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VICTORIAN ENERGY EFFICIENCY TARGET SCHEME

PERFORMANCE REPORT 2010

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GLOSSARY

Term	Meaning
accredited person	A person accredited 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 and by regulation thereafter.

The Victorian Energy Efficiency Target (VEET) scheme performance report for 2010 provides details of the operation and administration of the *Victorian Energy Efficiency Target Act 2007* (the Act). This report also provides information about the level of compliance by scheme participants and summarises the assessment by the Essential Services Commission (Commission) of accredited persons' certificate creation activities, relevant entities' annual acquisition statements, and other compliance matters in respect of the 2010 reporting year.¹

The report is based on a 13-month reporting year, 1 January 2010 to 31 January 2011, 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 and Resources:

- 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 2010 VEET performance report were:

- 1 January 2009 – commencement of VEET scheme [VEET Act s2(2)]
- 1 January 2010 – start of 2010 reporting year
- 31 May 2010 – deadline for fixing greenhouse gas reduction rates for electricity and gas for 2010 reporting year [VEET Act s32(2)]
- 30 January 2011 -- last day for accredited persons to create VEECs that may be surrendered against 2010 obligations [VEET Act s34(b)]
- 30 April 2011 – 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)]

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

- 30 June 2011 – last day to create VEECs in respect of the previous activity year (calendar 2010) [VEET Act s17(3)]

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

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 2010 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 that commenced on 1 January 2009, created a new range of energy efficiency initiatives in Victoria. Under the 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.²

The VEET is essentially a ‘white certificate’ scheme – that is, it leads to the creation of tradeable instruments, issued by an authorised body, which guarantee that 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 some two dozen 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 and televisions.

The Essential Services Commission (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

² On 24 May 2011 the Minister for Energy and Resources amended the Regulations to double the scheme target to 5.4 million tonnes of GHG per annum from 1 January 2012. Separately, the Minister announced that the scheme would be expanded to the business sector from the same date.

responsible for setting a shortfall penalty rate for liable electricity and gas retailers which 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 and have been updated several times since the start of the scheme. The Commission also staged a series of forums to ensure that interested parties were kept informed, and continues this engagement by holding at least four such public forums a year.

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.³ 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.

³, The scheme will be expanded to the business sector from 2012.

In order to meet scheme commitments the relevant entities, currently comprising 12 of the 22 energy retailers licensed to operate 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 certificates in order to satisfy liabilities.) A number of other persons participate in the scheme solely as certificate traders or aggregators.

The Commission does not provide a trading floor for the market in certificates; it 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. As this penalty is in the nature of a fine, it cannot be claimed as a business tax deduction and so its true value is factored up accordingly⁴. (The Australian Taxation Office has, however, 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 in 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 continues to place particular emphasis on a risk-based compliance and enforcement regime specifically designed to detect and deal with improper behaviour, in 2010 suspending the accreditation of two scheme participants as a result of such unlawful behaviour.

2.2 Legislative framework

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

⁴ The shortfall penalty rate for 2010 was \$40, so the notionally capped value of a certificate was greater than \$50 – a price ceiling sufficiently high to discourage a relevant entity from declining to purchase certificates and instead electing to risk the civil financial penalty.

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
- 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 2010 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.⁵

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
- occupational health and safety training requirements for installers
- 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

⁵ In 2011 DPI, in consultation with the Commission, Sustainability Victoria, Department of Sustainability and Environment, Department of Treasury and Finance, and the Victorian Employers Chamber of Commerce and Industry, began a process to expand the range of prescribed activities contained in the Regulations to apply when the scheme expands to the business sector from 2012.

- 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. For instance, in 2009 an order declaring a discount factor of zero for ceiling insulation activities was published⁶. (Section 73 also requires publication of various administrative fees – this occurred on 11 December 2008 before the commencement of the scheme.)

Various amendments to the VEET legislation and supporting legal instruments in the 2010 reporting year allowed for rounding up of certificate calculations [VEET Act, s18(1A)], improved the VEEC assignment provisions [VEET Act, s16(3)(a)], considerably expanded the range of prescribed activities allowed under the scheme (VEET Regulations) and imposed safety training requirements on APs (VEET Guidelines). A number of further amendments to the Act, to enhance the Commission's compliance and enforcement powers, were foreshadowed for passage in late 2011, 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 registers⁷
- enforce energy efficiency shortfall penalties, and

⁶ *Victorian Government Gazette* – S106 (20 April 2009) p1325; this order, which was made in response to the Australian Government's Home Insulation Program, effectively removed ceiling insulation activities from the VEET scheme and expires on 31 December 2011.

⁷ The registers are maintained at www.veet.vic.gov.au

- 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 VEET website⁸. A once-only \$500 fee is levied to cover the administrative costs of assessing and accrediting an applicant.

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 lighting, low flow shower roses, insulation, window retrofit and weather sealing. 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 VEET website. The register is maintained for water heating products, space heating and cooling products, high efficiency refrigerators and freezers, high efficiency televisions and high efficiency clothes dryers. The Commission regularly updates the register to capture new eligible products and maintains archives of previous instances of the register.

⁸ The VEET website is available at www.veet.vic.gov.au

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 VEET 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 as mentioned above – the target is 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 VEET 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 2010 the RE and RG factors were fixed at 0.15508 and 0.00923 respectively.⁹

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 2010 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 appropriate number of VEECs to acquit their required energy efficiency liabilities. This involves overseeing and reviewing the submission of:

- VEEC transaction forms¹⁰ 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.

⁹ VEET Act, s32A

¹⁰ VEEC transaction forms include creation, transfer and surrender forms.

3 | VEET SCHEME OPERATIONS

3.1 Summary of 2010 VEET registry operations

This section outlines operational activities in the VEET registry over the period from 1 January 2010 to 31 January 2011 (January 2011 activities are included as part of the 2010 performance report because VEECs created in this month are eligible under section 34(a) of the Act for surrender against 2010 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 and the cumulative totals over the first 25 months of the scheme from 1 January 2009 to 31 January 2011.

Table 1: 2010 VEET operations activity summary

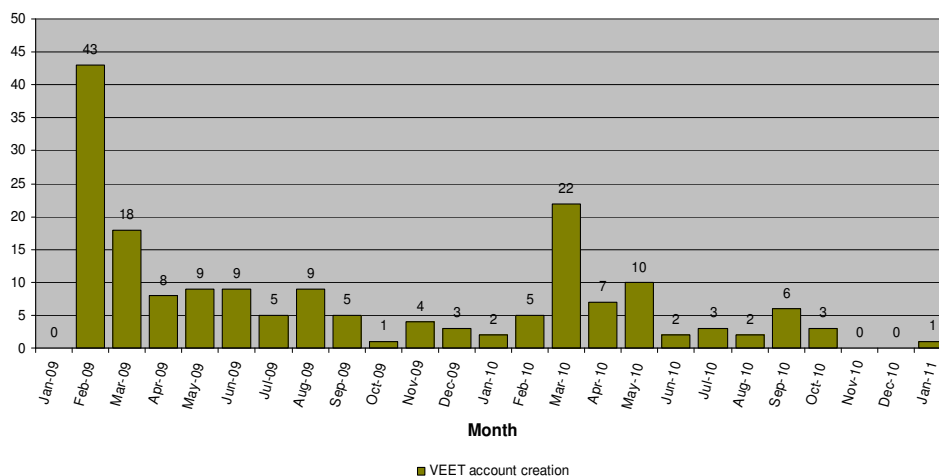
Activity	2010 compliance year (1 Jan 2010 – 31 Jan 2011)	Scheme totals (1 Jan 2009 – 31 Jan 2011)
Accounts created	63	177
Accredited person (AP) approvals	22	80
Addition of new users to an account	104	288
VEECs created	2,529,093	6,213,881
VEEC creation forms processed	2,478	4,482

Source: ESC

3.2 Creation of accounts

A total of 63 new accounts were opened in the VEEC scheme during the 13 months from 1 January 2010 to 31 January 2011. 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 25 months of the scheme.

Figure 1: VEET accounts created – 1 January 2009 to 31 January 2011



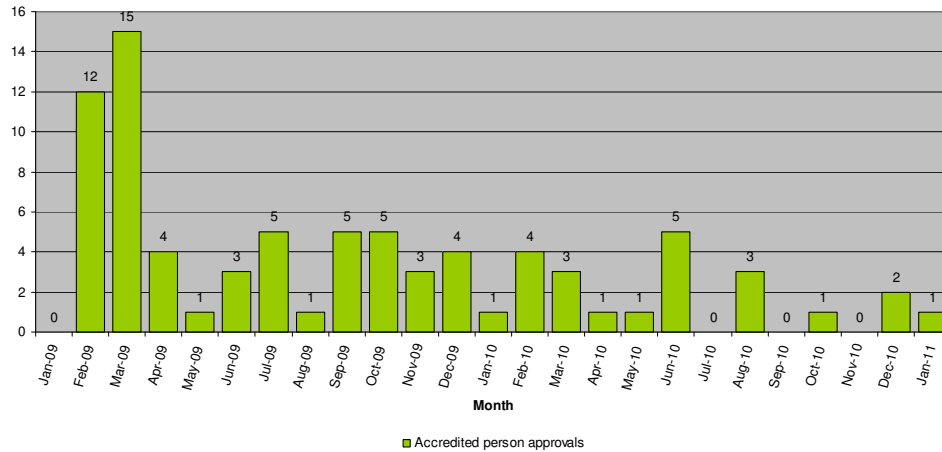
Source: ESC

3.3 Accreditation of persons

Over the reporting period the Commission approved 22 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 complete application.

Figure 2 below presents a summary of the monthly levels of accreditations by the Commission over the first 25 months of the scheme.

Figure 2: Accredited person approvals – 1 January 2009 to 31 January 2011



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 reporting period, the Regulations specified a total of 24 different energy efficiency activities for which VEECs may be created. As indicated in Table 2 below, prescribed activities were undertaken in more than 234,000 households between 1 January 2010 and 31 January 2011. As in the first year of the scheme, the most common activity undertaken by APs over the 13-month period of the 2010 compliance year was various kinds of energy efficient lighting installations.

Table 2: **Prescribed activities – Installations and VEECs created**

Activity type	Installations	VEECs created	Installations	VEECs created
Water heating activities		<i>2010 reporting year</i> <i>1 Jan 2010–31 Jan 2011</i>		<i>2009-2010 reporting years</i> <i>1 Jan 2009–31 Jan 2011</i>
1A - Decommissioning electric and installing gas/LPG storage	542	20,746	800	30,573
1B - Decommissioning electric and installing gas/LPG instantaneous	874	34,892	1,132	45,172
1C - Decommissioning electric and installing electric boosted solar	5303	222,818	14,076	601,899
1D - Decommissioning electric and installing gas/LPG boosted solar	2,097	126,087	4,102	246,247
2 - Installing solar retrofit on electric	7	155	7	155
3 - Decommissioning gas/LPG and installing gas/LPG boosted solar	2,835	29,216	6,003	61,675
4 - Installing solar pre-heater on gas/LPG	2	14	3	21
Space heating activities		<i>2010 reporting year</i> <i>1 Jan 2010–31 Jan 2011</i>		<i>2009-2010 reporting years</i> <i>1 Jan 2009–31 Jan 2011</i>
5 - Decommissioning ducted gas and installing high efficiency ducted gas	44	654	93	1,325
6 - Decommissioning central electric resistance and installing high efficiency ducted gas	144	40,097	218	61,576
7 - Decommissioning ducted air to air heat pump and installing high efficiency ducted air heat pump	0	0	0	0
8 - Decommissioning central electric resistance installing high efficiency ducted air heat pump	0	0	1	171
9 - Installing flued gas/LPG space heater	97	515	160	917
10 - Installing space air to air heat pump	0	0	0	0
20 – Installing a high efficiency ducted gas heater in a new home ^a	0	0	0	0
23 – Decommissioning refrigerative air conditioners and installing evaporative coolers ^a	0	0	0	0

Space conditioning activities	2010 reporting year		2009-2010 reporting years	
	1 Jan 2010–31 Jan 2011		1 Jan 2009–31 Jan 2011	
11 - Installing insulation in ceiling area not previously insulated	28	870	1,168	56,918
12 - Installing insulation in floor area not previously insulated	1	17	1	17
13 - Replacement of external window	0	0	0	0
14 - Retrofit of external window	0	0	0	0
15 - Weather sealing	39	47	39	47
Lighting activities	2010 reporting year		2009-2010 reporting years	
	1 Jan 2010–31 Jan 2011		1 Jan 2009–31 Jan 2011	
16 - Installing low energy lamps	189,289	1,969,537	520,199	4,872,088
21A – Lighting – GLS lamps	3	11	3	11
21B – Installing low energy reflector lamp in place of an incandescent reflector lamp	0	0	0	0
21C – Installing a low energy lamp in place of an existing 12 volt halogen lamp	0	0	0	0
22D – Installing a low energy downlight fitting in place of an existing 12 halogen downlight fitting.	0	0	0	0
Shower rose activities	2010 reporting year		2009-2010 reporting years	
	1 Jan 2010–31 Jan 2011		1 Jan 2009–31 Jan 2011	
17 - Shower rose	28,371	64,604	95,270	195,286
Refrigerator/freezer activities	2010 reporting year		2009-2010 reporting years	
	1 Jan 2010–31 Jan 2011		1 Jan 2009–31 Jan 2011	
18 / 22 - Purchase of refrigerator/freezer ^a	0	0	1	1
19 - Destruction of refrigerator or freezer	4,583	18,873	5,481	21,703
Other activities	2010 reporting year		2009-2010 reporting years	
	1 Jan 2010–31 Jan 2011		1 Jan 2009–31 Jan 2011	
24 – Purchase of high efficiency televisions	0	0	0	0
25 – Purchase of high efficiency clothes dryers	0	0	0	0
26 – Installing high efficiency pool pumps	0	0	0	0

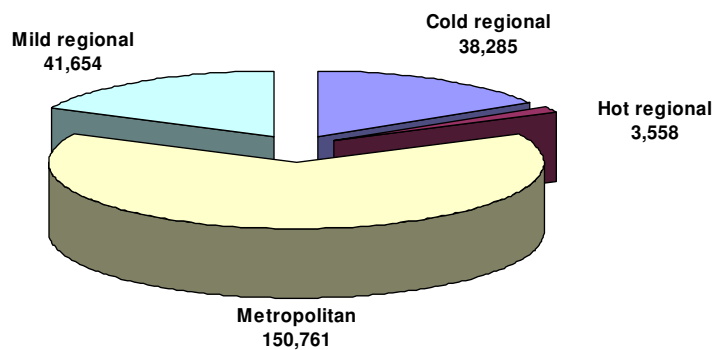
	2010 reporting year 1 Jan 2010–31 Jan 2011		2009-2010 reporting years 1 Jan 2009 – 31 Jan 2011	
	Totals	234,258	2,529,153	648,757

^a Activities 20 to 26 included in VEET Regulations from 26 October 2010

Source: ESC

During the 2010 compliance year the majority (64 per cent) 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).

Figure 3: **Installations 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 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).

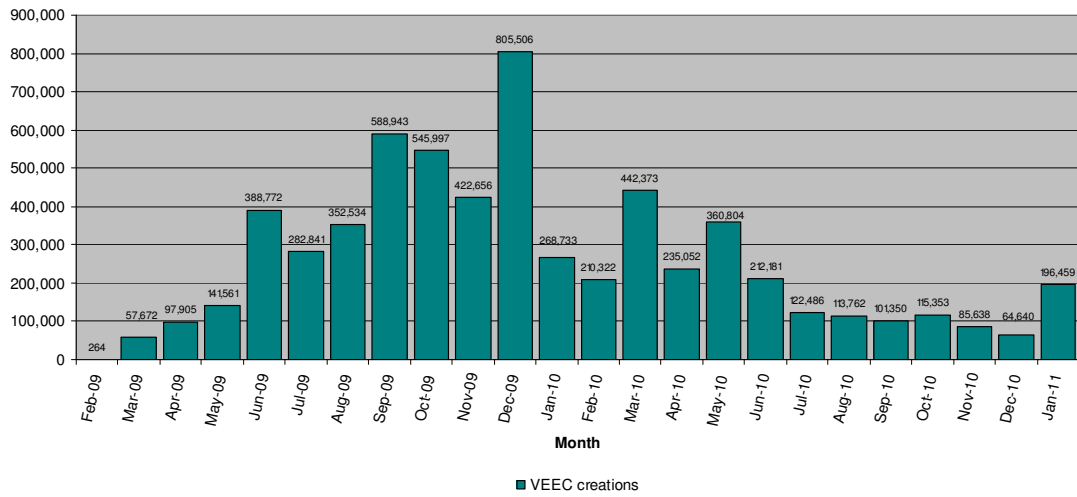
Table 3: VEECs created and withdrawn 2010 (inc. current status as at 1 August 2010)

VEEC created and withdrawn	2010 reporting year 1 Jan 2010–31 Jan 2011	2009 – 2010 reporting years 1 Jan 2009–31 Jan 2011
Total VEECs created	2,529,153	6,213,804
<i>Current status (as at 1 August 2011) of created VEECs</i>		
Registered	583,721	636,629
Invalid due to surrender	1,878,543	5,488,552
Invalid due to voluntary surrender	66,889	70,698
VEECs withdrawn by AP prior to registration	0	17,925

Source: ESC

Figure 4 below shows monthly VEEC creations since the start of the scheme in January 2009. The month of December 2009 remains the most active single month since the start of the scheme with more than 800,000 VEECs created, while March 2010 was the busiest month during the 2010 compliance year with more than 440,000 VEECs created.

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 continued with audits of APs in 2010, completing 16 major audits of APs' activities in the period from January to December 2010. Audits were conducted with APs who had submitted creations to the Commission for more than 1000 VEECs. In 2010, the Commission conducted audits of APs responsible for 74 per cent of certificates created.

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

- reviewing prescribed activities for which APs have created certificates
- identifying processes used to undertake prescribed energy efficiency 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.

Phone audits undertaken by the audit & compliance team provided a further test to validate claims submitted by APs. In the case of businesses deemed 'High Risk' for the purposes of the scheme, there was an increased reliance on phone audits. From July to December 2010 a total of 37 phone audits of 'high risk' APs were conducted, involving more than 1273 phone calls and interviews with 524 Victorian residents.

In 2010 nine field audits were completed which involved visiting 76 Victorian residences.

- **Introduction of duplicate identification tool**

The Commission is committed to monitoring and enforcing scheme compliance and maintaining scheme integrity. To that extent, on 21 July 2010 the Commission introduced an automated duplicate identification tool which enabled it to broaden the scope of the audit and compliance program.

The duplicate identification tool checks 100 per cent of the activities submitted to the Commission by Accredited Persons (AP) for VEEC creation against all previous activities.

In the period July from to December 2010:

- more than 770,057 records were checked for potential duplication of installations
- 62,093 records (representing 8.06 per cent of all submissions) were identified as potential duplicates and returned to APs for further investigation, and
- APs voluntarily surrendered 34,637 VEECs identified as improperly created.

- **'High Risk' APs**

Duplicate identification results, together with detailed assessment of information submitted by participants as part of the VEEC creation process and consumer complaints, are used by the audit and compliance team to maintain a register of 'High Risk' APs and to identify potential instances of improper VEEC creation.

Over the reporting year the Commission continued to provide 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.

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

Five audits identified serious anomalies that required further investigation. These investigations resulted in the Commission suspending Wellbeinggreen and Krazy Green. Investigations of two further APs had not been finalised by the close of the 2010 compliance year.

The Act and Regulations prohibit an AP from creating certificates or completing prescribed activities during a period of suspension.

- **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 2010 the Commission investigated 69 compliance-related complaints.¹¹ The Commission also investigated a number of complaints relating to AP conduct, ranging from misrepresenting the scheme (for instance, an AP claiming it was representing the government) to 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 (REs) 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.

Relevant entities are obliged to surrender certificates based on residential electricity and gas acquisitions.

Victorian energy retailers with more than 5000 residential customers are considered REs under the Act and are required to submit an audited annual acquisition statement and surrender the required number of VEECs to the Commission by 30 April. For the 2010 compliance year:

¹¹ During the 2010 compliance year activities were completed in 234,258 homes

- 12 Victorian energy retailers were identified as REs and had VEEC liabilities under the Act
- all REs surrendered a sufficient number of VEECs to acquit their 2010 liabilities and no VEEC shortfall penalties needed to be issued by the Commission, and
- 2,940,852 VEECs were surrendered for 2010, bringing to 5,488,552 the total number of VEECs surrendered, thus meeting the two-year legislated scheme target.

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 2010 compliance year**

ITEM TO BE PUBLISHED	MEASURE
Relevant entities that had energy efficiency shortfall	N/A
Amount of each relevant entity's energy efficiency certificate shortfall	N/A
Total of energy efficiency certificate shortfalls	N/A
Number of certificates created in 2010	2,529,153
Number of certificates surrendered in 2011 ¹²	2,940,852

¹² To acquit relevant entities' 2010 compliance year liabilities.

5.1 Expansion of VEET scheme

Section 16 of the Act refers to prescribed activities, undertaken on behalf of 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 24 May 2011 the Minister for Energy and Resources amended the Regulations to double the scheme target to 5.4 million tonnes of GHG per annum for the second three-year phase beginning on 1 January 2012. Separately, the Minister announced that the scheme would be expanded from the residential to the business sector from the same date.

During 2011 the Department of Primary Industries, in consultation with the Commission, Sustainability Victoria, Department of Sustainability and Environment, Department of Treasury and Finance, and the Victorian Employers Chamber of Commerce and Industry, began a process to expand the range of prescribed activities contained in the Regulations to apply when the scheme expands to the business sector from 2012.

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 VEET 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. Apart from an ongoing major upgrade to the VEET website, 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 VEET website.

During 2010 the Commission continued its considerable efforts to educate new and existing 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 and that accredited persons were fully cognisant of their responsibilities for proper creation of energy efficiency certificates.