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| Victorian Energy Efficiency Target Scheme |
| Response to Consultation  Measurement & Verification Method |

The Department of Environment, Land, Water and Planning (the department) invited stakeholder views on a proposed new project-based activity for the Victorian Energy Efficiency Target (VEET) scheme, the Measurement and Verification (M&V) method.

The proposal comprised changes and additions to the VEET Regulations 2008 to support the introduction of the M&V method and a new Schedule to the Regulations that defined the criteria, definitions and calculation steps.

The consultation period ran from 15 June to 22 July 2016. As part of this, the department released a consultation paper, ‘New Project Based Activity method: Measurement and Verification’. The department hosted a public consultation day on Wednesday 15 June 2016 at the Melbourne Convention and Exhibition Centre which was attended by around 250 people. The department also met with individual businesses and peak bodies on request during the consultation period.

Thirteen written submissions were received from industry associations, energy networks, energy consumers and energy efficiency service providers. The department would like to thank those who made a submission.

Submissions not marked as confidential will be posted on the department’s website: [delwp.vic.gov.au/energy/legislation/energy-saver-incentive](file:///\\Internal.vic.gov.au\GroupData\Energy\Energy\EPP\Energy%20Policy\ENERGY%20POLICY%20FILE%20SYSTEM\VEET\13_scheme%20policy%20strengthen\Consultation%20-%20June%202016\Consultation%20summaries%20and%20responses\delwp.vic.gov.au\energy\legislation\energy-saver-incentive).

The final written form of the method is structurally different from the consultation draft. Most significantly, it is contained in a new set of Regulations (the VEET (Project-Based Activities) Regulations 2017) and a new document, M&V in the VEET Scheme – Methods and Variables.

Nonetheless, stakeholder feedback on the content of the method remained relevant and has influenced policy development, resulting in a more flexible method with greater applicability for Victorian businesses. This document details that feedback, how it has shaped the method and provides additional background.

## Including the M&V method in the VEET scheme

Submissions supported the introduction of the M&V method into the scheme and noted that, in addition to the incentives the method would provide, it would help businesses to better understand their facilities and the benefits of investing in energy efficiency.

The M&V method has been prioritised over two other project-based activities, Benchmark Rating and Treatment and Control, that were proposed at the same time.

## Improving the business case for participation

Submissions provided feedback on the balance between cost of participation, potential incentives and scheme rigour, noting the follow key points:

* The need to adopt a streamlined and risk-based approach to administration, compliance and assessment
* Instituting ongoing reviews of the method to identify opportunities to reduce hurdles to participation
* Close collaboration between the department and the Essential Services Commission (ESC)

The department and the ESC have taken a collaborative approach to developing the M&V method and have identified several opportunities to provide flexibility, including:

* Avoiding, where possible, rigid requirements in the Regulations (e.g. *x* provided by *y* date) that would limit the ability of the ESC to streamline processes
* Facilitating the ESC’s risk-based approach, which balances scheme risk and regulatory activities

Recognising that the M&V method is a significant change for the scheme, the department will convene a stakeholder reference panel to review the operation of the method in practice and to identify opportunities for improvement and uptake. In addition, the department will review the method after sufficient projects have been completed and as part of this seek broad stakeholder feedback for improvement.

## Eligibility of projects

There are several ways in which the Regulations define whether a project is eligible. Submissions raised a number of points relating to eligibility, which will be responded to in turn as follows.

### Prescribed greenhouse gas schemes and double-counting

The VEET scheme prohibits participants from claiming incentives from both VEET and another prescribed greenhouse gas scheme such as the Renewable Energy Target (RET). The exception is small-scale technology certificates (STCs) for solar water heaters under the RET and VEET Schedules 1 to 4.

Stakeholders had mixed views on this issue, with some supporting the status quo, and others preferring that this exception is removed.

The department has constrained the exception to Schedule 1 to 4 activities. M&V projects using solar water heating cannot claim both.

### Ongoing improvement versus one-off upgrades

Some submissions said that the method should allow ongoing programs of upgrade and improvement, not just one-off projects.

Greater flexibility has been incorporated into the method. The project plan may be varied, allowing for projects to be carried out over an extended period of time. The only restrictions on varying a project plan are that the project description has not substantially changed, the scope of services and energy sources affected are not expanded, and it is at the same site. The baseline energy model must also remain valid.

For example, under the same project plan a project could upgrade a single motor to pilot the M&V calculation and certificate creation process, followed by similar upgrades to other motors.

### Multi-site projects

Submissions stated that the method should allow multi-site projects to reduce costs and be inclusive of smaller projects.

The Regulations do not allow for projects over more than one site. This is because, within the legal framework of the VEET scheme, the legislative complexity of a multi-site approach for the M&V method was excessive. In addition, the M&V method is likely to be onerous for smaller upgrades.

The method does allow a single-site sampling approach that could be used to reduce the measurement burden for projects involving multiple similar upgrades.

The department is of the view that efficiencies for multi-site projects can be largely achieved at the administrative level. Futhermore, smaller upgrades over multiple sites may be better served by a dedicated method that achieves a better match between rigour and incentives. The department will consider options for future methods.

### Timing of the project plan

Several submissions expressed concern that the process of applying to register a project will cause bottlenecks.

The process has been revised following legal review, and is now configured as follows:

* The application process has been split into two steps: scoping approval and project plan approval
* Scoping approval is largely a confirmation of eligibility and does not require any M&V planning to have been carried out
* An application for scoping approval must be approved by the ESC prior to works commencing on site. This is to satisfy section 15 of the Act, which deals with additionality
* Project plan approval involves more detail, including an M&V plan for the project and information that will inform the ESC’s risk-based approach to regulation. However, it does not require further M&V to be carried out
* An application for project plan approval must be received (not necessarily approved) prior to the time that all changes to be implemented as part of the project, including commissioning, are capable of commencing

## Public register of projects

The draft proposed a public register of projects for which project plans have been approved. The purpose of such a register is to assist APs in managing potential overlapping projects and double counting of VEECs.

Stakeholders were broadly supportive of a public register of M&V projects as it would promote VEEC market transparency and be useful to consumers and APs. Stakeholders felt that public information should be limited to that required to identify overlap, and that responsibility to manage risks should be left with APs.

The Regulations give the ESC the power to publish a register of approved project plans which may include the name of the project and AP, the project location and the method used. This is unchanged from the consultation draft except for the project name. The process provides a safeguard against the listing of speculative or ‘placeholder’-type projects.

## Product requirements

Two product requirements were proposed in the consultation draft:

* A requirement for new products to be on the ESC register, if products of that size and type are listed on the ESC register
* A requirement to decommission products, if products of that type must be decommissioned on other schedules

Submissions stated that, while most support the policy intent of consistency in products and decommissioning, it is likely that these requirements would create unintended barriers to participation. Specifically, the use of the ESC register may preclude or complicate the use of unregulated or custom products, and the decommissioning rules may not translate well to all contexts.

The department has amended these aspects to apply only to lighting equipment installed or removed as part of a project. This ensures consistency with current scheme requirements for lighting installations, while retaining flexibility for other technologies.

## Mechanics of the method

Several stakeholders provided detailed feedback on the inner workings of the method, summarised as follows.

### Use of other energy sources

Discussions with stakeholders during the consultation period made clear that potential M&V projects may include transition away from electricity and gas towards renewable energy sources.

In response, new sections have been added to explicitly allow renewable energy generation to be included as part of a project. The method defines renewable energy as an energy source that is not fossil fuel, derived from fossil fuel or biomass from native forests.

Any renewable generation must be accounted for within the measurement boundary, which means that energy may not be exported. This is to ensure that the VEET scheme only credits genuine fuel switching and that it does not interact with other renewable energy policies.

An M&V project cannot claim both VEECs and RET incentives.

### Measuring the baseline after implementation

The proposal included an option to take baseline measurements after implementation, providing it is possible to temporarily disable the effects of the project.

Stakeholders were supportive of this inclusion as it provides practical flexibility.

### Moderating the impact of effective range

Stakeholders made suggestions for moderating the impact of the effective range on incentives, specifically:

* ‘Counted savings’ from certificates created using other methods in the VEET scheme should be adjusted pro rata to the time intervals lost due to the effective range
* The relative precision should be calculated prior to applying the effective range

The first of these suggestions has been adopted in the Regulations. In addition, it has been made possible to adjust the counted savings for the number of years that they coincide with the remaining eligible annual reporting periods.

The relative precision is to be calculated after applying the effective range. Savings are calculated based on eligible time intervals, and therefore ineligible time intervals cannot contribute to the precision of the model. This aligns with the approach used in the New South Wales (NSW) Energy Savings Scheme (ESS) and rewards projects that create more accurate models.

### Clarifications and technical issues

A number of stakeholders requested clarification on some points.

These points have been noted and will be considered when developing industry support materials. The points and the department’s response are listed below:

* The definition of the implementation start time has been clarified to state that commissioning and testing are part of the implementation process
* Additional definition has been provided at Equation 1 to clarify ‘counted savings’
* The Low Carbon Australia (LCA) persistence factor model is not explicitly noted in the method for legal drafting reasons; however, the method provides for it to be used
* The implication of the timing of when an activity is deemed to have been carried out, and when the greenhouse gas reduction has occurred, is that APs will have at least 12 and at most 24 months after the end of the operating or reporting period in which to complete the calculation and other requirements of the ESC. The amount of time depends on the date on which the relevant period ended
* The method allows regression models to be derived via complex computer algorithms provided the method can be followed correctly
* The 5% allowance for the effective range has been reworded to clarify that the 5% applies to the difference between the maximum and minimum values of the effective range
* All models require one or more site constants. A site constant is a parameter that would affect the energy use of the project but is not expected to change under normal conditions.

## Alignment with other energy efficiency schemes

The M&V method is based on, and closely aligned to, the Project Impact Assessment with Measurement and Verification (PIAM&V) method from the NSW ESS.

Stakeholders expressed strong support for alignment between the VEET scheme and the ESS, and stated that differences should only be included if they improve flexibility and economic feasibility.

The following inclusions are points of difference that aim to improve flexibility and feasibility:

* Measuring the baseline after implementation
* Use of other energy sources
* Moderating the impact of effective range

Other options remain excluded but may be reviewed by the department in future:

* Multi-site projects and multi-site sampling
* Use of simulated baselines, as per IPMVP Option D

The M&V method is also different to PIAM&V in terms of accounting for annual savings and top up, as described below. These settings manage potential over-crediting of projects.

* Negative savings must be reported in order to continue annual creation of certificates
* Top-up certificate creation can only occur after the cumulative energy savings exceed the number of certificates that have been forward created

The department also notes that the ESC’s auditing model is different to that used in the NSW ESS.

## Assessors (M&V professionals)

The independence and competency requirements of M&V professionals who assess projects was clearly identified as an important part of the operation of the M&V method.

Submissions had mixed views on their independence, some recommending they be external to APs and others preferring to use internal expertise. There was a strong preference among stakeholders to align the competency requirements for M&V professionals with those for the NSW ESS.

The ESC, as the independent regulator, is responsible for approving M&V professionals for the VEET scheme. The only requirement imposed by the Regulations is that an approved M&V professional must hold Certified Measurement and Verification Professional (CMVP) accreditation from the Association of Energy Engineers. Other requirements will be defined by the ESC.

The department will continue to work with the ESC, the policy and regulatory arms of the NSW ESS and key stakeholder groups to promote alignment.

## Industry support

Stakeholders noted that there is a need to support the development of industry capacity in carrying out the method, and in M&V more generally.

The department will investigate means of industry support and capacity building to promote the take-up and understanding of the M&V method.

The stakeholder engagement panel for M&V, and other key stakeholders, will be consulted as part of this.

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