

VICTORIAN ENERGY UPGRADES

PROPOSED CHANGES TO SCHEDULE 34 LIGHTING UPGRADE

The Department of Environment, Land, Water and Planning would like your feedback about a proposed change to the number of certificates generated by certain types of lighting upgrades under Victorian Energy Upgrades.

Victorian Energy Upgrades

Victorian Energy Upgrades is designed to encourage the uptake of energy efficiency activities, reduce greenhouse gas emissions, encourage investment and jobs, and develop technology in Victoria.

The program works by placing a liability on certain energy retailers, where they must collectively meet an annual greenhouse gas (GHG) abatement target. Each tonne of GHG emissions abated by a Victorian Energy Upgrades activity generates one Victorian Energy Efficiency Certificate (VEEC). The VEECs are tradeable and must be surrendered by energy retailers to meet the collective annual target.

The cost of undertaking an energy efficiency activity under the program will depend on the cost of carrying out the activity, the number of VEECs generated and the value of those VEECs. As the VEECs are sold on a market, their value will fluctuate and this can affect the types of upgrades undertaken by Accredited Providers (APs).

By trading VEECs on a market, APs and energy retailers work to deliver the lowest cost energy efficiency upgrade activities to meet the program's GHG abatement target.

Additionality in the program

Under Section 15 of the *Victorian Energy Efficiency Target Act 2007* energy efficiency upgrades can be prescribed activities, and eligible to create certificates, provided the greenhouse gas reduction attributed to the activity would not otherwise have occurred.

The *Victorian Energy Efficiency Target Regulations 2008* (the Regulations) determine the greenhouse gas reduction attributed to a prescribed activity by subtracting the emissions associated with the upgrade activity from a baseline — the hypothetical emissions if the activity had never been undertaken.

Changes in circumstance, such as increasing energy costs and improvements to the quality and affordability of energy-efficient technologies, can drive energy efficiency activity – and may mean that projects would occur with no or little incentive offered under Victorian Energy Upgrades. The hypothetical baseline then needs to be adjusted to decrease the number of certificates generated from undertaking that activity.

Schedule 34 lighting upgrades

Schedule 34 lighting upgrades have accounted for 90 per cent of all VEECs created since May 2017. The strong uptake of commercial lighting upgrades has occurred due to the economies of scale delivered by Victorian Energy Upgrades, significant technology advances and falling costs for light-emitting diode (LED) lighting equipment, and the

rising electricity price.

Research by the department has found that when replacing T8 or T12 linear fluorescent lamps and high intensity discharge (HID) lamps nearing the end of their life, it is now more cost-effective to install energy-efficient LED lighting equipment than conventional lighting technologies in many circumstances. The simplified payback periods for these types of lighting upgrades typically range from 10 to 16 months without the incentive offered by Victorian Energy Upgrades.

Issues paper

On 1 August 2017, the department released a Commercial Lighting Issues Paper to discuss the preliminary findings of the commercial lighting review and validate its findings with stakeholders in the commercial lighting upgrade industry. Twenty-four stakeholders provided a written response to this consultation.

Twenty-two stakeholder responses to the Commercial Lighting Issues Paper acknowledged that the lighting market has transformed and changes were expected or required. Stakeholders also noted that the resulting oversupply of certificates impacted the delivery of other activities under Victorian Energy Upgrades.

Stakeholders were supportive of mechanisms to slow VEEC creations from commercial lighting upgrades with 12 responses directly calling for a discount factor to be applied.

Six stakeholders expressed concerns that the current level of incentive resulted in upgrades being free, which may result in businesses not engaging with suppliers and choosing the appropriate lighting product for their needs. Twelve stakeholders supported the introduction of a minimum customer co-contribution of \$5 per MWh saved, similar to that implemented by NSW for its Energy Savings Scheme (ESS).

The department will continue to work with stakeholders to ensure lighting upgrades deliver quality outcomes. Requiring a minimum co-contribution for lighting upgrades will require further analysis to ensure any regulations put in place do not preclude cost reductions for LED lighting being passed on to businesses.

Proposed changes

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) have been proposed to account for the proportion of lamps that have a business case to be replaced by energy-efficient lighting technologies.

Stakeholder responses to the issues paper described the impact of single activity dominance under Victorian Energy Upgrades on the costs they incur to retain staff and contractors during periods of transition. These responses, along with those discussing how APs have hedged certificates in forward contracts, the two-stage implementation of the discount factors. It is proposed that attenuated discount factors will be implemented from 1 January 2018, and the full value of the discount factors will come into effect from 1 April 2018.

Incumbent technology	Discount factor 1 Jan 2018 to 31 Mar 2018	Discount factor 1 Apr 2018 onwards
T8 or T12 linear 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 factors for high intensity discharge lamps would 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.

Question

Do you have any comments on these proposals?

Next steps

Consultation day

There will be a public consultation day for interested parties on 13 October 2017.

Please contact the department via email at energy.upgrades@delwp.vic.gov.au for further details if you would like to attend.

How to provide your comments

Responses should clearly state the issue and can be provided either by email or by post.

Submitting by email

Submissions may be emailed to:

energy.upgrades@delwp.vic.gov.au.

Please use the subject: *Schedule 34 Discount Factor*

Submitting by post

Alternatively, responses may be provided in writing to:

Victorian Energy Upgrades

Energy Policy and Programs

Department of Environment, Land, Water and Planning

GPO Box 4509

Melbourne VIC 3001.

Closing date for submissions

Submissions must be received in writing by 5pm 1 November 2017.

Confidentiality

Submissions may be published on the website. Please indicate if the submission, or sections within the submission, is confidential or contains sensitive information that is not for publication.