



Victorian Government

Department of Transport and Planning

Submitted via email: Building.Electrification@transport.vic.gov.au

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Building Electrification Regulatory Impact Statement

AGL Energy (AGL) welcomes the opportunity to make a submission in response to the Victoria Government's Building Electrification Regulatory Impact Statement (Building Electrification RIS).

Proudly Australian since 1837, AGL delivers around 4.5 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. AGL operates the largest electricity generation portfolio in Australia of any ASX-listed company, with a total operated generation capacity of almost 8000 MW across Australia. AGL is Australia's largest privately-owned hydro power station operator and operates the largest portfolio of renewables and storage assets of any ASX listed company. Since 2006, AGL has invested billions of dollars in the construction and delivery of over 2 GW of renewable and firming capacity in the National Electricity Market (NEM).

AGL supports the Victorian government's ambition to meet its long-term ambition of net zero greenhouse gas emissions by 2050. To achieve this objective, emissions must decline across all sectors of the economy, including the natural gas sector, which currently contributes around 17 per cent of Victoria's total greenhouse gas emissions. Although this transition to a low-emissions economy brings significant challenges, with well-designed policies there is potential to promote a more productive, inclusive economy with healthy, connected communities, underpinned by affordable energy. Electrification can enable significant bill reductions for customers, in addition to its role in reducing emissions.

AGL recognises the large part that we must play in the transition to a low carbon economy. Our 2022 Climate Transition Action Plan outlines AGL's ambition for decarbonisation, including the following commitments:

- Targeting a full exit from coal-fired generation by the end of FY35 (up to a decade earlier than previously announced).
- Ambition to meet customer energy demand with around 12 GW of new firming and renewable assets by 2036.
- An initial target of 5 GW of new firming and renewable capacity by 2030.

Supporting customer electrification

Electrification is the most likely decarbonisation pathway for residential consumers and is a critical enabler for the industrial, transport, and other sectors of the economy to reach net zero emission targets. Where electrification is not feasible, AGL supports the development of low carbon fuels such as biomethane to assist with transition to a low-carbon economy.

AGL supports customers to electrify. We seek to connect our customers to a sustainable future, helping them decarbonise the way they live, move and work. Our leading 'Electrify Now' site is a great example that enables people to better understand the benefits of electrification, the site provides tailored estimates of the costs and benefits and access to expert advice. Electrify Now has already helped over 250,000 visitors to the site.

To support residential and small business electrification at pace and at scale, government support is essential. Through the right incentives, regulatory frameworks, and policy settings, governments can help more households benefit from electrification.

The gas supply outlook for Australia is becoming increasingly challenging, particularly for southern regions including Victoria. AEMO's 2024 GSOO¹ continues to forecast risks of shortfalls on extreme peak demand days from 2025 and the potential for small seasonal supply gaps from 2026, predominantly in southern Australia, ahead of annual supply gaps that will require new sources of supply from 2028. Gas consumption by residential, commercial and industrial consumers is forecast to decline, but production in the south is forecast to decline faster.

Within this context, AGL acknowledges the work that the Victorian Government has been doing to accelerate electrification and initiatives under its Gas Substitution Roadmap.²

This submission's key points are summarised as follows:

- Electrification of households and business premises is a cost-effective way for most customers to reduce their energy costs over time. Taking steps to reduce the costs and barriers to electrification by setting targets, providing information and incentives, and creating an enabling regulatory environment, can reduce emissions and enable more customers to realise the direct benefits of electrification.
- Building electrification supports climate objectives, and broader objectives of affordability, health, and productivity. Electrification will also play an important role in responding to declining gas supplies in southeast Australia.
- There are challenges with increasing the pace of electrification, as well as second-order impacts from rapid electrification. However, with careful policy design and implementation these challenges and impacts can be managed.
- The targeted phase out of gas connections and replacement of gas appliance at end of life proposed in Option 3 shows the highest net economic benefit. This option minimises net replacement costs by limiting coverage of existing buildings to high gas consumption appliances at end of life in existing buildings.
- AGL supports option 3 as the preferred option, on the basis a stronger set of customer protections and exemptions are introduced to support customers through the transition.
- Importantly option 3 includes a range of exemptions where electrification would be impractical or excessively costly, AGL strongly supports these pragmatic exemptions.
- We recommend that these exemptions should be expanded to include a cost threshold for site specific work to enhance customer protections.
- Customer incentives and support to reduce the direct cost of electrification for consumers and support the scaling of the retrofit market are essential.

¹ AEMO, [2024 Gas Statement of Opportunities](#)

² This includes mandating that new housing developments cannot be connected to the reticulated gas network; proposed requirements for fossil gas appliances in residential rental properties to be replaced with electric appliances as part of the minimum energy efficiency and safety standards regulations; reforms to the Victorian Energy Upgrades (VEU) program, which provides financial incentives to households and businesses to undertake energy efficiency upgrades and the removal of incentives for new fossil gas appliances; and the proposal for an Industrial Renewable Gas Guarantee to incentivise alternatives to fossil gas.

The Building Electrification RIS

To support and accelerate the pace of electrification of new and existing buildings in Victoria, the Victorian Government committed in its Gas Substitution Roadmap Update 2023 to investigate options to progressively electrify all residential and most commercial buildings.

The Building Electrification RIS has been developed to explore the costs and benefits of electrifying Victorian residential and commercial buildings, with the following four options assessed:

- **Option 1:** Electrification of all new residential and new commercial buildings.
- **Option 2:** Electrification of all new and existing residential buildings and all new and existing commercial buildings, excluding existing commercial kitchens.
- **Option 3:** Electrification of all new and existing residential buildings (excluding existing residential cooking) and all new commercial buildings.
- **Option 4:** Electrification of all new and existing residential buildings.

Preferred option

Based on our review of the cost benefit analysis for all four options, AGL agrees that Option 3 is the preferred regulatory option as it strikes a balance between high economic benefits relative to costs, retaining customer choice for appliances with low gas use, and includes safeguards for more complex customer sites. The proposed exemptions should be expanded to include a cost threshold for site specific work to enhance customer protections.

Option 3 has the highest economic net benefit and highest benefit cost ratio, significantly reduces fossil gas usage and supports the long-term reduction of emissions while allowing residential property owners to choose whether and how to replace gas cooktops with electric cooktops. Importantly Option 3 includes a range of exemptions where electrification would be impractical or excessively costly. AGL supports these pragmatic exemptions and recommends they be extended as noted above.

The electricity market modelling undertaken for the RIS demonstrates that Option 3 has little impact on peak electricity demand and a low impact on electricity tariffs relative to the Base Case (with the average annual electricity tariffs increasing less than 3 per cent). The overall energy bill for a customer who transitions from gas heating and hot water to efficient electric appliances should typically be significantly lower following electrification.

However, gas tariff analysis shows that Option 3 is likely to increase gas tariffs for consumers who remain on the gas network, assuming no change to the current regulatory framework and regulated asset base of the gas network, as the fixed cost is spread over a smaller customer base. The impact is relatively small and gradual in the early years; however it is additional to the underlying trend as residential gas demand and customer base declines. We discuss the impacts on gas customers further below.

Option 3 is a logical extension to the work that the Victorian Government has already undertaken under the Gas Substitution Roadmap and in the electrification space more broadly. As noted in the Building Electrification RIS and the Grattan Report *Getting off gas: why, how and who should pay?* (Grattan Gas Report), all-electric homes are cheaper to run, have lower emissions, and are better for people's health. This technology is also already available and in widespread use, with more than 30 per cent of Australian households using electric heating, cooking, and water heating.³ While some upgrades from a fossil gas appliance to an electric one may be more costly, and potentially include other ancillary costs, consumers should recover those initial upfront costs through energy efficiency savings over time or increases in the

³ Grattan calculation based on Energy Networks Australia (2021) and Gas Energy Australia (2023). For further details, see p14 of the Grattan report [*Getting off gas: why, how and who should pay?*](#)

value of property. As noted above, we also support effective consumer protections that provide appropriate exemptions to help minimise the impact on consumers.

We also support making the requirement to electrify being attached to the end-of-life of gas appliances as this will help ease some of the cost burden on consumers by spreading out the costs of purchasing new electric appliances while also helping address some of the barriers to electrification.

However, there will need to be more targeted support for certain sectors of energy consumers, in particular customers experiencing vulnerability, low-income households, CALD customer cohorts, and the elderly. We have outlined some further measures to assist in removing barriers to electrification for these cohorts of customers below.

Barriers to electrification

As acknowledged in the Building Electrification RIS and the Grattan Gas Report⁴, there are well-established market failures and other barriers to the electrification of households and businesses, such as split incentives, high upfront costs, customer preferences, and lack of information. Customers experiencing vulnerability, renters, and apartment dwellers face further barriers to electrification due to affordability issues and constraints about what fuel they can use and choice of appliances in their home. Furthermore, First Nations Peoples and remote communities face their own unique barriers due to their geography, lack of infrastructure and potential extreme weather,⁵ along with barriers relating to the skilled workforce required to enable electrification.

Incentives and support

Incentives and support to overcome the initial costs of electrification are needed to complement the proposed regulations, especially for certain consumer groups including rural, low-income, embedded network or apartment households, who may have difficulties complying with the regulations due to high upfront costs. Specific financial support should be tailored to support low-income customers and those experiencing hardship.

We recommend that gas to electric appliance replacement that would be required under the proposed regulations continue to be actively supported by incentives for all consumers under the Victorian Energy Upgrades (VEU) program to reduce the direct cost of electrification for consumers and support the scaling of this critical retrofit market.

Government should also look to provide funding for switchboard upgrades as this would reduce financial barriers for older properties and have the secondary benefit of improving the general electrical safety of these homes.

The proposed regulations along with the other work that the Victorian Government is already doing in the electrification space will be instrumental in overcoming some of the barriers to electrification. Other key measures to help remove barriers could include:

- Expansion of electrification upgrades to all social housing stock. The federal government commitments made as part of the Energy Savings Package are very welcome and we have encouraged the Australian Government to look to expand this further.⁶

⁴ See: Grattan report [Getting off gas: why, how and who should pay?](#)

⁵ For further details on barriers to electrification see Energy Consumers Australia's [Stepping Up: A Smoother Pathway to Decarbonising Homes](#) [here](#), the Switching On report by the Monash Climate Change Communication Research Hub [here](#), and the Grattan Institute's [Getting off gas: why, how and who should pay](#) [here](#)

⁶ See: detailed announcement from Department of Climate Change, Energy, the Environment and Water [here](#).

- Targeted subsidies that encourage the uptake of electric appliances and protect vulnerable customers that remain on the gas networks.
- Increase industry capabilities through upskilling and streamlining regulatory processes to meet future install demand with strengthened consumer protections for the sale and install of electrification products to unlock CER uptake at pace.
- Implementation of mandatory disclosure of household energy performance for sale and renting of houses.
- Tax incentives for landlords to electrify rental properties. As outlined above, we note the work the Victorian Government is already undertaking with respect to rental properties.
- Accelerate storage uptake. Actively encourage orchestrated battery adoption through incentives and schemes as these can lower wholesale and network costs for all energy users, impacting beyond those who can afford electrification upgrades. As value stacking is also critical for battery uptake, AGL supports new ways to access energy markets and notes its critical for DNSPs to pass on value CER delivers to networks through tariffs or payments.
- Tax breaks for small-medium-sized businesses installing both solar and batteries.
- Introduction of a framework that provides assurance regarding the quality and safety of installation and products, similar to the framework currently in place for the Small-scale Renewable Energy Scheme (SRES).

We note that the costs and benefits of electrifying heating and hot water in residential rental properties is accounted for in the Minimum Energy Efficiency and Safety Standards for Rental Homes RIS and have been excluded from this RIS to avoid double-counting. We also encourage the Victorian Government to take steps to avoid any duplication between any regulatory obligations introduced as part of this consultation and those from the ongoing consultation in Victoria's minimum rental standards. For example, a requirement to electrify hot water services in all Victorian homes at end of life (except where genuine exemptions apply) may make a minimum rental standard to drive hot water electrification in rental properties redundant.

Trusted information

To support the proposed regulations, it will be important to provide customers with clear and reliable information about the benefits of switching to electric appliances. This information should come from a trusted source and should be tailored for different customer segments. The Victorian Government should also look to invest in promoting the existing VEU and Solar Victorian programs to customers.

AGL is committed to helping customers make informed decisions about their energy use and providing them with solutions that suit their needs and preferences. A great example of this is our Electrify Now platform. We have provided further details on this and other programs below.

It would also be useful to provide customers with details about some behavioral changes that can further reduce costs and improve comfort when switching from gas appliances to electric ones (for example enabling orchestration or using time switches for electric storage hot water). This will hopefully ensure customers who switch from gas to electric appliances have a good experience with the change, which will be vital to help build social licence in support of electrification.

We would also encourage the Victorian Government to include clarification in the proposed regulations on the type of electrical appliances that are approved to replace existing gas appliances at the end of life in all new and existing residential and commercial buildings. These definitions should be consistent with the proposed definitions in the draft Victorian Minimum Standards for Rental Properties and Rooming Houses

consultation.⁷ This will ensure consistency in building stock and reduce potential negative outcomes from the installation of low-quality or inefficient electrical appliances.

AGL's positive experience with electrification and consumer energy resources

AGL's retail ambition is to support customer decarbonisation through simple, affordable, and equitable customer propositions. We consider that energy retailers have the necessary systems, capabilities (including technology) and customer relationships to deliver new services to the market with minimal additional investments and costs.

AGL is investing in our Retail Transformation Program and innovating through a range of products and services to enable electrification and increase CER adoption and integration. As of FY24, we have 1.25 GW of decentralised assets under orchestration and are targeting 1.6 GW for FY27. These assets, mostly installed behind the connection point, include residential batteries, solar, flexible loads, and backup generation at commercial and industrial sites.

Consumers also often struggle with where to begin when considering electrification. The market is fragmented, and finding trusted advice can be difficult. Retailers play a key role in bridging this gap and empowering customers to make the best decisions for their needs.

Some examples of the innovative products and services that AGL has developed to help customers navigate and make the most of the benefits from this emerging market include:

- Electrify Now, which has already helped over 250,000 visitors understand the potential benefits of electrifying their homes by providing personalised information for the most impactful upgrades. It also helps customers to understand their potential energy bill and carbon savings if their home switched to solar, battery, heat pump hot water, an electric vehicle (EV) and/or induction cooktop, with users able to pick and choose which upgrades suit their budget and lifestyle.
- Our Peak Energy Rewards (PER) product, with over 160,000 customers, is a behavioral demand response program scaled successfully from pilot. Customer feedback shows high participation and consistently positive NPS (+50). AGL sees products like PER as an excellent way to engage customers on their energy usage.
- Investment in scaling Hot Water Orchestration (HWO), building Time of Use Controlled Load retail tariffs for our HWO customers. This allows our solar soaking program to share wholesale and network benefits, offering lower prices during the solar soaking period and reducing customer bills.
- EV Night Saver Plan, which demonstrates the power of clear incentives for our customers, has seen up to 44% of customers' daily load shift away from peak prices to a lower tariff, overnight time period. Developed after a two-year trial with ARENA, the EV Night Saver Plan helps us better understand customer charging behaviour.

Impacts on gas customers

The Building Electrification RIS notes that Options 2, 3 and 4 would lead to fewer customers remaining on the gas network, resulting in fixed infrastructure costs spread across fewer remaining customers, and ultimately higher gas tariffs. This is particularly the case for Option 2 (which sees all residential and in-scope commercial buildings disconnect by 2045) and Option 4 (which sees all residential buildings disconnect by 2039).

The impact is less in Option 3, where existing residential properties with gas cooking can choose to remain connected to the gas network, helping to support an orderly transition to reduce gas tariff impacts in Victoria. Despite this, an increase in gas tariffs is still anticipated under Option 3 as the fixed network costs are

⁷ See Victorian Minimum Standards for Rental Properties and Rooming House consultation.

shared across a reduced consumption. Regardless, we note that a key consideration for governments and regulators is how to equitably recover the gas network costs from customers while usage declines, and how to plan for the eventual decommissioning of gas networks.

Gas networks are typically regulated as natural monopolies, and their revenues are determined by the Australian Energy Regulator (AER) based on the expected level of demand and the cost of providing services. As demand falls, the unit cost of maintaining the network increases, and this is reflected in higher network charges for the remaining customers.

This issue has been exacerbated by rapid growth in the regulated asset base of gas networks over the last decade while demand has remained steady or fallen. Actions from the Gas Substitution Roadmap to reduce expenditure on the gas network, such as restricting new connections and expansions, appear to be working to reduce the total cost, however it will take many years to materially reduce the regulated asset base. Some analysis also suggests systematic over recovery under the price cap regime that applies for regulated gas networks has also contributed to consumers paying more than necessary⁸.

The AER has flagged as a critical concern that the current regulatory framework may not be well suited to deal with the rapid and uneven transition away from gas and could result in unfair outcomes for customers who are unable or unwilling to electrify.⁹ For example, customers who live in rental properties, apartments, or low-income households may face barriers to switching to electric appliances and may end up paying higher gas bills or being disconnected from the network.

One of the key issues discussed in the AER's final decision for AusNet Gas Services (AusNet) Gas distribution access arrangement 1 July 2023 to 30 June 2028 (AusNet's Access Arrangement Determination 2023-28) was a hybrid cost recovery method for the abolishment of gas supply. During AusNet's review, the AER became aware that some customers, who are choosing to move away from gas, are avoiding a higher charge by seeking disconnection which was designed for a short-term pause of supply rather than the safer, permanent removal of connection assets. One of the safety concerns that have been raised with this approach include concerns that over time changes in property ownership will further increase the safety risk, as the new owners may be unaware of the live gas assets within the premises.¹⁰

As such, the AER decided that while paths to electrification are still uncertain, and to reduce the price difference between the two disconnection services, there be an upfront cost of \$220 for connection abolishment and the remainder to be shared between all customers. The AER noted that this was not a long-term solution and will put upwards pressure on haulage tariffs in the 2023-28 period until a more sustainable solution is identified.

AusNet subsequently submitted an access arrangement variation proposal (variation proposal) to the AER, where AusNet proposed to increase their accelerated depreciation from the amount of \$105 million approved by the AER to \$175 million. AGL was not supportive of AusNet's variation proposal. In our submission to AusNet's variation proposal,¹¹ we highlighted that while gas network usage is set to rapidly decline, particularly in the residential sector, the rate of electrification and the extent of its impact on customer numbers and asset stranding is still uncertain. AGL's view is that further consideration of accelerated depreciation in AusNet's gas network should be deferred to the next regulatory period (commencing in 2028). Adherence to the five-year regulatory period is necessary to provide customers with

⁸ <https://ieefa.org/resources/australians-overpaid-18-billion-gas-networks-now-theyre-being-asked-more>

⁹ See: AER's [final decision for AusNet's Access Arrangement Determination 2023-28](#)

¹⁰ See: page 7 of the AER's [final decision for AusNet's Access Arrangement Determination 2023-28](#)

¹¹ See AGL's submission to the AER on [AusNet's access arrangement variation proposal](#)

bill certainty and to provide time for the AER and for governments to consider complementary measures to mitigate the challenges posed by grid defection.¹²

This will be a key consideration for the AER for future determinations, especially if in future periods we see a further decline in demand and an increase in customers leaving the network, meaning that the upwards pressure on tariffs for remaining customers will only grow.¹³ As we outlined in our submission to the AER on AusNet's variation proposal, AGL encourages the AER and jurisdictions to work together with industry and consumer groups to address the challenge of cost recovery of gas network costs holistically and with a view to a sustainable recovery over the expected service life. Governments and regulators should seek to strike a balance between the risk placed on consumers and the risk placed on distribution networks in the energy transition.

Some potential options that we included in our submission to the Australian Government's Gas Strategy¹⁴ to help address some of these issues include:

- Further consideration of more efficient processes for bulk gas abolishments, as opposed to mechanisms that simply support abolishing connections on a house-by-house basis.
- Implementing a clear process for customers who disconnect from the gas network including the process to disconnect and/or abolish gas meters by networks.
- Developing a long-term strategy for the future role of GPG in the electricity system and ensuring that gas network costs and charges are aligned with the value that GPG provides to the grid.
- Establishing a clear and consistent policy framework for the decarbonisation of the gas sector and supporting the development and deployment of renewable gas alternatives. We acknowledge the work that the Victorian Government is doing in this space as part of the Gas Substitution Roadmap and Victoria's Industrial Renewable Gas Guarantee.
- Engaging with gas network owners and operators, customers, and other stakeholders to develop a coordinated and consultative approach to the planning and management of gas network assets and preferences. A key issue will be in striking a balance between the risk placed on consumers and the risk placed on distribution networks in the energy market transition. If future access arrangement periods see a winding down of gas networks, there could be fewer customers to share the fixed costs of the network over time. This could result in customers who cannot afford to electrify facing higher bills, raising equity concerns. As such, this issue needs to be considered within the context of ensuring that customers who may be still reliant on gas are paying no more than necessary for a safe, reliable, and secure supply.¹⁵

There may also be an opportunity to look to redistribute some of the proposed Industrial Renewable Gas Guarantee certificate scheme's revenue to support gas customers who are experiencing vulnerability, renters, and small-to-medium enterprises with unclear gas substitution pathways, particularly if it is decided that the costs of the renewable gas certificate scheme should be recovered from all gas customers as proposed in the Directions Paper.¹⁶

These options should be assessed against the criteria of efficiency, equity, reliability, security, and environmental sustainability, and should be informed by robust analysis and evidence. The government

¹² See AGL's submission to the AER on [AusNet's access arrangement variation proposal](#)

¹³ See: page 7 of the AER's [final decision for AusNet's Access Arrangement Determination 2023-28](#) and [AGL's submission to Gas Distribution Network Tariffs Review 2023](#)

¹⁴ See: AGL's submission to the Australian Government's [Future Gas Strategy](#).

¹⁵ See: AGL's submission to [Gas Distribution Network Tariffs Review 2023](#)

¹⁶ See AGL's [submission to Victoria's Industrial Renewable Gas Directions Paper](#)

should also ensure that any changes to the gas network regulatory framework are consistent with the broader energy market reforms and objectives and support the transition to a low-carbon economy.

Energy efficiency and performance

Electrification and the sustained uptake of CER will continue to shape energy needs along with the decarbonisation of transport and industrial sectors, which could potentially significantly increase system demand. Given that electrification is the likely decarbonisation pathway for residential consumers, it will be critical to consider how impacts on system load can be mitigated through better demand management and orchestration (i.e., by improving energy efficiency and productivity).

One of the key sectors that can benefit from electrification and decarbonisation is the building sector, which accounts for about 20 per cent of Australia's greenhouse gas emissions. While Australia's energy efficiency standards for new buildings and households have been improving, of the 10 million homes in Australia, approximately 60 per cent were built prior to 1995.¹⁷ Houses built prior to this time typically only have an average House Energy Rating of 1.5 out of 10.¹⁸

As such, there is a real opportunity to improve the energy efficiency and performance of Victoria's housing stock through relatively simple improvements like insulation. We note the Victorian Government's intention to introduce new minimum requirements for rental properties to have ceiling insulation at an R value of 5.0 installed when there is currently no insulation present. The Victorian Government should continue to support measures to improve the thermal performance of homes, ensuring heating systems perform effectively and efficiently.

Tariffs, CDR, smart meters and incentive load management programs also all have a role to play in improving energy productivity.

AGL supports the Australian Government's National Energy Performance Strategy (NEPS), which cements substantial commitments made to energy efficiency and decarbonisation in last year's Budget. The NEPS also recognises the important role that improving energy performance will play in reducing emissions and lowering energy bills for Australian households and businesses.

These measures will help consumers reduce their energy bills, manage their demand, and lower their carbon footprint. AGL supports these initiatives and is committed to offering innovative products and services that enable customers to choose cleaner and smarter energy solutions.

AGL looks forward to working with the Australian and Victorian governments to implement these commitments and encourages the Victorian Government to continue to explore more opportunities in this space given its importance in helping Victoria and Australia realise its net zero ambitions.

Victorian Energy Upgrades program

The VEU program is pivotal in promoting electrification in Victoria by reducing upfront cost barriers for customers and helping ensure all energy customers can realise the benefits associated with electrification. By enhancing energy efficiency and lowering overall energy demand, the VEU significantly contributes to reducing greenhouse gas emissions and energy customers reliance on fossil gas. AGL supports the

¹⁷ See: page 35 of Monash Climate Change Communication Research Hub report [Switching On: Benefits of Household Electrification in Australia](#).

¹⁸ See: page 35 of Monash Climate Change Communication Research Hub report [Switching On: Benefits of Household Electrification in Australia](#).

program's extension 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.¹⁹

The Essential Services Commission has noted that the VEU program is undergoing a "paradigm shift" towards low volume, high value upgrades, emphasising support for Victoria's electrification ambitions. However, this shift has led to sustained high Victorian energy efficiency certificate (VEEC) prices in Victoria, which are currently above the \$90 penalty price and the highest among comparable schemes in Australia. Continually high prices VEEC prices have a negative impact on Victorian energy consumers as the cost of the VEU is ultimately recovered from all Victorian energy consumers.

As outlined in our submission to the Regulatory Impact Statement (RIS) for the Victorian Energy Efficiency Target Amendment (Targets) Regulation 2025 (VEU RIS), AGL considers one of the most pressing and pertinent issue to address within the VEU is to increase creation of VEECs. The program's historical reliance on low-cost upgrades, such as residential lighting and weather sealing, has largely reached market saturation and needs to be replaced with alternative activities. While higher quality, lower frequency upgrades like induction cooktops are a welcome reform, they have not sufficiently reduced the gap between supply and demand.

The proposed Victorian Minimum Rental Standards and Building Electrification Legislation will also play a key role in this transition, although their introduction will be gradual. For example, heating and cooling-related upgrades will require energy efficiency replacements only at the end-of-life.

In relation to gas to electric appliance replacement activities that would be required under the proposed regulations, these should continue to be actively supported by VEU incentives for all consumers to reduce the direct cost of electrification for consumers and support the scaling of this critical retrofit market. The Strategic Review should consider whether reforms are required to ensure the VEU can continue to provide complementary incentives to support regulatory action to accelerate electrification. A well-designed mix of incentives and regulations can deliver a better, fairer outcome for consumers than regulatory action alone.

We look forward to working closely with the Victorian Government to help it realise its electrification and decarbonisation ambitions for Victoria.

Should you have any questions in relation to this submission, please contact Leilani Kuhn (Policy Manager) on 03 8633 6934.

Yours sincerely,

Ralph Griffiths

GM Policy and Market Regulation

AGL Energy

¹⁹ Please see [our submission to the Regulatory Impact Statement for the Victorian Energy Efficiency Target Amendment \(Targets\) Regulation 2025](#)