

18 May 2015

Department of Economic Development,  
Jobs Transport and Resources  
Review of the Victorian Energy Efficiency Target Scheme  
Energy Sector Development Division  
GPO Box 4509  
Melbourne VIC 3001

Dear Sir/Madam,

## RE: Setting Future Victorian Energy Efficiency Targets (VEET) Consultation Paper

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Setting Future Victorian Energy Efficiency Targets (VEET) Consultation Paper (the **Consultation Paper**).

The ERAA represents the organisations providing electricity and gas to over 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use consumers of both electricity and gas.

The ERAA's responses to the questions in the consultation paper are set out below.

*What should the new VEET target be?*

Based upon on the findings of the residential and business activities modelling undertaken by the Department, five targets are proposed. The targets appear at the upper limits of any plausible assessment. From the perspective of a liable entity, forward notice makes managing liability risk easier. On this basis the ERAA's preference is for the option of 5.8 million tonnes CO<sub>2</sub>-e per year for five years.

We also recommend the Department considers setting future targets on a five year basis (i.e. every year setting the target for five years' time), rather than in five year blocks (i.e. setting five annual targets once every five years). This would provide greater certainty for both Accredited Providers and relevant entities, while also allowing regular correction of the target trajectory to respond to market changes where required.

*Comments are invited on the modelling approach used to determine the costs and benefits of the VEET scheme.*

In our view the approach of the NSW ESS and the ACT EEIS which sets targets as a percentage of a retailer's relevant acquisitions provides for a more predictable and automatically adjusted target. Retailers have certainty about the ESS obligation related to their sales which addresses some of the risk relating to future scheme costs and consequent price setting.

The use of an absolute volumetric target and the process for converting this to greenhouse gas reduction rates significantly delays the notification of relevant entities' liabilities.



Currently these percentages are not released until 31 May of the compliance year that they apply to. This makes it difficult to inform price decisions for the large proportion of mass market customer price changes that take place in January each year.

*Which greenhouse gas coefficient should be used to quantify the reduction in greenhouse gas emissions achieved by the VEET scheme?*

The rationale for using the current greenhouse gas coefficient is that when electricity and gas demand is reduced as a result of VEET activities, the market responds by scaling back the most expensive generator (the marginal generator). This is both theoretically and economically sound. It represents, in practice, the basis of the most accurate calculation of the value of avoided greenhouse gas emissions. The ERAA supports the updating of the marginal coefficient for electricity and gas using this principle.

*Is there a case to exclude any business sector(s) from participation in the VEET scheme?*

The sunset of the EREP at the end of 2014 was justified on the basis of a national carbon price providing a market mechanism to promote energy efficiency, and the emissions intensive trade exposed arrangements under that mechanism being responsible for preserving business competitiveness. For trade exposed businesses recovering from a period of intense currency pressure and large, although non-VEET-related energy price rises, the expansion of VEET further compounds their problem. The list of currently approved activities also makes any direct benefit to large users from their participation marginal at best. Former EREP sites should remain exempt from the VEET and new sites should be added if the scheme is not appropriate for them.

We consider that there is no market failure with respect to moderate-size businesses consuming energy efficiency activities. Similarly, the South Australian REES scheme exempts all businesses that consume more than 1,000 MWh per year in South Australia under a single contract (which allows aggregation of site consumption). We urge the Department to consider applying this cut-off to the VEET scheme.

*Should the VEET scheme be amended to better ensure support for low income households?*

The ERAA does not support the inclusion of VEET scheme sub-targets for low-income households. The Consultation Paper does not provide evidence to suggest that low-income households are not currently accessing a sufficient level of VEET benefits. We note a statement made by the Brotherhood of St Laurence that households in disadvantaged areas have received more benefits under the VEET scheme than those in more advantaged areas.<sup>1</sup> We believe that the Department should first determine whether there is a case for targeting this particular consumer segment. If targeted measures are justified, it should then be considered whether VEET is the most effective and efficient mechanism to provide the required support.

Experience in the SA REES, which has a sub-target for low-income households, is that this sub-target increases compliance costs. Sub-targets increase the costs of managing scheme compliance and dividing the market in this way means that retailers may lose the benefit of scale in acquiring the lowest cost abatement for a single target. This reduces market liquidity because it has the effect of creating two separate commodity types (i.e. priority certificates and non-priority certificates). This ultimately increases costs borne by all consumers through retail prices. Further, low-income households can be disproportionately impacted because energy costs are likely to represent a larger proportion of their income.

The ERAA believes that consumers struggling from financial hardship should receive support in managing their energy costs through more targeted programs, outside of VEET.

---

<sup>1</sup> <http://www.bsl.org.au/media-centre/media-releases/media-release/veet-energy-saving-scheme-helps-those-on-low-incomes-and-should-continue/>

We note this was the recommendation of the NSW Department of Trade and Investment in their recent ESS Review Options Paper.

If the Victorian Government is unable to put in place programs outside VEET to achieve this policy objective, then a multiplier approach (low-income household activities create more VEECs than the same activity in a higher-income household) is a more effective measure than a low-income household sub-target.

*In addition to expanding the range of energy efficiency activities available in VEET, should any other action be taken to target participation by certain groups?*

The essential characteristic of a liquid market is that there is always likely to be ready and willing buyers and sellers, and that certificates can be sold rapidly with minimal loss of value at any time. As outlined in the consultation draft paper:

*..introducing a low income quota into VEET could significantly change the market, and is likely to mean that any given target would be achieved at a higher certificate price.*

As with the price impact of targeted households, further actions for additional target groups would simply multiply this effect, to the overall price detriment of consumers.

*Please suggest up to five activities that should be prioritised for revision or introduction to the VEET scheme.*

Access to new activities will be critical, particularly given the Government decision to extend and expand the scheme to 2020. As a starting point, we would support introducing the following activities:

1. Ceiling insulation: Ceiling insulation is one of the most effective ways households can save energy. NSW Government modelling estimates that a typical Sydney household can save around \$90-150 a year on electricity bills by installing insulation.<sup>2</sup> Ceiling insulation also has the potential to reach a greater proportion of qualified households on lower incomes without the need for a target priority group. According to the ABS in 2009<sup>3</sup>, 65% households with the lowest household annual income across Victoria had ceiling insulation, as opposed to 81% of households with the highest annual household income with ceiling insulation.

*Please suggest up to three changes which should be made to improve the VEET scheme.*

1. Set targets for multiple years in advance: As discussed above, we recommend targets are set on a five year basis, with large increases or decreases smoothed out so changes are more gradual to try and temper the “boom and bust” nature of the markets. This forward notice makes it a good scheme to manage from a liability risk perspective. Targets should also be set as a percentage of relevant acquisitions rather than in volumetric form
2. Clarity around exempt sites: Exemptions require a more transparent process than the current VEET process, which can be confusing and challenging for both retailers and customers to identify and confirm the relevant exempt load. The ERAA recommend adopting an exemption process similar to that used in NSW ESS. At a high level, the NSW process publishes the full address details of exempt sites prior to each compliance year that eases the administrative burden on retailers and customers.

---

<sup>2</sup> Unlocking Energy Savings in NSW: Enhancing the NSW Energy Savings Scheme Rule change consultation paper 2013

<sup>3</sup> <http://www.abs.gov.au/ausstats/abs@.nsf/Products/4602.2~Oct+2009~Chapter~Insulation>

3. Alignment with NSW ESS and SA REES: Additional alignment of scheme objectives and activities with these two schemes, along with accreditation requirements, would improve ease of compliance.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly  
CEO  
Energy Retailers Association of Australia