Victorian Energy Upgrades
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Re: Victorian Energy Upgrades – Space heating and cooling review

Thank you for the opportunity to provide a submission to the *review of the Victorian Energy Upgrades space heating and cooling activity*.

The EEC is the peak body for energy management in Australia. Our members include technology suppliers, energy service providers, major energy users, governments, education providers and NGOs. Energy efficient products and services are essential for a cost-effective, equitable, and orderly transition to net zero.

Please see below for our specific responses to the consultation paper, as well as our general comments.

1. **Do you have any feedback on the impact the VEU heating and cooling activity has had to date? This may include impacts on customers, industry (products and installers) or the VEU program.**

Consultation with members revealed a generally positive view of the impact this activity has had to date in driving strong market uptake.

Specific feedback from members included:

- Concern about the emergence of "scheme-specific" HVAC brands brought to market to capitalise on incentives and the long-term risks these may introduce, such as a lack of warranty and product support provisions for consumers once the activity is no longer available and the manufacture and distribution of the products ceases.
- A view that the current design of the activity incentivises the over-sizing of systems.
- Concern that this activity may be carrying a disproportionate weight in meeting VEU targets, which presents a significant market risk within the scheme and raises broader questions regarding scheme stability.

2. **Do you think monthly installation numbers for the heating and cooling activity can continue to grow? Please explain your views.**

Our members have indicated a general level of confidence that this market can continue to grow.

Specific feedback from members included:

- Growth is dependant on structural changes to ensure sustained demand.
- This activity has absorbed some scheme participants that are moving away from older, less lucrative activities. These participants often lack HVAC experience, which poses a risk to installation quality and consumer experience.
- The growth of this activity may be threatened by broader societal challenges such as weaker consumer spending and supply chain volatility.
- As this activity is heavily reliant on residential demand, which may see a decrease in volume given current and expected economic conditions, the VEU should focus greater attention on commercial opportunities where HVAC use is higher, and savings can be greater.

3. **Are there alternative or emerging heating and cooling technologies that could be supported by the VEU program? Please explain what heating and cooling technologies should be supported by the VEU program.**

EEC members identified the following alternative or emerging technologies that could be supported by the program:

- **Evaporative cooling:** Evaporative cooling units should be included, particularly for Victoria's north-western climate zones where they offer a proven high-efficiency consumer option.
- **Combined space/water compressors:** While still considered an emerging technology, these systems require sophisticated design and may be better suited for warmer climates than Victoria's; however, they may warrant future consideration.
- **Efficient heat pump hydronic systems:** noting the current consultation on the VEU hydronic heating activity.

4. **Are there opportunities for the VEU program heating and cooling activity to further support the growth and participation of local manufacturing and businesses? Please explain your views.**

EEC members advise that Australia retains a viable HVAC manufacturing sector, and that supporting local operations can help sustain domestic jobs and ensure consumers have access to reliable, long-term product support.

At the same time, there are high-quality manufacturers based offshore whose products play an important role in the market and should not be excluded from the scheme.

One member suggested there may be merit in introducing a multiplier or weighting mechanism (like solar panel tiering) that incentivises Australian manufacturing without excluding imported

products. The EEC also notes that Solar Victoria took steps to support local manufacturing by adding additional incentives for 'locally' made heat pump hot water systems (HPHWS) in its program.

5. **Do you have any feedback on the current heating and cooling activity requirements? Please include any proposed changes and the rationale for them.**

EEC members provided the following feedback regarding the current activity requirements:

- **Gas decommissioning:** Requirements for the removal of gas heaters should be strengthened and clarified to ensure proper disposal and environmental compliance.
- **Installer verification:** The VEU should consider requiring photographic evidence ('installer selfies') on the commencement and the completion of works. This is similar to solar STC installation requirements, and would help to ensure that only licensed, accredited personnel are performing installations.

6. **Do the current activity requirements encourage innovation in the energy efficiency and refrigerant use of RCACs? Please explain your views.**

Refrigerants are a complex and often contentious issue within the heat pump industry, spanning both space heating and cooling and hot water applications. While incentivising the use of lower-GWP refrigerants is a positive objective, any changes should be developed through detailed and meaningful consultation with industry to ensure they deliver the intended outcomes without creating unintended consequences.

7. **Do you have any feedback on the current emissions savings calculations? Please explain any proposed changes.**

During EEC member consultation, we heard that:

- Medium-sized businesses that fall outside of feasibility to do a Measurement and Verification (M&V) project but require bespoke systems (beyond like-for-like replacement) need greater consideration and support.
- Incentives should be adjusted to reflect the higher utility of commercial HVAC systems, and the high degree of potential savings associated.
- The 18% loss factor applied to ducted systems may be too high. *AS/NZS 5141:2018* includes a sample heat load calculation table which assumes 10% loss for ductwork.

8. **Should incentives be included for households to replace gas hydronic heating systems with RCACs? What factors should the department consider if a scenario for replacing gas hydronic heating with RCACs is developed?**

The EEC's position is that an orderly phase-out of residential gas use is essential to support net zero objectives, while also improving household health, comfort, and affordability. In this

context, replacing gas hydronic heating systems with energy efficient alternatives should be supported where it delivers a net energy saving.

Energy efficient alternatives may include RCACs but could also include hydronic heat pumps.[1]

Consistent with Victorian policy priorities on gas phase out and emissions reduction, the VEU could consider incorporating a "gas replacement" weighting within its calculations to better incentivise electrification and improve its attractiveness to consumers.

9. **Do you agree that the product eligibility criteria should be reviewed with a focus on ensuring sufficient products are available for businesses to undertake upgrades? Please explain your answer, including detail on changes to product requirements that could be considered.**

The EEC agrees that product eligibility criteria should be reviewed with a focus on ensuring sufficient products are available for businesses to undertake upgrades.

We heard specific advice from members on this topic, including:

- Commercial uptake is poor. A primary driver of this is low ROI impact, alongside low scheme awareness among commercial installers.
- Residential and commercial installations (and the businesses/installers that perform them) are fundamentally different - the VEU should treat them as distinct categories. It could do this by introducing product approvals that are specifically suited for business environments, including:
    - Large-capacity products that account for the unique heating and cooling load profiles of commercial settings.
    - Commercial-only product criteria to ensure suitability and performance.
    - Clear separation of categories to mitigate the risk of residential over-sizing, ensuring that high-capacity units are directed toward the business applications that genuinely require them.

10. **Should the department consider introducing additional incentives for zoned ducted RCAC systems? Please explain your answer, including any detail on how zoning of ducted RCACs could be included.**

There is support, although not universal, within the EEC membership for the introduction of such incentives. Specific member feedback on the practicalities of this includes:

- **Evidence of compliance:** Methods need to effectively ensure that zoning is truly occurring, not just bypass ducted.
- **Product eligibility:** Existing products that are currently zoning-capable will need to be amended on the register.

[1] The EEC notes the separate consultation for a new hydronic space heating activity in the VEU.

- **Rebate capping:** If rebates are introduced, the VEU should consider capping them to avoid the risk of oversizing (larger systems installed with zoning, rather than achieving the intended outcome of reduction of overall system size through zoning).
- **Consumer education:** Consumers will need to be trained on how to use zoning effectively to ensure efficiency gains are realised.

11. Do you agree with setting a 17-kilowatt cap on incentives for multi-split RCACs? Please explain your views.

This question will be best answered by those actively participating in the VEU. However, EEC members made the following comments:

- A kilowatt cap for multi-split RCACs should be tiered based on thermal calculations for each space. Thermal calculations provide a more targeted approach to ensure that consumers can receive an appropriately sized system.
    - A fixed kilowatt cap (without thermal calculations to determine the cap) is unlikely to fix the root issue of oversizing, though may result in 17-kilowatt capacity units being installed in all spaces, regardless of consumer needs.
    - There is a fairness issue for consumers that genuinely require a capacity over 17-kilowatts but can no longer benefit due to an inflexible cap.

12. Should the minimum co-payment for multi-split and ducted RCACs be increased to $3,000? Please explain your views.

A fixed $3,000 co-payment is not well calibrated. It is too high for smaller installations, where it could result in excess margins for installers, but likely too low for larger systems, where it may not reflect the true cost of installation.

Across technology types, there is general support within the EEC membership for fit-for-purpose co-payments in schemes to drive better outcomes. To that end, the EEC is supportive of lifting the minimum co-payment for multi-split and ducted RCAC systems, but co-payments should be scaled according to either system capacity or the number of VEECs generated. The latter (certificates generated) has been applied in the NSW Energy Savings Scheme (ESS) and the SA Retailer Energy Productivity Scheme (REPS).

13. Do you agree with the proposed transition time (4-months) before changes commence? Please explain your views.

The EEC heard general support for the time frame supplied; however, we note that implementation of notice periods has a direct bearing on industry confidence in the scheme. We heard a preference that notice periods should commence from the time that a change is formalised, not from the time of consultation on change(s), to give industry confidence and adequate time to respond.

14. Do you think that the proposed changes to incentives and minimum co-payments will impact activity uptake? Please explain your views.

The EEC received the following advice from members:

- The proposed changes are likely to result in a decrease of large-capacity unit installations.
- The air conditioning market in Victoria is highly price sensitive, especially in residential retrofit scenarios. Therefore, the average system size may also decrease to account for consumer price requirements if fixed values are implemented, such as copayment and capacity limits.
- Given the above, the volume of activity is likely to be maintained, but the number of VEECs created from the activity is likely to decrease.

15. What further actions should the department consider to address ongoing concerns about sizing of RCAC installations under the VEU program?

While individual scheme participants are best placed to provide detail, on consultation the EEC heard the following advice on this topic from within our membership:

- **Require thermal load calculations per a published formula to ensure that systems have been sized appropriately**. This ensures that each property is getting the system size that is suitable based on a range of factors.
- **Require gas bills to be collected**. This would demonstrate that a household's gas consumption is in line with that of a property requiring a large reverse cycle heating system (over 10kW).

16. Do you have any additional feedback on the heating and cooling activity that you would like to provide?

The EEC heard the following advice from an AP member:

- Concern that installation businesses with high rates of non-compliance or consumer issues shop between APs, before eventually becoming self-accredited. These self-accredited businesses carry a higher risk profile, as upfront subsidy costs create pressure to generate VEECs on every job, potentially at the expense of compliance and integrity.
- The financial incentive to overlook compliance gaps is significantly lower for an aggregation-based AP, as the cost of rejecting a non-compliant job is limited to the loss of a service fee (as opposed to self-accredited providers who can also lose the entire value of the equipment or incentive provided upfront).

While this does not ensure perfect compliance of aggregation-based APs, or mean certain non-compliance by self-accredited providers, there is arguably less incentive for aggregators to engage in non-compliance, as they lack the same level of financial motivation to modify evidence or ignore irregularities to avoid loss. These motivating factors should be considered when designing activities and interventions within the scheme.

General comments

Apartments

Many of the 12% of Victorians living in apartments and units face higher energy costs because they are less able to access energy efficiency upgrades, optimise energy use, electrify, or benefit from the transition to renewables.

While Victoria has introduced leading policies to ensure new apartment buildings are all-electric and meet National Construction Code energy performance standards, older buildings typically perform poorly and often rely on gas or inefficient electric systems for key services like heating and cooling.

Historically, many VEU activities (and other programs and regulations for efficient electrification) have been difficult to access, or included exclusions in apartment settings, as they have largely been designed with standalone homes in mind. Although apartments contain similar equipment to other homes, they present unique challenges due to strata arrangements, high instances of renting (leading to split incentives), and the technical complexities of retrofitting.

It is critical that the VEU better accounts for apartments in the design and redesign of activities, to ensure this significant segment of the housing stock, and the Victorians who live in it, are not left behind in the clean energy transition.

Thank you for your consideration of our comments. For further information or to engage on any aspect of this inquiry, please email Jeremy.Sung@eec.org.au.

Sincerely,

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Head of Policy

Energy Efficiency Council