

Emma Jacobs
Manager, Victorian Energy Upgrades
Energy Policy and Programs
Department of Environment, Land, Water and Planning
Email: energy.upgrades@delwp.vic.gov.au

31 October 2017

Re: Victorian Energy Upgrades – Proposed Changes to Schedule 34 Lighting Upgrade

Dear Emma

The Energy Efficiency Council (EEC) thanks you for the opportunity to comment on the *Victorian Energy Upgrades - Commercial Lighting Issues Paper 2017*.

The EEC strongly supports the Victorian Energy Upgrades (VEU) program. The VEU improves the reliability and affordability of Victoria's electricity system whilst reducing emissions.

In relation to the short-term issues raised in the *Issues Paper*, the EEC:

- Does not have a view either way on the discount factors proposed for some Schedule 34 activities. While there may be a case for reducing the incentives offered for these activities, the Government has not published strong evidence that would indicate whether the incentives for these activities should or should not be reduced. We recommend that the government develop criteria for assessing whether incentives for activities should be reduced, maintained or increased, which it could apply to future reviews.
- Supports the principle of a 'staged reduction in incentives' that is proposed in the *Issues Paper*. A staged reduction provides energy efficiency providers with more time to adjust their business models and will result in a smoother transition in the composition of activities under the VEU.
- Opposes the proposed timetable for the introduction of the discount factors. We would propose that partial discount factors should be introduced no earlier than four months after the Victorian Government makes its final determination on this matter, and full discount factors are introduced no earlier than nine months after the final determination. This will provide more time for industry to transition.
- Continues to advocate that the Government review the case for co-contributions from energy users for commercial activities in conjunction with EEC members. A co-contribution would increase the incentive for energy users to assess the quality of equipment, which would increase the benefits from the VEU.

The EEC also strongly encourages the Victorian Government to set up a more structured process for reviewing the incentives for various goods and services. The EEC supports the regular review of the incentives that the VEU provides for various activities, because the incentive that is required to drive the uptake of a good or service will change and the market for that good or service develops.

These ‘market transformations’ should not come as a surprise. In fact, the VEU should be explicitly designed to encourage market transformation. This means that the government should expect, and therefore plan, to review the incentives offered for goods and services over time. However, the process for undertaking reviews is currently *ad hoc*, which increases uncertainty for industry and fluctuations in the price of certificates.

The EEC strongly recommends that the Victorian Government develop a clear process for triggering and undertaking a review of discount factors for different technologies. For example, the Government might announce in advance that it will undertake a review if a certain number of units of a product are installed, or the price of a product drops by more than a certain percentage.

Even if a review has been triggered, reviews should still be undertaken without prior assumptions – just because a certain number of units of a product have been sold it doesn’t mean that the market has transformed. Likewise, even if the cost of a product has declined, in some cases the cost of a product may only be a minor factor in its uptake rates - the major factor might be the cost for energy efficiency service providers to find and engage energy users.

However, providing a clearer process for triggering and undertaking the review of various products and services would provide signals to the energy efficiency industry that helps it to plan for changes in the incentives offered by the VEU, increasing the stability and cost-effectiveness of the VEU.

Summary

The EEC thanks the Victorian Government for its ongoing work to improve the operation of the VEU scheme, and looks forward to continuing to engage on this issue. If you have any questions please contact me on rob.murray-leach@eec.org.au or 0414 065 556.

Yours sincerely



Rob Murray-Leach
Head of Policy
Energy Efficiency Council