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VICTORIAN ENERGY EFFICIENCY TARGET SCHEME

PERFORMANCE REPORT 2009

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CONTENTS

CONTENTS	i
GLOSSARY	iii
1 REPORT OVERVIEW	1
2 VICTORIAN ENERGY EFFICIENCY TARGET	3
2.1 Background	3
2.2 Legislative framework	5
2.3 Role and functions of the Commission	7
2.3.1 Accreditation of persons	7
2.3.2 Approval of energy efficient products	8
2.3.3 Creation, registration, transfer and surrender of VEECs	8
2.3.4 Maintenance of electronic registers	9
2.3.5 Issuing shortfall statements	9
2.3.6 Monitoring compliance	9
3 VEET SCHEME OPERATIONS	11
3.1 Summary of 2009 VEET registry operations	11
3.2 Creation of accounts	11
3.3 Accreditation of persons	12
3.4 Prescribed activities	13
3.5 Creation and registration of VEECs	15
4 VEET SCHEME COMPLIANCE	17
4.1 Compliance overview	17
4.2 Certificate creation by accredited persons	17
4.3 Annual energy acquisition statements by relevant entities	19
4.4 Information the Commission must publish	20
5 OTHER MATTERS	21
5.1 Expansion of VEET scheme	21
5.2 Supporting documentation	21
5.3 Working with scheme participants	22
APPENDIX	23

GLOSSARY

Term	Meaning
accredited person	A person accredited (AP) under the VEET Act. Once accredited, a person is eligible to create certificates in the VEET scheme in respect of prescribed activities.
AP	accredited person
certificate	A Victorian energy efficiency certificate (VEEC) created under the VEET Act in respect of a prescribed activity.
compliance year	The period over which each annual target must be achieved which is a full calendar year.
DPI	Victorian Department of Primary Industries
energy acquisition statement	An annual statement by a relevant entity about the amounts of electricity and gas acquired under scheme acquisitions during the year.
energy efficiency certificate shortfall	The number of certificates for which a relevant entity has failed to acquit its share of the scheme target.
energy efficiency shortfall penalty	A civil pecuniary penalty for which a relevant entity is liable in the event of an energy efficiency certificate shortfall.
ESC	Essential Services Commission established under the <i>Essential Services Commission Act 2001</i> .
ESI	<i>Energy Saver Incentive</i> – the VEET scheme as promoted to the public.
greenhouse gas	Carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, hydrofluorocarbons, perfluorocarbons and any other gas prescribed to be a greenhouse gas.
greenhouse gas reduction rates	Rates, fixed annually by ministerial order, in respect of electricity and gas for a particular compliance year.
Guidelines	The scheme Guidelines made by the ESC under the VEET Act.

liability	The liability of relevant entities to surrender VEECs under the VEET Act.
prescribed activity	An activity, prescribed under the VEET Act, which results in a reduction in greenhouse gas emissions that would not otherwise have occurred if the activity was not undertaken.
prescribed greenhouse gas scheme	A voluntary offset scheme or mandatory greenhouse gas scheme or any other arrangement which promotes the reduction of greenhouse emissions and is prescribed under the VEET Act.
RE	relevant entity
register of accredited persons	A public register, maintained by the ESC, which contains the names and certain other particulars of accredited persons.
register of energy efficiency certificates	A public register, maintained by the ESC, which contains information about energy efficiency certificates as required by the VEET Act and the ESC Guidelines.
register of products	Public registers, maintained by the ESC, containing particulars of certain allowable products that may be used for the purposes of prescribed activities.
Regulations	The scheme Regulations made under the VEET Act.
relevant entity	An entity (RE) which sells electricity or gas, or both, to at least 5000 Victorian customers and makes a scheme acquisition in connection with those sales.
scheme acquisition	The purchase by a relevant entity, for on-sale to Victorian customers, of electricity or gas, or both, within the provisions of the VEET Act.
VEEC	A Victorian energy efficiency certificate created under the VEET Act in respect of a prescribed activity.
VEET Act	<i>Victorian Energy Efficiency Target Act 2007</i>
VEET scheme	The scheme established by the VEET Act.
VEET scheme target	The scheme target set under the VEET Act for each of the first three years (2009-2011) of the scheme.

The Victorian Energy Efficiency Target (VEET) scheme performance report for 2009 provides details of the operation and administration of the *Victorian Energy Efficiency Target Act 2007* (the Act). This report also provides details on the level of compliance by scheme participants and summarises the assessment by the Essential Services Commission (the Commission) of accredited persons' certificate creation activities, relevant entities' annual acquisition statements, and other compliance matters in respect of the 2009 reporting year.¹

The report is based on a 13-month calendar year, 1 January 2009 to 31 January 2010, and is published in accordance with the reporting requirements of section 7(3) of the Act requiring the Commission to report to the Minister for Energy:

- after the end of each year, and
- at the end of any other period as requested by the Minister.

Key milestones for finalising data for the 2009 VEET performance report were:

- 1 January 2009 – commencement of VEET scheme [VEET Act s2(2)]
- 31 May 2009 – deadline for fixing greenhouse gas reduction rates for electricity and gas for 2009 reporting year [VEET Act s32(2)]
- 30 January 2010 -- last day for accredited persons to create VEECs which may be surrendered against 2009 obligations [VEET Act s34(b)]
- 30 April 2010 – last day for relevant entities to submit audited annual energy acquisition statements [VEET Act s33(1)(a)] and end of obligatory certificate surrender period [VEET Act s33(2)(c)]
- 30 June 2010 – last day to create VEECs in respect of the previous activity year (calendar 2009) [VEET Act s17(3)]

The remainder of this section briefly describes the contents of each chapter.

¹ Certificates may be created up until 30 June of the year following the year in which a prescribed activity took place, and relevant entities are required to report their scheme acquisitions during a year by lodging an annual energy acquisition statement by 30 April in the following year.

Chapter 2 – VEET scheme overview

This chapter provides an overview of the VEET scheme, including its legislative framework and the role and functions of the Commission as administrator of the scheme.

Chapter 3 – Scheme operations

This chapter provides a summary of the operations of the scheme for the 2009 calendar year. Operational matters covered include the accreditation of persons, approval of products and creation of Victorian energy efficiency certificates.

Chapter 4 – Compliance

This chapter provides a summary of the compliance obligations of scheme participants in the VEET scheme.

Chapter 5 – Other activities

This chapter provides a summary of the other activities undertaken in respect of the VEET scheme. Activities included continuing to provide high quality on-going support to industry participants and government to enhance both understanding of and participation in the scheme.

2.1 Background

The *Victorian Energy Efficiency Target Act 2007* (the Act), establishing the Victorian Energy Efficiency Target (VEET) scheme which commenced on 1 January 2009, created a new range of energy efficiency initiatives in Victoria. Under the new scheme – which is marketed to the public as the *Energy Saver Incentive* (ESI) – large electricity and gas retailers in the state are liable to acquire and surrender energy efficiency certificates representing more than eight million tonnes of CO₂-e over the first three years of the scheme.

The legislation is designed to reduce greenhouse gas (GHG) emissions, encourage efficient use of electricity and gas, and foster investment, employment and technological development in energy reduction industries. The Act states that, for each of the first three years of the scheme (2009-2011), a target of 2.7 million certificates, each representing a tonne of GHG, shall be created. This is equivalent to 675,000 Victorian households becoming carbon-neutral for a year.

The VEET is essentially a ‘white certificate’ scheme – that is, it leads to the creation of tradeable instruments, issued by an authorised body, that guarantee a specified level of energy saving has been achieved. In Victoria these energy savings are achieved by rewarding consumers prepared to undertake one or more of about 20 prescribed activities, ranging from the installation of high efficiency hot water systems, air heater/coolers, lighting, draught proofing and window treatments through to the purchase of high efficiency appliances like refrigerators.

The Essential Services Commission (the Commission), which the Victorian Government made responsible for building and operating the VEET scheme, maintains registers of products approved for use in the various categories of prescribed activities. These activities are defined in some detail in the VEET Regulations, made by the Department of Primary Industries (DPI), which is also responsible for setting a shortfall penalty rate for liable electricity and gas retailers who fail to achieve their stipulated share of the scheme target.

The operation of the VEET scheme can be simply explained by describing a typical transaction. For instance, Energy Efficiency Retailer X encourages Householder Y to purchase a high efficiency product by offering a cash ‘discount’. Y purchases the

product and assigns to X the right to energy efficiency certificates equivalent to emissions saved by installing the product. The certificates are then purchased by Energy Retailer Z to surrender towards its obligation under the scheme. So X effectively sets a discount based on the price it can get for the certificates from Z, plus administration costs. Y benefits from discounted product prices and lower energy bills resulting from reduced energy use.

A relatively simple example like this belies the complex underlying administrative challenges for the Commission. In addition to its existing responsibilities for utilities regulation in Victoria, the Commission was given new powers under the VEET legislation to administer the scheme efficiently and effectively in order to meet the government's objectives.

At the end of 2008 the Commission released a set of Guidelines that, together with the Act and the Regulations, it uses to administer the scheme, covering matters like accreditation of scheme participants; the creation, registration, transfer and surrender of certificates; energy acquisition statements; record keeping requirements; and a range of compliance and enforcement measures. Along with the Regulations, the Guidelines were subjected to extensive and detailed public scrutiny. The Commission also staged a series of forums to ensure that interested parties were kept informed.

Three discrete categories of individuals and corporate entities participate in the VEET scheme: consumers; accredited persons (that is, permitted to create energy efficiency certificates); and relevant entities (larger electricity and gas retailers, with a minimum of 5000 customers, which have liabilities under the scheme). For the first three-year phase, this demand-side scheme is focused on the 2.9 million residential energy customers in Victoria.² As indicated, persons (usually corporate entities or sole traders) wishing to create certificates must first be accredited by the Commission, and pay a once-only \$500 fee that covers the Commission's administration and assessment costs.

In order to meet scheme commitments the relevant entities, currently about a dozen of the 22 energy retailers operating in Victoria, concentrate on acquiring certificates in a competitive market after they have been created by accredited persons. (Some energy retailers have also become accredited persons – that is, engage in certificate creation activities as well as purchasing and surrendering

² On 15 July 2010 the Premier of Victoria announced that from 2012 the scheme would be expanded to the small to medium enterprise (SME) sector. The Premier also announced that at the same time the scheme target would be doubled to 5.4 million tonnes of GHG per annum.

certificates in order to satisfy liabilities.) A number of other persons participate in the scheme solely as certificate traders, or arbitrageurs.

The Commission does not provide a trading floor for the market in certificates, merely facilitates access to information about current owners of certificates and records details of change of title resulting from transfers. The value of certificates traded in this competitive market obviously varies but a price ceiling is indicated by the shortfall penalty rate prescribed in the Regulations.³ While Goods and Services Tax (GST) applies to this penalty, the Australian Taxation Office has exempted a range of compulsory VEET accreditation and registration fees from the provisions of the GST legislation.

In building the VEET scheme that began operating on 1 January 2009, the Commission has sought to achieve administrative simplicity, consistent with prudent practice. At the heart of the scheme administration is an electronic registry system that provides public information (within privacy legislation constraints) about registers of accredited persons and energy efficiency certificates. Apart from facilitating administration, ongoing IT improvements are helping to reduce the administrative burden of the scheme and thus keep participation costs to a minimum.

Finally, it should be noted that the Commission has placed particular emphasis on a risk-based compliance and enforcement regime to detect and deal with improper behaviour.

2.2 Legislative framework

The Act came into operation on 1 January 2009 after passage through the Victorian Parliament on 21 November 2007.

Section 4 of the Act sets out three main objectives:

- to reduce greenhouse gas emissions
- to encourage the efficient use of electricity and gas, and

³ The shortfall penalty rate for 2009 was \$40, so the notionally capped value of a certificate was \$40 plus GST – a rate sufficiently high to discourage a relevant entity from declining to purchase certificates and instead electing to risk the civil financial penalty.

- to encourage investment, employment and technology development in industries that supply goods and services which reduce the use of electricity and gas by consumers.

The Act confers administrative powers and responsibilities upon the Commission. It also provides for the energy efficiency shortfall penalty that relevant entities must pay if they fail to surrender sufficient certificates to acquit their liability under the scheme. The shortfall penalty rate, set by regulation for the 2009 compliance year, was \$40 per tonne of GHG (*ie* per VEEC).

The Act is supported by the *Victorian Energy Efficiency Target Regulations 2008* (the Regulations) and the *Victorian Energy Target Guidelines* (the Guidelines). The Regulations provide detailed information about criteria for the range of prescribed activities engaged in by accredited persons and publication of product registers.⁴

The Guidelines, issued by the Commission under s74 of the Act, provide a framework for the administration of the scheme, including requirements relating to:

- the accreditation of scheme participants
- the manner in which prescribed activities may be undertaken
- the creation, form and transfer of energy efficiency certificates
- information to be contained in the registers of accredited persons and certificates that are maintained by the Commission
- records to be kept by accredited persons and relevant entities
- the Commission's auditing of certificate creation by accredited persons
- the form of, and information to be provided in, energy acquisition statements
- the auditing of energy acquisition statements by third parties engaged by relevant entities, and
- any other matters relevant to the administration of the VEET scheme.

The Act also requires certain matters relating to the VEET scheme to be specified through an Order in Council published in the Government Gazette. During the year an order declaring a discount factor of zero for ceiling insulation activities was

⁴ In late 2009 DPI, in consultation with the Commission, Sustainability Victoria and the Department of Sustainability and Environment, began a process to expand the range of prescribed activities contained in the Regulations.

published on 20 April 2009⁵ and an order fixing greenhouse gas reduction rates for electricity and gas for the year was published on 28 May 2009. (Section 73 of the Act also requires publication of various administrative fees – this occurred on 11 December 2008 before the commencement of the scheme.)

There were no amendments to the VEET scheme's legislation or supporting legal instruments in the 2009 reporting year. However, a number of technical amendments to the Act, Regulations and Guidelines were foreshadowed for passage in 2010, and section 76 of the Act specifies that an independent review of the operation of the legislation must be completed before the end of 2011.

2.3 Role and functions of the Commission

As mentioned above, the Commission is responsible for implementing and administering the VEET scheme. The remainder of this section outlines the Commission's responsibilities for both operational activities and compliance monitoring and enforcement, including to:

- accredit persons who may create energy efficiency certificates
- approve energy efficient products for which certificates may be created
- administer the creation, registration, transfer and surrender of certificates
- maintain electronic registers⁶
- enforce energy efficiency shortfall penalties, and
- assess compliance with the Act, Regulations and Guidelines.

2.3.1 Accreditation of persons

Individuals and/or companies must be accredited under the VEET scheme before they can create VEECs. Each accredited entity is allocated a unique registration number that is publicly available on the 'Register of accredited persons' on the Commission's website. A once-only \$500 fee is levied to cover the administrative costs of assessing and accrediting an applicant.

⁵ Victorian Government Gazette – S106 (20 April 2009) p1325; this order, made in response to the Commonwealth Government's home insulation fiscal stimulus program, effectively removed ceiling insulation activities from the VEET scheme until the end of 2011.

⁶ Registers are maintained on the Commission website at www.esc.vic.gov.au/public/VEET/

The Commission also processes applications for account holders in the scheme. An account holder may trade (that is, buy and sell) VEECs but may not create certificates. All accredited persons must hold accounts. No fee is levied to become an account holder.

2.3.2 Approval of energy efficient products

Accredited persons are required to apply to the Commission for approval of certain product categories before installing the products, including those for insulation, window retrofit, weather sealing, lighting and low flow shower roses. This approval process is intended to provide APs with assurance that products they intend to install meet scheme requirements. It also streamlines the process for registration of VEECs following installation of the products.

Accredited persons undertaking the installation of such products must submit a completed application form and documentary evidence that a product meets the criteria set out in the Regulations. The Commission assesses applications and provides APs with a written outcome. Once products are approved, the Commission records them against APs' accounts.

For certain categories of prescribed activities, products eligible to create VEECs are listed in a register of products available on the Commission website. The register is maintained for water and space heating products, thermally efficient windows, and high efficiency refrigerators and freezers. The Commission regularly updates the register to capture new eligible products.

2.3.3 Creation, registration, transfer and surrender of VEECs

As mentioned above, each VEEC represents one tonne of GHG abated. Accredited persons are entitled to create VEECs for energy efficiency activities as specified in the Regulations and according to calculated abatement values.

VEECs are created in electronic form and are not valid until the Commission registers them. The Commission assesses the validity of a VEEC creation before allowing the certificate to be registered. A \$1 fee is levied against each VEEC created to cover the administrative costs of assessing, registering, transferring, surrendering and auditing certificates. As noted, the Commission maintains a publicly accessible register that records the creation, transfer of ownership and surrender of VEECs. The 'Register of Victorian energy efficiency certificates' is located on the Commission's website.

Relevant entities are required to surrender VEECs to acquit their required energy efficiency liabilities in respect of a compliance year. For each of the first three years of the scheme (2009-11), the Act sets an annual GHG abatement target of 2.7 million tonnes of carbon dioxide equivalent. (In subsequent three-year phases of the scheme – that is, from 1 January 2012 – the target shall be set by Regulation.)

2.3.4 Maintenance of electronic registers

As required by the Act and Regulations, the Commission maintains the following electronic registers associated with operating the VEET scheme:

- Register of accredited persons
- Register of Victorian energy efficiency certificates (VEECs), and
- Register of certain energy efficient products.

These registers are publicly accessible on the Commission's website.

2.3.5 Issuing shortfall statements

Relevant entities determine their annual GHG emissions liability – and therefore the number of VEECs they are required to surrender each year – by multiplying their residential electricity acquisition for the previous year by the GHG reduction rate for electricity (RE) and by multiplying their residential gas acquisition for the previous year by GHG reduction rate for gas (RG). For 2009 the RE and RG factors were fixed at 0.13727 and 0.00817 respectively.⁷

If a relevant entity fails to surrender sufficient VEECs to acquit its liability in a given year, the Commission may issue a shortfall statement imposing an energy efficiency shortfall penalty on the relevant entity. This civil penalty is determined by multiplying the relevant entity's energy efficiency certificate shortfall (in tonnes of GHG) for that year by the prescribed shortfall penalty. In accordance with section 28 of the Act, for 2009 the shortfall penalty rate was fixed by regulation at \$40 per tonne of GHG.

2.3.6 Monitoring compliance

The Commission is responsible for ensuring compliance with the scheme and maintaining scheme integrity. Main compliance activities involve ensuring that accredited persons create VEECs properly and that relevant entities surrender an

⁷ Victorian Government Gazette – G22 (28 May 2009) p1325

appropriate number of VEECs to acquit their required energy efficiency liabilities. This involves overseeing and reviewing the submission of:

- VEEC transaction forms⁸ submitted throughout the year by scheme participants, and
- energy acquisition statements submitted annually by relevant entities.

Annual energy acquisition statements are required to be audited in accordance with section 33 of the Act and the VEET Guidelines before lodgement with the Commission. A third party auditor must be nominated by the relevant entity and approved by the Commission before conducting the audit. Approved auditors are required to enter a tripartite arrangement which specifies a duty of care to the Commission.

In addition to the functions detailed above, the Commission may also:

- undertake audits of scheme participants
- provide ongoing advice to participants about their responsibilities and obligations under the scheme, and
- impose penalties for non-compliance with the provisions of the legislation.

⁸ VEEC transaction forms include creation, transfer and surrender forms.

3 | VEET SCHEME OPERATIONS

3.1 Summary of 2009 VEET registry operations

This section outlines operational activities in the VEET registry over the period from 1 January 2009 to 31 January 2010 (January 2010 activities are included as part of the 2009 performance report because VEECs created in this month are eligible under section 34(a) of the Act for surrender against 2009 obligations). Registry activities include all certificate transactions by account holders and accredited persons participating in the scheme.

Table 1 below presents a summary of the operational activities undertaken by scheme participants during the 13 month period.

Table 1: 2009 VEET operations activity summary

Activity	2009	Jan 2010	Total
Accounts created	113	2	115
Accredited person (AP) approvals	58	1	59
Addition of new users to an account	184	3	187
VEECs created	3,667,472	264,731 ^a	3,932,203
VEEC creation forms processed	2,034	240	2,274
VEEC transfer forms processed	618	78	696

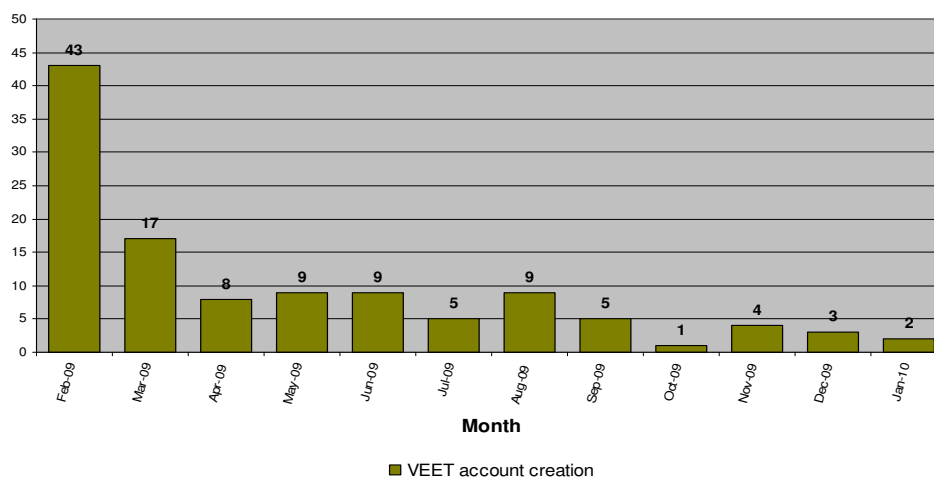
^a VEECs created in January 2010 were eligible for surrender by relevant entities against 2009 obligations.

Source: ESC

3.2 Creation of accounts

A total 115 accounts were opened in the VEEC scheme during the 13 months from 1 January 2009 to 31 January 2010. As noted in the previous chapter, an account is a prerequisite for businesses wishing to participate in the VEET scheme. Account holders are entitled to own, trade and surrender VEECs; however, it is only after they have become an accredited person that they may create VEECs. Opening an account in the VEET scheme does not incur any administration fee and there are no restrictions on eligibility. Figure 1 below shows the number of accounts opened for each of the first 13 months of the scheme.

Figure 1: VEET accounts created – 1 January 2009 to 31 January 2010



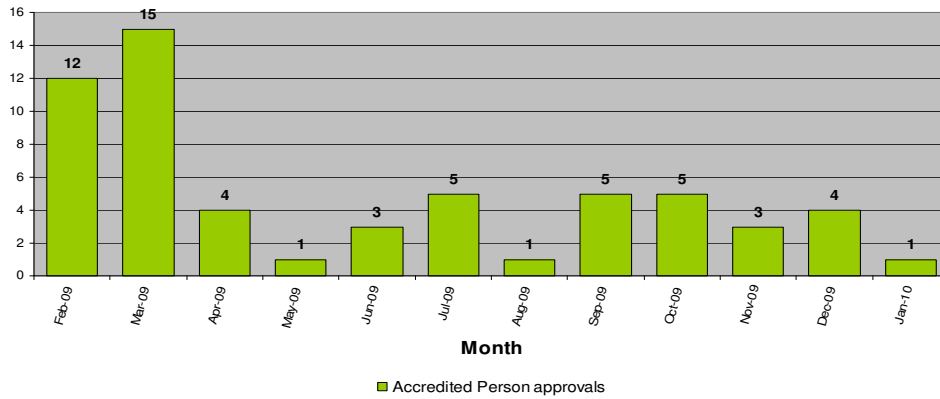
Source: ESC

3.3 Accreditation of persons

Over the reporting period the Commission approved 59 applications to become an accredited person (AP) in the VEET scheme. To become an AP, an applicant must complete an application form and provide the Commission with supporting documentation about business processes and policies, record keeping and quality assurance systems, training and development processes and details of intended prescribed activities, among other information. After the Commission has undertaken a detailed assessment of the application and the applicant pays a \$500 administration fee, the Commission may approve the application, request that the applicant provide additional information, or refuse the application. In any case the Commission must make a decision within 20 business days of receiving a completed application.

Figure 2 below presents a summary of the monthly levels of accreditations by the Commission over the 13 month period from 1 January 2009 to 31 January 2010.

Figure 2: **Accredited person approvals – 1 January 2009 to 31 January 2010**



Source: ESC

3.4 Prescribed activities

Accredited persons must undertake prescribed activities in accordance with the Act, Regulations and Guidelines. The Commission is responsible for monitoring that APs meet the statutory requirements and that VEECs are eligible for creation for a prescribed activity.

During this initial reporting period, the Regulations specified a total of 22 different activities for which VEECs may be created. As indicated in Table 2 below, prescribed activities were undertaken in more than 440,000 Victorian residential premises over the thirteen-month period from 1 January 2009 to 31 January 2010. As expected, the most common activity undertaken by APs during the initial year of the scheme involved various kinds of energy efficient lighting installations.

Table 2: **Prescribed activities – 1 January 2009 to 31 January 2010**

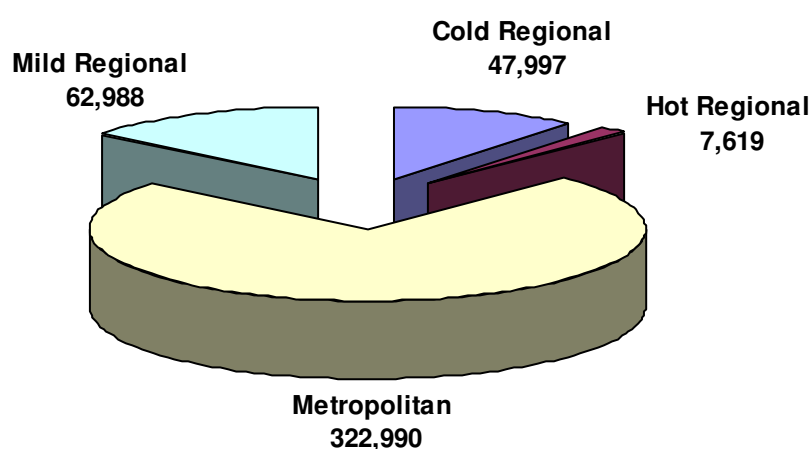
Activity type	Installations	VEECs created
Water heating activities		
1A - Decommissioning electric and installing gas/LPG storage	316	11,950
1B - Decommissioning electric and installing gas/LPG instantaneous	391	15,430
1C - Decommissioning electric and installing electric boosted solar	10,111	435,846
1D - Decommissioning electric and installing gas/LPG boosted solar	2,472	148,139
2 - Installing solar retrofit on electric	2	44
3 - Decommissioning gas/LPG and installing gas/LPG boosted solar	3,811	38,886
4 - Installing solar pre-heater on gas/LPG	2	14
Space heating activities		
5 - Decommissioning ducted gas and installing high efficiency ducted gas	52	719
6 - Decommissioning central electric resistance and installing high efficiency ducted gas	83	24,192
7 - Decommissioning ducted air to air heat pump and installing high efficiency ducted air to air heat pump	-	-
8 - Decommissioning central electric resistance and installing high efficiency ducted air to air heat pump	1	171
9 - Installing flued gas/LPG space heater	77	485
10 - Installing space air to air heat pump	-	-
Space conditioning activities		
11 - Installing insulation in ceiling area not previously insulated	1,140	56,048
12 - Installing insulation in floor area not previously insulated	-	-
13 - Replacement of external window	-	-
14 - Retrofit of external window	-	-
15 - Weather sealing	20	21
Lighting activities		
16 - Installing low energy lamps	347,782	3,050,300
Shower rose activities		
17 - Shower rose	74,335	146,824
Refrigerator/freezer activities		
18 - Purchase of refrigerator/freezer	1	1
19 - Destruction of refrigerator or freezer	998	3,133
Totals	441,594	3,932,203

Source: ESC

Also as expected, during the initial year of the scheme a majority (73%) of prescribed activities were undertaken in the Melbourne metropolitan region. Figure 3 below indicates the relative number of prescribed activities undertaken in the four Victorian climatic regions (Metropolitan, Mild Regional, Cold Regional and Hot Regional – as defined by the Regulations).

The Appendix starting on page 23 provides a more detailed breakdown of activities by climatic region.

Figure 3: Installation of prescribed activities by region



Source: ESC

3.5 Creation and registration of VEECs

An accredited person creates VEECs following prescribed activity installations by submitting a VEEC creation form to the Commission. The certificates will be registered only after the Commission is satisfied that the VEECs have been created in accordance with the Act, Regulations and Guidelines. In instances where the Commission concludes that VEECs have been improperly created, the certificates are not registered and are marked 'invalid due to audit' in the VEEC registry. In cases where the Commission or an AP can demonstrate that previously registered VEECs have been improperly created, a like number of registered VEECs may be voluntarily surrendered to the Commission for the purpose of 'making good' against the improper creations (as indicated in Table 3 below).

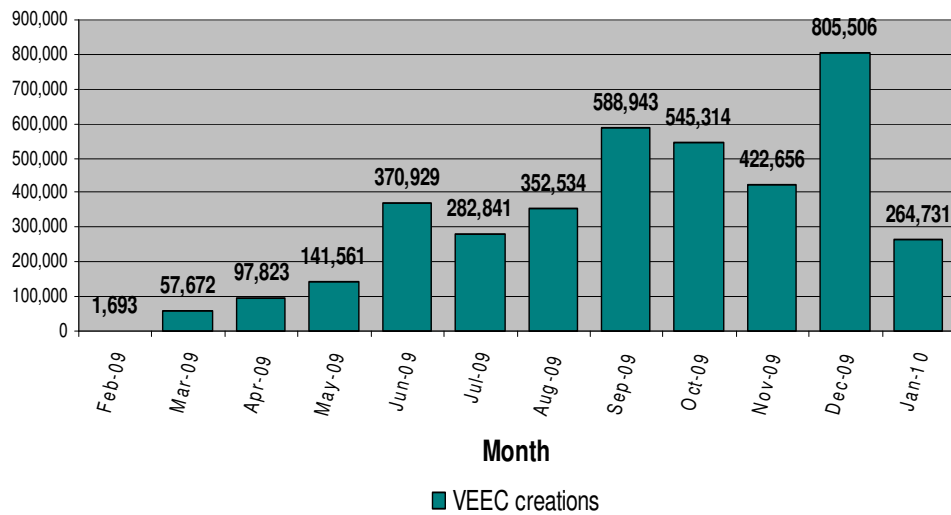
Table 3: **VEECs created and withdrawn – 1 January 2009 to 31 January 2010 (inc. current status as at 18 August 2010)**

VEEC created and withdrawn	2009	Jan 2010	Totals
Total VEECs created	3,667,472	264,731	3,932,203
<i>Current status of created VEECs</i>			
Registered	1,221,870	158,824	1,380,694
Invalid due to surrender	2,441,793	105,907	2,547,700
Invalid due to voluntary surrender	3,809	-	3,809
VEECs withdrawn by AP prior to registration	17,917	-	17,917

Source: ESC

As represented in Figure 4 below, the busiest month for creations and registration of certificates was December at more than 800,000 VEECs.

Figure 4: **VEEC creations by month – 1 January 2009 to 31 January 2010**



Source: ESC

4 VEET SCHEME COMPLIANCE

4.1 Compliance overview

In administering the VEET scheme the Commission ensures that participants – accredited persons and relevant entities – comply with the Act, Regulations and Guidelines. The Commission must ensure that accredited persons properly create certificates and that relevant entities surrender sufficient energy efficiency certificates to acquit their liability for the compliance year.

Section 7(2)(d) of the Act empowers the Commission to undertake audits of creation of certificates by accredited persons (APs).

Section 33 of the Act requires relevant entities to submit audited statements to the Commission. The Commission uses these statements to determine relevant entity compliance – that is, to determine whether REs have correctly calculated their VEET certificate liabilities and surrendered the required number of VEECs.

The following sections summarise the Commission’s activities to gain assurance that VEET participants are compliant with the Act, Regulations and Guidelines.

4.2 Certificate creation by accredited persons

The Commission has implemented an auditing framework to provide assurance that accredited persons are properly creating certificates. The audit framework involves:

- **Risk assessments**

The Commission assesses each AP’s risk of improperly creating certificates based on accreditation information and the AP’s business model. The risk rating is regularly updated and assists the Commission in informing its overall audit program.

- **Preliminary compliance meetings**

The Commission conducts preliminary compliance meetings with newly accredited APs. The Commission uses these meetings to assess how an AP plans to participate in the scheme, view their business model and establish a working relationship with the AP’s management. This initial

meeting is an opportunity for the Commission to highlight to APs their audit obligations under the scheme and reiterate that the requirement to maintain adequate records to validate installations and decommissioning of replaced products.

- **Audits**

The Commission commenced AP audits in June 2009 and completed 17 audits in the period from June to December 2009. Audits were conducted with APs who had submitted creations to the Commission for more than 1000 VEECs. By 31 December 2009, the Commission had conducted audits of APs responsible for 95% of certificates created to that point.

The objective of audits is to assess the APs' compliance with the Act, the Regulations and the Guidelines in creating VEECs by:

- reviewing prescribed activities for which APs have created certificates
- identifying processes used to undertake prescribed activities installations and assessing the effectiveness of controls in those processes
- assessing the process by which APs decommission and dispose of products, and
- identifying and assessing the effectiveness of APs' processes and controls when creating VEECs for various prescribed activities.

The Commission's audit program also included conducting phone and field audits to seek assurance that APs were properly creating VEECs.

The Commission provided audit reports on findings and made recommendations where necessary to improve APs' ability to properly create certificates. Findings focussed on areas in which APs needed to improve controls to provide increased assurance that certificates were properly created. The Commission's recommendations ranged from requiring APs to strengthen training procedures to improving internal stock controls to reconcile installation and decommissioning activities.

The audits also identified instances where APs had improperly created certificates. These instances were further reviewed and in most cases it was determined that the improper creation had resulted from administrative errors. In such cases the AP was required to voluntarily

surrender an equivalent number of certificates to those found to have been improperly created.

One audit identified serious anomalies that required a further investigation. This investigation resulted in the Commission suspending the AP, Skynet Energy Savers. During the period of the suspension, the Act and Regulations prohibited the AP from creating certificates or completing prescribed activities.

- **Consumer complaints resolution**

The Commission received various complaints from consumers and investigated each one directly with the consumer. The Commission uses consumer complaint investigations as a means to reinforce scheme compliance by APs. In the first year of the scheme the Commission investigated 47 compliance-related complaints.⁹ The Commission also investigated a number of AP conduct-related complaints ranging from APs misrepresenting the scheme (for instance, claiming they were representing the Government) to the APs' installers accidentally breaking items in consumers' homes. In most instances the Commission was able to facilitate a resolution with the consumer and the AP. Almost all such complaints involved lighting activities.

4.3 Annual energy acquisition statements by relevant entities

Relevant entities that make scheme acquisitions under the Act are required to report their acquisitions for each calendar year in an audited annual energy acquisition statement, which must be provided to the Commission by 30 April of the following year. Overall, the Commission was satisfied with the quality of the audit reports accompanying the statements.

Relevant entities are obliged to surrender certificates based on residential electricity and gas acquisitions. For the 2009 compliance year, Momentum Energy was the only relevant entity that did not meet its VEET liability and had a relatively small shortfall of 952 certificates. The Commission issued Momentum Energy with a notice requiring it to pay a shortfall penalty of \$38,080, which the company paid.

⁹ During the 2009 compliance year activities were completed in approximately 400,000 homes

4.4 Information the Commission must publish

Section 67 of the Act requires that the Commission publish certain information as follows:

Table 4: **Information required to be published for 2009 compliance year**

ITEM TO BE PUBLISHED	MEASURE
Relevant entities that had energy efficiency shortfall	Momentum Energy
Amount of each relevant entity's energy efficiency certificate shortfall	952 certificates
Total of energy efficiency certificate shortfalls	952 certificates
Number of certificates created in 2009	3,932,203 VEECs
Number of certificates surrendered in 2009	2,547,700 ¹⁰

¹⁰ The number of certificates required to be surrendered to the Commission was lower than the target because actual electricity and gas acquisitions in 2009 were lower than forecast. In such cases, deficits may be made up during following reporting years.

5.1 Expansion of VEET scheme

Section 16 of the Act refers to prescribed activities undertaken for any consumer of electricity or gas as eligible for the creation of certificates. However, the Regulations made at the end of 2008 confined the VEET scheme, at least initially, to activities carried out in residential premises.

On 15 July 2010 the Premier announced the Victorian Government's intention to expand the scheme to small to medium commercial enterprises from the start of the second three-year phase of the scheme in 2012. The Premier also announced that concurrently the annual scheme target would be doubled to 5.4 millions tonnes of GHG abated (equivalent to 5.4 million VEECs per year).

5.2 Supporting documentation

The Commission has published and updated a range of documents to advise stakeholders of the requirements and processes for participating in the scheme. All documents are publicly available on the Commission's website.

Published documents include:

- various explanatory notes about accreditation to participate in the scheme and creating VEECs for prescribed activities
- application forms for account holders and accredited persons
- application forms for the approval of energy efficient products and to modify the register of products
- mandatory information that must be included in certificate assignment forms
- information about the schedule of fees
- application forms for the creation, transfer and surrender of VEECs, and
- explanatory notes about audit processes for accredited persons and relevant entities.

5.3 Working with scheme participants

The Commission dedicates considerable resources to working with scheme participants to support their understanding of the legislation, scheme requirements and administrative processes. This is accomplished by prompt response to phone/email inquiries, numerous visits by stakeholders to the Commission and by Commission officers to stakeholders' premises, regular public information forums, and other consultations. Presentations to public forums and various consultation documents are available on the Commission's website.

During 2009 the Commission devoted considerable efforts to educating new participants about scheme opportunities and responsibilities. In particular, the Commission sought to ensure that relevant entities were familiar with their responsibilities and liabilities under the scheme (as this was the first year they had VEEC surrender obligations) and that accredited persons were fully cognisant of their responsibilities for proper creation of energy efficiency certificates.

APPENDIX

VEEC creations by activity across regions

This appendix contains a breakdown of VEEC creations by prescribed activities across each of the four climatic regions in Victoria – Metropolitan, Mild Regional, Cold Regional and Hot Regional. Figure 5 below shows the numbers of VEEC creations across the four Victorian climatic regions.

Figure 5: **VEEC creation by region in Victoria – 1 January 2009 to 31 January 2010**

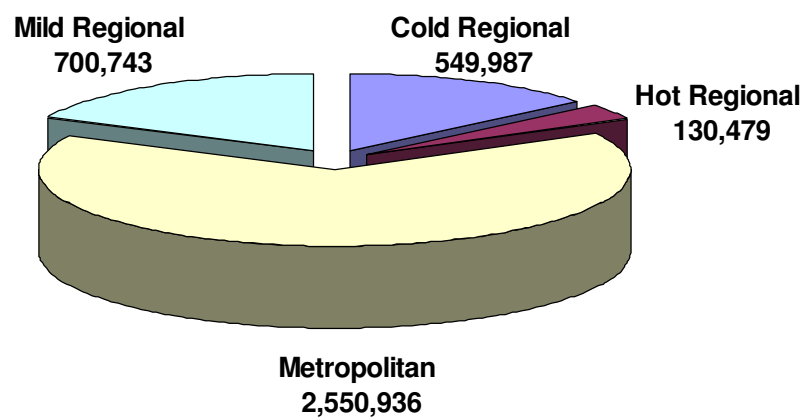
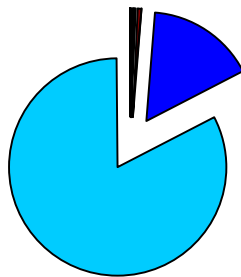


Table 5: VEEC prescribed activities by region – 1 January 2009 to 31 January 2010 (ascending order by number of installations)

Activity	Metropolitan	Mild Regional	Cold Regional	Hot Regional	Total
18 - Purchase of refrigerator/freezer	1				1
8 - Space Heating			1		1
2 - Water Heating			2		2
4 - Water Heating	2				2
15 - Weather sealing	20				20
5 - Space Heating	40	3	9		52
9 - Space Heating	35	13	29		77
6 - Space Heating	2	2	79		83
1A - Water Heating	268	20	28		316
1B - Water Heating	173	112	102	4	391
19 - Destruction of refrigerator or freezer	893	91	14		998
11 - Installing ceiling insulation	661	317	160	2	1,140
1D - Water Heating	558	895	743	276	2,472
3 - Water Heating	1,495	1,087	1,107	122	3,811
1C - Water Heating	747	4,047	3,528	1,789	10,111
17 - Shower rose	52,634	10,999	9,440	1,262	74,335
16 - Lighting	265,461	45,402	32,755	4,164	347,782
Grand Total	322,990	62,988	47,997	7,619	441,594

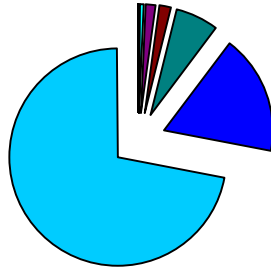
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Metropolitan



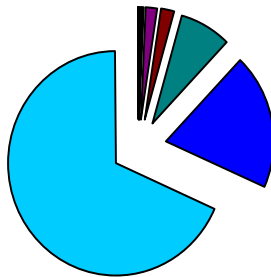
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- 8 - Space Heating
- 2 - Water Heating
- 4 - Water Heating
- 15 - Weather sealing
- 5 - Space Heating
- 9 - Space Heating
- 6 - Space Heating
- 1A - Water Heating
- 1B - Water Heating
- 19 - Destruction of refrigerator or freezer
- 11 - Installing ceiling insulation
- 1D - Water Heating
- 3 - Water Heating
- 1C - Water Heating
- 17 - Shower rose
- 16 - Lighting

Mild Regional



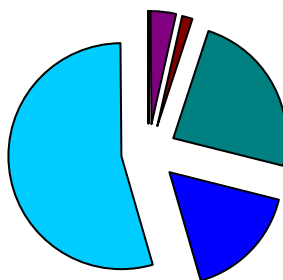
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- 1B - Water Heating
- 19 - Destruction of refrigerator or freezer
- 11 - Installing ceiling insulation
- 1D - Water Heating
- 3 - Water Heating
- 1C - Water Heating
- 17 - Shower rose
- 16 - Lighting

Cold Regional



- 18 - Purchase of refrigerator/freezer
- 8 - Space Heating
- 2 - Water Heating
- 4 - Water Heating
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- 6 - Space Heating
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- 17 - Shower rose
- 16 - Lighting

Hot Regional



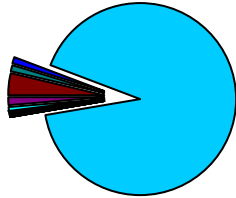
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- 1B - Water Heating
- 19 - Destruction of refrigerator or freezer
- 11 - Installing ceiling insulation
- 1D - Water Heating
- 3 - Water Heating
- 1C - Water Heating
- 17 - Shower rose
- 16 - Lighting

Table 6: **VEEC creation by region and prescribed activity -- 1 January 2009 to 31 January 2010 (ascending order by number of VEECs)**

Activity	Metropolitan	Mild Regional	Cold Regional	Hot Regional	Totals
18 - Purchase of refrigerator/freezer	1				1
4 - Water Heating	14				14
15 - Weather sealing	21				21
2 - Water Heating			44		44
8 - Space Heating			171		171
9 - Space Heating	329	31	125		485
5 - Space Heating	480	42	197		719
19 - Destruction of refrigerator or freezer	2,777	311	45		3,133
1A - Water Heating	9,988	834	1,128		11,950
1B - Water Heating	6,399	4,661	4,200	170	15,430
6 - Space Heating	302	371	23,519		24,192
3 - Water Heating	15,682	11,052	10,817	1,335	38,886
11 - Installing ceiling insulation	33,513	12,934	9,533	68	56,048
17 - Shower rose	90,541	28,947	24,088	3,248	146,824
1D - Water Heating	32,171	54,548	44,333	17,087	148,139
1C - Water Heating	29,668	177,795	150,493	77,890	435,846
16 - Lighting	2,329,050	409,275	281,294	30,681	3,050,300
Totals	2,550,936	700,743	549,987	130,479	3,932,203

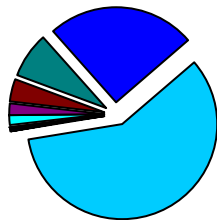
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Metropolitan



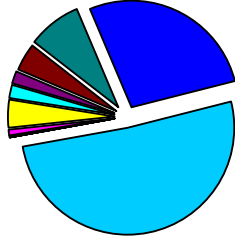
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- 4 - Water Heating
- 15 - Weather sealing
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- 9 - Space Heating
- 5 - Space Heating
- 19 - Destruction of refrigerator or freezer
- 1A - Water Heating
- 1B - Water Heating
- 6 - Space Heating
- 3 - Water Heating
- 11 - Installing ceiling insulation
- 17 - Shower rose
- 1D - Water Heating
- 1C - Water Heating
- 16 - Lighting

Mild Regional



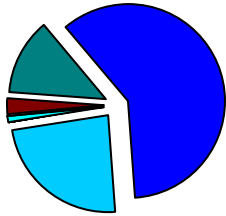
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- 1D - Water Heating
- 1C - Water Heating
- 16 - Lighting

Cold Regional



- 18 - Purchase of refrigerator/freezer
- 4 - Water Heating
- 15 - Weather sealing
- 2 - Water Heating
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- 19 - Destruction of refrigerator or freezer
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- 1C - Water Heating
- 16 - Lighting

Hot Regional



- 18 - Purchase of refrigerator/freezer
- 4 - Water Heating
- 15 - Weather sealing
- 2 - Water Heating
- 8 - Space Heating
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- 5 - Space Heating
- 19 - Destruction of refrigerator or freezer
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