Victorian Energy Upgrades Strategic Review

EEC Submission

March 2025

eec

Table of Contents

About the EEC

The Energy Efficiency Council (EEC) is the peak body for Australia's energy management sector.

We are a membership association for businesses, universities, governments and NGOs that have come together to ensure Australia harnesses the power of efficiency, electrification and demand management to deliver a prosperous, equitable, net zero Australia with:

- People living and working in healthy, comfortable buildings;
- Businesses thriving in a decarbonised global economy; and
- An energy system delivering affordable, reliable energy to everyone.

EEC works on behalf of its members to drive world-leading government policy, support businesses to rapidly decarbonise, and to ensure we have the skilled professionals to drive Australia's energy transformation.

Introduction

The EEC welcomes the opportunity to provide comments in response to the Victorian Energy Upgrades (VEU) Strategic Review Discussion Paper.

The VEU has been one of the most important policies in Australia for improving energy efficiency and reducing GHG emissions. Now it is time for the scheme to evolve to better align with the biggest energy system transformation in a century.

Key recommendations contained in this submission include:

- Changing the main objective of the VEU to be 'optimising energy use', and adopting a new energy-based metric;
- Setting multiple sub-targets if the Victorian Government seeks to address multiple policy goals with the VEU;
- Adding new activities for switching away from fossil fuels and increasing flexible demand resources;
- Reforming the PBA method and the process for assessing PBA activities (particularly fuel-switching activities);
- Involving the government to a much greater extent in VEU communications and marketing activities;

- Establishing a new installer certification program for individuals that shifts more of the compliance burden to installers; and
- Supporting the creation of a national 'white list' of high performing products for use in the VEU and other federal, state and territory incentive programs.

Together, these changes would improve outcomes for households and businesses, APs, scheme administrators, and the broader Victorian public, by unlocking energy performance improvements that benefit all energy consumers.

Please don't hesitate to contact me about anything contained in this submission and I look forward to continuing to work closely with Solar Victoria as a member of the VEU Stakeholder Reference Group.

Yours faithfully,

Jeremy Sung

EEC Head of Policy

High level questions

1. What are the big opportunities for the VEU program in the next five years?

The VEU has the opportunity to play a major role in delivering affordable, reliable energy services to Victorians as we rapidly cut emissions across the economy.

The next five years will be critical as Victoria's emissions reduction task ramps up to ensure the state achieves its target of 75-80% below 2005 levels in 2035. This highly ambitious target requires all sectors of the economy to be working together to do everything possible to reduce emissions. Unique to Victoria is that fossil gas use in buildings represents a large source of direct emissions. In addition, while the retirement of Victoria's ageing coal plant will be the primary source of electricity sector emissions reduction, the transition to renewables will be smoother, and faster, by optimising electricity demand through demand management.

In this context, the VEU has the opportunity to:

1) Accelerate Victoria's transition away from fossil gas, particularly in the built environment; and
2) Support the transition to an electricity system dominated by renewables.

However, taking advantage of these opportunities will likely necessitate significant changes, including to the scheme's:

- **Objectives and metrics**: Ensuring that the VEU is better aligned to electricity system objectives by targeting energy savings that occur at specific times of day (or seasons of the year) and shifting energy use to other times.
- **Eligible products and activities**: Ensuring that more products and activities that reduce fossil gas use and increase the flexibility of electricity use are eligible to create VEECs.
- **Targets**: Potentially moving to a model whereby the multiple objectives of the scheme are captured through sub-targets that direct activity towards achieving these objectives.

More detail on these changes is outlined below.

2. What new activities or products should be incorporated into the program?

The VEU should prioritise new activities or products that help achieve Victoria's goal to efficiently electrify and unlock the power of flexible demand. This includes:

- **Insulation and other thermal performance upgrades**: Thermal performance is foundational to energy performance. Insulation affects the performance of space heating and cooling, the resilience of a property to temperature and climate extremes and enables efficient sizing of solar and battery systems. Insulation also supports demand flexibility by facilitating pre-heating/cooling in buildings. New metering devices that can accurately measure the impact of thermal upgrades to a home could also be incentivised under the scheme.
- **Bundled activities for residential upgrades**: The task of retrofitting a home can involve a range of upgrades. Performing upgrades together can deliver gains in both energy efficiency and convenience for households. It also ensures that individual interactions with households are leveraged for the most significant energy performance outcome. Given this, there is a strong argument for new activities that bundle together a range of upgrades for homes. For example, a new method (or methods) could combine two or more upgrades to a home's insulation and draught sealing, lighting system, heating and cooling system, and home energy management system.
- **Flexible demand activities**: Activities that assist Victoria's electricity system transition should be a priority. In addition to thermal shell upgrades (which assist with shifting space-conditioning energy use), activities that would contribute to boosting Victoria's flexible demand resources include:
  - Smart appliances capable of shifting demand in line with price changes or high renewables penetration. This would include both appliances with in-built energy management capabilities but also home energy management systems, and devices like solar PV hot water diverters;
  - Consumer and industrial scale energy storage technologies including both chemical and thermal batteries; and
  - Vehicle-to-building/grid technologies.
- **Electrical upgrades:** In many cases, electrical works will be required to support everything from lighting upgrades needed for insulation works, to switchboard upgrades to support electric devices for cooking, water heating and space conditioning, to switching users to or from controlled load circuits. These can be costly but are crucial to supporting electrification.

A longer list of ideas for new activities from EEC members is provided at **Appendix A**

3. What are the biggest challenges with the VEU program as it currently operates?

EEC members report that the some of the biggest challenges with how the VEU currently operates include the following:

- **Objectives that are not fit for purpose**: A target and metric that prioritise energy savings with a blunt connection to GHG emissions reductions, that doesn't incentivise activities that would lead to higher levels of flexible demand.
- **Variable quality of products and installation**: While much of the activity undertaken under the scheme is high quality, there are still reports of products underperforming, whether from poor quality manufacturing or incorrect installation.
- **Opaque and sudden regulatory changes**: Sudden changes to scheme rules without adequate forewarning can lead to significant uncertainty and costs, where investments have been made in product inventories that may not be easily sold.
- **Project based activities**: An approach to regulating project-based activities that is overly risk averse and may not be incentivising fuel switching activities in commercial buildings and industry, which are key to Victoria's gas substitution roadmap and emissions reduction targets.

Program purpose and objectives

4. (a) Is the current purpose of the VEET Act fit for a future with increased renewable energy generation and increased electricity demand?

The EEC agrees with the summary of initial feedback articulated in the discussion paper, which suggests that the current objectives in the VEET are not well matched to Victoria's energy system goals, which have changed in the years since the VEU was established.

In the EEC's view, the overall objective in the Act should be *optimising energy use*. This encompasses:

- Traditional energy efficiency measures that reduce energy waste, for example by improving the poor thermal performance of existing buildings.
- Replacing the consumption of fossil fuels with electricity (electrification) and renewable fuels. Efficient electric devices tend to reduce energy waste by converting electrical energy into useful energy with fewer losses compared with devices that combust fossil fuels. As the electricity grid decarbonises, they will also produce less GHG emissions than devices that combust fossil fuels.
- Shifting electricity consumption to times of the day when there is a surplus of emissions-free renewable electricity and reducing or avoiding demand when variable renewable energy generation is low (flexible demand).

The EEC recommends that specific reference is made in the Act to the sub-objectives above (e.g. electrification), to ensure wording of the Act does not function as a barrier to expanding VEU activities.

4. (b) Are there any limiting features to the current VEET Act objects that prevent the entry of new energy efficiency, demand management, and/or electrification-enabling activities into the VEU program?

As the discussion paper highlights, existing wording in the VEET Act that focuses on direct greenhouse gas emission reductions may risk unintentionally prohibiting the VEU from rewarding activities that would have a clear benefit for Victoria's energy system goals.

In addition to blocking essential supporting activities for electrification such as switchboard upgrades (as noted in the paper), the current Objects may limit the inclusion of other activities that do little to reduce GHG emissions directly but serve as important enablers for renewable energy integration (thus reducing GHG emissions indirectly).

For example, the current wording in the Act may limit activities that shift the time of energy use, such as shifting water heaters from night-time to day-time operation, which could be critical to Victoria's electricity sector transition by helping to reduce renewables curtailment and the need for expensive peaking plants and transmission infrastructure.

4. (c) What factors need to be considered by the review when conducting its analysis of the VEET Act purpose and objects?

The biggest factor to be considered is that by expanding the VEET Act's Objects, it is likely the VEU will need to move away from having a single target and metrics. In other words, attempting to have the VEU solve multiple problems (from energy equity to renewables integration, to electrification) may only be possible by setting *multiple targets* (or sub-targets) for these objectives, with accompanying metrics.

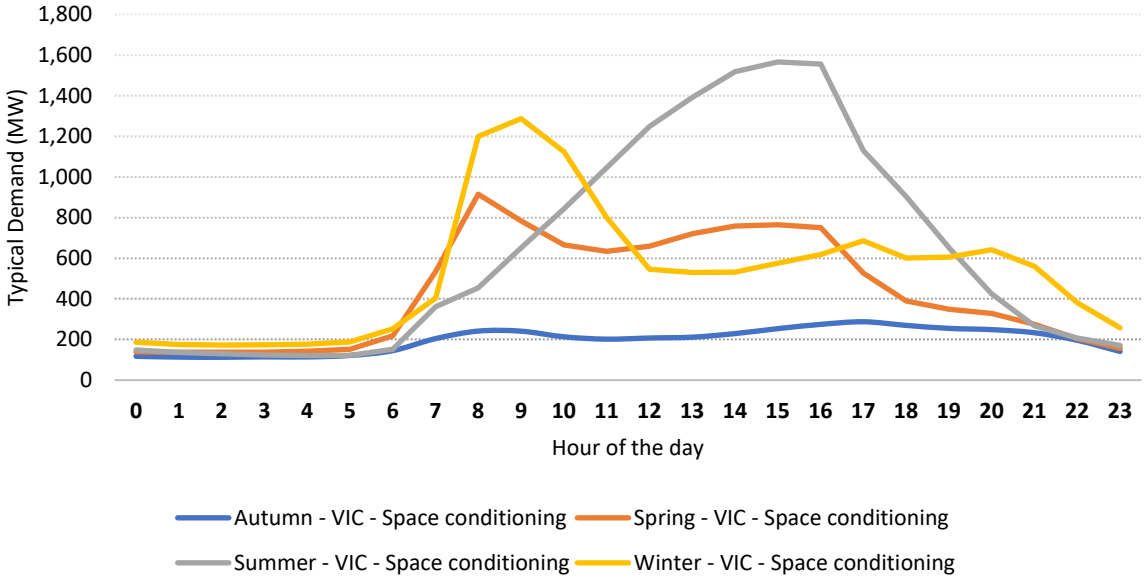
In the absence of a set of sub-targets for each objective, it is likely that only some objectives will be achieved, as the market will understandably opt for the lowest cost approach to achieving the primary objective, 'crowding out' other activities.

5. (a) How does the current VEEC metric (GHG emissions abated) influence the range of activities incentivised by the VEU program?

The current metric (and accompanying electricity emissions factors that account for the long-term decarbonisation of the grid) is problematic because while the decline in the electricity emissions

factor *should* incentivise gas-to-electric activities (which is one important aim), there are other energy system issues that it fails to recognise.

Figure 1 Space conditioning demand by time of use and season - Victoria



Source: 2021 Residential Baseline Study for Australia and New Zealand for 2000 to 2040 | Energy Rating

For example, Victorian electricity demand already differs significantly across the seasons, with demand for space conditioning peaking in the morning in winter, but in the late afternoon in summer (Figure 1).

As solar penetration continues apace, an increasing challenge for the system operator will be maintaining minimum operational demand in the middle of a winter's day, given the large difference between the morning peak and the rest of the day (Figure 1). For the electricity system, activities that save electricity in the middle of a winter's day may be less useful than activities that help smooth out the difference in the peaks and troughs across the day. This could, for example, mean activities that intentionally *increase* electricity demand in the middle of the day become valuable.

Unfortunately, the GHG metric used in the VEU does not include a time or seasonal-based element so fails to recognise that energy savings at certain seasons or times of day are more valuable – for both the energy system and emissions reductions – than others.

5. (b) Do you think a different certificate metric should be used? Why? Please identify any potential risks, challenges or unintended consequences arising from altering the metric.

In addition to failing to recognise important differences in the season and time of electricity use for both emissions and energy system operation, the current GHG metric doesn't accurately reflect the actual GHG savings achieved by the scheme and is therefore not particularly useful for energy and climate change policymakers or the general public.

For example, while 1 VEEC is said to represent 1 tonne of GHG emissions, there are several reasons why this is not true, including that deemed methods provide only indicative estimates of energy impacts, and that factors are used by policymakers to increase the value or some activities and decrease the value of others, for reasons other than their GHG emissions impact.

Given the issues highlighted above, it would be appropriate to either:

1) Introduce seasonal or time-based emissions factors for electricity that result in more certificates being created when electricity use occurs when renewables penetration is highest, or conversely, when electricity savings occur during periods of high fossil generation.
2) Change the metric to an energy-based metric, that also recognises the time at which electricity is saved/shifted.

Option 1 would be a serviceable solution in the short term, however an emissions metric would need to be revisited as the transition to high penetration renewable energy system continues. This is because over time fossil generation will exit the system, but energy optimisation – i.e. saving energy when demand is high and renewable generation is low – will continue to be highly valuable.

In the EEC's view, adopting Option 2, an energy metric, would more clearly align the scheme with energy system and policy objectives, such as Victoria's gas substitution roadmap. Being able to show the fuel impacts of the VEU would be useful in a context where reductions in gas use are increasingly valuable for Victoria.

Further, an energy metric that more accurately reflects the *time of day* of activities could help the VEU become more relevant to AEMO's energy forecasting activities and help boost the scheme's profile amongst energy system planners. As it stands, energy system and emissions modellers (amongst others) must discount the VEU's reported emissions impacts from Victorian Government and make assumptions to estimate its true impact.

That said, irrespective of the metric chosen, it would be necessary to publish two sets of figures on the VEU's impact:

1. A 'raw' set of data that attempts to estimate the impact on energy / emissions from the actual activities undertaken; and
2. Data on the certificates generated, which reflect both the energy/emissions impact of the activities but also other impacts that 'multiply' the number of certificates for certain activities (e.g. multipliers for activities in vulnerable households, for example).

5. (c)How might the introduction of one or more VEEC sub-target(s) influence outcomes for consumers?

If the Victorian Government intends to use the VEU to achieve multiple policy aims, it is likely that sub-targets will be a necessary. Introducing sub-targets to incentivise energy performance upgrades in specific parts of the economy (e.g. low-income households or industry), or for specific activities (e.g. installing technologies to increase flexible demand or encourage fuel-switching away from fossil gas) would help ensure that activity in one part of the economy does not 'crowd out' activity elsewhere. This would help the scheme to access energy users and activities that the VEU has thus far failed to reach, improving outcomes for these consumers.

The introduction of sub-targets could increase the average cost of upgrades, as the market would be forced to select activities within the bounds of the new sub-targets, rather than the cheapest activities within an economy-wide target. This increase in cost would be borne by all energy consumers. However, with changes to the scheme to rectify issues currently resulting in high VEEC prices, it is likely the increase in average cost would be imperceptible when spread across all energy consumers and outweighed by the benefits for targeted energy consumers and the energy system more broadly.

5. (d) What factors should the review consider in assessing benefits and impacts that the introduction of a sub-target(s) would have on the operation of the certificate market?

In assessing the benefits and impacts of sub-targets, consideration should be given to:

- How the government can ensure each sub-target is ambitious yet achievable, with sufficient diversity of activities available from which to create certificates under each sub-target.
- Whether separate metrics would be needed for separate sub-targets (depending on what the sub-target is for) and the fungibility of certificates created under different sub-targets.

- How to best define the groups targeted by sub-targets, particularly for those designed to target upgrades in one part of the community. For example, a sub-target for low-income households would need to determine if concession card holders are the best way of delineating this category of household or if a broader definition (for example, renters) is better.

6. What should the review consider in its assessment of the VEET Act additionality requirements?

In principle, additionality is an important consideration for economic efficiency. However, given the scale of the challenge Victoria (and more broadly, Australia and the world) faces to decarbonise and the very limited time remaining, it is appropriate that additionality requirements are relaxed for some measures that will be mandated if new regulations such as minimum rental standards are passed. Indeed, in many cases mandates may not be feasible to implement *in the absence* of supporting incentives, making the availability of support for meeting new regulatory requirements a pre-requisite for those regulations.

Customer experience

7. How can the VEU program help consumers make informed decisions about energy efficiency upgrades? How can APs and installers support customer education?

The Victorian Government can play an important role as a trusted voice to help consumers make informed decisions about energy performance upgrades. However, currently, most of the task of communication about the scheme falls on APs.

Unfortunately, the quality of communications and marketing efforts across APs varies greatly. In the worst cases, vulnerable consumers may be receiving incorrect information, with negative consequences for everyone. In addition, as highlighted in the discussion paper, there is a natural conflict of interest in tasking APs with communications on the VEU as APs will seek to maximise their own role in the scheme but won't communicate to consumers that the VEU is a market, with a range of possible service providers.

The suggests a stronger role for government is warranted in communicating about energy upgrades and how the VEU works.

Current Victorian government online communications materials targeting consumers are extremely limited, with DEECA's website providing scant information about benefits and pointing consumers to the ESC product and AP registries, the design of which is outdated a poorly designed from a user experience perspective.

In the absence of a private solution, there would be value in the Victorian Government providing a service akin to websites[1] that help consumers navigate the rooftop solar market, but for energy performance technologies. Such websites help consumers to:

- Understand the different technologies available (and how they work);
- Calculate estimated savings by installing new technologies, including the impact of government subsidies; and
- Compare and receive quotes from different product installers and help consumers understand that there is a competitive market for services provided under the VEU.

8. (a) How can the VEU program ensure it is easy for consumers to recognise and understand VEU program discounts and benefits?

In addition to improving communications (see answer 7), other ideas that could assist consumers access the benefits of the VEU are flagged in the discussion paper, including:

- Engaging with bricks-and-mortar retailers to increase customer awareness of the discounts obtainable through the scheme. Incentivising these retailers to connect their customers with a more efficient option can be a highly effective way of optimising a buying decision that is already underway.
- Designing new methods that bundle together multiple activities, making it easier for consumers to navigate the complexity of finding suppliers and scheduling multiple upgrades in one go, while also delivering more effective outcomes for the energy system.
- Supporting the creation of 'one stop shop' style delivery models that help consumers access information, financial support, and streamlined access to efficient electric products and installation services, underpinned by quality and safety assurance measures. This could also include 'concierge' style services providing a single point of contact to navigate complex upgrades.

[1] For example, solarquotes.com.au or solarcompare.net.au

8. (b) What changes should be considered to increase transparency on the value of savings on offer?

The strength of a market-based scheme like the VEU is that it supports energy performance upgrades at a scale that is much larger and for a longer duration than could be achieved through a time limited grant program.

While reducing the upfront cost of upgrades is one aim of the scheme – which is where maximising the size of the subsidy that reaches the end user helps – ensuring as many end users receive upgrades that deliver long-term reductions on their energy bills and public benefits to the energy system is more important. Another important aim of the VEU is *market transformation*; helping to increase the number of businesses and tradespeople providing energy performance upgrades across Victoria and ensure that energy efficiency becomes 'normalised' amongst end users.

The most important metric of success is that consumers are satisfied they received a high-quality upgrade at a fair cost that delivers improved energy services at a lower cost to their household or business. Consumers knowing the exact share of the certificate price that flowed to them is less important.

That said, the discussion paper cites evidence that consumers' intentions to purchase can be influenced by perceived discounts on an original price so if increasing transparency of the discount passed through will help with uptake, this should be encouraged. The EEC does not have views on how this could be achieved.

8. (c) Are there examples from other schemes or jurisdictions that demonstrate effective mechanisms for price transparency?

No comment, noting the answer to 8 (b) above.

9. How can the VEU program ensure clear and effective avenues for customer recourse when a product or installation fails to meet expectations?

In line with suggestions made at question 18 (c), a key improvement to the VEU that would protect consumers before they need to resort to recourse, would be the creation of a registry of certified VEU installers. Placing more obligation on individual installers to undertake high quality work or risk expulsion from the scheme would likely increase the quality of installations overall.

A second protection for customers would be the creation of a national 'white list' of high performing products, maintained by a suitable, third-party organisation that is able to react in a more agile way than governments (Also relevant to questions 17 and 20). The VEU should only incentivise the best

performing products (that should exceed minimum energy performance standards by some margin, for example).

Nonetheless, when issues do emerge within the relevant warranty periods, customers should be able to easily contact their installer or AP and have them rectified. Where this fails, the existing mechanisms should be sufficient, provided customers are able to have issues examined and adjudicated quickly, which means state and federal regulators must be properly resourced.

10. (a) Who is currently missing out on VEU program opportunities, and why?

Renters, households suffering disadvantage, people living in strata buildings, and businesses (commercial buildings and industrial facilities) are all underserved by the VEU for different reasons.

For renters, the issue is split incentives (with renters having little control to make upgrades without landlord permission). This speaks to the necessity of Victoria passing its proposed minimum rental standards, which would be a major driver for landlords to seek out incentives such as VEECs to assist with building upgrades.

Households suffering disadvantage are missing out as intersecting issues (income, education, literacy, etc) can increase the perception that these consumers are hard to reach. For these people, the VEU may need to be partnered with other incentives and programs to deliver upgrades effectively (as flagged in the discussion paper).

Strata building occupants are likely missing out on more substantial upgrades (for example, to water heating and space conditioning upgrades) due to the complexities of upgrading infrastructure shared by multiple tenants and in some cases outdated electrical systems that require upgrading (at significant cost and not subsidised by the VEU). Some strata buildings have shared heating and cooling systems that are more akin to commercial buildings but with a governance structure that makes them less attractive to APs to work with. These building types are also affected by issues with the governance of the PBA method (outlined below).

Commercial buildings and industrial facilities tend to have bespoke equipment that is not always appropriate for off-the-shelf products available through deemed methods, which is why the PBA method exists. However, analysis of activity data suggests this method is primarily being used to install solar systems and improve refrigeration systems in buildings where the electricity load is relatively easy to measure (for example, supermarkets).

Other buildings, particularly those which rely on gas, could benefit from retrofits to install electric heat pumps or thermal heat reclaim and recovery systems, yet relatively few of these activities

appear to be taking place, despite their large potential (for example, in aquatic centres). These buildings are missing out because measuring gas use to establish baseline data in a way that is acceptable to the ESC is complicated (as unlike electricity, there are no smart meters for gas). While ensuring the scheme delivers genuine energy savings is important, risks of underperformance should be examined in context. For example, the PBA method, which requires measurement and verification, should be more accurate than deemed methods that do not measure the impact of upgrades so the risk of underperformance should be lower. Unfortunately, at least some of the EEC's members report that the ESC tends to apply an approach to assessing PBA data that is highly risk-averse, particularly for fuel-switching projects, which is slowing down approvals and making these activities less attractive to APs.

Anecdotally, another negative consequence of this approach to regulating PBA projects is that the friction involved in the process results in some APs routing around the PBA for heat pumps and instead installing domestic heat pumps under Activity 44 in commercial settings where they are inappropriate. This leads to poor outcomes for both consumers and product manufacturers, whose products are being misused.

10. (b) How can the VEU program better address barriers faced by consumer groups such as vulnerable households, culturally and linguistically diverse communities, renters, and low-income families to access the program?

Setting sub-targets for activities in these parts of the community is one way that the scheme could increase access to the VEU, akin to the way South Australia and the ACT target vulnerable households.

However, a range of complementary measures are also likely to be necessary. These include:

- Government communications materials across a range of media and in a range of languages.
- A concierge-style service that steps households through the process of getting an upgrade.
- Additional financial support for expensive upgrades where VEECs do not cover the full cost.

11. How can the VEU program increase participation from business customers?

There are two key recommendations for increasing participation from business customers:

1) Set specific sub-targets for business consumers. For example, a target of PJ of gas switched to electricity in industrial facilities. A sub-target is necessary to ensure industrial upgrades are not crowded out by lower-cost, less complex upgrades in residential buildings.

2) Make reforms to the way the PBA method is administered. Currently, there are several problems with the PBA method which are restricting its use to only certain businesses and certain activities (primarily solar and refrigeration upgrades) (See answer 10(a)).

12. What is the role of the VEU program supporting businesses to reduce gas consumption where electrical alternatives are not yet technically feasible?

A large share of commercial and industrial heat can be shifted to electricity. This is particularly the case in food and beverage manufacturing, and other industry sub-sectors that use steam at temperatures that can be provided by electric heat pumps.

Industries that use gas for high temperature heat or as a feedstock (for example cement, metals and chemicals production) will need to wait until electric or renewable gas alternatives are available (such as green hydrogen). In many cases, these businesses can benefit from energy efficiency improvements that would reduce their existing fossil gas use and the VEU should continue to incentivise gas efficiency improvements in these facilities.

The VEU could also expand activities that encourage fuel switching from fossil gas to bio-methane for these hard to electrify industries. Consideration will be needed as to how this would interact with the proposed Victorian Industrial Renewable Gas Guarantee.

Market design and program flexibility

In general, the market will function most efficiently and smoothly if market participants have good foresight. This also requires the regulator to be responsive when issues are raised, so that market participants are afforded sufficient time to plan for changes to the scheme to rectify issues.

13. Should any changes be made to the ESC's powers to ensure VEECs are assessed adequately and effectively? If so, how should ESC powers be changed?

Some of the EEC's members suggest that the AP risk rating would be more effective if there was greater transparency so that APs knew their risk rating and the steps they can take to improve it to ensure the reduce their assessment timeframe. Regularly reviewing risk ratings would also help ensure APs that put improve their compliance quality are recognised.

The EEC's response to question 18 (c) outlines how the ESC could establish an accredited installer program, and installer code of conduct, to improve installation quality, which would contribute to ensuring VEECs are also higher quality.

14. What kind of market conditions create opportunities for VEEC traders to operate effectively?

Stable market conditions with long-term program forecasts create a favourable environment for program investment. Ensuring that program changes that may notably impact supply and/or demand are consulted on and have reasonable transition periods decreases the risk of engaging with the program for VEEC traders, APs, and installers. In the past, the EEC understands VEEC traders have been subject to high market volatility as a result of short transition periods and sudden changes to activity requirements.

15. How does the time delay between installation of an energy efficiency upgrade and the registration of corresponding VEEC affect the discount that customers receive through the program?

Lengthy delays between the installation of an upgrade and VEEC registration increases uncertainty around the price that will be received for VEECs created and incentivises certificate creators to price this risk into their offerings for consumers, leading to a lower benefit for consumers but also increasing the difficulty of communicating the estimated benefit to the consumer.

16. How would changes to the requirements for banking and borrowing impact the certificate market?

As noted in the discussion paper, the VEU already allows for banking, which is one market 'stabiliser' that can be helpful for smoothing out differences in supply and demand for certificates and avoiding sudden price spikes. Revisions to the targets are another mechanism that can alter supply and demand, and recently, the Victorian Government has signalled it will set lower targets in 2026-27 as a way of bringing down VEEC prices that have remained high without driving significantly more activity.

Changes that allow for borrowing in the VEU would add another 'price release value', similar to banking. In principle this can be a useful mechanism for allowing the market to release upwards pressure on certificate prices, with less administrative burden compared with revising regulated targets and therefore a faster impact on prices. Several successful certificate schemes in Australia allow for borrowing as noted in the discussion paper.

It is important that there is a cap on borrowing – as a percentage share of retailers' obligations or on the number of times retailers can access borrowing – because if rates of borrowing are too high, weak demand for certificates could cause prices to remain too low for long periods, potentially compromising the sustainability of the scheme.

17. How can the VEU program improve its responsiveness when setting and amending requirements for prescribed activities, and better adapt to changes in the market?

Increasing responsiveness when issues with the scheme are raised by responsible APs while also making changes in a way that avoids sudden regulatory changes that could lead to market instability would be a positive step forward, noting that this can be a difficult balance to strike.

Transparency and good communication are important when issues arise, to avoid even the perception of making changes suddenly, which can leave scheme participants feeling like their cashflow and existing contracts are under threat from unforeseen changes.

In relation to keeping up with technological changes, the EEC supports the creation of a national 'white list' of high performing products, maintained by an appropriate, agile organisation, separate from government, at the *national* level. This would result in significant efficiencies for all state and territory regulators and remove some of the barriers that manufacturers face in trying to have their products accredited under multiple schemes with different requirements.

Accredited persons, aggregators, installers and products

In general, the EEC supports the principle of minimising scheme costs while maximising the quality of service for customers receiving upgrades.

In any incentive program, decisions will be needed as to who bears responsibility for overseeing the quality of the work. In the case of the VEU, the primary responsibility for oversight of the scheme falls on APs, which is reflected in the onerous procedures required to become and operate as an AP.

The discussion paper notes that aggregators 'play a valuable role in supporting VEU market operations' and that six of the top 10 VEU APs are aggregators. The reason for the dominance of aggregators in the Victorian market is because in addition to the service they provide (e.g. aggregating multiple small numbers of certificates into levels that meet minimum trade volume limits) they tend to be the companies with the necessary resources to take on the compliance burden (and cost) of being an AP. Without aggregators, it is possible that only a small number of companies with the resources to become APs would do so, excluding smaller companies from undertaking work for the VEU, reducing certificate creation and making targets harder to achieve.

This is the context for the EEC's comments in response to the questions that follow in this section.

18. (a) Are the requirements to become an AP reasonable and proportionate? If not, what improvements could be made?

It is reasonable that the requirements to become an AP require a level of difficulty, to create barriers to unscrupulous operators from entering the scheme.

However, there is scope to improve the process so that *time* is not a barrier. For example, the requirement that applications must be made 90 days in advance, with the potential for the outcome to be delayed further, is burdensome without necessarily creating improved outcomes for consumers.

In addition, the requirements to become an *installer* under the VEU could be improved (see 18c).

18. (b) Are the requirements for operating as an AP reasonable and proportionate? If not, what improvements could be made?

The expectation that aggregator APs bear the full responsibility for all workmanship issues is disproportionate given the other benefits they provide. A more reasonable and proportionate approach would be to introduce a VEU-accredited installer program. This would improve transparency and enable the VEU program to easily identify and exclude installers who move between APs seeking lower compliance standards.

In addition, as noted above, the quality of marketing and communications currently varies between APs. The Government could assist by developing mandatory training that helps ensure APs are well versed in how to market and talk about the scheme, ideally aligned with an independent, ongoing government engagement effort.

18. (c) Should the VEU program have different requirements for APs who conduct product installations and APs who do not?

Fundamentally, changes are needed to the VEU to shift more of the responsibility for quality installations to individual installers. This is because if the burden is primarily on APs, installers can 'shop around', jumping between APs until they find one with a laxer approach to compliance, making it harder for scheme administrators to identify and expel problematic individuals, while damaging the reputation of APs along the way.

The VEU should:

- Create an installer program that includes mandatory training for individual installers and requires them to be listed on a public registry of certified installers.
  - The program would ideally be national, certifying individuals to work across multiple states and territories. However, given individual installers are more likely to work in the state where they live, the program could commence in Victoria.
  - The most appropriate organisation to run the certification would operate nationally but could be a government or industry created institution. One option is for government to tender for an industry provided solution (the EEC's Certified Insulation Installer program is an example of this).
  - The program could be scaled up over time, commencing with individuals working with households as the most urgent priority. The appropriate certification for professionals supporting business upgrades would require more exploration.
  - While training should be part of the certification, different requirements would likely need to apply to existing trades versus unregulated trades. At minimum, all installers should have training on basic information about how the VEU works and how to communicate it.
- Develop a series of training modules to ensure installers and APs understand how the scheme works, how to communicate about it to customers, as well as technical information for different activities (e.g. plumbing and electrical requirements for different upgrades).
- Develop a code of conduct for installers, similar to the code of conduct for APs.

19. (a) What customer risks are associated with the aggregator model and how could these be addressed?

The risks are not significantly different between the aggregator model and a model that does not permit aggregation. The key to reducing risks for customers is to ensure that the ESC has better oversight of installers doing the work under any model.

As noted above, requiring APs to regulate the quality of installers' work, without directly requiring installers to meet specified levels of service creates risks for customers as installers can 'shop around' for APs that have a lax approach to compliance.

These risks would be largely mitigated through the approach outlined in the response to question 18(c).

19. (b) What factors influence the decision of installers to work with aggregators instead of becoming APs themselves?

The primary factor influencing the decision of installers to work with aggregators is that maintaining AP accreditation is hard when it is not core business. Maintenance of AP status requires dedicated resources; just as small businesses tend to outsource many aspects of their operations where they are under-resourced (from accountancy to marketing) it is understandable that these businesses outsource certificate creation to aggregators.

Aggregators invest the time and resources to become and continue to operate as an AP and take on market risk (noting the delays between installations and certificate creation can be lengthy). They also maintain direct relationships with obligated retailers. These are functions that many smaller businesses would struggle to maintain so it is aggregators that facilitate smaller businesses participating in the scheme.

19. (c)Are the current requirements for APs sufficient to guarantee strong customer outcomes through the aggregator model?

Whether the current requirements for becoming an AP are sufficient to guarantee strong customer outcomes is an important question, irrespective of whether aggregators are involved or not.

Improvements to the way the scheme regulates individual installers would improve customer outcomes when it comes to installation quality.

19. (d) If not, what changes to the program should be considered?

See answer to question 18(c) in relation to implementing a VEU-accredited installer program.

20. What has been the experience of product manufacturers seeking to make their products available through the VEU program?

Amongst the EEC's members, the experience has been mixed.

Some well-established brands—accustomed to selling their products through major bricks-and-mortar retailers and via long-established networks of installers—report that their installer networks have found accessing the VEU complicated. Thus, only a very small number of their installers tend to participate. These manufacturers also hold some concerns that poor quality products are entering the scheme due to the absence of a well-maintained and stringent product eligibility list that should only reward best-in-class performance (not just any product that meets MEPS).

Brands that have emerged more recently, alongside development of retailer obligations in several states, are well versed in how to bring their products into the VEU and find the product application process to be reasonable and practical. These companies report that the VEU has more onerous requirements than is required to supply products into the general market and that these barriers to entry are appropriate to ensure quality.

A national 'white list' of high performing products, maintained by an appropriate agile, organisation, separate from government, at the *national* level would also result in significant efficiencies for all state and territory regulators and remove some of the barriers that manufacturers face in trying to have their products accredited under multiple schemes with different requirements.

21. Are there any other issues or opportunities for the VEU program not covered in this discussion paper that you would like to raise?

One issue that was not covered in this discussion paper was regulatory alignment with other state and territory schemes, an issue affecting product manufacturers and APs working across multiple states and territories.

The responsibility of ensuring national alignment of schemes is best led by ECMC, likely through a formal sub-working group. However, Victoria is encouraged to take a leadership role and push for alignment where possible.

A concrete step in this direction would be support for a national 'white list' of accredited, high performing products that can be used by state and federal incentive programs (including the VEU).

Appendix A – Potential new activities

In consultations, EEC members have provided a range of possible new activities that could be rewarded under the scheme. This list is not exhaustive and is in no particular order.

- Insulation
- Heat recovery ventilation systems to combat air quality issues associated with better thermal performance.
- Connected devices, including home energy management as well as Industry 4.0 technologies at C&I sites.
- Electric heat pump replacements of hydronic gas heating systems
- Installation of ground source heat pumps
- Benchmarking business / household energy performance
- Gas-assisted solar systems: A new activity to replace the gas back up with electric, rather than replace the entire system.
- Direct PV Hot Water (Linking solar PV panels to electric hot water tank via DC cable)
- PV diverters (for linking PV systems to hot water)
- Efficient air compressors: Deemed activity (<75kW)
- Efficient chillers via a deemed activity, akin to NSW
- Installation of water-cooled air-conditioners
- Activities to that reward substitution of additional baseline fuels (e.g. diesel, coal, etc) with electricity.
- Multipliers for Scorecard / NatHERS ratings to make them free for low income households
- Activities that reward new buildings that go beyond minimum standards (e.g. go above 7 stars and do a package of upgrades)
- High efficiency fans for industry and agriculture.
- A deemed method based on M&V for projects that is more efficient and quicker than the current PBA method.
- Thermal energy storage at industrial sites
- Residential storage (Batteries and V2B/G capable electric vehicles)

Energy Efficiency Council

Level 18, 1 Nicholson Street,
East Melbourne 3002
Victoria, Australia

eec.org.au