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Victorian Energy Upgrades Consultation 2019

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Victorian Energy Upgrades Consultations 2019

AGL Energy (AGL) welcomes the opportunity to make a submission on the proposed changes to the Victorian Energy Upgrades. For brevity, and because they are so intertwined, we have elected to address both the proposed targets for 2021-2025 and the proposed lighting changes within this submission.

AGL is one of Australia's largest integrated energy companies and the largest ASX listed owner, operator, and developer of renewable generation. Our diverse power generation portfolio includes base, peaking, and intermediate generation plants, spread across traditional thermal generation and renewable sources. In Victoria, AGL operates wind, hydro, coal-fired, and gas-fired generation, supporting local communities and thousands of local jobs. AGL is also a significant retailer of energy, providing energy solutions to around 3.72 million customers throughout eastern Australia.

In addition, AGL is continually innovating our suite of distributed energy services and solutions for customers of all sizes. These behind-the-meter energy solutions involve new and emerging technologies such as energy storage, electric vehicles, solar PV systems, digital meters, and home energy management services delivered through digital applications.

AGL has been participating in the VEU program since its inception and recognises the importance of energy efficiency as a means of both achieving emissions reduction and improving the affordability of household and business energy spend. Overall, we feel the scheme has functioned well in driving uptake in energy efficiency activities and achieving greenhouse gas abatement and we are supportive of the scheme's ongoing evolution. There are important opportunities to drive uptake of emerging energy efficiency technologies and to consider ways to overcome barriers to uptake by low-income households.

However, we are concerned that the cost impacts of a number of the proposed scheme changes are not accurately reflected in the Regulatory Impact Statement (RIS) and are likely to be materially higher than forecast. This is due to the combination of greater ambition, the removal of lighting activities (which have accounted for around 70 percent of certificate creation over the past year) without clarity on replacement activities, and the proposed step change in emissions intensity factors and shortfall penalties. This has implications both for the achievement of the scheme's objectives and for households and business energy bills. These concerns are outlined in more detail below (**Attachment A**).

Once again, we thank you for the opportunity to make a submission and would welcome the opportunity to engage further on proposed changes and the emissions factor modelling. Should you have any queries in relation to this submission, please contact Caitlin Caruana, Manager – Policy and Strategy on (03) 8633 6340, or Jenniy Gregory, Manager – Energy Efficiency Programs on (03) 8633 7869.

Yours sincerely,

Eleanor McCracken-Hewson
Senior Manager, Policy and Strategy
AGL Energy

Attachment A

Proposed Certificate Targets & Emissions Factor

The Department of Environment, Land, Water and Planning's (DELWP) preferred certificate target (Option 4) and the emission factors on which they are based are very ambitious and will be challenging for the market to meet. We have not been able to model the emissions intensity reduction contained in the RIS under any scenario. Without a proper understanding of this modelling, combined with the phase out of lighting activities and a lack of detail on expanded activities, it is difficult to forecast the costs of meeting the proposed Option 4 targets.

When there was an ambitious 9 percent increase in certificate targets from 2016-2017, there were lighting activities ready to take up the challenge; if lighting is taken out of the scheme going forward, we are concerned there is not yet another activity available to create significant certificates, especially in the 2021-2023 VEU years.

Moreover, while the rationale for diminishing emissions factors out to 2025 is clear, it is important that the emissions factors be based on realistic projections of the emissions intensity of Victoria's electricity generation. If these are set unrealistically low, then an artificially high number of certificates will need to be created to realise the target abatement – significantly increasing scheme costs. As such, we suggest DELWP instead use AEMO's Integrated System Plan, Central Scenario, as a basis for re-calculating the emissions intensity for the state.

Lighting

We are concerned with the proposal to remove eligibility for all but fluorescent light replacement activities in homes and businesses in the short term. While we agree that the VEU has played a role in encouraging the transformation of the Australia lighting industry, we disagree with the assessment that "it is not feasible to continue incentives for some lighting activities which are now considered business-as-usual." There are still significant opportunities to upgrade lighting which would benefit from the VEU incentives, including in carparks, hospitals, tertiary and vocational education sites, public lighting and so on. We note the NSW Government has just expanded the eligibility for commercial and residential lighting upgrades under its energy savings scheme (effective from March 2020). Continued access to the current lighting incentives will be valuable in meeting the proposed significant increased certificate targets from 2021.

It remains uncertain as to whether Australia will ratify the Minamata Protocol. Whilst there are now 108 signatories, there are still many countries manufacturing lighting containing mercury and a ready supply for replacements will continue (particularly for small businesses), especially while LEDs are more expensive. Accordingly, we believe the proposed phase out of lighting activities are premature.

However, if lighting must be phased out, we recommend doing so over a four-year period. This will give users genuine opportunity to participate in the scheme before it is phased out; and will allow a long enough lead time for proper development of a market for the remaining eligible activities. The original lighting upgrades classifications should also remain open to large energy users who will opt-in from 2022, as they have not previously had access to these incentives and many sites may not be suitable for Measurement and Verification (M&V) methodologies.

Additional Activities

While it would have been useful to understand the expanded range of activities available to create certificates at the same time as considering the ambitious certificate targets, AGL understands DELWP will commence consultations on the expanded range of eligible activities in the coming months. We look forward to participating in these consultations.

We note that eligible activities need a mature market for certificate targets to be met, and it takes time for a new market to be established. Moreover, project-based activities have notoriously long lead times over the life of the project (inception, approvals, installation, creation of certificates). It will be essential that DELWP work with industry on the current and expected expanded range of activities to ensure the program changes are understood and that industry is best placed to take up the necessary activities to meet targets.

In addition to the activities that DELWP has stated they are already considering (cool rooms, electrification of gas boilers, lagging of steam pipes, and 'smart appliances'), we would support consideration of home insulation and Score Card assessments. Home insulation can be a very effective measure to increase energy efficiency and lowering consumer heating and cooling costs. While Score Card is not a direct energy efficiency measure, it could form a valuable 'stepping-stone' and a strong evidence base from which homeowners and tenants can prioritise and/or request energy efficient upgrades in their homes.

Based on DELWP's consultations with energy retailers on 23 January 2020, we understand the projection that "no individual activity is projected to contribute to more than 10 per cent of VEECs" does not represent a cap on how many VEECs can be created by any one activity.

Any proposal to introduce solar into the scheme should be carefully considered. Solar installations are a demand management activity and, while they reduce the demand on the electricity grid, they do not contribute to the increased energy efficiency of a site. Energy efficiency is often cited as the "first fuel" because it is the cheapest way to reduce energy bills, and should be complemented by renewable energy not displaced by it. So, whilst we welcome the possibility of adding medium-scale solar into VEU, we are also concerned that it may become the dominant certificate creation activity in a very short time after

Future use of banked credits and M&V

There appears to be an assumption (verbalised in the meeting between energy retailers and DELWP on 23 January 2020) that 2021 retailer targets will be met from certificates 'banked' in 2020, and M&V projects that will come online in 2022. This does not accord with AGL's own understanding of existing market dynamics. With certificate acquittal for the 2020 compliance year not having yet been made, it is difficult to assess whether there will in fact be any certificates to bank or what the quantum will be. Accordingly, we are concerned that the assumptions here may be optimistic.

Currently certificates created from M&V activities are very low, due to the complex nature of the methodology, the time to create certificates, the lack of accredited M&V professionals and the risk associated with such projects. This situation will not change in the short-term.

Increased costs

In view of the above highlighted challenges and uncertainties related to the proposed scheme changes, we are concerned that the costs of the scheme will be greater than currently projected within the RIS. We note the certificate price increased by up to 50 percent since the release of the RIS. We are attributing this to uncertainty created in the market by the proposed scheme changes and anticipate it could climb much higher under the proposed strategy.

More broadly, the removal of lighting activities means the expanded certificate targets will be challenging to meet, demanding more activity for fewer certificates. This may increase the risk that liable entities fall short and face the significantly increased penalty price of $160 tax effective. This would significantly increase consumer costs from the scheme, without achieving abatement or providing consumers with energy efficiency upgrades.

Under the preferred Option 4, there is a $67 projected increase to bills for residential consumers who do not participate in the program; any increase will be particularly felt by low income households. We understand there is broader work being undertaken by the Victorian Government for vulnerable consumers in areas such as residential tenancy and appreciate this segment has not been considered in the current consultation. AGL would like to be involved in any consultations on assisting vulnerable energy consumers and avoiding future potential energy prices increases, particularly under the VEU. There are a range of ways this could be approached, for example the consideration of multipliers for deep energy efficiency retrofits in low income households.

AGL believes that the assumptions regarding demand management and the flow through benefits to deferred network expenditure are significantly over-stated. We also note that network benefits are calculated out to 2030, but costs only to 2025 meaning that energy users will be faced with the costs of the scheme over five years, not 10.

Large Energy Users

From a retail perspective, AGL agrees with moving to an ‘opt out’ model for large energy users, which both increases the consumer base from which to meet targets and provides a broader customer base across which to smear program costs. Clarification on exactly which customers will be included and which will be exempted well ahead of scheme changes would help us clarify our retail obligations and to work with these customers to ensure they understand the implications of the changes.

The draft VEET Amendment Scheme Target and Other Matters Regulations (2019) state that exempt premises will be identified by their address or their NMI. We recommend that NMIs or MIRNS be used to identify premises as these are a more reliable indicator than street addresses.
AGL understands that sites like Loy Yang will remain an exempt large energy user from the program even under the proposed changes.

Other concerns

AGL is also concerned that the RIS states that the future scheme will provide an equitable distribution of benefits across residential, commercial and industrial, and exempt large energy users that matches their proportional contribution to energy usage and emissions. Our concerns are based on the following:

1) The few residential activities cost-effective[1] to be undertaken by the VEU do not provide deep cuts to energy bills. The ones that can provide deep cuts to energy bills (e.g heating and cooling activities) require substantial co-contributions – which often are no affordable for households.

2) New residential activities (such as smart thermostats) will take at least 12 months to get accredited under the program, need time for the supporting market to gear up and for the public to accept them.

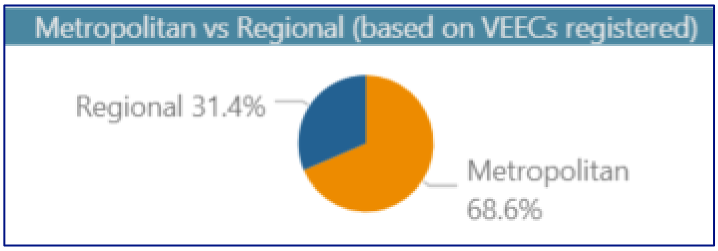
[1] By cost-effective we mean at minimal cost to consumers, either directly (paying a large percentage of the installation price) or indirectly (VEU costs added to energy bills).

3) Most small businesses will not undertake any non-essential upgrades, due to cashflow issues (Victorian has 98 percent of businesses classified as SME[2]).

4) Regional areas have not received the same VEU activities as metropolitan areas, due to lack of accredited persons to undertake activities, distance from Melbourne / large regional centres, lack of knowledge about VEU and its price offsets for activities such as commercial lighting and hot water replacement. The below graph from the VEU Dashboard possibly over-represents regional jobs as many in the 'Regional' quadrant are probably undertaken in the larger regional centres of Victoria such as Geelong and Bendigo rather than small towns such as Horsham, Portland or Winchelsea.

We suggest that significant steps are undertaken to rectify this inequality by facilitating VEU training and accreditation of regional trades persons.

5) In addition, we believe that a significant information campaign needs to be undertaken to all tradespersons who do or can install VEU-accredited products in their daily work but do not claim for them, in order to spread the value of VEU across all sectors and to increase the creation of certificates going forward.



Source: https://www.esc.vic.gov.au/victorian-energy-upgrades/updates-reports-reviews-and-data/victorian-energy-upgrades-data-dashboard

[2] ABS 2019 https://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/8165.0Media%20Release1June%202014%20to%20June%202018