

Energy Savings Scheme reform proposed: stronger focus on gas reduction and electrification

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About this update

This dated government-scheme update is preserved as a historical record and connected to current scheme guidance.

Publication date: February 20, 2026.

Status note: Rules, methods, product requirements, regulators and certificate markets can change after publication. The current legislation, regulator guidance and method documents prevail.

What this article reported

The Energy Savings Industry Association (ESIA) has released new modelling suggesting reform of the NSW Energy Savings Scheme (ESS) could deliver stronger emissions reductions and better economic outcomes, particularly through a greater focus on gas reduction and electrification.

The report, released 18 February 2026, outlines options to strengthen the scheme as NSW faces rising energy costs, gas supply pressures and decarbonisation targets.

What's been announced

According to ESIA, the current ESS has delivered cost-effective energy savings and emissions reductions, but may not be configured to address emerging challenges in gas demand and electrification at sufficient scale.

Modelling undertaken by Green Energy Markets, commissioned by ESIA, suggests:

Prioritising electrification and gas reduction would deliver improved economic and environmental outcomes compared to maintaining current settings.

A dedicated gas reduction sub-target - or a separate gas-focused mechanism - could provide clearer long-term investment signals.

Reform should commence in 2026-27, with any new framework in place by 1 January 2028 to avoid delays in deployment.

The report is intended to inform ESIA's submission to the NSW Government's consultation on ESS reform.

Who it affects

The ESS underpins significant private sector investment in energy efficiency and emissions reduction activities across New South Wales.

Businesses with substantial electricity and gas consumption - including those in manufacturing, property, health, logistics and large commercial facilities - may see changes to:

Eligible activities

Certificate generation opportunities

Relative incentives between electricity efficiency and gas reduction

Investment signals for electrification projects

Participants in the certificate market, energy service providers, and organisations relying on ESS-linked projects as part of compliance or decarbonisation strategies will be particularly impacted.

Key details and timing

Reform discussions are underway as part of the NSW Government's ESS review process.

ESIA recommends reform begin during 2026-27.

A revised framework should commence by 1 January 2028.

The report highlights the importance of early deployment to avoid slowing electrification and emissions abatement activity.

Why it matters

If reforms prioritise gas reduction and electrification, businesses with significant gas exposure may see stronger financial incentives to transition equipment and processes to efficient electric alternatives.

This could influence capital planning decisions over the next two to three years, particularly where facilities are already considering:

Boiler and process heat upgrades

Heat pump installations

Electrification of plant and equipment

Demand management investments

Changes to sub-targets or certificate structures may also affect certificate supply, pricing dynamics and project economics under the ESS.

For organisations with long-term decarbonisation commitments, the proposed direction signals that electrification will remain central to NSW policy settings.

What to do next

Businesses with material energy exposure should:

Monitor the NSW Government's ESS consultation process

Review planned capital upgrades against potential scheme changes

Assess gas-related risks in light of emerging policy direction

Consider participating in consultation if materially affected

Early planning may allow organisations to align investment timing with any revised incentive framework.

The NSW Government's consultation process will determine whether the proposed reforms proceed. Further detail is expected as the review progresses through 2026-27

How to use this information now

Confirm the activity or method, effective dates, accreditation and product rules, baseline, evidence, audit and registration timing before procurement or implementation. Historical certificate values are not current quotes.

Separate source-reported facts from forecasts, targets and commentary. For a current project, retain the official source, version, effective date, assumptions and decision record in the evidence file.

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What is the Energy Savings Scheme (ESS) and how does it create value for participating businesses?

The NSW Energy Savings Scheme, established in 2009, provides financial incentives for installing, improving or replacing energy-saving equipment in NSW businesses and households. Accredited Certificate Providers (ACPs) create tradeable Energy Savings Certificates (ESCs) for evidenced energy savings. Electricity retailers purchase these certificates to meet a legislated annual energy savings target, creating a market that assigns financial value to verified reductions. For businesses, this means eligible energy-saving activities can generate revenue beyond operational bill savings, making projects more economically attractive. We assist by assessing activity eligibility, calculating certificate quantities under the applicable method, and supporting the evidence requirements needed to establish entitlement.

Why is the NSW Government considering reform of the Energy Savings Scheme in 2026?

The proposed ESS reform responds to NSW's rising energy costs, gas supply pressures and decarbonisation targets. Green Energy Markets modelling, commissioned by the Energy Savings Industry Association in February 2026, found that prioritising electrification and gas reduction would deliver stronger emissions reductions and better economic outcomes than maintaining current scheme settings. A dedicated gas reduction sub-target or separate gas-focused mechanism could provide clearer long-term investment signals for businesses considering transitions from gas to efficient electric equipment. This signals policy direction toward supporting business electrification and heat pump adoption rather than maintaining equal incentives across all eligible activities.

What timeline has ESIA recommended for Energy Savings Scheme reform, and why does it matter?

The Energy Savings Industry Association recommends reform commence in 2026–27, with any new framework in place by 1 January 2028 to avoid deployment delays. This timeline is significant because businesses making capital investment decisions for boiler replacements, heat pump installations and process-heat upgrades need to understand the incentive structure before committing expenditure. If reform proceeds, the relative financial attraction of gas-reduction activities versus other eligible improvements may change materially. We recommend businesses with planned gas or heating-related capital work monitor the consultation process and assess projects against both current and potential reformed scheme settings to avoid locking in decisions that could become less advantageous under new rules.

Which businesses are most likely to be affected by the proposed ESS reform?

Businesses with substantial electricity and gas consumption are most likely to be affected, particularly those in manufacturing, property management, health, logistics and large commercial facilities. Companies with gas-fired boilers, process heating, steam generation or space heating face potential changes to eligible activities and certificate generation opportunities if reform prioritises electrification. Participants in the certificate market, energy service providers, and organisations relying on ESS-linked projects for decarbonisation strategies will also experience impacts through changes in relative incentives and investment signals. We can help these businesses assess current gas-related exposures and model potential capital implications under reformed scheme settings.

What practical steps should businesses take now in response to the proposed ESS reform consultation?

Businesses should monitor the NSW Government's ESS consultation process to understand potential changes, review planned capital upgrades—particularly gas replacements and electrification projects—against possible scheme changes, and assess gas-related risks in light of emerging policy direction. Organisations with material energy exposure should consider participating in the consultation if affected, as industry input may influence final reform design. We assist by identifying which of a business's planned energy projects might be impacted by reform, assessing certificate eligibility under both current and possible future scheme settings, and supporting businesses to develop resilient investment cases that remain sound whether or not specific reforms proceed.

How might ESS reform affect the economics of gas-to-electric equipment transitions?

If reforms proceed with a dedicated gas reduction sub-target or stronger electrification focus, certificate incentives for gas-reduction activities could increase significantly relative to other eligible improvements. This would lower the effective cost of heat pump installations, electric boiler replacements and process electrification by increasing their certificate revenue. For a business considering whether to replace a gas boiler now or in three years, or whether to invest in a heat pump, reformed incentives could materially improve project payback periods and internal rates of return. We can model this impact by preparing investment cases that show project economics under current scheme settings and under illustrative reformed scenarios, helping businesses understand which decisions are robust to policy change and which depend on current incentives.

What does the modelling commissioned by ESIA suggest about the outcomes of ESS reform?

Green Energy Markets modelling commissioned by ESIA found that prioritising electrification and gas reduction through ESS reform could deliver improved economic and environmental outcomes compared to maintaining current scheme settings. A dedicated gas reduction sub-target or separate gas-focused mechanism could provide clearer investment signals for businesses considering transitions to efficient electric alternatives. The modelling supports the case that aligning scheme incentives with NSW decarbonisation policy objectives—rather than continuing equal treatment of all eligible activities—would accelerate emissions reductions while maintaining economic viability. This evidence-based analysis informs ESIA's submission to the NSW Government consultation and suggests reform outcomes are more likely to be implemented if they align with both emissions reduction targets and business cost-effectiveness.

How can Northmore Gordon help businesses prepare for potential ESS reform?

We can assess which of a business's current and planned energy projects fall within the Energy Savings Scheme, calculate certificate eligibility and expected revenue under current method requirements, and identify activities most likely to be affected by reform. For businesses with significant gas exposure, we can model capital investment cases that show project economics under both current and potential reformed scheme scenarios, helping organisations understand which decisions are

resilient to policy change. We also provide support for documenting baseline energy use, planning measurement and verification, and preparing the evidence file needed for certificate applications, ensuring projects remain eligible regardless of reform timing or final design.