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# VICTORIAN ENERGY EFFICIENCY TARGET SCHEME

PERFORMANCE REPORT 2011

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## GLOSSARY

<b>Term</b>	<b>Meaning</b>
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 2011 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 (the Commission) of accredited persons' certificate creation activities, relevant entities' annual acquisition statements, and other compliance matters in respect of the 2011 reporting year.<sup>1</sup>

The 2011 reporting year marked the culmination of the first three-year phase of the scheme, which has continued to grow rapidly since its inception. As the report summarises, the legislated target of 8.1 million certificates for the first triennium was achieved, giving government confidence to significantly increase the target for the second three-year phase commencing in 2012, to expand the scope of the scheme from the residential-only sector to the business and other non-residential sector, and to increase significantly the range of prescribed activities available under the scheme.

Concurrent with these successful first three years, the Commission has continued to refine and consolidate its oversight of the activities of scheme participants, ensuring that liable parties meet their certificate surrender obligations and that energy efficiency providers engage in proper installations according to the legislation. During the 2011 reporting year:

- all relevant entities met their certificate obligations so no energy efficiency shortfall penalties were required to be paid<sup>2</sup>
- two accredited persons were suspended for improperly creating certificates, and
- the registration of more than 89,000 certificates was refused.

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<sup>1</sup> 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.

<sup>2</sup> Only one energy efficiency shortfall penalty was required to be issued during the first triennium.

At the same time, the Commission has devoted considerable resources to improving its administrative responsibilities, in particular by undertaking a major IT enhancement project during 2011 that has drawn positive responses from scheme participants, reducing costs to government and the private sector..

This report is based on a 13-month reporting year, 1 January 2011 to 31 January 2012, 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 2011 VEET performance report were:

- 1 January 2009 – commencement of VEET scheme [VEET Act s2(2)]
- 1 January 2011 – start of 2011 reporting year
- 31 May 2011 – deadline for fixing greenhouse gas reduction rates for electricity and gas for 2011 reporting year [VEET Act s32(2)]
- 30 January 2012 -- last day for accredited persons to create VEECs that may be surrendered against 2011 obligations [VEET Act s34(b)]
- 30 April 2012 – 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 2012 – last day to create VEECs in respect of the previous activity year (calendar 2011) [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 2011 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 | VICTORIAN ENERGY EFFICIENCY TARGET

### 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 promoted to the public as the *Energy Saver Incentive* (ESI) – large electricity and gas retailers in the state were liable to acquire and surrender energy efficiency certificates representing more than eight million tonnes of CO<sub>2</sub>-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.<sup>3</sup>

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 30 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 (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

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<sup>3</sup> 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 from the residential sector to the business sector.

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, Accredited Person X encourages Consumer 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 several such public forums every 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 was focused on the 2.9 million residential energy customers in Victoria.<sup>4</sup> 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.

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<sup>4</sup> The scheme was expanded to the business sector in October 2011.

In order to meet scheme commitments the relevant entities, currently comprising 14 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 accordingly. (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, in particular to enable online VEEC creations by accredited persons (APs).

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, since 2009 suspending the accreditation of several 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.

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 2011 compliance year, was \$41.23 per tonne of GHG (*ie* per VEEC).

On 1 January 2012 the Act was amended to clarify accredited persons' obligations and better enable the Commission to monitor and enforce compliance. Specifically, the amendments:

- empowered the Commission to impose conditions or restrictions on an AP's accreditation, as well as issue warnings, if the Commission believes an AP has created certificates in contravention of the Act or Regulations, whether intentionally or unintentionally (s40A)
- allows the Commission to impose conditions or restrictions on an AP's accreditation following a period of suspension (s14B), and
- expanded the grounds for suspension of accreditation and enabled the Commission to revoke an accreditation (ss14(3A) and 14A).

Circumstances that may lead to suspension or revocation of accreditation now include:

- if the Commission believes on reasonable grounds that an AP has created VEECs in contravention of the Act or Regulations, whether intentionally or unintentionally
- if an AP has breached a condition or restriction imposed under new sections 14B or 40A
- if an AP fails to undertake an audit required under a new section (s19A), and
- if an AP fails to comply with an order to undertake a 'make good' surrender of certificates, imposed under the amended section 40.

Further, the amendments provided for additional enforcement mechanisms. Section 20 governing the creation of certificates has been amended to clarify when an AP is entitled to create a certificate (with a new offence at section 20(7)).

Section 22 has been amended to clarify when a certificate is eligible to be registered by the Commission, and a new section 22(6) enables the Commission to reject a group of certificates based on evidence gleaned from an investigation into a sample of that group of certificates.

Elsewhere, a new section has been created that allows the Commission to require an AP to undertake an independent audit of that AP's compliance with the Act and Regulations, as it relates to the creation of VEECs (s19A). An audit ordered under section 19A must:

- be conducted by an auditor approved for that purpose by the Commission
- be paid for by the AP, and
- be conducted at a time and encompass a scope determined by the Commission.

The amendments to section 40 of the Act mentioned above enable the Commission to order an AP to surrender certificates equal to the number the Commission reasonably believes that AP has created in contravention of the Act or Regulations. APs must comply with orders made under this section within a time frame determined by the Commission. Failure to comply with an order under section 40 may lead to prosecution or the suspension or revocation of accreditation.

On prosecutions, a new section 70A has been inserted into the Act to clarify the procedure by which the Commission may initiate court proceedings for an offence against the Act or Regulations, and section 72 has been amended to clarify that the obligation upon APs to maintain relevant records for 6 years applies to all APs, including those whose accreditation has been suspended or revoked.

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.

In 2011 DPI, in consultation with the Commission, Sustainability Victoria, the Departments of Sustainability and Environment and of Treasury and Finance, together with 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. As a result,

in October 2011 the Regulations were amended to allow certain existing prescribed activities to be undertaken in business and other non-residential premises.<sup>5</sup>

The VEET Guidelines, issued by the Commission under section 74 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
- 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 published<sup>6</sup>. (Section 73 also requires publication of various administrative fees – this occurred on 11 December 2008 before the commencement of the scheme.)

Further, section 76 of the Act required a review of the operation of the legislation to be completed by 31 December 2011. The review, which was conducted by a person independent of the government, assessed the extent to which the objects of

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<sup>5</sup> Full list available at [www.veet.vic.gov.au/Public/Public.aspx?id=VEETActivitiesbySector](http://www.veet.vic.gov.au/Public/Public.aspx?id=VEETActivitiesbySector)

<sup>6</sup> *Victorian Government Gazette* – S106 (20 April 2009) p1325; this order, made in response to the Australian Government's Home Insulation Program, effectively removed ceiling insulation activities from the VEET scheme and was due to expire on 31 December 2011 but subsequently extended to 30 June 2012 and then 31 October 2012

the Act have been achieved, as well as the scheme target and the levels of penalties under the Act.

### **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 registers<sup>7</sup>
- enforce energy efficiency shortfall penalties, and
- assess compliance with the Act, Regulations and Guidelines.

#### **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 website. 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.

#### **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 standby power controllers, lighting, low flow shower roses, insulation, window retrofit, chimney balloons and weather sealing. This approval process is intended to provide APs with assurance that products they intend to install meet scheme requirements. It

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<sup>7</sup> The registers are maintained at [www.veet.vic.gov.au](http://www.veet.vic.gov.au)

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.

### **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.)

### **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.

### **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 2011 the RE and RG factors were fixed at 0.13767 and 0.00819 respectively.<sup>8</sup>

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 2011 the shortfall penalty rate was fixed by regulation at \$41.23 per tonne of GHG.

### **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 forms<sup>9</sup> 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

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<sup>8</sup> VEET Act, s32A

<sup>9</sup> VEEC transaction forms include creation, transfer and surrender forms.

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.

### 3.1 Summary of 2011 VEET registry operations

This section outlines operational activities in the VEET registry over the period from 1 January 2011 to 31 January 2012 (January 2012 activities are included as part of the 2012 performance report because VEECs created in this month are eligible under section 34(a) of the Act for surrender against 2011 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 three compliance years of the scheme from 1 January 2009 to 31 January 2012.

Table 1: 2010 VEET operations activity summary

Activity	2011 compliance year (1 Jan 2011 – 31 Jan 2012)	Scheme totals (1 Jan 2009 – 31 Jan 2012)
Accounts created	188	364
Accredited person (AP) approvals	14	93
VEECs created	3,092,331	9,181,924
<i>LESS:</i>		
VEECs withdrawn by APS	20,295	38,220
VEECs withdrawn by Commission	4,225	44,291
Registrations refused	89,211	108,213
<b>Registered VEECs</b>	<b>2,978,600</b>	<b>8,991,200</b>

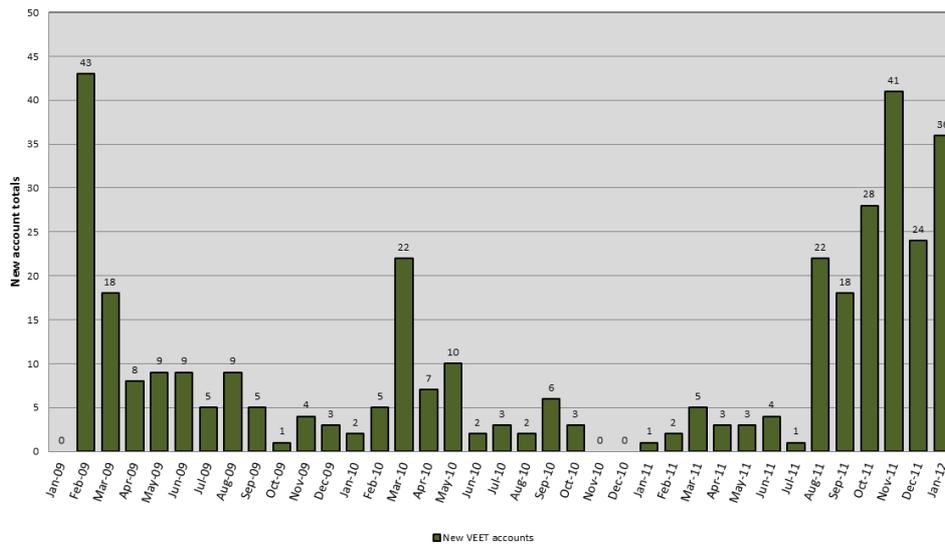
Source: ESC

### 3.2 Creation of accounts

A total of 93 new accounts were opened in the VEEC scheme during the 13 months from 1 January 2011 to 31 January 2012. 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 37 months of the scheme.

**Figure 1: VEET accounts created – 1 January 2009 to 31 January 2012**



Source: ESC

Figure 1 demonstrates that there was a large increase in the number of new VEET accounts opened between August 2011 and January 2012. The primary reason for this increase was due to the introduction of online VEET application and approval functionality to the VEET website in July. The new automation simplified the account application process for businesses and individuals alike.

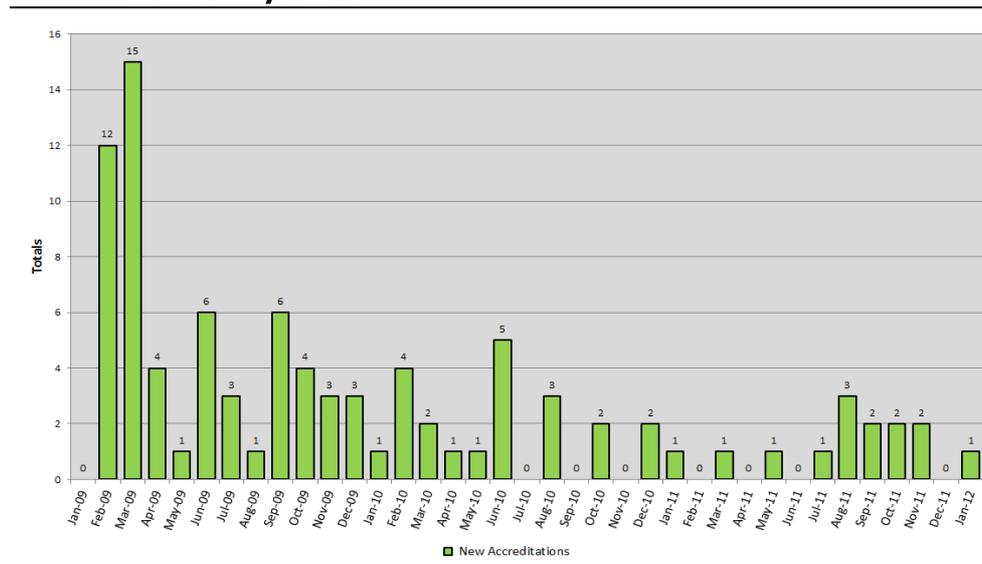
### 3.3 Accreditation of persons

Over the reporting period the Commission approved 14 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 37 months of the scheme.

**Figure 2: Accredited person approvals – 1 January 2009 to 31 January 2012**



Source: ESC

Unlike opening a VEET account, the accreditation application process is conducted entirely offline and is much more stringent. The increase in new accounts during the period did not in turn result in a similar increase in new accreditations.

### 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 26 different energy efficiency activities for which VEECs may be created. As indicated in Table 2 below, prescribed activities were undertaken in more than 303,000 households between 1 January 2011 and 31 January 2012. Unlike the first two years of the scheme, the most common activity undertaken by APs over the 13-month period of the 2011 compliance year was the installation of standby power controllers.

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

Activity type	Installations	VEECs registered	Installations	VEECs registered
<b>Water heating activities</b>		<i>2011 reporting year 1 Jan 2010–31 Jan 2012</i>		<i>2009-2011 reporting years 1 Jan 2009–31 Jan 2012</i>
1A - Decommissioning electric and installing gas/LPG storage	794	31,464	1,561	60,725
1B - Decommissioning electric and installing gas/LPG instantaneous	2,744	115,252	3,752	155,263
1C - Decommissioning electric and installing electric boosted solar	3,011	123,321	16,793	712,700
1D - Decommissioning electric and installing gas/LPG boosted solar	1,420	86,864	5,503	331,937
2 - Installing solar retrofit on electric	0	0	7	155
3 - Decommissioning gas/LPG and installing gas/LPG boosted solar	1,790	19,357	7,680	79,842
4 - Installing solar pre-heater on gas/LPG	0	0	3	21
<b>Space heating activities</b>		<i>2011 reporting year 1 Jan 2010–31 Jan 2012</i>		<i>2009-2011 reporting years 1 Jan 2009–31 Jan 2012</i>
5 - Decommissioning ducted gas and installing high efficiency ducted gas	130	2,063	221	3,356
6 - Decommissioning central electric resistance and installing high efficiency ducted gas	476	134,026	691	194,679
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	5	724	6	895
9 - Installing flued gas/LPG space heater	246	1,574	393	2,425
10 - Installing space air to air heat pump	1	5	1	5
20 – Installing a high efficiency ducted gas heater in a new home <sup>a</sup>	102	629	102	629
23 – Decommissioning refrigerative air conditioners and installing evaporative coolers <sup>a</sup>	0	0	0	0

<b>Space conditioning activities</b>	<b>2011 reporting year</b>		<b>2009-2011 reporting years</b>	
	<b>1 Jan 2011–31 Jan 2012</b>		<b>1 Jan 2009–31 Jan 2012</b>	
11 - Installing insulation in ceiling area not previously insulated	0	0	1,168	56,918
12 - Installing insulation in floor area not previously insulated	0	0	1	17
13 - Replacement of external window	0	0	0	0
14 - Retrofit of external window	0	0	0	0
15 - Weather sealing	1,890	2,071	1,929	2,118
<b>Lighting activities</b>	<b>2011 reporting year</b>		<b>2009-2011 reporting years</b>	
	<b>1 Jan 2011–31 Jan 2012</b>		<b>1 Jan 2009–31 Jan 2012</b>	
16 - Installing low energy lamps	34,410	382,792	541,470	5,107,937
21A – Lighting – GLS lamps <sup>a</sup>	44,203	404,089	44,203	404,089
21B – Installing low energy reflector lamp in place of an incandescent reflector lamp <sup>a</sup>	0	0	0	0
21C – Installing a low energy lamp in place of an existing 12 volt halogen lamp <sup>a</sup>	0	0	0	0
22D – Installing a low energy downlight fitting in place of an existing 12 halogen downlight fitting <sup>a</sup>	0	0	0	0
<b>Shower rose activities</b>	<b>2011 reporting year</b>		<b>2009-2011 reporting years</b>	
	<b>1 Jan 2011–31 Jan 2012</b>		<b>1 Jan 2009–31 Jan 2012</b>	
17 - Shower rose	42,380	109,300	132,583	292,756
<b>Refrigerator/freezer activities</b>	<b>2011 reporting year</b>		<b>2009-2011 reporting years</b>	
	<b>1 Jan 2011–31 Jan 2012</b>		<b>1 Jan 2009–31 Jan 2012</b>	
18 / 22 - Purchase of refrigerator/freezer	0	0	1	1
19 - Destruction of refrigerator or freezer	7,680	35,043	12,674	54,706
<b>Other activities</b>	<b>2010 reporting year</b>		<b>2009-2011 reporting years</b>	
	<b>1 Jan 2011–31 Jan 2012</b>		<b>1 Jan 2009–31 Jan 2012</b>	
24 – Purchase of high efficiency televisions <sup>a</sup>	388	585	388	585
25 – Purchase of high efficiency clothes dryers <sup>a</sup>	0	0	0	0
26 – Installing high efficiency pool pumps <sup>a</sup>	0	0	0	0

<b>New Activities for 2011</b>	<b>2011 reporting year</b>		<b>2009-2011 reporting years</b>	
	<b>1 Jan 2011–31 Jan 2012</b>		<b>1 Jan 2009 – 31 Jan 2012</b>	
28 – Replacement of gas heating ducts <sup>b</sup>	0	0	0	0
29 – Installing a stand-by power controller <sup>b</sup>	161,381	1,529,441	161,381	1,529,441
<b>Totals</b>	<b>303,051</b>	<b>2,978,600</b>	<b>932,511</b>	<b>8,991,200</b>

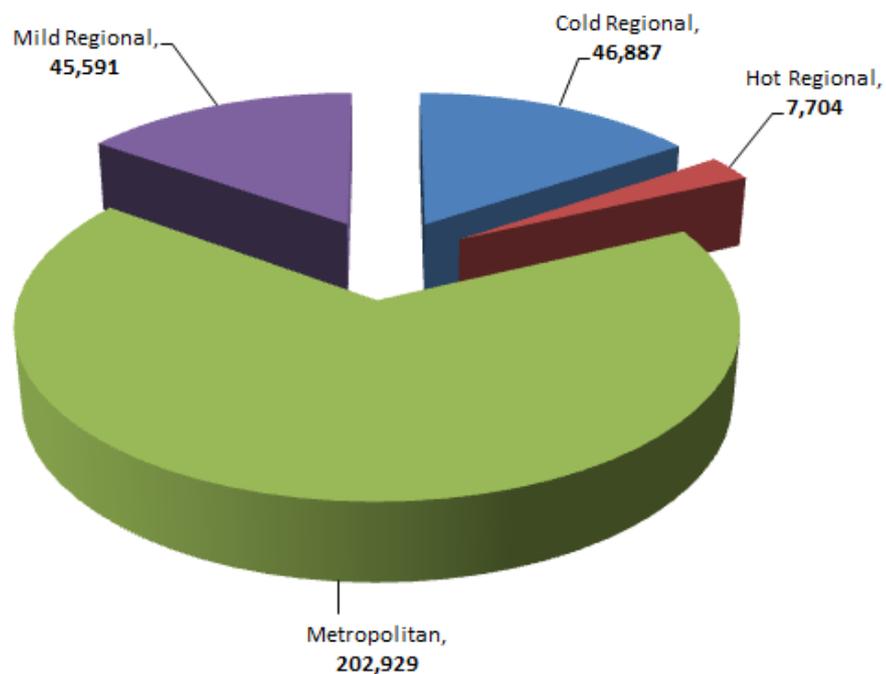
<sup>a</sup> Activities 20 to 26 included in VEET Regulations from 26 October 2010.

<sup>b</sup> Activities 28 and 29 included in VEET Regulations from October 2011.

Source: ESC

During the 2011 compliance year the majority (67 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<sup>10</sup>.

**Figure 3: Installations of prescribed activities by region**



Source: ESC

<sup>10</sup> The VEET Regulations define and establish the four climatic regions in Victoria

### 3.5 Creation and registration of VEECs

An accredited person creates VEECs after conducting a prescribed activity installation by submitting the VEEC creations to the Commission for assessment. The certificates will be registered only after the Commission is satisfied, following a risk based assessment, that the VEECs have been created in accordance with the Act, Regulations and Guidelines. Where the Commission has established that VEECs have been improperly created the accredited person may choose to withdraw the certificates, otherwise the Commission may decide to refuse registration. 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<sup>11</sup>.

Table 3 below includes the unique status as at 15 August 2012 of all VEECs created during the reporting period from 1 January 2011 to 31 January 2012. Only VEECs which were 'Registered' can later be later retired due to obligatory, voluntary or mandatory surrender. Once a VEEC has been "Retired" it is no longer eligible to be traded. Similarly, only VEECs which have been created and maintain a status of 'Pending Registration'<sup>12</sup> may be withdrawn by the AP or refused registration by the Commission.

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<sup>11</sup> Amendments to the VEET Act effective from 1 January 2012 now enable the Commission to order APs to surrender VEECs.

<sup>12</sup> The 'Pending Registration' status applies to all created VEECs that are either undergoing risk based assessment or where the AP has not yet paid the VEEC registration fee.

**Table 3: VEECs created and withdrawn 2011 (inc. current status as at 1 August 2012)**

VEEC created and withdrawn	2011 reporting year 1 Jan 2011–31 Jan 2012	2009 – 2011 reporting years 1 Jan 2009–31 Jan 2012
Total VEECs created	3,092,331	9,181,924
<i>Current VEEC status (as at 15 August 2011) of created VEECs</i>		
Registered	827,793	838,967
Pending registration	8,572	10,925
Retired due to obligatory surrender <sup>a</sup>	2,124,965	8,058,781
Retired due to voluntary surrender <sup>b</sup>	17,270	82,527
Registration refused	89,211	108,213
VEECs withdrawn by APs	20,295	38,220
VEECs withdrawn by Commission <sup>c</sup>	4,225	44,291

<sup>a</sup> VEET Act, ss 33, 38, 39 or 40.

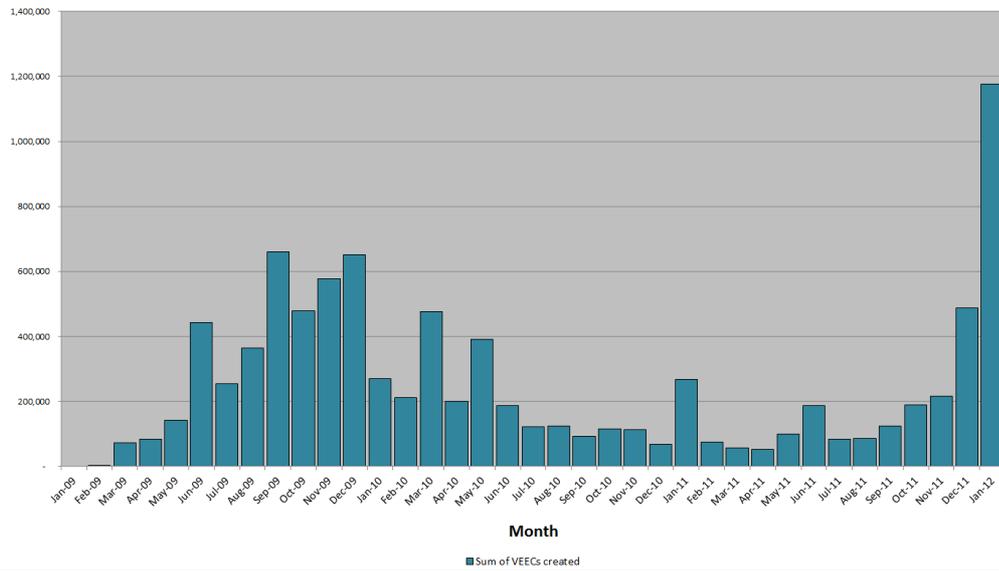
<sup>b</sup> VEET Act, s 25.

<sup>c</sup> VEECs withdrawn by the Commission include VEECs processed in error by Commission staff on behalf of an AP.

Source: ESC

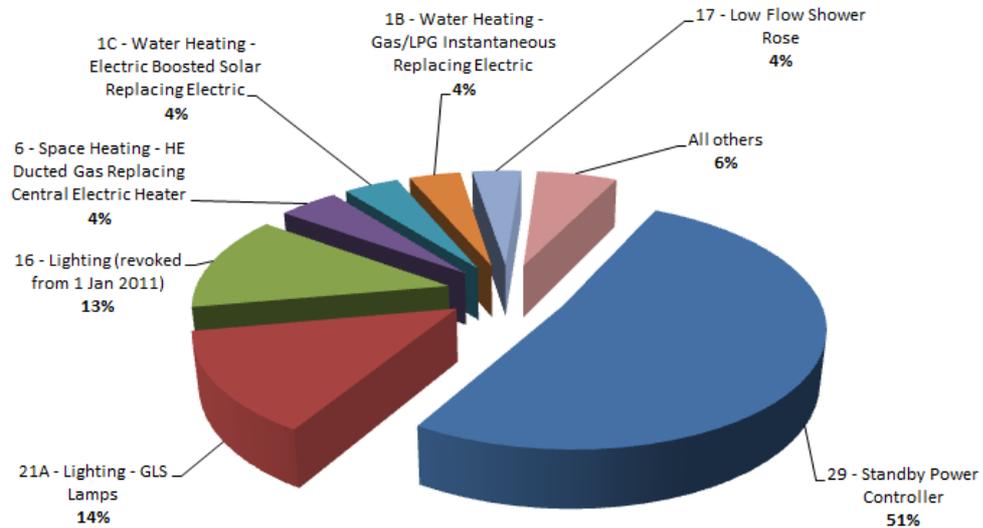
Figure 4 below shows monthly VEEC creations since the start of the scheme in January 2009. The month of January 2012 was single most active month since the start of the scheme with more than 1.1 million VEECs created. The increased volume of VEEC creations in December and January was the result of widespread installations of standby power controllers under Schedule 29 of the VEET regulations. As seen in Figure 5, VEECs created from standby power controllers accounted for over 50% of all creations for the 2011 compliance year.

**Figure 4: VEEC creations by month — 1 January 2009 to 31 January 2012**



Source: ESC

**Figure 5: VEEC creations by activity — 1 January 2011 to 31 January 2012**





## 4 | VEET SCHEME COMPLIANCE

### 4.1 Compliance overview

In administering the VEET scheme the Commission ensures that participants – accredited persons (APs) and relevant entities (REs) – comply with the Act, Regulations and Guidelines. The Commission must ensure that APs properly create certificates and that REs 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 APs.

Section 33 of the Act requires REs 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 APs 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. A risk rating of low, medium and high is applied to all accredited APs.

- **Pre-accreditation audits and meetings**

The Commission conducts pre-accreditation audits with all businesses applying to participate in the VEET scheme. The Commission uses these audits to assess how an AP plans to participate in the scheme, review and understand the AP’s business model and to establish a working

relationship with the AP. This initial audit is an opportunity for the Commission to emphasize its compliance expectations and to reinforce to the AP their audit obligations under the scheme. The audit is also an opportunity for the Commission to reiterate the Scheme requirement to maintain adequate installation and decommissioning records. VEET Compliance completed 14 pre-accreditation audits in 2011.

In July 2011 a new prescribed activity (activity), Schedule 29 – Installation of Standby Power Controllers (SPCs) was introduced into the scheme. This activity was identified as having a high compliance risk and the VEET Compliance team conducted (product) pre-accreditation meetings with all APs that applied to undertake this activity. These meeting were conducted to ensure APs had in place processes, procedures and controls to undertake this activity in accordance with VEET Act, Regulations and Guidelines. VEET Compliance completed 11 SPC (product) pre-accreditation meetings in 2011.

- **Audits**

The Commission continued its program of regular audits of APs in 2011, completing nine major audits of APs' activities in the period from January to December 2011.

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 site audits to seek assurance that APs were properly creating VEECs.

- **'High Risk' APs**

The Compliance team maintains an internal register of 'High Risk' APs and continually monitor the activities of these APs to identify potential instances of improper VEEC creation.

Monitoring activities include:

- the review of duplicate installation results and AP self-audits
- assessment of information submitted by participants, installers and consumers as part of the VEEC creation process and
- investigation of consumer complaints

In addition during 2011 the phone audit program focussed on 'high risk' APs with 111 phone audits completed that involved more than 1,809 phone calls and interviews with 1,089 residents.

Over the reporting year the Commission continued to provide audit reports to High Risk APs. Audit findings focussed on areas in which these 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 most of these cases the AP voluntarily surrendered an equivalent number of certificates to those found to have been improperly created.

Three audits identified serious anomalies that required further investigation.

- **Investigations**

VEET Compliance undertook three formal investigations in 2011. The investigations required extensive residential site audits to be undertaken by Commission authorised officers. In total the investigations involved attending 253 properties. One of the investigations resulted in the AP improving their procedures and processes and voluntarily surrendering VEECs as a result of this investigation.

The other 2011 investigations resulted in the accreditations of Green Alliance and Wellbeinggreen being suspended for 12 months and 8 months, respectively.

- **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 2011 the Commission investigated 20 compliance-related complaints.<sup>13</sup> 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. Most complaints involved lighting and SPC activities.

### **4.3 Annual energy acquisition statements by 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.

REs 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 2011 compliance year:

- 14 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 2011 liabilities and no VEEC shortfall penalties were issued by the Commission

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<sup>13</sup> During the 2011 compliance year activities were completed in over 300,000 homes

- 2,570,229 VEECs were surrendered for 2011, bringing to 8,058,781 the total number of VEECs surrendered over three years - meeting the three-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 2011 compliance year**

ITEM TO BE PUBLISHED	MEASURE
Relevant entities that had energy efficiency shortfall	None
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 2011	3,092,331
Number of certificates surrendered in 2012 <sup>14</sup>	2,570,229

<sup>14</sup> To acquit relevant entities' 2011 compliance year certificate 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.

In 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, which occurred in October 2011.

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 expanded to the business sector from 2012. From October 2011 most activities able to be undertaken in the residential sector were also approved for the business and other non-residential sector.

### **5.2 VEET IT enhancement**

During 2011 the Commission also undertook a major multi-phase project to enhance the VEET website and automated processing system. As a result, in addition to its existing functionality the scheme's interactive website now also allows:

- online account management for users and installers
- online VEEC creation and registration functionality
- online VEEC transfers and surrenders, and

- improving reporting, especially from the VEEC Register and activities registers.

The above enhancements have resulted in improved processing times, reducing administrative overheads both for scheme participants and for the Commission, which has ongoing priorities to keep the system running and secure, and continuously to improve system useability both for external and internal users.

### **5.3 Supporting documentation**

The Commission has published and updated a wide 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.

### **5.4 Working with scheme participants**

The Commission dedicates considerable effort to working with scheme participants to support their understanding of the legislation, scheme requirements and administrative processes. Apart from ongoing improvements to the VEET website and increasingly automated functionality, 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 2011 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.