VICTORIAN ENERGY UPGRADES

Response to Consultation - Changes to Schedule 34 Lighting Upgrade

In September 2017, the Department of Environment, Land, Water and Planning (the department) invited stakeholder views on a proposed change to the number of certificates generated by certain types of lighting upgrades under Victorian Energy Upgrades.

Summary

- The level of incentive for certain types of commercial lighting will occur as planned
- Introduction of first stage delayed until 1 February 2018

Background

The proposed change to the Victorian Energy Upgrades lighting upgrade activity was to introduce discount factors for lighting upgrades of T8 or T12 linear fluorescent lamps and high intensity discharge lamps (metal halide, mercury vapour and high-pressure sodium lamps). These technologies were identified as being increasingly competitive with traditional lighting outside of the Victorian Energy Upgrades program.

The size of these discount factors is based on the proportion of lamps in any year that have a business case to be replaced by energy-efficient lighting technologies, that is the proportion that would be seeking a replacement product as part of business-as-usual.

The consultation period for these changes ran from 25 September to 1 November 2017, with the department releasing a consultation paper 'Proposed Changes to Schedule 34 Lighting Upgrade'. The department also hosted a consultation session on Friday 13 October 2017 as part of the Victorian Energy Upgrades Public Forum held by the Essential Services Commission (ESC), which was attended by around 120 people.

Eleven written submissions were received from peak bodies, Accredited Persons (APs), and Relevant Entities (REs). The Victorian Energy Upgrades policy team at the department would like to thank those who made a submission. Submissions not marked as confidential have been posted on the department's website:

https://www.energy.vic.gov.au/energy-efficiency/victorian-energy-upgrades.

What we heard from stakeholders

Timing of discount factor implementation

The discount factors were proposed to be introduced in two stages, with partial discount factors to be implemented for activities completed from 1 January 2018, and the full value of the discount factors to come into effect for activities completed from 1 April 2018.

The department proposed the implementation of the discount factors to come into effect from 1 January 2018 due to the significant volumes of Victorian Energy Efficiency Certificates (VEECs) currently being generated from lighting activities that only partially deliver greenhouse gas abatement additional to business-as-usual.

VEECs generated from energy efficiency upgrades that are supported by a business case without the VEEC incentive consume the annual greenhouse

Victorian Energy Upgrades

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gas abatement targets that drive the Victorian Energy Upgrades program, and risk the integrity and longevity of the program. These VEECs also suppress the value of VEECs, and limit the uptake of activities that do deliver additional abatement for the broader Victorian community.

After considering stakeholder feedback and recognising many APs operating under Victorian Energy Upgrades have a Christmas shut-down period, the department has decided to delay the implementation by one month. This means the partial discount factors will come into effect for activities completed from 1 February 2018 and the full discount factors will apply from 1 May 2018.

Application of discount factor to T8 and T12 fluorescent lamps

Three stakeholders suggested the discount factor should only apply to tube-for-tube replacements due to the higher cost and better customer outcomes of whole luminaire replacements.

Three stakeholders noted that the remaining pools of opportunity for linear fluorescent upgrades were in space types that receive a smaller VEEC incentive due to their shorter operating hours (compared to the industrial sites that have dominated Schedule 34 lighting upgrades), and that the discount factor would depress this market further.

Over 85% of T8 and T12 fluorescent lamps decommissioned as part of Victorian Energy Upgrades activities have been replaced with LED linear lamps fitted to the original luminaire. The discount factor will be implemented for T8 and T12 fluorescent lamps to target the majority of upgrades undertaken on these types of incumbent lamps.

The department recognises the application of the discount factor based on the incumbent lamp type means that it applies to both tube-for-tube retrofits (with and without modification to the pre-existing luminaire) and whole luminaire replacement. However, the *Victorian Energy Efficiency Target Regulations 2008* (VEET Regulations) do not distinguish between tube retrofits with modification to the luminaire and whole luminaire replacement. This is an issue the Victorian Energy Upgrades policy team is actively considering in its remaking of the VEET Regulations, which will be consulted on in early 2018.

As a market-based program, it is expected that the majority of upgrades undertaken early in the life of a prescribed activity will be those that generate the greatest number of VEECs for the lowest cost (to APs and REs). As the pools of opportunity in space types with longer operating hours diminish, it is expected that spaces with shorter operating hours will be targeted by APs for Schedule 34 lighting upgrades.

Application of discount factor to high intensity discharge lamps

There was broad support for the application of discount factors on lighting upgrades where the incumbent lamps were of the high intensity discharge type (metal halide, mercury vapour or high-pressure sodium lamps).

Minimum customer co-contributions for lighting upgrades

Five stakeholders supported the department's consideration of introducing of a minimum customer co-contribution, similar to that implemented by NSW for its Energy Savings Scheme. However, one stakeholder warned that while a minimum customer co-contribution could improve customer engagement, it could also have a negative impact on the uptake of Victorian Energy Upgrades activities.

As discussed in the 'Proposed Changes to Schedule 34 Lighting Upgrade' consultation paper, the department will be considering whether a minimum co-contribution for lighting upgrades will deliver quality outcomes and not preclude cost reductions for LED lighting being passed onto businesses.

Future regulatory changes

Stakeholders also noted that proposed changes increase volatility in the VEEC trading market. One of these stakeholders suggested a timetabled approach to future reviews to reduce uncertainty and business risk due to Victorian Energy Upgrades program changes, while the other suggested 12 months' notice should be applied to all regulatory changes.

The Victorian Energy Upgrades policy team at the department is currently in the process of remaking the VEET Regulations so that they will be in place

by mid-2018, well before the current regulations sunset (expire) in December 2018. Following this, the department will be considering how to implement a regular review process, and whether such a review process will be sufficiently flexible to react to market developments and disruptive transformations.

Outcome

The discount factors for lighting upgrades of T8 or T12 fluorescent lamps and high intensity discharge lamps (metal halide, mercury vapour and high pressure sodium lamps) presented in the 'Proposed Changes to Schedule 34 Lighting Upgrade' consultation paper will be implemented, although with changes to the implementation schedule.

The partial discount factors will be implemented for activities completed from 1 February 2018, and the full value of the discount factors will come into effect for activities completed from 1 May 2018.

Discount factor		
Incumbent technology	**Activities completed 1 Feb 2018 to 30 Apr 2018**	**Activities completed 1 May 2018 onwards**
T8 or T12 fluorescent	0.9	0.8
Metal halide	0.85	0.7
Mercury vapour	0.85	0.7
High pressure sodium	0.85	0.7

The discount factor will apply to upgrades undertaken after the discount factor is in place. An activity is defined to be undertaken on the day the lighting upgrade is completed as per Part C of Schedule 34 and the ESC's explanatory notes.

The discount factors for high intensity discharge lamps do not apply to upgrades of street lighting, outdoor lighting and other forms of non-building based lighting. This is in recognition of the high installation and compliance costs typically associated with these upgrades.