

20 February 2026

NSW Department of Climate Change, Energy, the Environment and Water

Submitted via email



Energy Security Safeguard: Policy Reform Paper

The Australian Financial Markets Association (AFMA) is responding to the NSW Department of Climate Change, Energy, the Environment and Water's (the department) consultation on its Energy Security Safeguard (ESS): Policy Reform Paper (the paper).

AFMA is the leading industry association representing Australia's financial markets - including the capital, credit, derivatives, foreign exchange, and other specialist markets such as gas, carbon, electricity and environmental products. We have more than 130 members, from Australian and international banks, leading brokers, securities companies, and government treasury corporations to fund managers, energy firms, and industry service providers. Many AFMA members are key participants in both the ESC and PDRS markets.

AFMA welcomes the department's intent for policy reform to safeguard the ongoing success of both the ESS and PDRS schemes, of which, AFMA remains supportive of both and attests that both markets continue to function well.

Key Points

- AFMA broadly supports proposals to make changes to targets to reduce the ESC surplus to stimulate an increase in scheme activity
 - AFMA supports the proposed changes to existing and new PDRS activities
 - Safeguarding supply through the approval of new methodologies should be a high priority
-

1. Part A: Energy Savings Scheme reform

AFMA agrees that updating the certificate conversion factors alone is not a sustainable solution and supports option 1a (Electrification within the ESS with a revised metric). AFMA sees this as the simplest approach to implement, help achieve lowest costs for consumers and most suitable for a continued well-functioning market.

AFMA supports, in principle, increasing the ESS target and supports targets that reduce the ESC surplus to stimulate an increase in scheme activity. The market and participants would benefit from good long-term direction on the scheme, and we therefore recommend setting the targets far enough in advance to support this, with 3-5 years being an optimal approach. We believe this target should be coupled with the introduction of new methodologies to ensure supply can meet the heightened demand. We believe this is particularly pertinent given the recent decision to remove the commercial lighting activity and sale of new appliance (SONA) method.

We do not however, support introducing a 5-year expiry on ESCs, as the consultation paper notes, this impacts only 2% of all ESCs and see no material benefit. It is AFMA's view that the vintage rules do not meaningfully contribute to the scheme objective but instead create unnecessary

Australian Financial Markets Association

ABN 69 793 968 987

Level 18, 45 Clarence Street Sydney NSW 2000 Tel: +612 9776 7905 Facsimile: +612 9776 4488

Email: info@afma.com.au Web: www.afma.com.au

administrative burden, particularly when considering the time between the end of the compliance year to the surrender date. Similar to what the Victorian government implemented under the Victorian Energy Upgrades Program, removing vintage requirements could significantly improve market liquidity.

2. Part B: Peak Demand Reduction Scheme reform

AFMA supports the proposed changes to existing and new PDRS activities. AFMA's feedback in relation to building on the CHBP by introducing incentives for larger batteries for the commercial and industrial (C&I) sector and multi-dwelling residential sites, and allowing combined CHBP discounts and PDRS incentives for sectors or cohorts that require additional support to install batteries is contained in our response to the rule change paper; in which, we support both.

Liabe entities and accredited providers will plan how they will meet compliance obligations and other forward planning business operations a year or more out. For this reason, AFMA supports setting annual targets but recommends they be set at least 3 years out, but 5 years out would be the preferable approach. In this regard and noting the October 2026 deadline for the 2027/28 PDRS target, we encourage consultation to take place as soon as possible.

With regarding to evolving reliability risks, AFMA shares the department's concerns and agrees that the time and duration of peak demand is rapidly shifting. Nevertheless, we agree that improving peak demand reduction capacity during summer peak demand should remain the focus, while continuing to monitor other areas of risk in consultation with industry.

We also encourage the department to closely engage with work being undertaken at a federal level to address peak demand issues, most notably, the National Electricity Market (NEM) review recommendations implementation.

3. Part C: Improving consumer outcomes

AFMA welcome's the department's acknowledgement that lack of clarity about how changes to Energy Security Safeguard scheme activities through Rule updates can cause negative market impact. We therefore welcome the intent to provide improved guidance on how the department manages changes and support the proposed approach. Under 'urgent changes' we appreciate consultation may not be possible, but we do however request that a series of well publicised and strategic communications be released to all impacted parties as swiftly as possible, on the actions taken by the department alongside clear rationale.

4. Part D: Sharing costs and benefits

AFMA supports all proposals to address both demand and supply side barriers. We do however request further detail on the department's intent to develop an 'explicit market stimulus function' to address supply-side barriers. As AFMA expressed in our submission to last year's statutory reviews of both the ESS and PDRS, we encourage the department to prioritise developing new scalable and durable methodologies to safeguard its continued success and longevity through to 2050.¹ As such, we recommend that a commitment from government to approve more methodologies should be an explicit action listed under 9.3.2. 'Addressing supply-side barriers to participation'.

¹ <https://www.afma.com.au/policy/submissions/2025/r30-25-ess-and-pdrs-reviews.pdf?ext=.pdf>

AFMA also welcomes the intent to ensure liability settings are appropriate for storage technologies and supports the proposals made. To futureproof, we encourage the department to write the legislation in a manner which does not specify or exclude any specific technologies.

AFMA Recommendations

- i. Option 1a (Electrification within the ESS with a revised metric) should be pursued
- ii. Annual PDRS targets should be set 3-5 years out
- iii. Focus on improving peak demand reduction capacity during summer peak demand
- iv. Develop clear communication channels and protocols in the event of an 'urgent change'
- v. Commit to approving more methodologies to address supply-side barriers
- vi. Consider the role of geothermal storage technologies

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact Monica Young via myoung@afma.com.au or 02 9776 7917.

Yours sincerely,

Monica Young

Monica Young

Policy Manager