



Victorian Energy Efficiency Trading Scheme Submissions
Department of Primary Industries
Via: veet.submissions@dpi.vic.gov.au

Dear Mr James Golden,

Thank you for the opportunity to provide a submission on the proposed Victorian Energy Efficiency Target Regulations. The Clean Energy Council (CEC) is the peak body representing the clean energy industry. The CEC is a member-based industry association representing businesses ready to innovate, invest and act to safely and reliably meet Australia's energy needs while lowering greenhouse emissions. Our member organisations cover a quarter of Australia's total electricity production and are involved in renewable energy, gas, energy efficiency, distributed energy and greenhouse abatement markets.

The Victorian Government is to be congratulated in recognising that an Emissions Trading Scheme alone will not drive major investment in end-use energy efficiency and the importance of capturing energy efficiency opportunities in the hard to access retrofit market. The elegance of energy efficiency is that, not only will householders retain an ongoing private benefit of lower energy costs due to reducing energy waste, but that there is a significant public benefit in improved productivity and avoided infrastructure investment.

The CEC congratulates the Victorian Government's leadership in this complex policy area and on its undertakings to address the failure of the energy market to deliver cost-effective energy efficiency activities. It is essential that the potential of energy efficiency is realised not only as a frontline greenhouse gas abatement action through cost-effective greenhouse gas abatement, but also to enhance the productivity benefits to the economy through the improved utilisation of energy infrastructure.

The CEC advocates an aggressive push on energy efficiency, a permanent shift to renewable energy, an investment environment for innovative / clean technologies and to engage the community to promote behavioural change. If you have any points of clarification in the submission, I can be contacted via phone (03) 9929 4100 or email Vikki.McLeod@cleanenergycouncil.org.au

Yours sincerely

Vikki McLeod
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Clean Energy Council
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Market Efficiency and Integrity

The Clean Energy Council would argue achieving the objects¹ of the Act and the Scheme is dependent on ensuring an efficient and effective market and administration of the scheme. The measurement and verification of the energy efficiency activities would need to be a balance of cost-effective administration, minimal cost impacts on retailers as liable parties and result in a high level of market confidence.

Success will also be defined by the liquidity of the market, industry capacity and the implementation of actions resulting in greenhouse savings.

The Clean Energy Council argues there is a danger of limited market liquidity through narrow sectoral coverage / participation and this will result in a limited number of certificate creators with upstream effects of reduced competition between certificate creators and delays in project rollout and certificate volume.

There may be a boom bust risk where creators are likely to have bilateral contracts with retailers and will fulfil these contracts in the initial year and then activity will decline until Phase 2 targets have been released (post 2011). A way of addressing this continuity and investment uncertainty is to learn from the UK experience of the Energy Efficiency Obligation now the Carbon Emission Reduction Target (CERT) and allow banking of certificates. This communicates commitment to the scheme and will result in improved investment certainty and therefore result in industry capacity building.

The UK CERT also has a category referred to as “uplift” which rewards product innovation through premium award of EE certificates – similarly this is a feature the CEC would like to see included in VEET for industry capacity building.

Dynamics affecting certificate creator competition are critical to the success of VEET and also industry capacity building, a criteria for measuring success will be the economies of scale, product costs and project profit margin as a proportion of VEEC prices. This especially relevant to small VEEC volume, high overhead cost activities where profiteering is made possible due to low consumer awareness.

Transparency

The Clean Energy Council defines the principles and procedures for measurement and verification as:

- Having an emphasis on quality control;
- Applied only to activities which are related to a physical energy saving;
- Define the point of eligibility or measurement at the site or facility level;
- Outline the documentary evidence and reporting requirements;
- Build on the International Performance Measurement and Verification Protocol (IPMVP)². Which includes the 2 dimensions of (1) Energy savings determination technique using available data of suitable quality; (2) Disclosure of data and analysis enabling one party to perform saving determinations while verified by another party.

¹ The objects of this Act are to— (a) reduce greenhouse gas emissions; (b) encourage the efficient use of electricity and gas; (c) encourage investment, employment and technology development in industries that supply goods and services which reduce the use of electricity and gas by consumers.

² Refer to appendix C for more information and www.ipmvp.org for a copy of the Protocol.

The approach taken in commencing with a quality set of energy efficiency actions and methodology to calculate the benefit is supported. However given the presentation of the calculations within the RIS are not easy to follow and some of the assumptions behind the methodologies are not disclosed, it is difficult to review these calculations.

There are some questions and reservations of the use of Sales Weighted Average (SWA) being used as the baseline for the VEEC benefit (eg with space heating, refrigerators and water heating) which is in conflict with providing an incentive for early replacement of poor performing appliances which are known to be in the existing building stock. This conservative approach results in a disincentive to the objective of the act which would be to provide an incentive to replace the worst performers. To be explicit on this point, if the SWA of a space heater is 4 star and we know the building stock is likely to be 2 star – there is little incentive to replace with 5 star from 4 star but enhance incentive if VEECs are calculated on the replacement of 2 star appliances.

The Clean Energy Council calls for full disclosure and transparency of calculations / assumptions and a baseline of the current appliance stock rather than SWA. There also needs to be a pragmatic process to allow for review and regulatory changes in the event of errors being found.

For the purposes of monitoring, verification and evaluation as well as informing investment decisions – the level and scope of EE activities undertaken should be reported annually by the Regulator. The registry should also allow a high level of transparency and support thorough interrogation.

Expanding Eligible Activities and Coverage

It is understood the Residential sector has been separated out for historical policy purposes, however the inclusion of the commercial and industrial sector has compelling benefits – improved liquidity of the market, energy services industry capacity building, complement and reduce regulatory burden on large scale energy and water users etc.

Energy efficiency opportunities and therefore eligible participation should be allowed from all end-use energy consumers, such as the commercial, industrial, residential, government and utility sectors.

The Clean Energy Council would therefore like to see the scheme coverage and participation expanded to all sectors – residential, commercial and industrial.

The expansion into the commercial and industrial sector could be achieved cost effectively through the adoption of assessment methodologies that build on existing methodologies such as the International Performance Measurement and Verification Protocol (IPMVP) and stream between three (3) methodologies: deeming, accredited performance and project verification.

Similarly a process for inclusion of additional eligible energy efficiency activities needs to be prioritised to allow inclusion of broader technologies and to support innovation and industry capacity building.

Consumer Protection and Industry Standards

Intermediary parties such as Energy Service Companies (ESCO's) are key players in the success of VEET as they will be influencers through information, credible advice, expertise to end-users and a direct channel to product distribution and installation supply chain. It is therefore implied ESCOs will have implementation, auditing and compliance expertise.

The Clean Energy Council is keen for consumer protection to be a priority through a formalisation of industry standards or the like. As a minimum an ESCO must be trained and accredited in auditing and compliance procedures. The Clean Energy Council as an industry body already working in the role of accreditation and consumer protection would be in a position to undertake this role. A well developed scheme of ESCO accreditation and Best Practice Guides to implementation has already been established by CEC affiliate the Australasian Energy Performance Contracting Alliance ("AEPCA").

National Consistency and Integration with other State based Energy Efficiency Trading Schemes

Electricity and gas retailers are working in a National market and will be required to be working within the energy efficiency target and schemes initiated not only by Victoria but NSW and SA as well. The CEC is concerned with the significant design variations between each of the state-based energy efficiency schemes.

There are costs, measured through time, resources and risks, associated with inconsistencies between the state schemes. It is a less than ideal outcome for national-based organisations to be required to conform to three different schemes with three significant design and coverage variations and the result will be three small and non-fungible state based markets with no liquidity between them. The benefits of a trading scheme will only be realised if a single functioning market exists.

It is recognised that State variation would be inevitable due to differing energy efficiency opportunities and potential level of investment as a result of historical policy decisions around building regulations, diversification of industry, weather effects etc.

The Clean Energy Council calls for national consistency of these schemes where consistency is in the form of:

- Rules.
- Coverage to include commercial, industrial and residential sectors.
- Eligible activities and methodologies.
- Tradeable.

The CEC requests the Victorian Govt be proactive in this objective and to work with other states to align their schemes with VEET and vice versa.

Relationship of VEET with the Carbon Pollution Reduction Scheme

The treatment of energy efficiency is yet to be determined in the context of a national ETS. If included as an eligible action for abatement or offset, it is anticipated the cost effectiveness and the potential of EE opportunities would increase.

At such time, when a national emissions trading scheme is introduced, it would be necessary to separate the benefit of end-use energy efficiency accruing to the upstream emitter and resulting in double counting or free riding. A test of who invests in the EE activity and who accrues the benefit is the guide.

The delivery of the project based energy savings will either be progressed by energy service companies or by the retailers directly. In reality the administration, search, transaction and capital costs will be passed on the customer.

The cost impact of the VEET Scheme will be a combination of the cost of administration of the scheme, the upfront cost of energy efficiency action, transaction costs and the cost savings due to ongoing energy savings. The certificate price would ultimately be established by the market but would need to be sufficient to stimulate the investments in energy efficiency else the targets will not be met.

A stated objective under VEET is to provide low cost abatement under the CPRS, this objective may not be served, if energy efficiency actions are greater than \$26/T and it is anticipated a carbon price will be below \$26/t in the initial period of the CPRS. By contrast if it is accepted that EE opportunities are available at negative costs that is at a profit to society, even a quite high VEEC price would simply reduce the social benefits, but could well still be least cost abatement.

In any case adjustment of the CPRS cap to reflect the energy efficiency benefit due to the VEET is desirable and ownership of the greenhouse abatement needs legal clarification.

Integration with Infrastructure Investment

It is important to recognise that a key part of the value of energy savings derives from the reduced need to invest in new generation and network infrastructure. However, investment in this infrastructure is primarily driven by peak demand rather than overall energy use. Energy efficiency activities that contribute to reducing peak demand will therefore deliver greater benefits to consumers and to the Victorian economy than energy savings at other times.

There is an inherent conflict within VEET by the encouragement of the installation of split system air conditioners as a form of heating in homes that previously did not have air conditioning. This will lead to increased peak loads in summer with implications for security of electricity supply, wholesale electricity prices and network augmentation pressures and expenditure.

To maximise the benefits of the VEET, it is essential that it be administered together with management of peak demand and elimination of perverse outcomes.

The Clean Energy Council calls for the Victorian Government to actively encourage network businesses to engage in energy efficiency measures. This should be done with a view to extending energy savings obligations to the distributors if adequate progress on supporting energy efficiency is not evident.

This could also be achieved through deeming formulas or a premium given to measure's capacity to reduce peak demand. The Clean Energy Council would argue while this would broaden the scope of the VEET, the Victorian government has this mandate to include and would be justified in the formalisation of the linkages between EE and network infrastructure.

Creation and Registration of Certificates and Compliance

The Clean Energy Council supports the level of resourcing and staffing within the ESC for the administration of the scheme. Compliance of measures within the VEET scheme is integral to the success of the scheme therefore as much administrative support resulting in reduced costs and ease of administration and compliance is strongly recommended.

With respect to evidence and records to be kept by the certificate creator and assignees, the guidelines need to be more specific in use of the term 'benefit'. Clarification is needed if 'benefit' refers to the discount/ financial benefit VEECs provide to the consumer or if this is the number of VEECs allocated to the activity.

Water Heaters

Water heaters are likely to be an activity with high uptake with in VEET. However recognising there is a trend for householders to replace water systems with the same type of system. That is if the householder has an electric system it will be replaced with an electric system, even though a SWH or heat pump where a SWH is not appropriate is a better solution. The propensity to replace like with like suggests additional policy around greenhouse intensity of HWS or complementary program in the form of information and awareness at the point of sale or amongst the supply, distribution and installation chain is required.

Influencing the decision making at the point of sale is critical. This influence could be in the form of cash discount or doing the right thing. The cash discount will be the value of the VEECs. As been the experience with RET the risk at the point of sale discount will be the complexity of the documentation and claims processes, and the willingness and capacity of the supply chain (plumbers, builders, retailers) to complete and process the relevant documents.

Rheem make the following recommendations to help reduce these potential administrative barriers At the Point of Sale and with Processing Claims

- No additional data should be required on a VEET certificate claim form to that already appearing on a REC claim form, apart from specific information on the unit being replaced and the number of VEET certificates claimed.
- If this first suggestion can be developed, a second stage would be the creation of a common claim form, shared with MRET. This would reduce administration considerably. Once a common claim is developed, a common claim point for both REC's and VEET certificates would be the next logical step.
- We would recommend the scheme give authorised entities the ability to undertake electronic lodgement and approval of VEET Certificate claims, as per the MRET REC model.
- We would recommend the scheme give authorised entities the ability to download the Sustainability Victoria Certificate calculation information into individual processing systems to allow those entities to identify claim errors prior to the submission of claims.
- We would recommend the Sustainability Victoria Certificate calculation model be driven by clear numerical factors e.g. a postcode would be much more desirable than a location name etc.

The Clean Energy Council has reservations about the installation of a solar pre-heater on a storage water heater on the grounds of high losses due to lack of tank insulation and the likelihood of prolonging the life of the electric HW system.

Solar Water Heaters and RET

It is understood the NSW EET is intending to exclude Solar Water Heaters (SWH) from participation in the NSW EET on the basis SWH are included in the Australian Government's Renewable Energy Target. Since the 2004 amendments to RET, SWH

can create RECS for new installations as well as replacement of gas and electric hot water systems.

The energy efficiency benefits accrued through the replacement of inefficient systems with more efficient systems is rightly recognised through participation in VEET and currently not rewarded by the RET scheme. However, the Clean Energy Council would be concerned if the Victorian Government was to argue for the exclusion of SWH from RET. Participation of SWH will prove crucial technology in the achievement of the RE target mainly due to industrial, network and planning constraints which will be a risk factor to the delivery of a number of large RE projects.

Insulation

The Clean Energy Council would like to see the immediate inclusion of cavity wall insulation, rockwool and wool insulation in the Regulations.

Cavity wall insulation is a prime example of an action which would result in cost effective energy efficiency and abatement outcomes as well as supporting Victorian manufacturing capacity.

Windows, Doors and Glazing

The regulations are silent on product and installation standards. The Clean Energy Council would recommend the inclusion or at least an increased reliance on *Window Energy Rating* labeling as both a consumer protection and product standard.

Eligible activities should recognize the difference between the replacement of windows and the replacement of glazing. It appears to only recognize the replacement of windows, whereas, particularly with timber windows, it may be sufficient and cheaper, to replace the glazing.

Scheme Administration

To maintain the integrity of the market and maximise participation in the scheme, a number of guiding principles for the administration of eligible energy efficiency activities are required. The Clean Energy Council would summarise these as:

- Rules are clear, well defined and easily implemented to promote investor confidence.
- Rules are reasonable in their administration and application.
- Rules for measurement and verification, promote and maintain the integrity of the market.
- The volume of data to be collected and the regularity of this data collection and analysis is defined.
- The function of complexity and accuracy of variables and the duration and accuracy of the measurement is defined.
- Reasonable auditing, search and transaction costs associated with compliance with the scheme.

There appears to be a policy and administrative commitment to these principles but there must be a process for remedial action if administration fails on these points as there must be clear dispute resolution process.