

# Victorian Energy Upgrades Review

## Terms of Reference

## Victorian Energy Upgrades Review

### Terms of Reference

#### 1. Background

Since the Victorian Energy Upgrades program commenced in 2009, the program has been successful in delivering low or no cost activities to support lower energy consumption and greenhouse gas emissions, with these opportunities now being largely exhausted. More than 2.4 million Victorian households and 170,000 businesses have benefited from the program reducing their energy usage and bills and more than 80 million tonnes of carbon emissions have been abated through the program. VEU's success is demonstrated by its yearly achievement of meeting program targets; achieving emission saving targets, lowering overall energy demand in Victoria, and keeping downward pressure on wholesale electricity prices. Historically bill savings have more than offset the cost of the VEU program passed through to customer bills.

More recently the Victorian Government has committed to achieving net zero emissions by 2045 and renewable energy targets of 65% by 2030 and 95% by 2035. The VEU program will be instrumental in supporting Victoria to achieve these targets. Achieving these targets will require fundamental changes to Victoria's energy system – both through new renewable generation but also electrifying households and businesses and improving energy efficiency. Gas in Victoria was historically a source of cheap and abundant energy – this is no longer the case. This is being driven by falling supply from Bass Strait combined with tighter links between domestic prices and global gas markets, as private companies continue exporting Australian gas overseas. These elevated prices highlight the bill savings available to Victorian households and businesses from going all-electric. Fossil gas had historically been a lower emissions energy source than electricity, which was once overwhelmingly generated by brown coal. Reducing fossil gas consumption is critical to achieving Victoria's world-leading emission reduction targets. The Victorian Government supports electrification as the most cost-effective decarbonisation pathway for most of Victoria's gas use – as outlined in the Gas Substitution Roadmap.

The VEU program has an opportunity to drive the electrification of households and businesses at scale to support achievement of these targets and objectives. A historical reliance on high volume low or no cost and lower complexity installations to drive program activity needs to support Victorian households and businesses in transitioning away from gas powered appliances to electric. Space heating, water heating and other energy efficient electrical appliances involve more sophisticated installations – with lower volume, higher skills and qualifications, higher cost and in some cases higher risk but greater benefits.

To achieve this, the Victorian Government has announced a Strategic Review of the VEU program to ensure it is fit for purpose for the future. The review will be focused on key enablers of electrification at scale and energy transition including whether the program's current objectives, design and operation require adjustment to modernise the scheme to effectively deliver on Victorian Government energy policy – ensuring it is agile and streamlined.

The review will consider whether the Essential Service Commission (ESC) as the program regulator and administrator has the necessary regulatory tools and capability to oversee the scheme and the integrity of the market for Victorian Energy Efficiency Certificates. This will include considering the right settings to ensure quality, safety and consumer protections, including the right balance of incentives for responsible businesses operating under the scheme and consequences for those who are not doing the right thing. The review will consider the right balance of supports and responsibilities of all participants in the scheme to ensure the scheme is adapting to a dynamic and transforming energy sector.

## 2. Objectives (purpose) of the Review

With these significant opportunities, the VEU program will play a key role in supporting the Victorian Government's climate and energy ambitions. The review will examine the changes needed to strengthen the program to ensure it can support households and businesses to reduce energy use through energy efficiency and reduce gas usage through facilitating and accelerating electrification. This will include understanding the current barriers for households and businesses to reduce their energy consumption and the role for government to support this, via the VEU program.

The current primary objectives of the *Victorian Energy Efficiency Target Act 2007 (VEET Act)*<sup>1</sup> are to:

- reduce greenhouse gas emissions
- encourage the efficient use of electricity and gas
- encourage investment, employment and technology development in industries that supply goods and services which reduce the use of electricity and gas by consumers.

Given the Victorian Government's strong commitment to renewable energy and emissions reduction targets, the review will consider whether these objectives are still appropriate or require adjustment for the future and will consider whether electrification and the Government's agenda on the energy transition require the objectives to better reflect these into the future.

The review will also consider program, policy and legislative or regulatory changes as required to deliver on the scheme's objectives, strengthen the performance of the program and ensure it can continue to support Victorians to reduce their energy costs.

The review will consider adjustments that would improve the efficiency and effectiveness of the scheme and options for improving equity and accessibility for Victorians to participate in the scheme and benefit from its incentives.

The review will strengthen the scheme, delivering electrification and energy efficiency at scale through a sustainable energy efficiency industry, positive consumer engagement and increased flexibility amid a dynamic energy transition.

## 3. Outcomes and outputs

As part of the review, public consultation will be encouraged on specific topics. Topics will include the program's objectives within the context of the Victoria's changing energy market and the Government's ambitious energy and climate commitments; the right metrics for the scheme including Victorian Energy Efficiency Certificates, targets, market and scheme integrity, the role of different program participants (including Accredited Providers, obligated entities, certificate traders, aggregators, retailers, installers and their agents), activities and products. Research and analysis will be undertaken, including consideration of similar programs in other jurisdictions to identify best practice; and options for boosting the scheme and ensuring it is fit for the future.

---

<sup>1</sup> [Victorian Energy Efficiency Target Act 2007 \(legislation.vic.gov.au\)](https://legislation.vic.gov.au)

A Stakeholder Reference Group will support the review. Opportunities for strong stakeholder engagement from the diversity of scheme participants will be included in the review's stakeholder and communications approach.

Extensive stakeholder feedback and analysis will inform findings and recommendations for any changes to the program to be submitted to the Government with relevant implementation plans as required.

Interim findings and recommendations will be integrated into and inform the parallel work program of DEECA on the current settings of the scheme.

#### 4. Scope

##### **a. Program purpose and objectives**

The future purpose and direction of the program will be considered as the most fundamental part of the review, with any consequential changes to the VEET Act forming part of recommended changes.

The key questions to be answered will include how the VEU program can support the Government's electrification and emission reduction objectives, and how might the program purpose, objectives and delivery model need to be updated to achieve this.

##### **b. Victorian Energy Efficiency Certificates (VEECs)**

VEECs are the backbone of the program and the current metric, one tonne of GHG saved, will need to be considered in the context of the Government's climate change and energy transition commitments to ensure it is compatible with the updated program purpose and objectives recommended from the review. This will include reviewing other state's certificate schemes to understand best practice. The review will also ensure that if any changes are proposed, there is a "grandfathering" process to ensure that current certificates can transfer into any new certificates.

The review will consider the current structure surrounding liability, creation and surrender of certificates, and how these compare to other schemes. The review will identify best practice in embedding flexibility in certificate markets to allow liable entities to have a range of options in determining how to meet their liabilities. This will ensure the scheme is streamlined, agile and enabling innovation in a dynamic market.

##### **c. VEU program targets**

The program has five-yearly targets that outline the number of VEECs that must be created and surrendered each year. Any recommended change to the VEU program objectives and VEECs metric will influence these targets.

The review will consider the appropriate target levels to reflect any changes to the program, considering how this will support the Government's emission reduction and energy savings goals.

##### **d. Program activities and eligible products**

Under the program, VEECs can be created only through eligible activities, using eligible products. To ensure confidence in the program and the market for VEECs, the review will consider options to ensure good quality and standards of products eligible under the program, and consider what type of activities should be eligible under the program.

This will include considering the types of future activities that should be added to the program, whether types of activities (ie low cost/value) should be removed, and what system changes are needed to improve the quality of eligible products.

Further, analysis of program activities and eligible products will consider ways of boosting access by both households and businesses, and further examine where the greatest opportunity lies to support Government's broader emissions and renewable energy targets. This will include options for promoting awareness of and participation in the program.

The review will consider the role of project-based activities and how these can be streamlined to be a more efficient and effective option for participants in the scheme.

#### **e. Accredited providers (APs)**

APs interact with the program in multiple ways and are ultimately accountable for the customer interaction and experience with the program. To date, the market-based nature of the program has allowed Accredited Providers to choose the value of the incentives they pass through to consumers, and develop and offer their own products, which can impact consumer choice and visibility. The review will consider inherent design principles including consumer protection and transparency in relation to the nature of Accredited Provider participation and benefits under the program.

Further, the review will consider the program's accessibility for prospective accredited providers, barriers to entry, and opportunities to ensure the program is able to incentivise and recognise accredited providers that demonstrate a history of strong consumer outcomes. Consideration will include the current compliance and assurance regime that accredited providers are subject to, and the cost of compliance for businesses to ensure these are balanced and proportionate.

The review will map the many AP interactions with the program and other scheme participants and consider whether changes are needed to balance program compliance against participation barriers and consumer outcomes. This will include program rules for accreditation, installations, safety and compliance, consumer protections, product manufacturing, certificate creation, aggregation and certificate trading.

#### **f. Program regulation**

The program is currently regulated by the ESC. The review will consider how the program can be more flexible and responsive. It will consider how the integrity of the program can be ensured through changes to program regulation – covering compliance and enforcement, safety, risk, audit and assurance – balanced with the compliance costs which form a component of energy bills. The review will consider the role of the variety of scheme participants, how current program regulation impacts overall participation and accessibility, and explore opportunities to encourage program participation by new entrants and a broader range of participants. The review will also consider the effectiveness of program regulation and administration and opportunities to strengthen these. Further, the review will consider the role of other Victorian regulators in relation to the VEU program.

#### **g. Costs and Benefits**

The program to date has achieved an overall net benefit for energy consumers, due to avoided costs of energy infrastructure as a result of reduced energy demand arising from energy efficiency upgrades undertaken as part of the program. However, as the program transitions to higher-cost, more complex upgrades which necessarily require more consumer contributions, a positive overall benefit to consumers who do not participate in the program may not materialise. The review will consider opportunities for equitable participation in the scheme and the role of other government programs and regulation in assisting all households to benefit from energy efficiency and electrification. Careful consideration of the costs and benefits of the program will be undertaken to ensure the program operates efficiently and effectively and considers issues of equity for Victorian consumers.