



Submission by
Alternative Technology Association

On the

Victorian Energy Efficiency Target Scheme

Issues Paper

18th May 2007

By e-mail to: veet.submissions@dpi.vic.gov.au

For further information or enquiries contact:

Brad Shone
Energy Policy Manager
ATA – Alternative Technology Association
(03) 9631 5406
E-mail: Brad.Shone@ata.org.au

ATA's submission to the *Victorian Energy Efficiency Target Scheme Issues Paper* of March 2007

The Alternative Technology Association (ATA) welcomes the opportunity to provide comment on the *Victorian Energy Efficiency Target Scheme Issues Paper* (the Issues Paper), as jointly prepared by the Department of Sustainability and Environment and the Department of Primary Industries.

ATA is a not-for-profit organisation established in 1980 to promote the uptake of sustainable technologies in order to protect our environment. The organisation provides service to over 3400 members, who are actively promoting sustainability in their own homes by using good building design and implementing water conservation and renewable energy technologies. ATA advocates in both the government and industry arena for ease of access and continual improvement of these technologies, as well as the production and promotion of information and products needed to change the way we live.

ATA welcomes the initiative of the Victorian Government in becoming the first jurisdiction in Australia to propose a mandated target for energy efficiency. Energy efficiency targets and white certificate schemes have achieved high levels of success internationally, most notably in the UK and Italy, and the Victorian Government should be commended in taking action in this essential area in the absence of federal leadership.

It is widely accepted that energy efficiency measures have an enormous potential to reduce energy consumption leading to a reduction in emissions of greenhouse gases from electricity generation, and the Victorian Energy Efficiency Target scheme (VEET) is an excellent initiative providing a mechanism for achieving this goal.

Summary of Key Recommendations

It is vitally important that any proposed scheme remains true to the overall goal of reducing greenhouse gas emissions through energy efficiency measures. Whilst the proposed evaluation criteria includes effectiveness, efficiency, simplicity and flexibility, it is essential that the stated key objective of reducing greenhouse gas emissions remains the underlying principle for all design aspects of the scheme.

This submission provides detailed comment on a number of key aspects of the proposed Victorian Energy Efficiency Target scheme. The key recommendations from this submission are that the scheme involves the following elements:

- **minimum of 12 year scheme duration, with four-year phases**
- **act as a flexible mechanism to ensure that efficiency goals are met**
- **annual targets with 'gateways' to provide a mix of flexibility and certainty**
- **priority groups be addressed through additional external mechanisms**
- **an annual compliance period**
- **eligible activities limited to direct energy efficiency measures**
- **regulatory additionality strictly excluded**
- **financial additionality an inappropriate test**
- **deeming of certificates, with a five year life-span**
- **strict shortfall penalties for non-compliance, with make-good provisions**
- **allowance for banking, however no borrowing**

Detailed Comments on Scheme Design

3.2 Scheme objectives

ATA acknowledges and commends the government on the broad suit of initiatives either proposed or currently in place to drive energy efficiency in Victoria, such as mandatory 5 Star energy ratings for new homes; participation in the Mandatory Energy Performance Standards program; EPA initiatives for larger business through licensing arrangements; rebates for appliance retrofits; the Energy Taskforce initiative; involvement in the National Framework for Energy Efficiency; and the 'black balloons' education campaign.

We see VEET as an over-riding driver for achieving an established energy reduction goal, alongside the fore-mentioned measures. With an established, solid and ambitious energy reduction target, VEET has the flexibility and potential to drive efficiency above and beyond the gains achieved from the range of other household initiatives. The flexibility of a market-based mechanism such as VEET means that it can be used to 'top up' the efficiency gains from other programs in order to achieve the overall 10% emissions reduction goal.

3.4 Lessons from energy efficiency schemes introduced by other governments

ATA believes that there needs to be a strong engagement of the energy services sector in the implementation of this scheme. The success and credibility of the scheme depends in a large part on the verifiable implementation of energy efficiency measures. The New South Wales Greenhouse Gas Abatement Scheme (GGAS) suffered from credibility concerns stemming from free giveaways of compact fluorescent lamps and low-flow shower heads, due to uncertainty about the actual installation of these devices.

It is essential that, in order to maintain the integrity of the VEET scheme, energy efficiency measures are as accountable and verifiable as possible. One of the best ways to ensure this is to directly engage the energy services sector in delivering energy efficiency initiatives in homes. Where giveaways may not lead to actual installation of the energy efficiency device, the involvement of the energy services sector in the implementation of measures will ensure measures are undertaken with a greater degree of certainty.

International examples have shown that energy efficiency targets can lead to the establishment of a strong energy services sector, with over 160 Energy Service Companies (ESCOs) registered in Italy within six months of implementation of that nations white certificates scheme¹. VEET has the potential to give rise to a booming sector which delivers the desired energy efficiency targets in a credible manner, maintaining the integrity of the scheme.

3.5.1 Commencement, phasing and duration

In order to create certainty in the energy services sector it is essential that there exists some degree of certainty for the scheme beyond 2010. Whilst ATA agrees that 2010 is an appropriate end-date for the first phase of the scheme, providing an opportunity to reassess targets and fine-tune the scheme, ATA believes that a scheme length set for a minimum of 12 years is essential for longer-term certainty. This, rolled out in four-year phases, would provide adequate certainty for scheme participants and sufficient flexibility to allow for adjusted targets in light of ongoing policy developments and commitments.

3.5.2 Scheme targets

ATA strongly believes that the effectiveness of any energy efficiency target scheme relies on the establishment of clear and achievable targets. As stated above, ATA believes that four-year phasing of targets provides an adequate level of certainty and flexibility in the scheme in order for it to achieve

¹ Autorità per l'energia elettrica e il gas 2005, *One hundred sixty-two firms accredited as energy service companies*, Autorità per l'energia elettrica e il gas, viewed 11 May 2007, http://www.autorita.energia.it/inglese/press/eng_index.htm

its primary goal. Targets could be set for each subsequent four year period at the beginning of that phase, in line with an ambitious overall long-term emissions reduction goal.

ATA encourages the use of a profile approach to setting annual targets in order to facilitate the orderly and sustainable development of an energy services sector in Victoria. By providing certainty through annual target, within longer term goals and scheme duration, ESCOs have the ability to develop and grow in an orderly and manageable manner.

3.5.4 Type of target

In establishing a scheme target consideration needs to be given to the overall goal of the scheme, which is to achieve a net reduction in greenhouse gas emissions via reduced energy consumption. Whilst ATA accepts that a fixed level of reduction based on forecast energy consumption provides greater certainty in the short term, it is heavily dependent on the accuracy of consumption forecasts in terms of its ability to achieve the primary goal of the scheme.

ATA believes that one of the primary strengths of VEET will be its ability to adapt and adjust to changing consumption patterns and reduction targets, in order to act as the flexible mechanism beyond other government energy efficiency measures to ensure that efficiency goals are met. It is essential for the integrity of the program, and the integrity of the government's policy commitments, that a 10 percent reduction in household emissions is achieved. Retaining flexibility within VEET is essential to ensuring that this occurs.

As evidenced by the federal Mandatory Renewable Energy Target scheme, setting of fixed targets based on projected consumption levels is fraught with danger. By transforming an 'additional 2% renewable energy' target into a fixed quantity based on projections, greater than expected electricity consumption has led to an overall percentage of renewable energy far below the intended 12.5% level. Indeed, at the scheme's end it is quite likely that the renewable energy component of Australia's electricity generation mix will be below what it was at the scheme's inception.

In order to avoid a similar fate for VEET, ATA strongly recommends the adoption of target which will ensure a reduction in emissions of 10 percent below 2006 levels by the year 2010, in line with government commitments. As such, 2006 should provide the baseline for the first phase of the scheme, and a target based on a percentage reduction should be established for each year of the scheme.

Annual targets could be provided with 'gateways' acting as potential range for future targets, allowing for annual adjustments and updates as progress towards the target is assessed. A similar approach has been proposed for an emission trading cap by the National Emission Trading Taskforce². Although gateways do not provide exact future targets, they do provide a range of potential future commitments, creating a degree of certainty for the sector, and the flexibility to adjust to the changing dynamics of energy consumption.

3.5.6 Priority groups

Acknowledged in the issues paper as an essential evaluation criterion, simplicity is a key ingredient in the success of the scheme. As such it is important that VEET remains unencumbered by additional targets and obligations which will serve to distort the efficiency and effectiveness of the scheme.

Whilst international examples, such as the UK's Energy Efficiency Commitment (EEC) has displayed success with the adoption of a portfolio approach targeting priority groups, ATA believes that VEET should refrain from adopting this approach. Existing government programs, such as the electricity industry's Hardship Program and Sustainability Victoria's Energy Task Force, tailored specifically to meet the needs of low-income and disadvantaged households should be continued and expanded to address this sector.

² National Emissions Trading Taskforce, 2006. *Possible Design for a National Greenhouse Gas Emissions Trading Scheme*. Chapter 3: Scheme Cap.

In order to ensure greater impact for a given financial allocation to these programs, it is essential that these programs have access to VEET and the financial incentives it provides. Further, it is critical that the outcomes possible through a targeted approach to VEET be achieved through the actions of these complimentary programs.

3.5.8 Compliance period

ATA strongly believes that an annual compliance period is implemented for VEET, in order to track annual compliance with the scheme target, as outlined in the issue paper. In addition, longer-term compliance periods create a similar risk of non-compliance through bankruptcy as is the case for borrowing of certificates, and as such are similarly undesirable (see 3.5.14).

3.5.10 Eligible activities

It is important that a full range energy efficiency measures be included as eligible activities in VEET to ensure the least-cost and most efficient implementation of the scheme. Provided the additionality test is met and the measures isn't required through other forms of regulation (discussed below), and that the measure complies with strict verification criteria (see 3.5.12), ATA believes there should be no limitations on the energy efficiency activity eligible for the creation of certificates.

However, ATA believes that eligibility be limited to energy efficiency measures, with additional greenhouse gas reduction activities such as renewable energy micro-generation, be catered for through alternate measures such as the government's proposed feed-in tariff. Whilst such initiatives have an important role to play in reducing Victoria's emissions of greenhouse gas from energy and will assist in reaching the 10% emission reduction goal, these are best assisted through mechanisms tailored to their specific needs.

3.5.11 Additionality

ATA believes that the integrity of the scheme depends on the exclusion of regulatory or legal additionality activities from VEET. 'Beyond compliance' should be seen as an essential criteria for the scheme and measures exceeding minimum standards and regulatory requirements should be encouraged though eligibility for the scheme. However, mere compliance with regulatory obligations should be strictly prohibited.

Financial additionality, on the other hand, should be ignored in the development of the scheme, as it would potentially exclude a wide range of beneficial measures, the type of which the scheme is trying to encourage. The exclusion of these low-cost efficiency measures would lead to significant compliance of VEET, greatly reducing the efficiency of the scheme.

At present, in the absence of an incentive scheme, many energy efficiency initiatives can easily be justified by an economically rational decision-making process. However, large sections of the population fail to undertake these measures, either through ignorance, inertia or perceived financial barriers. VEET offers the added incentive required to ensure that these low-cost and effective measures be taken.

3.5.12 Creation of Certificates

ATA believes that in order to ensure a workable and efficient scheme, certificates for eligible activities should involve a combination of deeming and engineering, whichever is most appropriate for the relevant eligible activity. In the case of deeming, certificates should be allocated upfront for the saving achieved by the energy efficiency measure over a specified deeming period.

Whilst it is acknowledged that, in allowing for upfront deeming of certificates there is a small distortion in actual emissions savings through the concentration of lifetime savings into one year, the absence of upfront allocation would exclude many long-term efficiency measures from the

scheme until many years after installation. This would preclude many important energy efficiency measures from benefiting from the scheme, and as such is undesirable.

ATA believes that certificates should be tradable between relevant entities and eligible implementers to ensure the lowest cost, most flexible and most efficient scheme. Further, certificates should have an expiry date five years beyond the date of creation in order to limit the ability of relevant entities to distort the market in later years of the scheme and create greater certainty for the energy services sector.

3.5.13 Shortfall penalty

Compliance with VEET is essential for its effectiveness and integrity, and hence should be encouraged in the strongest possible way. ATA strongly believes that stringent penalties should exist for any shortfall, coupled with a make-good provision requiring non-compliant relevant entities to provide certificates to the level on non-compliance in the following year.

A financial penalty for shortfall without any requirement to make up excess emissions provides no mechanism for failure to meet the desired emissions target. Limited financial penalties to non-compliant parties do nothing to ameliorate the damage caused by excess emissions and the cumulative impacts of GHG emissions, and threaten the integrity of the scheme.

ATA would encourage a shortfall penalty in the order of \$40 per tonne of CO₂-e to ensure compliance, and in light of transitioning to integration with other schemes. Whilst it is acknowledged that this places a high cost cap on the scheme, it is essential that VEET doesn't undercut the effective operation of any future emissions trading scheme through the provision of a low-cost get-out-of-jail option.

3.5.14 Banking and borrowing

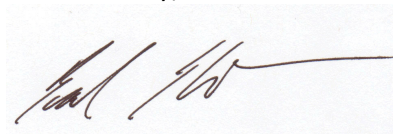
ATA strongly believes that borrowing of certificates be prohibited from the scheme, as it opens the door for gaming of the system by relevant entities, distorts the market for certificates and could potentially lead to non-compliance and underperformance of the scheme itself. The potential of relevant entities avoiding their obligation prior to reaching insolvency, leaving no avenue for making good on their obligations and the avoidance of paying their shortfall penalty.

Along with trading, banking of certificates should be allowed under VEET in order to provide flexibility to the relevant entities to meet their obligation, and in order to encourage early action on energy efficiency. Banking would be limited in time by the five-year life of the certificates themselves.

Further Contact

ATA commends the Victorian Government on the implementation of Australia's first energy efficiency target, and would welcome the opportunity to discuss any aspect of this submission further. Please direct any questions or further correspondence to Brad Shone, Energy Policy Manager, on (03) 9631 5406 or by email at Brad.Shone@ata.org.au

Yours sincerely,



Brad Shone
Energy Policy Manager
ATA – Alternative Technology Association