



energy savings
Industry Association

**ESIA Submission:
Victorian Government
Gas Substitution Roadmap
Consultation**

30 July 2021

Submitted via gas.roadmap@delwp.vic.gov.au to
Department of Environment, Land, Water and Planning, Victorian Government

Energy Savings Industry Association
Suite 2, Ground Floor, 109 Burwood Rd, Hawthorn 3122
www.esia.asn.au
ABN 52 166 026 766

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1. Introduction

The Energy Savings Industry Association (ESIA) welcomes the opportunity to provide this submission to the Gas Substitution Roadmap Consultation which opened on 26 June 2021 by the Department of Environment, Land, Water and Planning (DELWP), Victorian Government. Roadmap release is anticipated late in 2021.

We referred to the consultation webpage: <https://engage.vic.gov.au/help-us-build-victorias-gas-substitution-roadmap>

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 efficiency 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 the majority 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 Climate Solutions Fund and the NSW Peak Demand Reduction Scheme due to commence in 2021.

Further engagement

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

2. Summary

The ESIA focus for this consultation response is on the energy efficiency and fuel switching components of the Victorian Gas Substitution Roadmap.

The Victorian Energy Upgrades (VEU) Program has been a successful and important policy mechanism that has delivered significant energy savings, greenhouse gas emission reductions and lower energy bills to Victorian energy consumers.

To date, the VEU has predominantly supported electricity energy savings rather than gas savings. The ESIA estimates that less than five per cent of Victorian Energy Efficiency Certificates (VEECs) created to date have supported gas savings.

The reasons for this include:

- **extremely high emissions factor for electricity savings** to date 1.095 tonnes per MWh which incentivises electricity savings over gas savings;
- **very generous abatement factors for a number of residential electricity savings activities**, +such as standby power controllers, Schedule 21 lighting (more than 30 years of assumed savings);
- **large proportion of gas consumption excluded** from the scheme through a Large Energy User Exemption; and
- **Gas savings tend to be more difficult** to measure and meter.

3. ESIA Recommendations

The ESIA's recommendations focus on addressing three key barriers of current policy failures that work to constrain gas energy efficiency and discourage fuel switching away from gas to electricity.

1. **Transitional Emission Factors are distortionary** and actively discourage gas energy efficiency and fuel switching:

Emission factors proposed for the VEU in the RIS (Dec 2019) were as follows:

| Current | 2021* | 2022 | 2023 | 2024 | 2025 |
|---------|--------|-------|-------|-------|-------|
| 1.095 | 0.8055 | 0.516 | 0.473 | 0.433 | 0.393 |

*The emissions factor for 2021 has been adjusted as midway between the current emissions factor and the 2022 factor to allow program participants to better transition to the resulting decrease in incentives available for existing activities.

Due to concerns raised by some stakeholders, the Government implemented a longer transition pathway from the from the 1.095 tonnes per MWh used for the 2016 to 2020 compliance period. The emission factors implemented are included in the following table.

| Electricity Emission Factors | Tonnes / MWh | | | | | |
|---------------------------------|--------------|--------|--------|--------|--------|--------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Emission Factors Legislated (1) | 1.0950 | 0.9546 | 0.8142 | 0.6738 | 0.5334 | 0.3930 |
| Actual Emission Factors (2) | | 0.6000 | 0.5160 | 0.4730 | 0.4330 | 0.3930 |
| % overstated | | 59.1% | 57.8% | 42.5% | 23.2% | 0.0% |

Note (1): legislated factor is 1.095 to 30 June 2021 then 0.9546 from 1 July 2021
Note (2): Actual emissions factors are those included in the RIS other than 2021 which is an estimate of 2021

Over the next two years (2022 to 2023), abatement from activities that reduce electricity consumption are overstated by more than 43-58 per cent. This disadvantages gas savings measures and can be potentially distortive in that it may support rollout of gas appliance that displace electricity use.

To address this anomaly, we recommend that activities that reduce gas consumption be subject to an uplift over the period to 2025 by the amount that electricity savings have been overstated.

2. Streamline improvements for PBA under the VEU

Significant amounts of gas are consumed by business which means that deemed methods are not often likely to be applicable and that project-based approaches are required. The Project Based Activity (PBA) under the VEU to date has been complicated and very few activities have been implemented. We believe that there is significant room for improvement.

Suggested changes include:

- Streamlined and more simple approach for relatively smaller activities (less than 5,000 VEECs) where Accredited Persons (APs) can create certificates much earlier in the process, so that an up-front discount can be offered to consumers.
- Remove multiple approval steps required by the regulator.
- Development of semi-deemed methods.

3. Incorporate Large Energy Users in the VEU

Background

On 7 July 2021, DELWP advised that under the VEU large energy users (LEU) that are exempt will continue to be exempt for a further 12 months until a new approach will take effect from January 2024. This is an update on the January 2023 date published as part of the consultation held in late 2019 and early 2020. (Businesses that have opted will continue as such.) In the meantime, DELWP is continuing its review of the definition and treatment on LEU with a second round of consultation on the proposed changes expected in late 2021 and with an announcement scheduled to be made in early 2022.

Recommendation

Given this further delay in certainty regarding treatment of LEUs, the ESIA is advocating that either:

- LEUs that have not opted in to the VEU should be able to undertake PBA activities only under the VEU as soon as possible without having to opt

in.

Or,

- change the opt-in process so that it only needs to be done prior to VEEC creation. That means that any projects eligible for creation in 2023 could still opt-in by June 2024 (or whatever the vintage requirements are). By that stage hopefully the LEUs will have certainty about their obligations.

These approaches would boost industry confidence of both energy upgrade service providers and energy customers and support certificate creation for more complex and long-lead time PBA upgrade activities. These activities require measurement and verification (M&V) periods of around 12 months generally, so it can take at least 18–24-months of lead time for PBA projects from inception to delivery of certificates.

Notably, if PBA projects become eligible now without opt-in being required, then few VEECs are likely to be created before January 2024, and perhaps it could be stipulated that the VEECs *cannot* be created until January 2024.

The overall benefits of this approach would be:

- education, commitment, investment, jobs and skills will immediately build;
- a pipeline of projects will become apparent in the VEU register;
- the continuing lost opportunity for LEUs to participate in the VEU will be mitigated;
- major emissions reductions will be delivered sooner to Victoria as modelled in the 2019 RIS;
- all energy customers that support the VEU through their energy bills will be rewarded as significant target-reaching opportunities are not further delayed by the latest announcement;
- the promised benefits to the Victorian economy will be delivered including multi-billion-dollar energy consumption and bill savings, and emissions reductions will be realised at lower cost; and
- some alignment of consideration of LEUs in Victoria with their equivalent under the NSW Energy Savings Scheme, and Emissions Intensive Trade-Exposed Industries (EITEs) under the Commonwealth Renewable Energy Target.

ATO COVID-19 assistance disconnect

The COVID Australian Taxation Office (ATO) assistance for same year depreciation of large capital comes to an end in July 2022. So, there is a disconnect. LEUs won't know what is happening with the VEU obligations until well after July 2022. Therefore, they are at a disadvantage in planning large upgrades and not knowing whether they will gain value from the VEU or just a cost.

Pool of opportunity

The Victorian Government's Gas Substitution Road Map Consultation Paper 2021 released on 26 June 2021 states that Victoria's industry energy use is

comprised of 65% natural gas and 29% electricity. Of the gas use, 31% (66.3 petajoules) is for industrial use for process heat, creating steam, hot water or hot gases to drive manufacturing processes. Industry also uses gas as a feedstock, with ethane, a component of some raw natural gas sources, playing an important role in Victorian manufacturing' such as in the plastics industry. Renewable alternatives to natural gas for process heat include electric heat pumps, biomass and biogas combustion and solar thermal. (p22)

A significant portion of these natural gas reliant processes are ideally suited to PBA energy upgrade projects under the VEU, including fuel switching and improved gas efficiency upgrades. A significant portion of those processes reliant on electricity (29%) are also likely to be suitable for attracting incentives under the VEU thereby critically placed to deliver significant emissions reductions and jobs for Victoria.

4. Responses to consultation questions

4.1 Key issue 6

Transitioning the Victorian economy efficiently and equitably

1. **How can we ensure that the costs of transition to lower emissions energy sources are borne equitably?**

Include Large Energy Users in the VEU as many of them are large consumers of gas. Currently their exemption and opt in arrangement is limiting substitution of gas in the short term.

Provide an uplift factor for gas abatement to address the distortionary electricity factors used to 2025.

2. **How can we help low-income and vulnerable households manage any upfront costs in changing energy sources?**

Provide additional incentives to those provided under the VEU.

This could include multipliers for incentives provided under the VEU. These multipliers need to be set in consultation with industry, as without significant incentives upgrades will not occur. They need to support the associated costs of upgrades such as making good the site and correct disposal and recycling of decommissioned equipment.

Consideration should also be given to requiring a proportion of retailer liability under the VEU to be sourced from low-income households.

3. **What are the barriers for households in improving the efficiency of their use of gas for heating, cooking and hot water and/or switching to solar/pump hot water in existing homes?**

It is a major household management decision to change out appliances that are not broken or that do not obviously function sub-optimally. These decisions are made when appliances break down, when energy prices increase or as part of a major refurbishment or renovation.

Many households are not aware that:

- a significant portion of their gas bill is for connection to the gas main, and not for actual gas.
- gas appliances that are 15 or more years old or more are likely to be much less energy efficient than a new electricity appliance replacement.

4. What are the opportunities for the Victorian Energy Upgrades program to incentivise efficient gas use, thermal upgrades of buildings (e.g. insulation) and electrification?

Correct the emissions factor for electricity.

Make the activity requirements straight forward so it is easier for industry to engage.

5. What issues and elements do you see as most important to improve the energy and emissions performance of new homes?

Mandatory energy ratings for buildings and appliances.

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