AGL Energy Limited
T 02 9921 2999
F 02 9921 2552
agl.com.au
ABN: 74 115 061 375

Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065

Department of Energy, Environment and Climate Action (DEECA)

8 Nicholson St Melbourne 3000

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Setting new targets for the Victorian Energy Upgrades (VEU) program

AGL Energy (AGL) thanks the Department of Energy, Environment and Climate Action (DEECA) for the opportunity to respond to the options considered within the Regulatory Impact Statement (RIS) for the Victorian Energy Efficiency Target Amendment (Targets) Regulation 2025.

AGL is committed to providing our customers simple, fair and accessible essential services as they decarbonise and electrify the way they live, work and move. Proudly Australian for more than 185 years, AGL supplies around 4.3 million energy and telecommunications customer services.

We operate Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, as well as gas production and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emission, affordable, and smart energy future in line with the goals of our Climate Transition Action Plan.

The Victorian Energy Upgrades program (VEU) plays a vital role in reducing greenhouse gas emissions by lowering overall energy demand and enhancing the energy efficiency of homes and businesses. In recognition of this, AGL welcomes the extension of the program through to 2045 and looks forward to the insights that will be drawn from the Strategic Review, which will also further help define the scheme's broader direction in the future.

We believe the most pressing and pertinent issue to address within the VEU is to increase creation of Victorian Energy Efficiency Certificates (VEECs). The VEU's historical reliance on low-cost upgrades – such as residential lighting and weather sealing – to meet previous VEEC targets have largely reached market saturation and have not been commensurately replaced with alternative activities. Introduction of higher quality, lower frequency upgrades such as induction cooktops are a welcome reform but have not reduced the gap between supply and demand enough. As has been noted by the Essential Services Commission, the VEU program is undergoing a "paradigm shift" towards low volume, high value upgrades, with emphasis on supporting Victoria's electrification ambitions. However, this imbalance has driven up, and sustained extremely high certificate prices in Victoria, which are above the $90 penalty price and are the highest among comparable schemes in Australia.

As a liable entity within the VEU, AGL has continually procured and surrendered our designated number of VEECs each year since the program's inception. However, this year will present an acute challenge across the industry to meet it's 7.3 million VEEC target, with some analysts forecasting the estimated 2.4m VEEC surplus from the end of 2024 will be exhausted by the end of 2025[1], which AGL believes will lead to a significant market shortfall.

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[1] Green Energy Markets, VEEC Monthly Snapshot (November 2024)

Under the assumption that both the Victorian Minimum Rental Standards and the Building Electrification Legislation pass, it is also worth noting that both regulatory reforms, and related activities will be gradual in their introduction to the market. For example, under the proposed Victorian Minimum Standards for Rental Properties and Rooming Houses, all heating and cooling related upgrades will require energy efficiency replacements only at the end-of-life.

Taking into account the phased and also uncertain progression towards electrification, AGL's preferred option under the main regulatory scenario is **Option 1** (4 million VEEC target in 2026 and 2027). We do note however, that there are certain benefits and considerations in support for Option 2 which have been provided below:

Main Regulatory Scenario

Preferred option: Option 1 (4 million VEEC Target 2026, 4 million VEEC Target 2027)

AGL is mindful of the significant market constraints and challenges currently impacting the program, including forecasted shortfall in certificate creation, the saturation of low-cost activities, and delays in the introduction of new eligible initiatives. These issues have been extremely problematic for VEEC market participants as there has been many instances of sellers not being able to deliver on forward VEEC contracts and not be able to purchase from the market to fill these contracts given the extremely high VEEC prices, which are currently priced at $112.50[2]. These issues underscore the need for a pragmatic approach to target setting that reflects current market capabilities. In this context, we believe a conservative target, such as Option 1, represents a practical solution to maintain a manageable certificate creation rate for 2026 and 2027.Particularly from an affordability perspective, AGL supports Option 1 as the most consumer-focused choice. By minimising pass-through costs on energy bills to consumers, this approach helps protect customers whilst also avoiding considerable, undue financial strain on retailers and reducing counter party risk for Accredited Providers (APs) – particularly smaller ones.

Additionally, AGL views lower targets as an effective way to stabilise the market. If 2025's shortfall is carried over to 2026, setting conservative goals reduces the risk of further market disruptions and provides a foundation for recovery and growth – ensuring the program is well-positioned to adapt and scale effectively as new strategic review outcomes and regulatory changes are implemented. Stabilising the current market would also provide footing for longer term stability which will support the uptake of initiatives such as measurement and verification activities for commercial building activities, as these projects run on much longer cycles and require long term certainty on price and modelling. We would also welcome introducing greater flexibility into to the scheme, such as delayed surrender options for retailers ideally of up to 20%.

Considerations for Option 2 (5 million VEEC Target in 2026, 6 million VEEC Target in 2027):

AGL acknowledges the potential of ambitious reforms to accelerate electrification and drive meaningful progress in energy efficiency across Victoria. Option 2 offers the benefit of leveraging anticipated regulatory changes, to stimulate activity creation. However, we remain cautious about whether the market is adequately prepared to meet such an ambitious target, given the current challenges in certificate creation and overall market stability.

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[2] VEEC spot price as at 14 January 2025.

Alternative Regulatory Scenario

Preferred option: Option 1 (4 million VEEC in 2026 and 2027)

For the same reasons raised above, under the alternative regulatory scenario we also endorse option 1 (4 million VEEC in 2026 and 4 million VEECs in 2027).

Fees & Emissions Factors

We acknowledge the rationale that spreading the operational costs evenly across less VEECs would result in higher costs per VEEC. However, we are concerned that if reduced revenue could result in cuts to the ESC's operational spending and in turn causes delays in VEEC validation, that this could further amplify challenges for retailers in meeting their VEEC acquisition and surrender targets.

As mentioned previously, stabilising and increasing VEEC creation should be the top priority to resolve within the scheme. This is why we also advocate for higher emissions factors for 2026 and 2027 as the 0.393 factor significantly underestimates the projected rate of emissions decline. The Australian National Greenhouse Account (NGA) Factors places Victoria's current electricity emissions factor at 0.77, well above the 2024 forecast of 0.53. This gap also undermines the actual emissions reductions from energy efficiency activities and further hampers the industry's ability to increase VEEC creation. We suggest raising the emissions factors to align with that of the NGA.

Additional Issues

In addition, AGL would like to highlight the ongoing issue of information asymmetry within the VEU Program. There are various communication channels, and we would like to ensure that all market participants are being updated on critical information, at the same time, especially for VEEC market sensitive information. For example, the VEU Registry does not allow read only access, and segregation of duties limits key personnel from accessing registry information. A central communication channel would be ideal.

Thank you for the opportunity to comment. In addition to this submission, we have also responded to the online survey via the Engage Victoria website.

We would be very happy to meet with the DEECA to discuss any of our comments. If you have any queries about our submission please contact Manager, Policy and Market Regulation, Jenny Kim jkim2@agl.com.au.

Yours sincerely,

Liam Jones

Liam Jones
Senior Manager, Policy and Market Regulation