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VICTORIAN ENERGY EFFICIENCY TARGET SCHEME

PERFORMANCE REPORT 2012

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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
DSDBI	Victorian Department of State Development, Business and Innovation (formerly DPI)
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, sulfur 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, or makes a scheme acquisition of 30 000 MWh or more of electricity, or 350 000 GJ or more of gas.
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 by regulation for each of the three years comprising the second triennium (2012 – 2014) of the scheme.

The Victorian Energy Efficiency Target (VEET) scheme performance report details the operation and administration of the *Victorian Energy Efficiency Target Act 2007* (the Act) in 2012. The 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 for the 2012 reporting year. This report is published in accordance with section 7(3) of the Act requiring the Commission to report on the performance of the scheme to the Minister:

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

The VEET scheme is a Victorian Government initiative promoted to the public as the *Energy Saver Incentive* (ESI). It was established under the Act to commence on 1 January 2009 and is legislated to continue in three-year phases until 1 January 2030. The purpose of the scheme is to promote reduction of greenhouse gas (GHG) emissions by encouraging efficient use of electricity and gas in the residential and commercial sectors. The scheme is also designed to foster investment, employment and technological progress in energy reduction industries.

The 2012 reporting year marked a significant expansion of the scheme. The annual target was increased to 5.4 million tonnes of GHG abatement for the second three-year phase of the scheme. Reflecting this expanded target, a number of important legislative amendments were implemented to expand the scope of the scheme to include non-residential premises and to add five new prescribed energy saving activities. These activities included the installation of in-home displays (IHDs), high efficiency (HE) motor replacement, HE refrigerator display cabinet replacement, HE refrigerator fan motor replacement, and commercial lighting upgrades. These changes saw a dramatic increase in scheme participation, the number of prescribed activities undertaken and Victorian energy efficiency certificates (VEECs) registered.

In 2012, the Commission continued to refine and consolidate its administrative processes and compliance oversight. In particular, the Commission invested significantly in its information technology systems to improve user functionality and administrative efficiency, as well as to strengthen the Commission's risk

assessment and data validation capability – providing greater quality assurance and augmenting the Commission’s compliance regime.

The data contained in this report is based on the 2012 calendar year, with the exception of certificates ‘created’, which covers the 12-month period from 31 January 2012 to 30 January 2013.¹ The Commission adopted this time framework from the commencement of the second three-year phase of the scheme to allow for more accurate and transparent year-on-year comparisons.²

The following provides a summary of the key scheme performance indicators for 2012:

- All relevant entities (REs) met their certificate obligations. No energy efficiency shortfall penalties were required
- 8,798,100 certificates were created up to 30 January 2013, of which 637,527 were subsequently withdrawn by APs³
- 8,301,779 certificates were registered from 978,795 prescribed activities⁴
- Standby power controllers accounted for 80.8 per cent of certificates registered, followed by residential lighting 6.2 per cent, low-flow shower roses 1.4 per cent
- 5,255,416 certificates were surrendered by REs to acquit their annual liability⁵
- 410 VEET accounts were created (scheme total: 738)
- 966 energy saving products approved (scheme total: 1614)

¹ Section 34(b) of the Act requires that a certificate cannot be surrendered unless ‘the certificate was created before 31 January in the year following the year to which the energy acquisition statement relates.’

² In the first three-year phase of the scheme, the Commission reported on a 13-month reporting year.

³ As at 7 August 2013.

⁴ Created certificates refer to certificates that have not been registered by the Commission. A certificate is only valid after it has been registered.

⁵ The number of VEECs required to be surrendered by liable entities for the compliance year was 5,255,416 – that is, less than the legislated target of 5.4 million. The number surrendered was less than the 2012 annual target because actual electricity and natural gas acquisitions were less than forecast. However, this deficit will be made up in surrenders for later compliance years of the 2012-14 triennium in order to meet the three-year legislated target of 16.2 million certificates.

- 29 businesses received accreditation to participate in the scheme (scheme total: 121).

The Commission expanded its compliance monitoring and enforcement efforts in response to the doubling of the scheme target in 2012. The following provides a summary of the specific actions undertaken by the Commission during the period:

- Four formal investigations into AP activities were completed. During these investigations, staff assessed specific areas of non-compliance that resulted in each AP being required to voluntarily surrender or withdraw VEECs equivalent to the level of non-compliance identified by the Commission.
- 11 regular audits completed. During these audits, staff conducted testing of registered claims which included phone audits and site visits. The audits occur at the business premises of the AP, where staff review business systems and interview key personnel. VEET staff review documentation and internal processes to substantiate certificate creation claims. The purpose of these audits is to assess the adequacy of APs' quality control processes and to identify potential non-compliance.
- Seven desktop audits of commercial lighting upgrades completed. These audits assessed the creation and installation information of the first lighting activities completed by APs. These audits were conducted to ensure APs had sufficient processes in place to meet the complex compliance requirements of this activity..

The following briefly describes the contents of each chapter of the report.

Chapter 2 – VEET Scheme

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

Chapter 3 – Scheme Operations

This chapter provides a summary of the operations of the scheme for 2012. Operational matters covered include the creation of accounts, accreditation of persons, and data related to the creation and registration of Victorian Energy Efficiency Certificates.

Chapter 4 – Compliance

This chapter details the work undertaken by the Commission to ensure accredited person and relevant entity compliance with the requirements for participation in the scheme.

Chapter 5 – Other Matters

This chapter provides a summary of the other activities undertaken by the Commission with regard to the effective administration of the VEET scheme. These activities include significant investment in IT systems to improve functionality and efficiency for scheme participants, additional administrative measures introduced in response to the expansion of the scheme, stakeholder consultation and the publication of guidance documentation.

2.1 Background

The Victorian Energy Efficiency Target (VEET) scheme is a Victorian Government initiative promoted to the public as the *Energy Saver Incentive* (ESI). It was established under the *Victorian Energy Efficiency Target Act 2007* (the Act) and commenced on 1 January 2009.

The purpose of the legislation is to promote reduction of greenhouse gas (GHG) emissions by encouraging efficient use of electricity and gas in the residential and commercial sectors. The scheme is also designed to foster investment, employment and technological progress in energy reduction industries.

The VEET is a 'white certificate' scheme. It leads to the creation of tradeable certificates, issued by an authorised body, which specify that a level of energy saving has been achieved. For VEET, this process is driven by placing a liability on large energy retailers in Victoria to surrender a specified number of Victorian energy efficiency certificates (VEECs) each year. Energy retailers with a liability under the scheme are known as *relevant entities* (REs). REs are able to create certificates directly, or purchase them in a competitive market. VEECs are created by ESC accredited businesses (known as *accredited persons* or APs) undertaking a range of prescribed energy saving activities. The revenue generated through the sale of VEECs enables APs to offer energy consumers benefits that may reduce the cost of undertaking these energy efficiency improvements.

Each certificate represents one tonne of greenhouse gas abated. For the first three-year phase of the scheme (2009-2011) a target of 2.7 million certificates per annum was set. This increased to 5.4 million certificates per annum during the second three-year phase (2012-2014) as a result of the scheme's expansion from the residential sector into the business and other non-residential sector.

2.2 Legislative framework

The VEET scheme is governed by the VEET Act, Regulations and Guidelines.

The Act

The Act came into operation on 1 January 2009 and is the primary legislation establishing the VEET scheme.

Section 4 of the Act sets out the VEET scheme's 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 and sets the limits of the authority for the Regulations and Guidelines. It also provides for the energy efficiency shortfall penalty, which is the penalty that an RE must pay if it fails to surrender sufficient certificates to acquit its liability under the scheme in any given compliance year.

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.⁶

The Regulations

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 which are eligible to be undertaken under the VEET scheme, and the publication of product registers.

⁶ *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. A notice of declaration was published on 26 April 2013 to extend this discount factor to 31 December 2014.

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 coincide with the scheme expansion to the business sector commencing in 2012.

As a result, the scheme has seen various amendments to the Regulations during the 2012 reporting period. These amendments include the following:

January 2012 - the Regulations were amended to vary the definition of scheme acquisition. From 1 January 2012, business and non-residential activities were introduced into the VEET scheme allowing Accredited Persons to undertake activities for non-residential consumers. This necessitated the inclusion of non-residential energy acquisitions in the calculation of each Relevant Entities liability under the scheme.

February 2012 - the Regulations were amended to allow thirteen of the pre-existing residential prescribed activities to be undertaken in business and other non-residential premises (following a similar amendment in December 2011). This occurred as part of the scheme expansion project.

March 2012 - the Regulations were amended to provide for the new activity of installing in-home displays (IHDs) in the residential sector.

May 2012 - the Regulations were amended to allow for four new prescribed activity categories exclusive to the business and non-residential sector. These activities are refrigerated display cabinets, refrigeration fans, high efficiency motors and commercial lighting upgrades.

July 2012 - the Regulations were amended to alter the manner in which scheme acquisition is calculated for REs. The amendment excluded from the calculation of scheme acquisitions, energy consumed at sites listed on the Environmental Protection Authority's Environment and Resource Efficiency Plans (EREP) register of participating sites.

The Guidelines

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.

In order to support the administrative changes resulting from the scheme expansion project in 2012, the Guidelines underwent a series of consequential amendments.

The amended version of the Guidelines was gazetted in the Victorian Government Gazette on 9 August 2012 and took effect on that day.

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

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

- 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, in-home displays, commercial lighting, low flow shower roses, insulation, window retrofit, lighting replacement products, chimney balloons, refrigerated display cabinets, refrigeration fans, low flow trigger nozzles, high efficiency spray valves 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 an application using the online product application feature available on the VEET website. Applications must be accompanied by documentary evidence that a product meets the criteria set out in the Regulations. The Commission assesses applications and provides applicants with a written outcome. Once the product is approved for a certain AP, the AP may undertake the relevant prescribed activities.

For certain other 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, thermally efficient windows, pool pumps, high efficiency motors, 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 deemed 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 become valid when 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 registered to cover the administrative costs of assessing, registering, transferring, surrendering and auditing certificates. The Commission maintains a publicly accessible register on the VEET website that records the creation, transfer of ownership and surrender of VEECs.

Relevant entities are required to surrender VEECs to acquit their required energy efficiency liabilities for a compliance year. For each of the first three years of the scheme (2009-11), the Act set 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. For the 2012 compliance year, the VEET was set at 5.4 million tonnes of GHG abated.

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 electricity acquisition for the previous year by the GHG reduction rate for electricity (RE) and by multiplying their gas acquisition for the previous year by

GHG reduction rate for gas (RG). For 2012, the RE and RG factors were fixed at 0.12673 and 0.00754 respectively.⁸

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 2012 the shortfall penalty rate was fixed by regulation at \$42.73 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 lawfully 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 creations, transfers and surrenders throughout the year by scheme participants, and
- energy acquisition statements submitted annually by relevant entities.

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

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

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

⁸ VEET Act, s32; *Victorian Government Gazette* – G22 (31 May 2012) p1138.

3 | VEET SCHEME OPERATIONS

3.1 Summary of 2012 VEET registry operations

This section outlines operational activities in the VEET registry for 2012. The section also reports on VEECs created up to 30 January 2013. (VEECs created in January 2013 are included as part of the 2012 performance report because VEECs created in this month are eligible under section 34 of the Act for surrender against 2012 obligations)⁹. 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 2012 and the cumulative totals over the first four compliance years of the scheme from 1 January 2009 to 31 December 2012.

Table 1: **2012 VEET operations activity summary**

Activity	2012	Scheme totals (2009 – 2012)
Accounts created	410	738
Accredited person (AP) approvals	29	121
VEECs created by APs (2012 calendar year)	8,747,745	16,577,351
VEECs registered by the ESC	8,301,779	15,762,013
Registration refused	0	108,213

Source: ESC

Under section 34 of the Act, REs are able to surrender certificates against their annual liability which have been created up to 31 January in the year following the relevant compliance year. In accordance with this requirement, the Commission has recorded the following certificate creation levels for the 12 months between 31 January 2012 and 30 January 2013. Table 2 provides this information.

⁹ From the commencement of the second phase of the VEET scheme in 2012, the ESC reports on a 12 months calendar year to enable better year-on-year comparisons. Previously it reported a 13-month year.

Table 2: **2012 VEET operations activity summary**

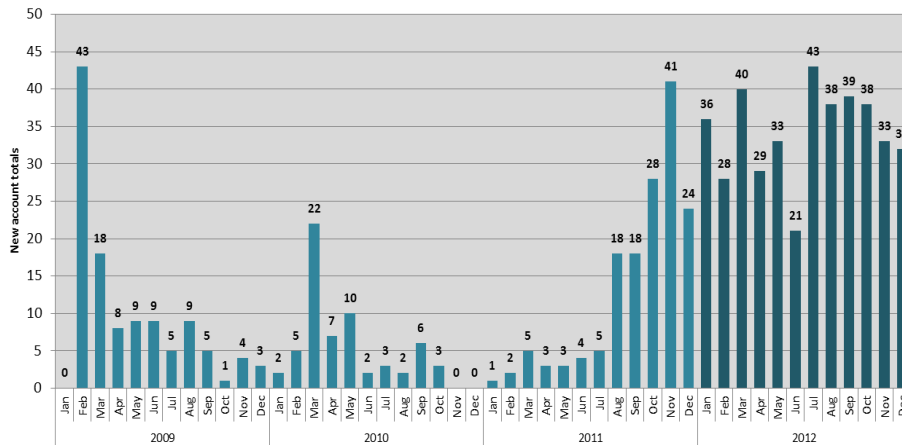
Activity	2012
VEECs created by APs (12 months to 30 January 2013)	8,798,100
Number of these VEECs subsequently withdrawn by APs	637,527

Source: ESC

3.2 Creation of accounts

A total of 410 new accounts were opened in the VEET scheme during the period from 1 January 2012 to 31 December 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 48 months of the scheme.

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



Source: ESC

Online VEET application and approval functionality was introduced to the VEET website in July 2011. The new automation simplified the account application process for businesses and individuals alike, and is the primary reason for the

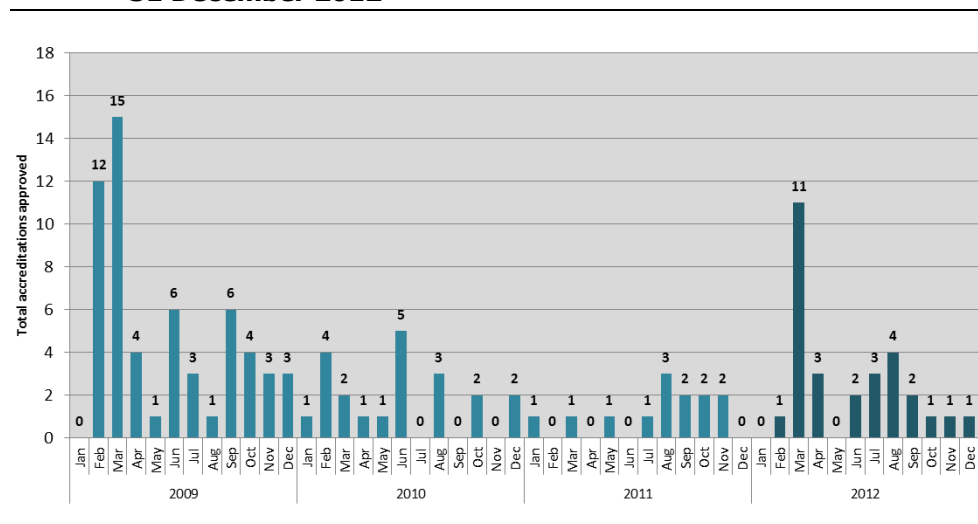
ongoing high volumes of new VEET accounts opened in 2012 relative to the pre-July 2011 period.

3.3 Accreditation of persons

Over the reporting period the Commission approved 29 applications to become an accredited person (AP) in the VEET scheme, more than double the number approved the previous year (14 accreditation applications were approved in 2011). 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 48 months of the scheme.

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



Source: ESC

Unlike opening a VEET account, the accreditation assessment 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 34 different energy efficiency activities for which VEECs may be created. Prescribed activities were undertaken in more than 800,000 households between 1 January 2012 and 31 December 2012. A number of these households had multiple activities undertaken by APs on behalf of the consumer. The most common activity undertaken by APs over the 2012 compliance year was the installation of standby power controllers.

Between December 2011 and May 2012, the Department of Primary Industries (DPI) made a series of amendments to the Regulations to enable certain prescribed activities to be undertaken in business and other non-residential premises. The amendments in December 2011 and February 2012 made most previously existing prescribed activities eligible in non-residential premises. Separately, amendments in May 2012 established four new prescribed activities specifically designed for the non-residential sector (Activities 31, 32, 33 and 34).

During the reporting period, around 1.5 per cent of all certificates – around 130,000 VEECs – were created in respect of prescribed activities undertaken in the business and non-residential sector. This proportion is expected to increase significantly in future years.

Table 3: **Prescribed activities – Installations and VEECs registered during 2012**

Activity type	Installations	VEECs registered	Installations	VEECs registered
Water heating activities		<i>2012 reporting year</i> 1 Jan 2012–31 Dec 2012		<i>2009-2012 reporting years</i> 1 Jan 2009–31 Dec 2012
1A - Decommissioning electric and installing gas/LPG storage	1,357	54,484	2,714	106,880
1B - Decommissioning electric and installing gas/LPG instantaneous	5,331	228,526	8,162	343,959
1C - Decommissioning electric and installing electric boosted solar	2,202	92,636	18,475	783,284
1D - Decommissioning electric and installing gas/LPG boosted solar	916	55,996	6,613	372,301
2 - Installing solar retrofit on electric	0	0	7	155
3 - Decommissioning gas/LPG and installing gas/LPG boosted solar	1,029	11,235	8,368	87,365
4 - Installing solar pre-heater on gas/LPG	0	0	3	21
Space heating and cooling activities		<i>2012 reporting year</i> 1 Jan 2012–31 Dec 2012		<i>2009-2012 reporting years</i> 1 Jan 2009–31 Dec 2012
5 - Decommissioning ducted gas and installing high efficiency ducted gas	578	7,964	783	11,066
6 - Decommissioning central electric resistance and installing high efficiency ducted gas	761	218,665	1,291	366,801
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	9	1,344	11	1,619
9 - Installing flued gas/LPG space heater	695	5,116	1,044	7,225
10 - Installing space air to air heat pump	2	7	2	7
20 – Installing a high efficiency ducted gas heater in a new home ^a	11	67	113	696
23 – Decommissioning refrigerative air conditioners and installing evaporative coolers ^a	0	0	0	0
28 – Replacement of gas heating ducts ^b	0	0	0	0

Space conditioning activities	2012 reporting year		2009-2012 reporting years	
	1 Jan 2012–31 Dec 2012	1 Jan 2012–31 Dec 2012	1 Jan 2009–31 Dec 2012	1 Jan 2009–31 Dec 2012
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	1	81	1	81
14 - Retrofit of external window	0	0	0	0
15 - Weather sealing	42,849	169,921	43,890	171,056
Lighting activities	2012 reporting year		2009-2012 reporting years	
	1 Jan 2012–31 Dec 2012	1 Jan 2012–31 Dec 2012	1 Jan 2009–31 Dec 2012	1 Jan 2009–31 Dec 2012
16 - Installing low energy lamps	5,084	58,468	541,468	5,107,907
21A – Lighting – GLS lamps ^a	70,250	569,126	98,701	851,142
21B – Installing low energy reflector lamp in place of an incandescent reflector lamp ^a	0	0	0	0
21C – Installing a low energy lamp in place of an existing 12 volt halogen lamp ^a	96	1,148	96	1,418
22D – Installing a low energy downlight fitting in place of an existing 12 volt halogen downlight fitting ^a	1	5	1	5
Shower rose activities	2012 reporting year		2009-2012 reporting years	
	1 Jan 2012–31 Dec 2012	1 Jan 2012–31 Dec 2012	1 Jan 2009–31 Dec 2012	1 Jan 2009–31 Dec 2012
17 - Shower rose	51,025	176,280	173,697	438,626
Refrigerator/freezer activities	2012 reporting year		2009-2012 reporting years	
	1 Jan 2012–31 Dec 2012	1 Jan 2012–31 Dec 2012	1 Jan 2009–31 Dec 2012	1 Jan 2009–31 Dec 2012
18 / 22 - Purchase of refrigerator/freezer	11	12	12	13
19 - Destruction of refrigerator or freezer	14,899	70,719	29,319	119,557
Other activities	2012 reporting year		2009-2012 reporting years	
	1 Jan 2012–31 Dec 2012	1 Jan 2012–31 Dec 2012	1 Jan 2009–31 Dec 2012	1 Jan 2009–31 Dec 2012
24 – Purchase of high efficiency televisions ^a	708	1,359	1,019	1,824
25 – Purchase of high efficiency clothes dryers ^a	0	0	0	0
26 – Installing high efficiency pool pumps ^a	172	1,361	172	1,361

29 – Installing a stand-by power controller ^b	780,787	6,571,736	820,948	6,925,492
New Activities for 2012	2012 reporting year		2009-2012 reporting years	
	1 Jan 2012–31 Dec 2012		1 Jan 2009–31 Dec 2012	
30 – Installing an in-home display ^c	0	0	0	0
31 – Installing a high efficiency motor ^{d *}	0	0	0	0
32 – Installing a high efficiency refrigerated display cabinet ^d	0	0	0	0
33 – Replacing a refrigerator fan ^d	0	0	0	0
34 – Undertaking a lighting upgrade ^d	21	5,217	21	5,217
Totals	978,795	8,301,779	1,754,643	15,762,013

^a Activities 20 to 26 included in VEET Regulations from October 2010. Activity 21A replaced Activity 16.

^b Activities 28 and 29 included in VEET Regulations from July 2011.

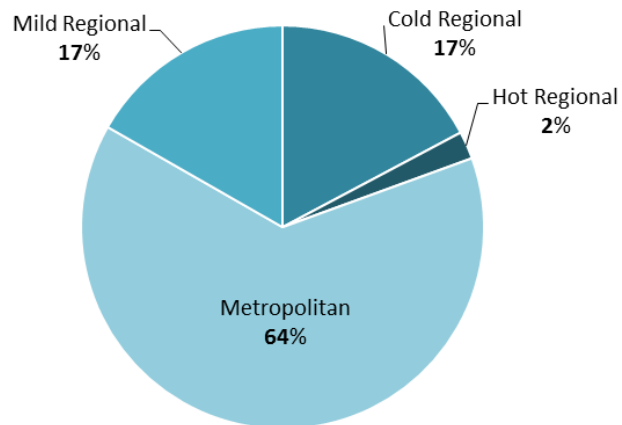
^c Activity 30 included in VEET Regulations from March 2012

^d Activity 31 to 34 included in VEET Regulations from May 2012

Source: ESC

During 2012, 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 regions¹⁰.

Figure 3: Installations of prescribed activities by region



Source: ESC

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

¹⁰ The VEET Regulations define and establish the four climatic regions in Victoria

created, a like number of registered VEECs may be voluntarily surrendered to the Commission for the purpose of 'making good' against the improper creations¹¹.

Functionality to automate the VEEC creation, assessment and registration processes was introduced to the VEET website in February 2012. This functionality enabled the Commission to apply risk based assessments of VEEC creation data more effectively than was possible under previous assessment mechanisms, as well as improve the capacity of the ESC to accurately monitor the number of certificates withdrawn. This new functionality includes the capacity to establish and monitor a variety of 'risk flags' that automatically identify potentially non-compliant installations. The functionality has enabled the Commission to efficiently direct its compliance efforts towards potentially high risk issues as they emerge.

One outcome of deploying the new functionality has been an increase in the number of VEECs withdrawn by APs following assessment by the Commission. APs may withdraw created VEECs for a number of reasons not related to actual non-compliance; however, the increase in AP-withdrawn VEECs – from around 20,000 in 2011 to around 630,000 in 2012 – is an indication of the effectiveness, in terms of compliance monitoring, of the new automated system of VEEC creation, assessment and registration.

Table 4 below includes the unique status as at 7 August 2013 of all VEECs created during the reporting period from 31 January 2012 to 30 January 2013. Only VEECs which were 'Registered' can later be voided (or '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'¹² may be withdrawn by the AP or refused registration by the Commission.

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

¹² 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 4: **VEEC creations 31 January 2012 – 30 January 2013 (as at 7 August 2013)**

VEEC created	VEEC creations 31 Jan 2012–30 Jan 2013	2009 – 2012 1 Jan 2009–30 Jan 2013
Total VEECs created	8,798,100	17,980,024
<i>Current VEEC status (as at 7 August 2013) of created VEECs</i>		
In Assessment	41,708	43,148
VEECs withdrawn by APs	637,527	679,307
VEECs withdrawn by Commission ^c	0	44,291
Registration refused	0	108,213
Registered	3,648,799	3,681,948
Retired due to obligatory surrender ^a	4,443,980	13,314,197
Retired due to voluntary surrender ^b	26,086	108,920

^a VEET Act, ss 33, 38, 39 or 40.

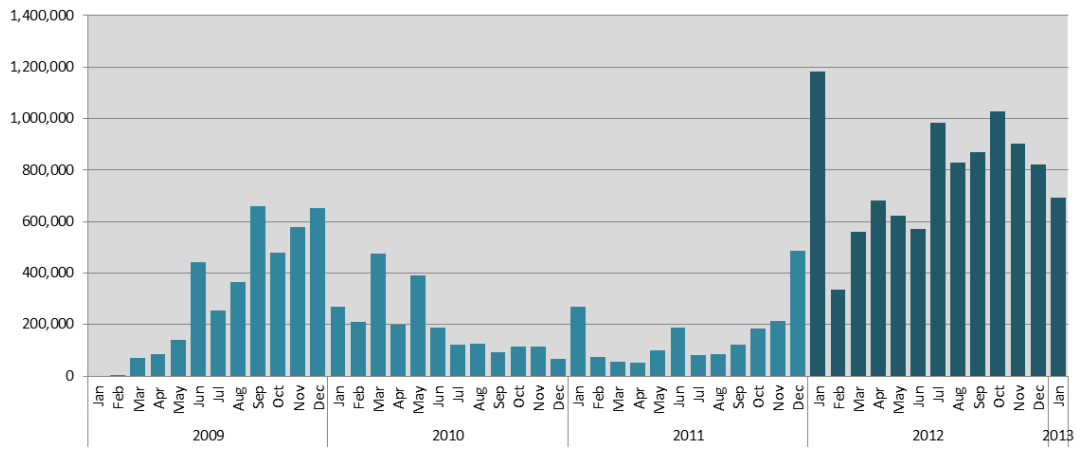
^b VEET Act, s 25.

^c VEECs withdrawn by the Commission are the result of a processing error

Source: ESC

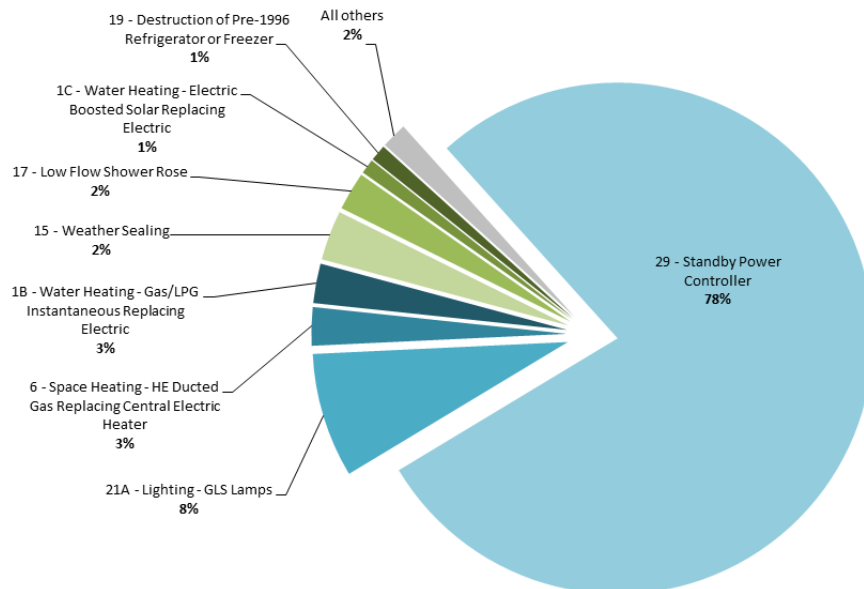
Figure 4 below shows monthly VEEC creations since the start of the scheme in January 2009. As seen in Figure 5, VEECs created from standby power controllers accounted for over 75% of all creations for the 2012 compliance year.

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



Source: ESC

Figure 5: VEEC creations by activity — 31 January 2012 to 30 January 2013



Source: ESC

4 | VEET SCHEME COMPLIANCE

4.1 Compliance overview

In administering the VEET scheme, a primary responsibility of the Commission is to ensure that participants – accredited persons (APs) and relevant entities (REs) – comply with the requirements set out in the VEET Act, Regulations and Guidelines.

The VEET provides the Commission with auditing and enforcement powers to ensure APs properly create certificates and that REs surrender a sufficient quantity of certificates to acquit their liability for the reporting year. In particular:

- Section 7(2)(d) of the Act empowers the Commission to undertake audits of the creation of certificates by APs, and
- Section 33 of the Act requires REs to submit audited energy acquisition statements to the Commission. The Commission uses these statements, to determine whether REs have correctly calculated their VEET liabilities and surrendered the required number of VEECs for the reporting year.

Over the 2012 reporting period, the Commission expanded its monitoring and enforcement efforts in response to the doubling of the scheme target, the introduction of a number of new activities and a significant increase in issues of non-compliance and consumer complaints – particularly with respect to door-knocking and telemarketing practices of APs installing standby power controllers, weather sealing and residential lighting.

The following sections detail the Commission’s auditing, compliance and risk management regime and discuss the audit and investigations program completed over the 2012 reporting period.

4.2 Certificate creation by accredited persons

Since the scheme commenced, the Commission has established an auditing and risk management framework to ensure that certificates created by participants in the scheme comply with the requirements of the Act, Regulations and Guidelines. This framework (and the risk analytics and key indicators that inform it) is

continually evolving and has been adapted as new activities are introduced into the scheme and in response to emerging trends in scheme participants, market behaviour and consumer feedback. The compliance framework consists of both pre-certificate registration risk analysis and data validation measures, and post-registration auditing and formal investigations. The key components of the regime are summarised below.

Risk assessments

Before obtaining accreditation to participate in the scheme, every applicant is subject to a preliminary assessment to determine the risk of improper certificate creation. This risk assessment is based on a number of factors, including the applicant's business model, quality of accreditation application information, prescribed activities nominated, forecast certificate creation levels, record keeping and VEEC creation processes and procedures. In addition, a pre-accreditation meeting is held with the applicant. A risk rating of low, medium or high is applied to all accredited APs. This rating is regularly updated to reflect the compliance record of the AP and assists the Commission in informing its overall audit program.

'High Risk' APs

The Commission maintains an internal register of APs assigned a 'high risk' rating. APs with a high risk rating are regularly monitored to identify potential instances of improper VEEC creation and ensure ongoing compliance with the legislative requirements of the scheme.

Monitoring activities include:

- review of duplicate installation results
- review of internal audits conducted by APs
- assessment of creation information submitted by APs and other creation information provided by installers and consumers, and
- investigation of consumer complaints

'High Risk' activities

A particular focus of the Commission's compliance monitoring and audit regime has been on a number of prescribed activities identified as carrying a high risk of AP non-compliance. Activities deemed to be 'high risk' are subject to a greater level of monitoring and auditing by the Commission. APs are also required to meet minimum levels of internal auditing in order to create certificates for these activities.

Factors that determine whether an activity is identified as having a high risk of non-compliance include: whether the product can be provided for minimal or no cost to the consumer; the number of VEECs generated as a result of the activity; and the skills or qualifications required of an installer to carry out a particular prescribed activity.

Pre-accreditation and additional activity approval audits/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, to 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 its audit obligations under the scheme. The audit is also an opportunity for the Commission to reiterate the legislative requirement to maintain adequate installation and decommissioning records. A total of 36 pre-accreditation audits were completed in 2012.

The Commission also conducts meetings with existing APs that seek approval to undertake additional prescribed activities beyond those originally approved. This includes activities recently included in the scheme. During the 2012 reporting period, the Commission conducted 10 additional activity approval meetings.

In May 2012, a new prescribed activity, Schedule 34 – commercial lighting upgrade, was introduced into the scheme. Pre-accreditation meetings were conducted with all APs that applied to undertake this activity. Further, desktop audits were conducted on the first installations of each AP approved for this activity. These compliance activities were conducted to ensure each AP had sufficient processes, procedures and controls in place to undertake this activity in accordance with the scheme requirements. Seven desktop audits on Schedule 34 installations were completed in 2012.

IT enhancements and upload requirements

The release of the upgraded VEET website in February 2012 provided the Commission with the capability to increase the scope of its pre-registration audit and verification activities. All APs were advised that the Commission would:

- perform more random consumer phone audits
- request additional documentation from APs verifying the activity (examples of documentation may include assignment forms, certificates of compliance and/or decommissioning evidence), and

- request internal field and phone audit results when submitting VEEC creations.

The level of internal audits that an AP may be required to submit to the Commission when creating certificates depends on the risk profile assigned to an AP and to the prescribed activity. For certain activities, the internal audit requirements vary between 5 per cent for APs with a low risk profile, to 10 per cent for medium risk and 25 per cent for high risk APs. Failure by an AP to complete the additional audit related fields at upload will result in VEEC claims not progressing to assessment stage.

The enhanced assessment of claims at the creation upload stage has enabled the Commission to identify anomalies that require further investigation before certificates are registered. Data obtained at creation upload also informs ongoing audit and compliance activities.

Regular audits

The Commission has an established program of both random and targeted AP auditing activities. The objective of audits is to assess APs' compliance with the Act, Regulations and Guidelines when 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 inefficient products as required, and
- identifying and assessing the effectiveness of APs' processes and controls when creating VEECs for various prescribed activities.

When completing an audit, the Commission conducts (1) phone and site audits of prescribed activities, (2) desktop audits of the AP's certificate creation history and (3) where necessary, request and review an AP's substantiating documentation.

Factors that inform the regular audit work program include:

- the risk profile of the AP
- the risk profile of the prescribed activity
- analysis of AP VEEC upload and registry data and the AP's certificate creation history, and

- consumer feedback and complaints

The Commission continued its program of regular audits of APs in 2012, completing 11 audits of APs' activities.

Investigations

Where the Commission becomes aware of potential non-compliance, through its audit program or via its broader compliance framework, a more extensive and formalised investigation into an AP's activities may be initiated.

The Commission undertook four formal investigations in 2012. While these investigations were in progress, the Commission ceased assessment of the relevant AP's certificate claims. More than 400 consumers were contacted by phone or visited at their residences during these investigations. As a result of these investigations, 54,990 VEECs were withdrawn by the APs as a result of improper creation and non-compliance with legislative requirements.

No APs had their accreditation to participate in the scheme suspended in 2012.

Consumer complaints resolution

In 2012, the Commission investigated 223 compliance-related complaints, a significant increase on the previous year.¹³ The Commission also investigated a number of complaints relating to AP conduct, such as APs misrepresenting the scheme (specifically, an AP claiming it was representing the government) and consumer dissatisfaction with AP door-knocking and telemarketing (particularly in relation to the installation of standby power controllers). In most instances the Commission was able to facilitate a resolution with the consumer and the AP. The Commission uses consumer complaint investigations as a tool to reinforce scheme compliance.

¹³ In 2012, 978,795 prescribed activities were undertaken by APs. In 2011, the Commission received 20 compliance related complaints, with 149,593 prescribed activities undertaken

Table 5: Summary of compliance work in 2012

VEET compliance framework	Quantity	Activities
VEET Audit	11	1B, 6, 15, 17, 21A, 29
Desktop Audit	7	34
Phone Audit	1208	6, 15, 17, 21A, 29
Field Audit	219	6, 15, 17, 21A, 29
Investigation	4	15, 29
Pre-Accreditation Audit/Meeting	36	15, 17, 21, 29, 30, 32, 34
Additional Activity Approval Audit/Meeting	10	15, 17, 21, 29, 30, 32, 34
Consumer Complaints Received	223	Multiple

Source: ESC

4.3 Annual energy acquisition statements by relevant entities

Victorian energy retailers with more than 5000 residential customers are considered REs under the Act. REs are required to submit an audited annual acquisition statement detailing the amount of electricity and gas acquired during the reporting year. This statement is used by the Commission to verify whether an RE has accurately calculated its annual liability under the scheme.

REs are required to submit the energy acquisition statement and surrender the required number of VEECs to the Commission by 30 April of each year. From 1 January 2012, the VEET scheme was expanded to allow most non-residential energy consumers to participate in the VEET scheme. APs are now able to undertake prescribed activities at non-residential premises, unless the owners of those premises were required to participate in the Environment and Resource Efficiency Plan (EREP) program and registered on the EREP register.

The definition of prescribed customer in the Regulations was amended to make all of an RE's electricity and gas customers, other than customers who own, control or operate a gas-fired electricity generator, 'prescribed customers' under the Act. From 1 July 2012, the definition of prescribed customer in the Regulations was further amended to ensure that the on-supply of electricity and gas to customers at

premises that were registered on the EREP register was excluded from the calculation of an RE's scheme acquisitions during a year.

For the 2012 reporting year:

- 13 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 2012 liabilities and no VEEC shortfall penalties were issued by the Commission
- A total of 5,255,416 VEECs were surrendered for 2012.

Information the Commission must publish

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

Table 6: **Information required to be published for 2012 compliance year**

ITEM TO BE PUBLISHED	MEASURE
REs that had energy efficiency shortfall	None
Amount of each RE's energy efficiency certificate shortfall	N/A
Total of energy efficiency certificate shortfalls	N/A
Number of certificates created in 2012 (calendar year)	8,747,745
Number of certificates surrendered in 2013 ¹⁴	5,255,416

Source: ESC

¹⁴ To acquit relevant entities' 2012 compliance year certificate liabilities.

5.1 Expansion of VEET scheme

The Commission oversaw a significant expansion of the VEET scheme during the 2012 reporting period. As discussed in Chapter Two, a number of amendments were made to the Regulations that allowed for many of the prescribed activities previously restricted to residential premises also to be undertaken in business and non-residential premises.

Furthermore, the range of prescribed activities included in the Regulations was expanded to include five new activities, listed below:

- in-home display unit
- high efficiency motor replacing an electric motor
- high efficiency refrigerated display cabinet replacing a refrigerated display cabinet
- refrigeration fan replacement, and
- commercial lighting upgrade.

Reflecting the expanded scope of available prescribed activities in the scheme, the annual GHG abatement target was increased to 5.4 million tonnes per annum for the 2012 compliance year, and continuing each year to 2014.

Table 7 below provides an indication of the scale of the expansion of the scheme across a number of key indicators.

Considerable work was undertaken by the Commission to ensure that its administrative and compliance processes sufficiently accommodated the expanded scope of the scheme, the inclusion of the new prescribed activities and the increased volume of certificate creation.

In January 2012, the DPI (now DSDBI) released an issues paper and called for consultation regarding the possible inclusion of project based assessments (PBAs) in the VEET scheme. As noted, it is expected that further regulatory amendments will be required in 2013 should PBAs be included in the scheme.

Table 7: 2012 scheme expansion

Key scheme indicators	2011	2012	Percentage increase
Accounts created	152	410	170%
Accredited persons approved	13	29	123%
Average products approved per month	27	81	200%
Prescribed activities	149,593	978,795	554%
VEECs registered	1,493,850	8,301,779	456%

Source: ESC

5.2 VEET IT enhancement

The Commission continued to make significant investments to enhance the VEET website and online registry system. In addition to the existing VEEC registry and account functions, the following functionality was added during 2012:

- a new online product application and approval tool to streamline the product approval process, and
- Significant enhancement of VEEC registry system.¹⁵

The above changes have resulted in significantly improved processing times for product approvals, ease of use and transparency, and provided the Commission and account holders with superior record keeping and reporting functionality. The dramatic increase in product approvals detailed in Table 7 above, provides some indication of the efficiency gains provided by the Commission's investment.

5.3 Supporting documentation

Over the course of 2012, the Commission published and updated a wide range of documents advising stakeholders of the requirements and processes for participating in the scheme. All documents are publicly available on the VEET website.

¹⁵ In late 2012, the Commission also commenced the development of an online accreditation application tool to be added to the website.

Published documents include:

- revised explanatory notes about accreditation to participate in the scheme and creating VEECs from prescribed activities
- explanatory notes to guide stakeholders through the online product approval process and documentation requirements
- an accreditation pack designed to provide applicants with clear guidance on the accreditation process and ESC documentation requirements
- mandatory information that must be included in certificate assignment forms
- information about the schedule of fees
- explanatory notes about creating VEECs using the online registry tool
- explanatory notes detailing the laboratory test and field trial requirements for standby power controllers
- information about the expansion of the scheme and the introduction of new business sector activities and relevant amendments to the Regulations
- explanatory notes about audit processes for APs and REs
- explanatory notes on undertaking commercial lighting upgrades
- explanatory notes about the product approval requirements for in-home displays, and
- explanatory notes about the installation requirements for in-home displays.

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.

During the 2012 compliance year, the Commission held three successful public forums, all of which were well attended by VEET stakeholders. Presentations to

public forums and various consultation documents are available on the VEET website.

In 2012, the Commission continued to educate new and existing participants about scheme opportunities and responsibilities, with a particular focus on potential opportunities presented by the expansion of the scheme into the business sector and the introduction of a number of new prescribed activities. The Commission also continued to educate APs and REs about their compliance responsibilities and obligations, particularly with respect to proper creation of VEECs, door-to-door sales and marketing.