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Department of Climate Change, Energy, the Environment and Water

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

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Energy Security Safeguard: ESS and PDRS Policy Reform

AGL Energy (**AGL**) welcomes the opportunity to provide feedback to the NSW Department of Climate Change, Energy, the Environment and Water (**DCCEEW**)'s proposed policy reforms to the Energy Savings Scheme (**ESS**) and Peak Demand Reduction Scheme (**PDRS**), outlined in the *Energy Security Safeguard: Policy reform consultation paper* (**Consultation Paper**).

At AGL, we take our decarbonisation responsibilities seriously and recognise the significant role we can play in helping Australia reach its Net Zero by 2050 commitments. AGL's second Climate Transition Action Plan (2025 CTAP), published in August 2025, builds on commitments previously made in our 2022 CTAP, by charting a pathway to achieving our ambition of being Net Zero for Scope 1, 2 and 3 emissions by 2050, and setting additional commitments relating to emission reductions, our portfolio rebuild and other initiatives. Key commitments in our 2025 CTAP include our targeted exit from coal-fired generation by the end of FY35 and an ambition to add 12GW of new renewable and firming capacity by the end of 2035.

AGL has undertaken several innovative trials and introduced products and services that seek to empower customers to make informed choices on how to utilise their consumer energy resources (CER) and optimise their usage to reduce emissions and manage their energy costs. Our leading 'Electrify Now' site is a great example that enables people to better understand the benefits of electrification, providing tailored estimates of the costs and benefits along with access to expert advice, aiming to help customers save money on their energy bills while reducing greenhouse gas emissions. AGL also operates an expanded VPP network across South Australia, Victoria, NSW and Queensland, as well as its Peak Energy Rewards program, which aim to reduce electricity demand during peak times and help support stability of the energy system.

AGL recognises the important role of both the ESS and PDRS in achieving the Energy Security Safeguard objectives of ensuring the energy system is "more reliable, affordable and sustainable"[1]. As previously stated,[2] AGL broadly supports the schemes and their design, noting that the PDRS is still very much in its infancy and will require flexibility to evolve. Both schemes have an important ongoing role in helping Australia's decarbonisation pathway and in supporting a more reliable and affordable energy system.

We broadly support the NSW Government's intent to address challenges and opportunities identified from the statutory reviews of the schemes and in this submission provide our feedback and recommendations to the reforms proposed in the Consultation Paper. Please also refer to our accompanying submission to the *Energy Security Safeguard: Rule change consultation paper* (Rule Change Consultation Paper).

This submission's key points are summarised as follows:

- **The ESS and PDRS remain critical** to delivering a reliable, affordable and lower emissions energy system, and should continue evolving to support the energy transition.

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[1] https://www.energy.nsw.gov.au/nsw-plans-and-progress/regulation-and-policy/energy-security-safeguard
[2] See: AGL's Sep 2024 and Jun 2025 submissions to the 2025 ESS and PDRS Statutory Reviews

- **Electrification is a central decarbonisation pathway,** particularly for households and small businesses. AGL strongly supports continued incentives for electrification within the ESS and considers **Option 1(a)** (new fuel conversion metric) the simplest and least market distorting reform.
- **Target changes require careful assessment** of cost impacts on consumers and markets, with adequate lead time to provide stability. We recommend that the department reassess the merits of introducing an expiry for certificates given the low apparent benefits and high operational burden.
- **AGL supports expansion of PDRS activities,** including targeted battery incentives, but emphasises strong consumer protections—particularly for vulnerable customers—and the need for predictable, stable target setting.
- **Policy alignment across jurisdictions** is increasingly important as multiple schemes emerge. National coordination on energy productivity and electrification policy will reduce complexity and investment risk.
- **Improving product performance standards, installation quality, and end-of-life management is essential** for consumer trust, scheme integrity, and environmental outcomes.
- **Strong consumer protections are vital** and should be embedded in scheme objectives, including clear requirements for product quality, warranties, installation standards, maintenance, and after-sales support (including recalls).
- **Enhanced accessibility and equity measures,** including targeted support for priority cohorts—such as rural households, low-income households and renters—is needed to ensure fair access and benefits. We favour a **cohort multiplier (Option 2)** rather than sub-targets to avoid market fragmentation and unintended consumer bill impacts.
- **Earlier and more consistent industry engagement is vital** to drive installer participation and consumer value. We recommend that the government focus on supply chain development, improvement and satisfaction to improve outcomes for consumers, and ensure timely communication of program changes to avoid disruptions and uphold scheme integrity.

The role of the PDRS and ESS in the energy transition

Energy efficiency programs, including the ESS and PDRS, have played a significant role in reducing electricity consumption through the replacement of inefficient appliances and equipment. While these initiatives have delivered meaningful progress, there remains significant opportunity to further improve energy efficiency—particularly at a time of heightened cost-of-living pressures. Strengthening energy efficiency, alongside better demand management and energy productivity, can help reduce peak loads, enable efficient system build-out, and lower energy costs for consumers, while also supporting emissions reductions.

As the energy transition accelerates, it is increasingly important that decarbonisation and energy efficiency objectives are complemented by measures that lift energy productivity. While electrification will increase overall system load, these impacts can be balanced by energy performance improvements. Focusing on optimising overall energy performance can help Australia achieve its broader economic and emissions reduction goals. Achieving Net Zero will require reducing, shaping, and shifting energy demand in ways that maximise the utilisation of renewable generation, enhance system reliability, and minimise costs for industrial, commercial, and residential customers.

The ESS has played an important role in helping NSW energy consumers reduce emissions and manage energy bills, while the PDRS - although relatively new - has already begun to deliver important reliability benefits by lowering peak demand. The statutory reviews last year found that both schemes were broadly meeting their objectives, with these objectives found to be largely relevant. AGL agreed with these findings, and recognises the important role of the ESS, PDRS, and the broader Energy Security Safeguard in supporting a more reliable, affordable, and lower emissions energy system.

However, the reviews also identified a range of challenges and opportunities that need to be addressed to ensure the schemes remain fit-for-purpose throughout the energy transition and beyond. Evolving technologies, changing market conditions, increasing electrification and shifting policy settings mean that scheme activities, metrics, and objectives may also need to evolve.

AGL views electrification as the most likely pathway for decarbonising residential consumers and small businesses in Australia and a critical enabler of achieving Net Zero emission objectives. While the ESS has traditionally focused on energy savings, there is a clear opportunity for the scheme to play a stronger role in supporting electrification. As consumers are often held back by real or perceived costs of electrification, supportive mechanisms that reduce financial barriers are essential – and the ESS has a key role to play.

Additional support for demand response participation, including through virtual power plants (VPPs) under the PDRS, would further strengthen system security and unlock the full value of consumer energy resources for all energy users. Expanding support for batteries and orchestrated CER will be increasingly important to improving peak-demand management and supporting system security as CER uptake accelerates.

While the ESS and PDRS each perform distinct functions within the energy system, the broader policy landscape is becoming increasingly dynamic and complex. Organisations must now navigate a growing suite of energy and climate policies, targets and regulatory instruments across both national and state jurisdictions, including an expanding number of new and emerging environmental schemes (Figure 1). This complexity can lead to conflicting objectives and increase compliance burden, potentially impacting consumer outcomes. Harmonising energy and climate policy across jurisdictions is therefore critical to managing the energy transition effectively, reducing investment risk, maximising consumer benefits, and achieving Australia's net-zero ambitions by 2050. A nationally coordinated approach to energy productivity and electrification should be pursued wherever possible to deliver the necessary scale and pace of transition. Long-term certainty and clear signalling of structural or policy shifts are also critical to provide market participants and consumers with the confidence needed to invest in energy upgrades that form part of the energy transition.

Figure 1: Current and emerging environmental schemes in Australia

In reforming the ESS and PDRS, it is important to consider their broader role in delivering economy-wide decarbonisation in a manner that maintains environmental integrity across the full product lifecycle. This includes ensuring appropriate end-of-life management of products to reduce lifecycle emissions, prevent environmental harm, and maximise opportunities for reuse, repair and material recovery. Many consumers do not know how to safely dispose of products once they reach the end of their useful life, particularly where new technologies are rapidly entering the market under government incentive programs. This is particularly relevant for battery products, which present fire risks and other safety concerns if improperly stored, transported or disposed of. A lack of transparency in product disposal pathways—especially where there is no auditable assurance of recycling or repurposing—can undermine consumer trust in the schemes. Improper disposal of electronic waste can also result in hazardous materials entering the environment, posing risks to ecosystems and human health. Addressing these issues is essential to ensure the schemes continue to deliver environmental integrity, maintain public confidence, and support the broader goals of the energy and circular economy transitions.

We note the work underway at both a national and state level to address waste issues and drive real changes in design, supply and end-of-life outcomes. This includes the National Circular Economy Framework, which provides a blueprint for Australia's transition to a circular economy, and the NSW Government's Product Lifecycle Responsibility Act 2025, which establishes a mandatory product stewardship framework for certain products that pose risks to human health the environment. We support these mechanisms and encourage the NSW Government to ensure ESS and PDRS reforms are aligned with, and complementary to, these broader regulatory initiatives. A coordinated approach across jurisdictions will reduce waste, lower lifecycle emissions, and improve outcomes for consumers, human health and the environment.

ESS reform

Supporting electrification

AGL strongly supports the continued provision of incentives for electrification upgrades in the ESS and has previously advocated for a complementary scheme objective that explicitly recognises the role of household and business electrification in reducing emissions and energy costs.[3]

As noted in the Consultation paper, establishing a standalone scheme to support electrification would introduce significant complexity and is likely to be costly and slow to implement. We therefore support maintaining electrification incentives within the ESS, with changes made to reduce scheme distortions and ensure fair treatment across fuels and technologies.

While there is some merit in a sub-target for electrification, it would add additional scheme complexity, risks and costs, and risk fragmenting the market, potentially undermining efficiency and liquidity. In contrast, Option 1(a)—adopting a revised metric for fuel conversion—offers a more pragmatic and proportionate response. It is administratively simplest of the options presented and, in our view, would have the least impact on the functioning of the market, preserving the overall integrity and functionality of the scheme. We therefore consider Option 1(a) to be the most balanced and sensible approach amongst those presented.

Scheme targets and certificate supply

AGL broadly supports the department undertaking detailed analysis on target-setting options; however, any proposal to increase targets must be carefully assessed to understand potential impacts on market dynamics and consumer energy bills. In addition, the department will need to consider the impacts of proposed activity changes as outlined in the proposed Rule Change Consultation paper, which will have an impact on certificate supply. Some broad principles that could be used when assessing target changes include:

- **Driving additional electrification and gas-saving activities** beyond electricity savings already forecast under existing ESS uptake trends

[3] ESS & PDRS 2024 submission

- **Delivering measurable emissions reductions** consistent with state and national climate objectives
- **Supporting a healthy and functioning ESC market** by promoting the right balance of demand and supply to that the market generated sustained activity without excessive volatility
- **Maximising net economic benefits** for households and businesses

Any target changes require adequate lead time to ensure smooth implementation. In our view, a minimum of 3-4 years notice is required to provide market participants with sufficient visibility and minimise unintended market disruptions. Long-term policy certainty is critical to provide market participants and consumers with the confidence needed to invest in energy upgrades.

The policy rationale for introducing a certificate expiry requires further clarification. While the Consultation Paper suggests that expiries could help ensure that certificates reflect recent emissions reductions, it also notes that certificates older than 5 years only account for 2% of available supply. This indicates that the issue is not material and raises the question of whether the proposed certificate expiry would deliver meaningful benefits.

Introducing a certificate expiry presents a risk to retailers, imposing additional operational and compliance burden. Retailers would need to amend systems, processes and contractual arrangements to track and manage certificate expiry risk, which may increase cost without clear policy justification. We recommend therefore that the department reassess the merits of this proposal.

PDRS reform

Supporting new activities and target setting

AGL strongly supports the provision of additional incentives for CER under the PDRS, such as those outlined in the Consultation Paper, to further enhance peak demand capacity and support long-term demand-supply balance. As new technologies continue to develop, it is essential that scheme rules retain flexible and inclusive settings, with clear pathways for adding new products as technologies evolve vital to incentivising scheme participation and maximising consumer benefits.

As highlighted in previous submissions, as well as our accompanying submission to the Rule Change Consultation Paper, we continue to advocate for the expansion of incentives for demand response activities, including VPPs, batteries and other emerging CER technologies[4]. Broader eligibility for residential, commercial and multi-dwelling battery installations under the PDRS would significantly improve access to CER, particularly for renters, apartment dwellers and low-income households, by reducing upfront barriers and enabling participation through trusted aggregators or community battery models.

We also support the ability to stack battery incentives for specific cohorts who may otherwise experience difficulty accessing these types of products. This approach may be particularly beneficial for community-based projects that would not be viable without additional financial support. However, careful consideration is required to manage potential risks associated with targeting these cohorts, particularly vulnerable customers, who may be more susceptible to pressure tactics or unsolicited approaches. The ACCC's ongoing review of unsolicited selling and lead generation is examining issues such as this and the final report may include suggestions for how any potential issues with unsolicited selling and lead generation could be better addressed[5]. Ensuring that incentives are coordinated at scale, and that explicit, informed consent is obtained from participating consumers, is essential to promoting safe and positive consumer outcomes. Further detail around AGL's views on new activities is included in our accompanying submission to the Rule Change Consultation Paper.

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[4] See AGL's submission to the PDRS Rule Change 2 consultation, 2023

[5] The ACCC's review was initiated via a designated complaint from the Consumer Action Law Centre, who provided a range of case studies and examples to support the complaint, with the majority of those relating to the unsolicited selling of solar panels and batteries

We acknowledge that the PDRS is still at an early stage of maturity and so some flexibility will be required as the scheme evolves. However, establishing scheme targets on an annual basis may undermine long-term market stability and complicate operational and strategic planning. Targets that AGL has set around demand response – which support the objectives of the PDRS - will become increasingly difficult to achieve without greater long-term clarity. Should annual target setting be adopted, it is important that the government provide assurances that no significant shifts in targets will occur.

Evolving reliability risks

The Consultation Paper appropriately identifies emerging risks associated with minimum system demand and winter peaks that require close and ongoing monitoring. Given the dynamic nature of the risks and the potential consequences of premature scheme redesign, we support the department's proposal to build an evidence base initially to better understand the impacts of these evolving reliability challenges. That said, we would support future scheme adjustments that enable the PDRS to target peak periods in other seasons, where doing so would enhance system reliability.

It is also worth noting that the nature and timing of the summer peak period is shifting as a result of policies and incentives that have been in place in recent years. As such, continuous monitoring of when summer peaks occur will be essential to ensuring the PDRS continues to target the periods of greatest system stress.

Improving consumer outcomes

AGL broadly supports the proposed reforms intended to improve consumer outcomes and ensure a more equitable distribution of costs and benefits across the schemes. We outline below several considerations to support effective implementation:

- *Product performance:* AGL acknowledges that establishing a physical product testing regime for selected products (Option 1) would be costly and agree with the Consultation Paper that leveraging existing product registers (Option 2) is the preferred approach. However, this could pose challenges for emerging technologies and products such as EV chargers, which currently lack third-party product registers. Likewise, hot water heat pumps do not yet have a GEMS star rating, although we note that a rating is under development and the Clean Energy Council's solar hot water register for STCs is available. It is essential that the schemes retain sufficient flexibility to accommodate emerging technologies and associated new product registers as they become available. We support the expansion of GEMS to cover these technologies and products.

- *Installation quality:* AGL supports strengthening accreditation standards within the ESS and PDRS to ensure safety, quality and consumer protection. IPART currently has powers to revoke ACP accreditation and that the Consultation Paper proposes to expand this remit to cover other persons, including installers. Accordingly, we support strengthening IPART's powers to safeguard consumers and enhance scheme trust and integrity, consistent with the expanded functions of the Clean Energy Regulator. More broadly, AGL supports nationally aligned and streamlined accreditation frameworks to reduce duplication and support a consistent quality standard across jurisdictions.

- *Consumer protections and experience:* We broadly support initiatives to improve consumer protections and customer experience. Uniform and minimum product standards and installation warranty requirements for products are vital to increase consumer trust and confidence in relevant upgrades[6]. We encourage the government to streamline regulatory requirements to allow the supply chain to focus on quality of delivery rather than administration. In addition, we highlight the need for clearer policy direction on end-of-life management of products, particularly given the significant uptake of batteries and the current lack of robust regulations governing disposal and recycling. Addressing these gaps is critical to ensuring consumer safety and minimising environmental risks.

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[6] See AGL's submission to the VEU – Electrification Co-Payment and Warranty Requirements Consultation Paper

- *Managing changes to scheme activities:* We support the intent of proposed guidance and guiding principles on how the NSW Government manages changes to scheme activities to improve transparency for market participants. However, we see limited benefit in the guidance alone where participants cannot realistically anticipate or plan for unpredictable changes. For example, the suspension of the BESS1 activity last year occurred suddenly and without consultation, significantly impacting the PRC market and leaving industry unprepared. It is unclear how such a decision would be captured in the proposed guidance and how one might anticipate a change such as this. We therefore recommend that the department incorporate practical case studies into the guidance, illustrating how each category of change may occur and how industry should expect such decisions to be communicated and implemented. Where an 'urgent' change is required, a structured approach to communication should be adopted, ensuring that notifications are issued swiftly, widely and transparently, along with a clear statement of rationale, expected impacts, and next steps.

In addition, stronger and earlier industry engagement is vital to ensure that installers and consumers realise value in scheme participation. We recommend that the government focus on supply chain development, improvement and satisfaction to improve outcomes for consumers. Timely communication of scheme information and changes is also essential to minimise market disruption and uphold scheme integrity.

Sharing costs and benefits

Access to scheme incentives

AGL acknowledges the challenge of improving equity and accessibility across both the ESS and PDRS, particularly for lower-income families and renters who often face barriers to accessing higher cost activities such as residential battery installation. Recognising the needs of different customer segments across residential households – such as renters, landlords, owner-occupiers, and more vulnerable cohorts – is essential to ensuring that scheme incentives are appropriately targeted and effective.

We are supportive of actions underway, such as through the Consumer Energy Strategy, to address these demand-side challenges. In particular, we endorse the provision of higher incentives for priority cohorts to drive engagement with the schemes and reduce upfront costs for eligible customers.

We are also interested in the proposed trialling of exempting Minister-approved programs from certain scheme requirements and seek further guidance on the types of initiatives likely to qualify as exempt programs. It will be critical that any such trials remain both technology-neutral and competitively neutral to ensure efficient and equitable outcomes for markets and consumers.

While we are supportive of broader efforts to address demand-side barriers, we consider that some of the policy design changes proposed in the Consultation Paper warrant careful consideration. A priority group sub-target raises material risks for both scheme participants and consumers, which in our view outweigh potential benefits. Sub-targets can fragment the market by creating different classes of certificates, complicating liability acquittal and increasing the risk of non-compliance—especially where certain customer segments are more challenging to engage with and have lower discretionary income to spend on these types of upgrades. These risks may translate into higher penalties and, ultimately, higher consumer bills, undermining scheme effectiveness and social licence.

A more suitable mechanism is the cohort multiplier proposed in Option 2 of the Consultation Paper. Applying a multiplier to a defined subset of activities or customer cohorts provides a more cost-effective and flexible means of delivering targeted incentives. This option supports clear price signals to the market, reduces administrative complexity, and maintains a simpler target-setting approach that can be adjusted as needed over time. Addressing financial barriers to participation through pricing incentives, rather than mandating participation via sub-targets, is likely to produce more efficient and equitable outcomes.

We also support actions directed at addressing supply-side challenges. While we have no objections to establishing a market stimulus function, it's worth considering any potential overlap with the Safeguard

Acceleration Program (SAP). DCCEEW may wish to clearly articulate the remit of each program/function and explore whether the existing SAP framework could be expanded to incorporate market-stimulus activities.

Liability settings for storage facilities and scheme participants with zero or negligible acquisitions

We note the proposal in the Consultation Paper to exclude certain storage technologies - such as pumped hydro facilities - from liability under the schemes where those facilities acquire electricity from the NEM solely for the purpose of electricity generation. We support this approach, as it is both consistent with the policy intent of the PDRS and ESS and avoids imposing obligations on technologies that do not contribute to scheme costs in a meaningful way. Enabling exclusions to be made in general terms through regulation, rather than through ad-hoc amendments, is a practical and efficient mechanism that will accommodate new facilities as they are commissioned.

However, we note that Small Resource Aggregators (SRAs) that meet the statutory definition of a scheme participant would remain liable unless they fall below the proposed participation threshold of 10,000 kWh. While we have no major concerns with the proposed threshold – which appears reasonable to reduce administrative burden and compliance costs – we recommend an additional safeguard: facilities that are exempt from scheme liability should also be prevented from creating certificates under the scheme. This would ensure that exempt facilities do not receive benefits that are inconsistent with their exemption, support the integrity of scheme incentives, and avoid any unintended consequences or distortions in certificate creation.

We look forward to further engagement on the outcomes of the statutory reviews and broader reforms to the ESS and PDRS.

Should you have any questions in relation to this submission, please contact Casey Barkla-Jones at cbarkla@agl.com.au.

Yours sincerely,

AGL Energy

About AGL

At AGL, we believe energy makes life better and are passionate about powering Australian life. Proudly Australian since 1837, AGL delivers around 4.6 million[7] gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind and hydro, and batteries and other firming and storage technology. We are building on our history as one of Australia's leading private investors in renewable energy to be a leader in the transition to a lower emissions and smart energy future in line with the goals of our Climate Transition Action Plan. We'll continue to innovate in energy and other services to enhance the way Australians live, move and work.

[7] Refer to AGL's ESG Data Centre FY25