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Victorian Energy Upgrades

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Victorian Energy Upgrades – Project-Based Activities Issues Paper

AGL Energy (AGL) thanks the Department of Environment, Land Water and Planning (DELWP) for the opportunity to provide feedback on Victorian Energy Upgrades' Project-Based Activities (PBA) Issues Paper.

AGL is committed to meeting the needs of its energy customers both now and through the transition to a net zero emissions future. AGL is one of Australia's largest energy-led multi-service retailers, providing over 4.2 million electricity, gas and telco services to residential, small, and large businesses, and wholesale customers. Our diverse power generation portfolio includes base, peaking, and intermediate generation plants, spread across traditional thermal generation and renewable sources.

AGL has extensive experience in jurisdictional and national energy efficiency programs and welcomes DELWP's review of the PBA method in the Victorian Energy Upgrades (VEU) scheme, and have provided a number of comments and recommendations to improve uptake and streamline the operation of the PBA framework based on this and other operational experiences.

Specifically, AGL believes that allowing certificates to be created either upfront and/or or at certain milestones agreed and achieved in throughout the project, would incentivise more uptake of PBAs while removing some major barriers for participants. Creating certificates at certain milestones in a project, we believe, would help mitigate project risks, such as access to capital, changes to the site or ownership during the project.

AGL's responses to the questions in the Issues Paper are detailed in Annex 1.

If you would like to discuss any aspect of AGL's submission, please contact Valeriya Kalpakidis at vkalpakidis@agl.com.au.

Yours sincerely,

Con Hristodoulidis

Senior Manager Regulatory Strategy

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ANNEX 1: Responses to the PBA Issues Paper questions

1. Do you agree with the benchmark rating method barriers that have been identified restricting uptake of the benchmark rating method?

AGL agrees with barriers identified in the Issues Paper to the benchmark rating method which are restricting uptake of the benchmark rating methods by participants. However, we believe that the severity of some barriers are not well addressed.

We believe that the principal barrier to uptake is the substantial delay in creating VEECs; that is, from the date of project commencement - in some circumstances, this can be two to three years from the creation date. PBA projects are costly to undertake even where the improvement may be only half or a full star rating. This delay in co-funding has the potential to create cashflow issues for businesses commissioning the work, the business paying for the work to be undertaken as well as the Accredited Provider (AP), thereby, inhibiting companies who rely on their cashflow for financial stability to participate.

2. Do you think the identified areas of improvement will increase uptake of the benchmark rating method?

The areas of improvement identified in the Issues Paper do not substantively address the barriers which are restricting uptake of the benchmarking method. AGL recommends that in order to overcome the dominant barrier referred to in AGL's response to question 1 above, the benchmarking rating method should allow for payment upon achieving critical milestones in the project, for example:

- At the time that the site has been calibrated and measured, and the project plan developed;
- At the time that the planned work has been completed; and
- The final payment at the time the site has been measured for the required time (Impact Report) taking the already allocated VEECs from that allocation at the end.

By staggering the certificate allocations across milestones during the project, this would improve the project's cash flow and incentivise more businesses to utilise the benchmark rating methodology.

3. Is there a need for a deemed BEMIS activity to be developed if the benchmark rating method can be improved to address barriers?

As recommended above, milestone payments or forward creation of certificates would be required as this type of equipment is costly to procure and install. Additionally, there are many different BEMIS available on the market with hardware and software constantly evolving. It is currently unclear how these would be benchmarked consistently or updated over time. More detail needs to be given as to this methodology.

4. Do you think there are administrative or procedural changes that can support improvements in processing of M&V projects?

AGL recommends administrative and/or procedural changes that could support improvements in processing of M&V projects, including:

- Payment on achievement of critical milestones during the life of the project, as described above;



- A collaborative approach between participants and the Essential Services Commission, including timely reviews and feedback at various stages of the project. Given the volatility of the market and the general state of supply chain restrictions and the impact of inflation, these delays can significantly add to the cost of projects; and
- Spreading the certification allocations (and therefore revenue) across the life of the project will incentivise businesses to take up this methodology. Further, this approach can also mitigate the risks from VEEC price volatility.

5. What key sectors or project types do you see as key future markets for the M&V method and why?

AGL believes that behind the behind-the-meter renewable energy technologies such as solar, batteries and co-generation are key future markets for the M&V methods. Additionally, DELWP should consider the inclusion of energy efficiency upgrades such as insulation and building fabric improvements as well as improved industrial and manufacturing processes and the replacement of fossil gas in industrial and agricultural processes and transport.

6. How can the M&V method support emissions reduction in these key sectors or project types?

The M&V method can support emissions reduction and incentivise higher participation in key priority sectors and project types by simplifying administrative processes and through amendments to the VEEC allocations as noted in our responses above.

7. What do you think are the key barriers or project risks in the M&V method?

The key barrier AGL has identified in the M&V method is that certificates can only be created after the final Impact Report is accepted ,which:

- Can be prohibitive from a cash flow perspective; and
- May impact the long-term prospect of the project. For example, it may ‘fall over’ during the process by the owner having other priorities as the project progresses or unwittingly changing one of the measured activities as out of scope.

8. Do you think there are ways that the M&V method could be improved?

AGL recommends the following improvement opportunities to enhance the M&V method:

- Allow a percentage of co-funding for large projects from grant programs;
- Milestone payments as described in our responses above; and
- Development of a sub-method of M&V for behind the meter generation which uses the measurement data from the low emissions generator and the utility export meter to calculate annual savings and adjust/normalise for weather/operations. This would allow all behind the meter generation projects to have equal and fair access to the scheme.

9. What are your top three changes or additions to the M&V method which could be made without compromising the integrity of the VEECs created?

See AGL’s response to Question 8, above.



10. Do you have any comments on the role or uptake of M&V renewable energy projects in the VEU program?

The slow uptake of M&V renewable energy projects can be attributed to price volatility that has impacted the ability to provide certainty to customers.

As an alternative to certificate creation at the end of the project or milestones during the project, DELWP may wish to consider if there is also scope for certificate creation based on the projected outcome of the project to allow for the creation upfront.

11. What are the advantages and disadvantages of using the M&V method to generate VEECs for solar PV projects?

Using the M&V method to generate VEECs for solar projects can potentially create greater value than large-scale generation certificates. However, the price volatility and the inability to claim the rebate upfront are substantial disincentives.

12. How do you think the existing M&V method can be optimised to support solar PV projects while maintaining the integrity of VEECs awarded?

DELWP may wish to consider whether VEECs could be created based on solar energy consumed on site rather than through the more detailed financial modelling. Every MWh converted to tons of CO₂e that is consumed on site will effectively be the carbon abatement.

13. Do you think it is reasonable to allow M&V solar PV projects to access some or all VEECs upfront?

AGL supports allowing M&V solar PV projects to access VEECs upfront and believes that it will increase uptake.

14. Do you think a public register is a fair and transparent way to share clarifications and rulings relating to PBA?

AGL supports the proposal to create a clarification and rulings register relating to PBA.

15. Do you think there is a role for an advisory panel to support PBA in the VEU program?

While AGL welcomes the creation of technical advisory panel to support the VEU program, we would like further clarification as to which experts would form the panel and how DELWP would overcome potential conflicts of interest.

16. What do you think the VEU program can do to support an effective M&V community of practice in Victoria?

AGL supports this in principle, but welcomes further details around how it would operate and be structured.