AUSTRALIAN ENERGY COUNCIL

Department of Environment, Land, Water and Planning
Energy Demand, Programs and Safety
8 Nicholson Street
East Melbourne VIC 3002

Submitted via email: energy.upgrades@delwp.vic.gov.au

4 February 2020

Dear Sir/Madam,

Re: Target setting for Victorian Energy Upgrades

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Victorian Government's Regulatory Impact Statement on *Victorian Energy Upgrades – Targets*.

The AEC is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC considers market-based mechanisms like the Victorian Energy Upgrades ('VEU') program to be effective in improving customer understanding about energy usage and encouraging the uptake of energy efficient activities. If implemented carefully, this can result in lower electricity bills for customers and reduced carbon emissions across the state.

The AEC is concerned that the proposed changes will not achieve these desired outcomes. Increasing demand while restricting supply opportunities risks creating a target that retailers cannot meet. If this triggers the shortfall penalty price, it will only result in higher electricity prices for customers and no meaningful emissions reductions. The AEC recommends a gradual scaling (rather than the proposed step change) of demand targets and penalty prices to help avoid these outcomes.

Integrating changes to supply and demand

The AEC believes the proposed regulatory changes to the demand and supply of certificates could be better aligned. The Department has sought to increase the number of Victorian Energy Efficiency Certificates (VEECs) retailers are required to surrender each year while, at the same time, proposing a substantial decrease in the 10-year emissions factors used to calculate abatement. The resulting deficit means retailers will be required to surrender significantly more certificates to meet the target. If abatement opportunities do not similarly increase, such a change can only come at a cost for the consumer.

The ability of retailers to meet the target is further complicated by the Department's intention to phase out lighting activities, which currently make up the overwhelming majority of supply side opportunities. While the AEC supports the Department putting forward new activities to be included under the VEU program, they are still nascent and cannot serve as an immediate substitute for lighting. We encourage the Department to better integrate the restriction of supply side opportunities with the increase in demand to avoid unnecessary costs being passed down onto customers.

Protecting non-participating customers

The AEC is concerned that the Regulatory Impact Statement ('RIS') has not duly considered the impacts on non-participating customers in its final assessment that the proposed changes 'will have an overall minor negative impact on energy bills for non-participants'.[1]

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[1] Department of Environment, Land, Water and Planning 2019, 'Regulatory Impact Statement: Victorian Energy Efficiency Target Amendment (Prescribed Customer and Targets) Regulation 2020', Victorian Government, p47.

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This conclusion appears to reflect an ideal scenario as well as relying on external regulatory interventions to keep costs down. For example, the RIS states that costs on non-participants will be kept low between 2023 and 2025 because ‘the Victorian Government has in place a suite of measures that are expected to bring down energy prices during those years (such as the Victorian Default Offer) and these will assist in offsetting any impact on Victorian households that choose not to participate in the VEU program’.[2]

The AEC does not believe it is appropriate to include speculative savings in a RIS unless the benefits are reasonably foreseeable. In this case, the outcomes of these government policies are unknown and will not be known for many years, as some measures are yet to even be introduced. Non-participating customers, particularly those experiencing vulnerability, require greater certainty about the impacts of these changes on their bill. Any effort taken to minimise these additional costs should be done through the VEU program, not external policy initiatives.

One mechanism that can reduce costs on non-participating customers is for the VEU program to enable borrowing between compliance years. This is a standard mechanism used in other state-based schemes and provides retailers with flexibility to help manage price fluctuations so customers do not experience price shock.

Shortfall penalty regime
The AEC considers the proposed increase of the shortfall penalty price from $50 to $112 to be excessive, particularly since it will take immediate effect. It is probable that, given the phasing out of lighting activities, some retailers will require time to find alternate energy efficiency activities that may not be immediately available. In this context, enforcing such a high shortfall penalty risks increasing electricity prices for all customers without achieving the desired emissions reductions.

The AEC would support a deferred implementation of the new shortfall penalty while the market and the price of VEECs adjusts to the phasing out of lighting activities. During this transition period, a phased increase of the penalty price would serve as a reasonable alternative.

Any questions about this submission should be addressed to Rhys Thomas, by email to Rhys.Thomas@energycouncil.com.au or by telephone on (03) 9205 3111.

Yours sincerely,

Ben Barnes
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Australian Energy Council

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[2] Id at 8.

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