ESIA Submission:

Victorian Energy Upgrades (VEU) Program 2026-27 Target RIS Consultation

Due 16 January 2025 (Extension to 30 January)

Submitted Victorian Energy Upgrades, Department of Energy, Environment & Climate Action (DEECA), energy.upgrades@deeca.vic.gov.au

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1. Introduction

The Energy Savings Industry Association (ESIA) welcomes the opportunity to provide this submission to the **Victorian Energy Upgrades (VEU) Program 2026-27 Targets RIS Consultation** which commenced on 2 December 2024. This consultation is being managed by the Department of Energy, Environment and Climate Action (DEECA).

About ESIA

The Energy Savings Industry Association (ESIA) is the peak national, independent association representing and self-regulating businesses that are accredited to create and trade in energy efficiency certificates in market-based energy savings schemes in Australia. These activities underpin the energy savings schemes which facilitate the installation of energy efficient products and services to households and businesses. Members represent most of the energy efficiency certificate creation market in Australia. Schemes are established in Vic, NSW, SA and ACT. Members also include product and service suppliers to accredited providers under the schemes. As well, the ESIA represents member interests in national and state initiatives that include energy efficiency and demand reduction, such as the Federal Government's Carbon Farming Initiative energy efficiency methods and National Energy Performance Strategy, and the NSW Peak Demand Reduction Scheme.

Further engagement

We welcome the opportunity to discuss this submission further, please contact the ESIA Executive Director at comns@esia.asn.au.

The consultation

The ESIA referred to the RIS document at https://engage.vic.gov.au/victorian-energy-upgrades-program-targets

Timeline

The webpage states:

- Consultation opened – **2 December 2024**
- Consultation closes – **16 January 2025**
- Review submissions and analyses responses – **Early 2025**
- Release response to consultation – **March 2025**
- Targets set in regulations – **31 May 2025**

This submission can be made public. (The ESIA did not respond via the Online Survey).

2. Response to Consultation – ESIA Position

2.1 Targets

i. **The ESIA continues to applaud the ambitious and nation-leading emissions reduction targets of both the Victorian government and its flagship Victorian Energy Upgrades (VEU) program**. The VEU is committed as a centerpiece mechanism now to be legislated to 2045 from inception in 2009.

> *Victoria's legislated emissions reduction targets: 45-50 per cent below 2005 levels by 2030, a 75 to 80 per cent reduction by 2035 and net zero by 2045.*
>
> *VEU legislated targets 2024 - 7.1 million, 2025 - 7.3 million*

ii. **ESIA supports the largest possible target for the VEU for 2026-27 and which has the highest total net present value (NPV) which is Option 3**:

> *VEU Targets RIS 2026-27*
> *Option 3: 2026 - 6 million, 2027 - 7.3 million*
> *NPV ($m) 2,641.9*

iii. **ESIA notes that the Victorian government prefers Option 2:**

> *VEU Targets RIS 2026-27*
> *Option 2: 2026 - 5 million, 2027 - 6 million*
> *NPV ($m) 2,333.7*

iv. **ESIA challenges assumptions made in the government's modelling** that found that Option 2 has the highest benefit-to-cost ratio above Option 3:

> *Option 2: 3.71*
> *Option 3: 3.17*

The ESIA considers the government has made:

- Activity assumptions that are conservative: for Option 2 suggesting that only a moderate number of activities for households and businesses, where instead a significant number of activities could be included. (Refer to point v. below for suggestions.)
- Regulatory assumptions that are conservative: the government's crucial Building Electrification RIS preferred Option 3 excludes existing commercial buildings. (It includes electrification of all **new and existing** residential buildings (*excluding* existing residential cooking) and all **new** commercial buildings.) The ESIA is advocating for an alternative to be considered: a blend of the four suggested options: electrification of all **new and existing** residential (*excluding* existing residential cooking) and all **new and existing** commercial buildings, *excluding* existing commercial kitchens.

v. **The ESIA supports a higher target sooner to drive both government and industry to deliver upgrades at greater scale in the near term.** Lower targets will

only serve to shrink industry confidence and investment, delay opportunities to get Victoria off gas where possible sooner, miss the significant opportunity for Victoria to deliver on its emissions reduction targets and ease bill pressure to those customers who can upgrade.

2.2 Activities

Immediate activity improvements needed

vi. **The ESIA continues to provide highly targeted recommendations to the Victorian government that would unlock genuine greenhouse gas abatement in the near term** (2025) and for this Targets RIS consultation period for 2026-27.

These recommendations are where the ESIA proposes the Victorian government place its *immediate* resources. (Details are available upon request, email comns@esia.asn.au.) ESIA recommendations include ideas for existing or new activity, proposed action, rationale, mechanism to execute changes, pool of opportunity, potential additional VEECS, risks and guardrails.

A summary of the ESIA recommendations made in June 2024 yet to be actioned:

Existing activities:

- **A3c – gas hot water to heat pump (residential)** - Increase incentive to accurately reflect abatement;
- **A6 – Space heating and cooling** - Allow and accurately incentivise multiple single RCAC systems to replace gas ducted heating;
- **(A44) Commercial Hot Water** - Change minimum age of existing system from 10 to 3 yrs;
- **(PBA) Streamlining PBA** - Standard upgrade types - e.g. HVAC, boiler upgrades - 50% + of the energy savings based on engineering assessments to be available at time of installation for a defined range of typical upgrades; and
- **(PBA) Solar PV Proposed new sub-method** - Incorporate direct measurement as a measurement option.

Potential new activities:

- **Smart Thermostats** - Introduce a modified point-of-sale based activity, considering consultation and work DELWP completed in 2020-2022;
- **Early participation of LEU sites** - Take advantage of changes to the ESIA-proposed Streamlined PBA. Larger sites will still need to undertake full M&V so creation will take some time to emerge;
- **Batteries with Solar PV Method** - Introduce a new activity that recognises abatement from installation of a battery where the customer also has solar PV;
- **Bundled Residential Upgrades using Scorecard** - Introduce new activity

based on the energy saved when activities get implemented following a Scorecard assessment;

- **PBA Gas Efficiency Method** - Introduce activity that incentivises gas efficiency;
- **Sandboxing** - Introduce new activity within the VEU target for 'sandboxing'.

A summary of further ESIA recommendations updated at 30 January 2025:

- **Longer asset lifetimes for various appliances** is reasonable based on the findings in the BE RIS, refer to Appendix C, pp155- which notes that asset lives are 14 years for ducted and room gas heating and hot water instantaneous and storage.
- **A PBA gas efficiency method** is especially urgent if commercial buildings are to be excluded from the BE RIS regulations as proposed in the government's preferred option.
- **A (PBA) Solar PV Proposed new sub-method** is urgent given that the PBA VEU response to consultation released on 12 December 2024 did not unlock this significant low risk pool of market opportunity that will support businesses to get off gas.

  The above three opportunities alone need prioritising, especially should commercial buildings not be required to phase out gas (as per the BE RIS). Commercial buildings need incentives to use gas more efficiently as soon as possible. (NABERS ratings are not considered to be a driver to bring building efficiency forward in the near term.)

Activity saturation assumptions

vii. **The ESIA does not believe that various low-cost activities are reaching market saturation across Victoria.** For example:

Weather sealing – it is likely many upgrades in homes only installed the minimum number of sealing units to maximise AP margins, such as front door, back door and door nearest a fireplace. This is because the profit margins may reduce as more sealing units are installed. Therefore, it cannot be assumed that homes that have had upgrades are now well weather sealed.

In-home displays (IHDs) – This activity stalled when VEECs were reduced from two to one and the upgrade opportunity became unviable. This is not an indication of saturation, but an indication of lack of commercial viability to roll out at scale. These devices are continuing to evolve. They mark the beginning of the energy efficiency journey by educating many energy consumers of their onsite consumption with real time data. Also referred to as 'foot-in-the-door activities', IHDs educate consumers with well informed offers available through the VEU and other incentive scheme and rebate programs including Solar Victoria.

Low flow shower roses – many sites still have inefficient shower roses.

These types of lost cost activities can still be effectively bundled for commercially viable roll out at scale.

2.3 Penalties

viii. **Risk of not meeting 2026-27 targets can be reduced for obligated parties** (electricity and gas retailers) by extending the time they must meet their obligations – a precedent was set for this during the COVID-19 pandemic.

The ESIA acknowledges that removal of VEEC vintage obligations in train also significantly supports retailer flexibility in meeting their annual targets.

Meeting obligations with VEECs rather than paying penalties would deliver a much better outcome with emissions reductions ultimately being delivered.

Alternatively:

ix. **The ESIA suggests that penalties paid by obligated parties should be directed with full transparency to deliver energy upgrades** in the most difficult to abate sectors and/or as part of highly targeted projects and rebate programs that fully leverage the VEU e.g. Solar Victoria hot water and battery rebates, Rewiring Australia Electrify-postcode-type projects which provide transparency for emulation and could offer bundled activities some of which are not currently under the VEU such as insulation, social and community housing – potentially with support through local councils that could provide intermediary people skilled to access VEU incentives and to provide expertise to residences that don't have the skills and time to access VEU solution providers.

x. **Alternatively, the ESIA suggests that a completely different yet proven approach be considered for the VEU that more reasonably values the cost of emissions**: such as the approach established by the Commonwealth Safeguard Mechanism.

The federal Safeguard has a cost containment mechanism which is not a penalty, and which is tax deductible for the obligated party. From 30 June 2023, ACCUs were made available for compliance at $75 a tonne increasing annually in line with CPI plus 2%. ACCUs are currently around $36 a tonne. In contrast, the VEU penalty is currently set at $90 a tonne and is not tax deductible. Therefore, the tax effective penalty can be as high as $128 a tonne but for those parties not required to pay tax (e.g. in the case of making a loss which has been the case recently) the penalty price cap is likely lower at around $110.

2.4 Emissions Factors

xi. **The ESIA recommends that the Victorian government reconsider its proposed emissions factors for 2026-27 of 0.395 tonnes per MWh.**

- Emissions factor assumptions made as part of the more recently published BE RIS do not align with this approach. (Refer to analysis in the Green Energy Trading VEU Targets RIS consultation response which provides a basis for the government to reconsider.)

- Emissions factors should be directly related to the deemed asset lifetime of

an activity, noting that the BE RIS, Appendix Cm p155- consider asset lives of ducted and room gas at 14 years and hot water asset lives also of 14 years for mains gas instantaneous and storage.

- Emissions factors should be activity-specific where most relevant, to reflect the emissions reduction profile of the activity e.g. better incentivising a hot water heat pump that is set to operate during peak solar generation hours when emissions intensity is low or even negative.

- Energy customers that have solar PV on site (within a certain age and system size etc.) should be further incentivised when they electrify appliances. For example, with hot water and space heating and cooling during peak demand times, those customers use of their own onsite power generation basically which results in their electricity use having an emissions intensity of zero, or close to zero.

- The above opportunities are now even greater with the Victorian Essential Services Commission's January 2025 proposal to reduce solar PV feed in tariffs to virtually zero at 0.004c per kWh from June 2025.

2.5 Essential Service Commission fees

xii. **The ESIA recommends for any ESC fee increases:**

- the ESC needs to publish transparent KPIs on service delivery turnaround times for APs prioritising activities that present a high commercial risk to APs, including:
  - certificate creation: unreasonable turnaround times i.e. 4-6-week delays are commercially challenging (APs have the burden of cost of carry on VEEC value which is a significant financial risk);
  - investigations: need to be timely and fair. Currently, ESIA members have experienced investigations that have taken more than 12 months to resolve and that have occurred six months following an upgrade – long after rogue installers (not APs) have left the industry.
  - response time improvements: complex queries often revealed by highly experienced APs and early movers in new activities need priority as they can significantly help de-risk the program.

- a portion of fees could be partially directed to fund an effective scheme installer/solution provider register. (The ESIA has provided extensive recommendations on this topic for several years and following the regulatory reforms in recent years, this initiative still is warranted.)

xiii. **Anticipated impacts of proposed fee increase: any increase will ultimately be** passed through to customers where it cannot be absorbed into the cost of doing business.

xiv. **Regarding whether upfront fees should continue to be capped** at the current

level to lower the barriers to participate for smaller accredited providers:

- upfront fees act as a signal of the complexity of operating in the VEU to uphold integrity of the program.
- new AP entrants provide more competition and so help to reduce end prices to customers, so it is in principle reasonable to encourage new APs.
- when upfront fees are not capped for a reasonable period, then businesses considering continuing or starting to participate are not able to effectively undertake cost-benefit analyses for their business to participate for a reasonable period in the program.

2.6 Terms

xv. **Regarding terms**: The term 'AP profit' is used several times in the RIS including in the cost/benefit analysis. This term is unclear and somewhat misleading.

The ESIA questions whether this refers to the whole solution delivery chain including lead generation/marketing/sales, solutions provider (e.g. air conditioning services provider), installer (qualified tradesperson) and VEEC certificate creator (AP), noting that all these different service providers may be one and the same business (vertically integrated) or several different businesses and/or individuals.

For more information regarding this submission, please email ESIA Executive Director, comns@esia.asn.au