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Sharn Enzinger
Energy Sector Development Division
Department of Economic Development, Jobs, Transport & Resources
GPO Box 4509
Melbourne VIC 3001

Submitted Electronically to: energysaver.incentive@ecodev.vic.gov.au

Dear Ms Enzinger

Review of the Victorian Energy Efficiency Target Scheme

EnergyAustralia appreciates the opportunity to provide input into the review of the Victorian Energy Efficiency Target (VEET) scheme. We are one of Australia's largest energy companies, providing gas and electricity to over 2.6 million household and business customers in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. EnergyAustralia owns and operates a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

EnergyAustralia has previously made representations that it does not consider that the VEET scheme is the most appropriate mechanism to achieve energy efficiency, particularly in Victoria with the widespread rollout of smart metering technology which can be used to drive behaviour through cost reflective pricing. These representations continue to reflect our views however we are committed to supporting the VEET scheme while it remains government policy. To this end, we welcome changes to the scheme that will increase the opportunities for energy savings and provide positive outcomes for Victorian consumers.

Because consumers ultimately bear the costs of compliance with the VEET scheme, EnergyAustralia encourages the government to provide all scheme participants with certainty and clarity around obligations and to set targets in a manner which facilitates a stable, sustainable market for Victorian Energy Efficiency Certificates (VEECs) rather than boom/bust cycles. We provide our views below on a number of key elements of the scheme which we believe should be reviewed to enhance consumer outcomes.

Coverage and Exemptions

Under the current VEET framework, businesses who have undertaken activities as part of Environment and Resource Efficiency Plans (EREP) are exempted from participating in the VEET scheme. EnergyAustralia has previously advised government that exemptions under this program are unwieldy and difficult to manage due to the lack of appropriate information contained in the EREP register, the primary resource used by retailers for determine exemption eligibility. As the EREP scheme was terminated in 2013, EnergyAustralia considers that its relevance is diminishing in terms of the role it plays in eliciting energy savings from large businesses.

In our view a broad based, exemption free scheme where all energy users are required to participate offers the best opportunities for achieving low cost energy savings. Coverage of all sectors and customer classes will mean that as lowest cost activities are exhausted for a particular customer class, rather than defaulting to next lowest cost activity within that class, the market will look to new customer segments for opportunities to achieve savings. This should result in greater innovation and less impact on VEEC markets, and ultimately energy prices. As outlined above, ending exemptions will also ease the administrative burden on retailers associated with identifying and managing exempt customers.

If government determines that some customers should be exempt from the scheme, we ask that an appropriate mechanism for identifying exempt load be established. This would ideally take the form of a centrally housed repository of exempt customers at a NMI or MIRN level.

On the supply side, EnergyAustralia supports a scheme that captures all market participants. Although the requirements have been tightened substantially, previous amendments to the scheme briefly allowed some retailers with fewer than 5000 customers to sell energy at a price which did not include VEET costs, providing them with a considerable competitive advantage. As there is a liquid market for VEECs, we do not consider that participation in the scheme poses a significant impost for smaller retailers and consider it appropriate that all parties licensed to retail energy in Victoria should be required to participate in the scheme.

Supporting vulnerable consumers

EnergyAustralia is acutely aware of the difficulties an increasing number of people have in paying their utility bills. This is a societal issue as the economy undergoes a period of downturn. Our hardship program, *EnergyAssist*, offers a variety of means to support our customers who are facing financial challenges. One of those ways is through energy efficiency advice.

We consider that there is scope to better assist vulnerable consumers via the VEET scheme by creating incentives for Accredited Persons (APs) to target energy savings towards those who need it most. We do not support a target such as the one include in the South Australian Retailer Energy Efficiency Scheme, but rather a multiplier that would apply for certificates created for customers who meet a defined criteria. Further, we believe that the scheme could work in concert with existing retailer hardship programs with a multiplier being applied where the AP has undertaken an activity as a result of a referral to assist a customer on a retailer's hardship program.

We do not consider that low income (as discussed in the Consultation Paper) should be only defining feature of those requiring assistance and is not easily identifiable to APs or retailers. Readily available identifiers, such as concession cards, are the most appropriate criterion by which eligibility should be determined. Any changes of this type should adequately consider privacy and security issues to ensure vulnerable consumers are not placed at risk in any way.

One of the major challenges that amending the scheme to assist vulnerable consumers is the fact that many of them rent their dwellings and are unable to undertake capital investments to capture energy savings. The landlords for these premises have no incentive to undertake the investment as they will receive no return (in the form of energy reductions) as they are not responsible for the energy bills.

The Government should consider approaches to resolve this split incentive problem, either within the VEET scheme or outside, and maximise opportunities for vulnerable consumer to participate. This could include the Government subsidising APs to undertake capital improvements in rental accommodate (which would be partially offset by a larger certificate value) or the Government providing 'green loans' to vulnerable consumers to assist them buy more energy efficient appliances. The Government could also consider allowing retailers to reduce their VEET liability by replacing hardship customers' appliances with more efficient ones.

Administrative Improvements.

Minimising costs to energy consumers is a key priority for EnergyAustralia. With respect to the VEET scheme, the biggest challenge that retailers face is the uncertainty associated with Greenhouse Gas Reduction Rates (GGRR) for each compliance year. These rates determine the retailer's overall liability in terms of the number of VEECs to be surrendered.

Under the Victorian Energy Efficiency Target Act 2007, an Order setting the GGRRs must be made before 31 May each year. Given that retail energy prices are generally set in line with network tariffs on 1 January each year, this leads to a situation where retailers must estimate their liability in order to set prices. Although non-binding estimates are often provided in advance of the final GGRRs, the current scenario leads to an element of risk which will invariably be reflected in retail prices. This risk could be removed, leading to greater cost reflectivity in energy prices if the GGRRs were set in advance of the compliance year.

Although the May 31 date would require legislative amendment to change, EnergyAustralia believes that the current legislative framework does not prevent GGRRs being set in a timely manner. We ask that the Department work closely with the ESC and retailers to ensure that GGRRs are provided in a timely manner to enable retailers aren't required to pass unnecessary cost through to consumers.

Summary

EnergyAustralia welcomes the review of the VEET scheme and urges government to address the issues outlined above so that the scheme can deliver energy savings to consumers at a low cost. Should VEET continue to be the Government's preferred policy tool to achieve energy savings, EnergyAustralia supports moves to minimise compliance and administrative costs by harmonising to the greatest extent possible with other similar schemes. We look forward to continuing to work the Department on this matter.

If you require any further information with regard to this submission, please contact me on 86281731 or via email at joe.kremzer@energyaustralia.com.au

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Joe Kremzer', with a long horizontal flourish extending to the right.

Joe Kremzer
Regulatory Manager, Retail