



Ms Anthea Harris
Deputy Secretary, Energy
Department of Environment, Land, Water and Planning
8 Nicholson Street
EAST MELBOURNE VIC 3002

6 November 2019

Dear Ms Harris

REGULATORY IMPACT STATEMENT FOR VICTORIAN ENERGY EFFICIENCY TARGET AMENDMENT (PRESCRIBED CUSTOMERS AND TARGET) REGULATIONS 2020

I would like to thank staff at the Department of Environment, Land, Water and Planning (DELWP) for working with my team on the preparation of the Regulatory Impact Statement (RIS) for proposed amendments to the Victorian Energy Efficiency Target Amendment (Prescribed Customers and Target) Regulations 2020 (the proposed Regulations).

As you know, under section 10 of the *Subordinate Legislation Act 1994* (the SLA), the Commissioner for Better Regulation is required to provide independent advice on the adequacy of analysis provided in all RISs in Victoria. A RIS is deemed to be adequate when it contains analysis that is logical, draws on relevant evidence, is transparent about any assumptions made, and is proportionate to the proposal's expected effects. The RIS also needs to be clearly written so that it can be a suitable basis for public consultation.

I am pleased to advise that the final version of the RIS received by us on 1 November 2019 meets the adequacy requirements of the SLA.

Background

The *Victorian Energy Efficiency Target Act 2007* (the Act) establishes the Victorian Energy Upgrades (VEU) program. The program aims to reduce greenhouse gas (GHG) emissions through reducing the demand for energy by encouraging the installation of more energy efficient products, equipment and processes.

Upgrades installed by accredited persons (APs) generate Victorian Energy Efficiency Certificates (VEECs), each representing one tonne of GHG emissions avoided. Energy retailers are required to buy VEECs in proportion to the energy they sell. This requirement gives VEECs a market value. In turn, this encourages investment in energy efficiency upgrades by incentivising APs to identify them for energy consumers and lowering the installation price charged to them.

In this context, the primary objectives of the proposed Regulations are to support the Act in a manner consistent with the Act's objectives, while providing the greatest benefit for Victoria.



The Act requires that targets for the number of certificates to be issued for the period 2021 to 2025 be set in regulations by 31 May 2020. The proposed Regulations set these targets.

In setting targets, the Department must simultaneously make decisions on several other aspects of the program including:

- the emissions factors used to determine the number of VEECs generated by an expected reduction in energy usage (which are proposed to be incorporated into future technical specifications);
- the types of activities to be prescribed for the purposes of creating VEECs (the RIS considers broadly whether additional activities should be prescribed, with the specific activities to be determined in a future regulatory change);
- the penalty for non-compliance (the shortfall penalty); and
- the operation of exemptions from participation in the program.

Feasible Options and Impact Analysis

As with previous RISs prepared for the operation of the VEU program, the analysis relies on complex modelling and numerous assumptions. The RIS utilises several related steps:

- making regulatory design choices for the program where only one option was considered feasible and held constant for the purpose of analysis across all other options, including overall emissions factors, penalties for retailers failing to achieve the targeted reductions, and determining a selection of Trade-Exposed Large Energy Users (TELEUs) to be exempted from the program;
- undertaking a detailed cost benefit analysis (CBA) of five options involving increasing cumulative targets for VEECs issued, ranging from 14.3m to 38m over the five-year period, with variations in year-to-year targets (trajectories), activities included, and mechanisms for TELEUs to be exempted. These five options are each compared with a theoretical “reference case”, which assumes a zero-certificate target would have a net zero impact on Victoria’s economy. This approach provides a stable reference point for the analysis, but avoids estimating structural adjustment costs as the existing market for VEECs is wound-up. The Department argues that this simplifying assumption does not impact the choice of a preferred option; and
- combining the CBA results with several other criteria that capture Government objectives which could not be quantified in the CBA in a Multi-Criteria Analysis (MCA), including energy affordability, energy grid impacts, innovation and equity/fairness. The final decision was based on comparisons with the same “reference case”.

Preferred Option

The Department identifies the option with the second highest target of VEECs issued as its preferred option (Option 4, the “high target”), stating it is best at meeting the proposed Regulations’ objectives. This option:

- sets a cumulative target of 34.5 million certificates over five years, starting at 6.7 million in 2021 and increasing to 7.3 million in 2025;
- includes new activities in the scheme, such as fuel-switching activities, solar systems and activities which optimise their use of renewable energy through load-shifting and storage; and

- allows TELEUs to exempt themselves, by meeting the ISO 50001 or equivalent standard.

Over the next 30 years, the Department states that the preferred option is expected to result in a net benefit of \$4.7 billion to the Victorian economy, 40.6 million tonnes of GHG emissions abated (equivalent to planting 8.1 million trees) and a reduction of over 165,000 GWh in electricity consumption.

Option 4 scored highest in the MCA. While, based on this methodology, the more ambitious options (Options 4 and 5) generally scored better in terms of CBA results, energy grid impacts and innovation, Option 4 was preferred over Option 5 because of its significantly better energy affordability impacts, and slightly better equity impacts.

Implementation and Evaluation

In the RIS, the Department commits to consulting with industry and the community further. The Department also commits to engaging with industry on the introduction of new activities and the phase-out of lighting from the program. The Department will also consider changes to the objectives of the Act and how best to deliver for low income consumers while maintaining market liquidity and certainty.

The proposed Regulations set targets until 2025. By May 2024, the Department will need to establish targets for the 2026-2030 period. At this point the Regulations will be reviewed. In addition, the Department has committed to reviewing the new opt-out mechanism for TELEUs in 2022.

In its reviews, the Department intends to draw on evidence including the number of certificates for each type of activity, levels of surplus certificates, VEEC price information, number of households and businesses participating, and community feedback on the program.

Should you wish to discuss any issues raised in this letter, or the implications of new information or policy options identified through the public consultation process for your proposal, please do not hesitate to contact my office on (03) 9092 5800.

Yours sincerely



Anna Cronin
Commissioner for Better Regulation
Red Tape Commissioner