

## ESIA Media Release

5 December 2019

### **Victorian energy savings scheme target increase to 2025 with more upgrades eligible for financial incentives**

The Energy Savings Industry Association (ESIA) welcomes the release yesterday of the Victorian Energy Upgrades program Regulatory Impact Statement (RIS) for target setting from 2021-25 which indicates the most ambitious targets since the program's start in 2009. The cumulative impact of the favoured option will avoid 40.6 mega tonnes (Mt) of emissions in Victoria and be a significant lever in achieving the state's net zero emissions target by 2050.

"We welcome the sensible ambition that will deliver a net benefit of almost \$4,680 million in Net Present Value (NPV) over the period. This successful program is the largest of its kind in Australia and will continue to drive innovative technology transformation," said President of the ESIA, Rod Woolley.

Households participating in the program during 2021-2025 are expected to save \$3.12 billion on their energy bills. Commercial and industrial businesses are expected to save more than \$8 billion on their energy bills.

Modelling indicates that activities carried out under the program during 2021-2025 will ensure energy consumption in 2025 is 10 percent lower than in 2021. Up to 50 per cent of the 2025 target is expected to be delivered through fuel switching activities.

According to RIS, while the 2016-2020 target required an approximate 17 per cent increase in energy savings annually, the 2021-2025 target will require an average annual increase of 22-27 per cent.

More types of energy upgrades will be eligible for financial incentives to help households and businesses save energy and money and reduce greenhouse gas emissions.

The RIS recognised the important opportunity for demand reduction.

A review of the target metric will be considered in 2020. This may open the way to more demand side opportunities and perhaps, as the ESIA advocates, a peak demand reduction mechanism as was committed by the NSW government on 22 November in that state's electricity strategy.

"We look forward to continued engagement with the Victorian government to ensure the State embraces this critical window of opportunity to drive energy savings sooner for Victorian households and industry," said Mr Woolley.

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(See over)

## Background information

### Excerpt (Executive Summary, p8)

#### What are the expected impacts of the proposed amendments to the Regulations?

The proposed amendments to the Regulations (which are based on option four) will introduce an increased target that starts at 6.5 million in 2021 and increases yearly to 2025.

Each year, the target increases by approximately 3 per cent (in terms of emissions).

Both in terms of emissions savings and energy savings, the proposed target is the most ambitious target set for the VEU program since its establishment in 2009 – this reflects the community's increased focus on energy savings and emissions reduction and builds on the established track record of the program for over 10 years.

The cumulative impact of this option (over a 30-year period) will be to avoid 40.6 Mega tonnes (Mt) of emissions in Victoria.<sup>2</sup> This is equivalent to planting 8.12 million trees or taking 8.82 million cars off the road for the year. The electricity savings alone resulting from the proposed target would power the Melbourne Cricket Ground for 26,000 years.

The proposed target and associated amendments to the Regulations have a net benefit compared to the reference case of \$4,679.10 million (NPV – net present values).

Under the proposed amendments to the Regulations, households and businesses that participate in the program will be better off because energy upgrades will reduce their energy requirements and their energy bills. Over the 2021-2030 period, Victorian households participating in the program during 2021-2025 are expected to save \$3.12 billion on their energy bills. Commercial and Industrial businesses are expected to save between \$8.58 and \$17.76 billion on their energy bills.<sup>3</sup>

Residential customers who do not participate in the program are expected to benefit overall including through bill savings across the 2021-2030 period. The modelled impact on a year to year basis shows if no other affordability measures are applied, an average household may pay an additional \$15-65 for energy between 2023-2025. The Victorian Government has in place a suite of measures that are expected to bring down energy prices during those years (such as the Victorian Default Offer) and these will assist in offsetting any impact on Victorian households that choose not to participate in the VEU program.

Activities carried out under the program during 2021-2025 will ensure energy consumption in 2025 is 10 per cent lower than in 2021. In its year of maximum impact (2026), the gas savings from activities carried out during this period will be equal to 15 per cent of 2021 consumption levels. Up to 50 per cent of the 2025 target is expected to be delivered through fuel switching activities. As the emissions intensity of electricity declines due to increasing renewables, a greater proportion of the program liability will be met by gas retailers.

While the 2016-2020 target required an approximate 17 per cent increase in energy savings annually, the 2021-2025 target will require an average annual increase of 22-27 per cent.

<sup>2</sup> The total projected GHG emissions reductions vary slightly from the estimated reductions given by the number of VEECs required to be delivered to satisfy annual VEU targets (where 1 VEEC is designed to deliver 1 tonne of GHG emissions reductions). This is because certificates are awarded based on average emissions factors, and because these are conservative, they slightly underestimate the total amount of emissions achieved. Further, the total reduction under option four includes a conservative estimate of emissions reductions projected by a requirement for large energy users to implement energy management.

<sup>3</sup> The uncertainty is due to the varying retail tariffs different businesses enjoy.

**Reference documents:**

- RIS - Executive Summary 2019
- Target Setting for Victorian Energy Upgrades
- Regulatory Impact Statement 2019
- Proposed Victorian Energy Efficiency Target Amendment (Prescribed Customer and Target) Regulation 2020
- Energy efficiency for large energy users

<https://engage.vic.gov.au/victorian-energy-upgrades/targets>

- Lighting changes for Victorian Energy Upgrades, 4 Dec 2019

<https://engage.vic.gov.au/victorian-energy-upgrades/lighting>

**Submissions will close 31 Jan 2020**