower levels, benefitting households and businesses.

The NSW Government has also requested the State and Regional Development Committee of Parliament to conduct an inquiry into downstream gas supply and availability in NSW to inquire into and report on:

- the adequacy of transmission pipeline systems and distribution networks for future downstream gas needs and supply challenges;
- barriers to the expansion of downstream gas supply and distribution networks;
- the effectiveness of competition in the downstream gas market and consumer pricing implications;
- the effectiveness of existing protections for consumers and measures to facilitate access to gas connection and supply; and
- possible measures to encourage gas network operators to extend existing distribution networks, including financial incentives of licence obligations, particularly in regional centres that do not have access to reticulated gas.

8 *That the NSW Government consider undertaking deliberative democracy processes to consult with the NSW public on policy issues where appropriate.*

### **NSW Government response:**

The Government recognises the need to engage with the NSW public on policy issues to allow a stronger community voice in energy policy debates. Through the Standing Council on Energy and Resources, NSW supported the development of a consumer advocacy body that aims to provide a meaningful consumer voice in the national energy market.

The NSW Government has established the Have Your Say website as a searchable database of community consultations taking place in NSW. The Have Your Say website allows the community to find out what is happening in their community or on a particular topic and share their opinions on new projects, services and Government policy.

- 9 *That the NSW Government conduct a public education campaign providing up-to-date and accurate information about the economic and environmental risks, relevant government regulations, and benefits of coal seam gas production in New South Wales.*

### **NSW Government response:**

The NSW Government has commenced a public education campaign to improve community knowledge to enable more informed debate and greater understanding of CSG through the:

- development of a dedicated website for coal seam gas information;
- development of comprehensive fact sheets on coal seam gas related issues; and
- allocation of Community Liaison Officers to meet citizens and organisations seeking information on coal seam gas.

In February 2013, the NSW Government announced new measures to strengthen the regulation of coal seam gas activities in NSW, including the:

- establishment of the independent Environment Protection Authority as the lead regulator of environmental and associated health impacts of coal seam gas activities; and
- creation of a new Office of Coal Seam Gas responsible for regulation of non-environmental issues.

These new arrangements will provide landholders, industry and the community with a clear understanding of regulatory roles and responsibilities.

While the NSW Government can play a role in public education, particularly in relation to the development and operation of regulatory frameworks, there is a significant role to be played by industry in engaging the community, promoting benefits of the industry and educating the community on how risks and associated costs will be minimised.

- 10 *That the NSW Government not subsidise particular types of generation on a commercial scale.*

**NSW Government response:**

The NSW Government has closed subsidised green schemes, including the Solar Bonus Scheme, and is in the process of selling generation assets to allow a fully competitive market to provide electricity at the lowest cost of production.

- 11 *That the NSW Government consider and encourage research and development of energy storage technologies.*

**NSW Government response:**

The NSW Government supports the development of energy storage technologies.

Storage technology is a global market, with many other countries currently grappling with ways to integrate increasing amounts of renewable energy into their networks. NSW can leverage the work being done overseas as well as develop storage expertise within NSW to create a long term export industry.

Trialling of new zinc-bromine battery modules is occurring in 60 households in the Newcastle and Scone regions as part of the Smart Grid, Smart City project.

The NSW Government, through the Renewable Energy Development Fund, has provided \$1.425 million to enable the development and demonstration of wind-generated energy using new battery technology. The Smart Storage Ultra Battery technology was developed by the CSIRO and is being demonstrated at the Hampton Wind Farm in NSW.

- 12 *That the Minister for Resources and Energy write to the relevant Commonwealth Government ministers to convey the Sydney Citizens' Policy Jury recommendation that electricity network extensions to renewable energy resources should be funded by the Commonwealth Government's Clean Energy Finance Corporation.*

**NSW Government response:**

The NSW Government considers that the National Electricity Market should be structured such that it funds the delivery of all new assets.

The Australian Energy Market Commission is currently undertaking a review of the electricity transmission regulatory framework, including consideration of the way in which new assets are funded.

The NSW Government will consider the outcomes of the Final Report of the Transmission Frameworks Review.

However, if Commonwealth funding programs do exist and are able to be utilised to augment the electricity network without increasing costs to NSW customers, these should be explored.

The report of the Expert Review Panel on the Commonwealth's Clean Energy Finance Corporation (CEFC) states that "[the] CEFC also will look to viable opportunities that enhance the deployment of renewable energy but do not directly impact on the RET, like

transmission infrastructure, storage, biofuels and off-grid projects.”<sup>1</sup> The NSW Government will seek to maximise CEFC funding in this area in order to reduce costs to the State and to encourage the roll-out of further renewable energy resources, consistent with the draft Renewable Energy Action Plan.

- 13 *That the Minister for Resources and Energy raise the issue of nuclear power generation at the Standing Council on Energy and Resources, with a view to reviewing the Australian Radiation (sic) and Nuclear Safety Agency Act 1998.*

**NSW Government response:**

In NSW, the *Mining Legislation Amendment (Uranium Exploration) Act 2012*, passed in April 2012, reversed the ban on uranium exploration in this State. The *Uranium Mining and Nuclear Facilities (Prohibitions) Act 1986*, however, continues to prohibit the construction of nuclear generation facilities in this State.

NSW is represented on the Uranium Council, which brings governments, industry and non-government organisations together to support the sustainable development of Australia’s uranium resources. In December 2012, the Uranium Council briefed the Standing Council on Energy and Resources on key issues and it is expected that the Standing Council will continue to monitor nuclear and uranium development in Australia.

The NSW Government supports ongoing community discussion on all forms of energy generation and notes that the drivers to the establishment of nuclear power in many countries around the globe have been based upon energy security – an area in which Australia and NSW have been fortunate with substantial reserves of coal and gas.

- 14 *That the Minister for Resources and Energy work with the Commonwealth and other State and Territory ministers for energy to pursue consistency between State and Federal legislation regarding eligible fuel sources for renewable energy generation.*

**NSW Government response:**

The NSW Government is considering opportunities to access new fuel sources for renewable energy generation. As part of this process, the Minister for Environment and Heritage is developing an Energy from Waste Policy that considers the safe and sustainable recovery of energy from parts of the waste stream.

This policy could allow for the use of nominated clean waste streams that are well suited to clean combustion for energy recovery as well as residual waste from recycling operations that would be otherwise sent to landfill.

The NSW Government recognises that a framework that facilitates a risk-based approach to the recovery of energy from waste will deliver certainty for industry and the community with the best environmental outcomes.

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<sup>1</sup> The Australian Government (Treasury), 2012, *The Clean Energy Finance Corporation Report of the Expert Review Panel*, March 2012, p 22.

15 *That the Minister for Resources and Energy, through his position on the Standing Council on Energy and Resources, support the adoption of the recommendations of the Australian Energy Market Commission's 'Power of choice' review regarding:*

- *Facilitating consumer access to electricity consumption information;*
- *Accelerating the deployment of smart meter technology;*
- *Phasing in time varying pricing;*
- *Establishing a new demand response mechanism that allows consumers or third parties to participate in the wholesale electricity market and receive payment for reducing demand;*
- *Improving incentives for network service providers to consider demand side options; and*
- *Enabling consumers to sell distributed generation to parties other than their retail supplier;*
- *provided that there is a demonstrated economic benefit for consumers.*

**NSW Government response:**

The NSW Government supports the adoption of reforms to provide customers with the tools to control their bills by understanding and managing the quantity and timing of their energy consumption. In March 2013, the Standing Council on Energy and Resources published its response to the Australian Energy Market Commission's Power of Choice Report, providing in principle support for the majority of recommendations. The complete response can be found at <http://www.scer.gov.au/files/2013/03/SCER-Response-to-the-Power-of-Choice-Review.pdf>.

The Standing Council on Energy and Resources is also developing a strategy to support greater demand side participation, including new metering arrangements, communication standards and a demand side participation option rule change.

16 *That the NSW Government develop a strategy for the implementation of smart meters and time of use pricing in New South Wales.*

**NSW Government response:**

The NSW Government remains opposed to a mandatory roll-out of smart meters. While certain customers may benefit from smart metering technology, households should have a choice. Importantly, low income households and vulnerable customers should not be impacted adversely by any potential introduction of smart meters.

The NSW Government has appointed a Smart Meter Task Force to advise on the use of smart meters in NSW. The Smart Meter Task Force will present its recommendations on options for the implementation of smart meters and related pricing across NSW for the consideration of the NSW Government.

17 *That NSW distribution service providers be required to provide customers with full disclosure of pricing tariff changes, prior to installing smart meters.*

**NSW Government response:**

The issue of consumer information relating to smart meters is being considered by the Smart Meter Task Force.



The Smart Meter Task Force recommended that “the wider introduction of smart meters needs not automatically be linked to the introduction of mandatory retail or network time of use prices in NSW”.<sup>2</sup>

The prices paid by electricity customers, including the structure of these prices (i.e. inclining block, flat rate, time of use etc) are set by the retailers and agreed to when a customer signs an electricity contract. The Standing Council on Energy and Resources agreed in December 2012 to develop Rule changes so that retailers would be required to offer a flat retail tariff to customers. In addition, retailers may offer any other flexible or time of use rates under a competitive contract. Retail prices include a network charge as part of the final price passed through to the customer.

NSW distributors are required to publish their network charges. Retailers are also required to publish their retail tariffs and to notify customers of any change to these tariffs.

- 18 *That the NSW Government review existing programs to support vulnerable consumers, including the Life Support Energy Rebate and Medical Energy Rebate, to ensure that these programs provide sufficient protection from additional costs related to the implementation of smart meters.*

**NSW Government response:**

Programs are reviewed regularly to ensure that they remain current and that effectiveness is maximised.

The issue of programs supporting vulnerable customers during any implementation of smart meters is being considered by the Smart Meter Task Force.

These issues are also being considered by the Standing Council on Energy and Resources through the Smart Meter Consumer Protection and Safety Review.

- 19 *That the NSW Government conduct an education campaign about energy use, smart meters and time of use pricing, as well as a campaign targeting vulnerable consumers about managing energy consumption and energy saving strategies.*

**NSW Government response:**

The NSW Government provides a range of educational energy management information through the website [www.savepower.nsw.gov.au](http://www.savepower.nsw.gov.au).

The NSW Government will consider the findings of the Smart Meter Task Force in relation to smart meters, time of use pricing and vulnerable customers.

The NSW Government's Home Power Savings Program has assisted over 160,000 of the State's more vulnerable customers to reduce their power usage and save up to 20% on their energy bills through the development of personalised Power Savings Action Plans. The Program is funded through the NSW Government's \$150 million Energy Efficiency Strategy, and aims to help 220,000 eligible households across NSW.

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<sup>2</sup> NSW Government, 2012, *NSW Smart Meter Task Force Discussion Paper*, November 2012, p 11.

A comprehensive communication and education campaign is also being developed by the Standing Council on Energy and Resources in relation to the reforms flowing from the Power of Choice report that will include pricing and metering information.

- 20 *That the Independent Pricing and Regulatory Tribunal be permitted to set different values for different regions of the State when making its next determination for a fair solar photovoltaic feed-in tariff, taking into account whether such generation will provide an economic benefit or cost for particular regions within the network.*

**NSW Government response:**

The NSW Government notes that the Independent Pricing and Regulatory Tribunal recommended in its March 2012 Final Report on Solar feed-in tariffs that “[comprehensive] network system modelling is not warranted to calculate the impact of small-scale solar PV on the distribution network businesses’ costs”<sup>3</sup>, but also found that “the potential for location- and time-specific benefits (and costs) may increase as more PV is installed.”<sup>4</sup>

IPART is set to conduct an annual review on what constitutes a fair and reasonable solar feed-in tariff.

- 21 *That in addition to setting a fair solar feed-in tariff, the Independent Pricing and Regulatory Tribunal also provide determinations for a fair feed-in tariff for other types of distributed generation, based on the actual market value of each type of distributed generation.*

**NSW Government response:**

The NSW Government supports amendment of the National Principles for Feed-in Tariff Schemes to include all forms of micro generation technologies.

- 22 *That NSW distribution service providers work with electricity retailers to determine a fair value for distributed generation feed-in tariffs, based on the location within the network and the actual market value of the distributed generation.*

**NSW Government response:**

The NSW Government supports further cooperation between distribution network service providers and customers to develop fair rates of financial support where distributed generation provides a benefit to the network. With the adoption of the National Energy Customer Framework, a direct relationship between the customer and the distribution network service provider will be enabled to make direct negotiation possible.

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<sup>3</sup> IPART, 2012, *Solar feed-in tariffs, Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW, Energy – Final Report*, March 2012, p 12.

<sup>4</sup> IPART, 2012, *Solar feed-in tariffs, Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW, Energy – Final Report*, March 2012, p 7.

- 23 *That the Office of Environment and Heritage promote Environmental Upgrade Agreements to encourage relevant government authorities to adopt this innovative method of funding environmental improvements to commercial buildings.*

**NSW Government response:**

The NSW Government supports the adoption of Environmental Upgrade Agreements. The first Environmental Upgrade Agreement was finalised by Parramatta City Council and the State Property Authority at 10 Valentine Street Parramatta in December 2012.

- 24 *That the Minister for Resources and Energy, through his position on the Standing Council on Energy and Resources, promote a consistent national approach to energy efficiency schemes.*

**NSW Government response:**

The NSW Government supports a consistent approach to energy efficiency schemes across jurisdictions. NSW will give careful consideration to any national scheme proposed by the Commonwealth Government and considers that the NSW Energy Savings Scheme provides a successful template for any potential future national energy efficiency scheme, including in relation to the scheme's objectives and principles.

NSW and Victoria are currently harmonising aspects of the operation of their respective energy efficiency schemes. This will place downward pressure on costs of operation for energy efficiency companies operating in both states and will broaden the scope of energy efficiency activities available in both states.