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Victorian Department of Energy, Environment, and Climate Action
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Submitted via email: energy.upgrades@deeca.vic.gov.au

Setting new targets for the Victorian Energy Upgrades program

The Australian Financial Markets Association (AFMA) is responding to The Department of Energy, Environment and Climate Action's consultation to set new targets for the Victorian Energy Upgrades (VEU) program.

AFMA is the leading industry association representing Australia's financial markets - including the capital, credit, derivatives, foreign exchange, and other specialist markets such as environmental products. We have more than 130 members, from Australian and international banks, leading brokers, securities companies, and state government treasury corporations to fund managers, energy firms, and industry service providers, some of whom are key participants in the Victorian Energy Efficiency Certificate (VEEC) market.

Key Points

- **There is currently inadequate VEEC supply to meet demand.**
 - **Targets should be aligned with realistic expectations of the volume of VEECs expected to be created.**
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1. Current state of the market

There are longstanding creation issues which have created significant supply challenges for the VEEC market. As a result of inadequate supply to meet demand, the market is not functioning as intended and is trading above the penalty rate. We believe the crux of the issue is delay in approving new scalable methodologies that can generate adequate certificates to meet the scheme's targets. While AFMA acknowledges the Department's efforts to expand the number of approved methodologies, these methodologies are yet to demonstrate that they can generate certificates at scale.

AFMA is likewise concerned the insufficient volume of VEECs being created to meet demand is artificially increasing VEEC prices, ultimately pushing up consumers' electricity bills. AFMA believes this is at odds with the ambition of the scheme.

AFMA is supportive of environmental products certificate schemes, including the VEU scheme and wants to see the scheme's success. As a financial market body, AFMA takes no position as to the broader aims, targets or merit of methodologies. Our comments specifically address what we see as fundamental market challenges.

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While the VEU scheme review and approval of some new methodologies is welcome and AFMA continues to engage with the team leading the review, the VEU scheme issues lay in the balance of supply and demand.

2. 2026-27 targets and future of the VEU scheme

As expressed above, there are currently not enough certificates available to meet the current scheme targets. AFMA understands that at current creation rates, ~4.6m, VEECs are likely to be created in the next 12 months. We also do not anticipate that the new methodologies are likely to meaningfully increase supply in the short term.

Therefore, AFMA supports the Government's intent to lower the 2026-27 targets. We understand the Government has a preference for Option 2, but AFMA is concerned that current supply constraints may mean that meeting even this lower target, will be challenging. Therefore, AFMA thinks the Department should give serious consideration to Option 1, particularly as higher certificate prices are spread across all residential customers, even those that do not receive energy efficiency upgrades directly, many of which being low-income customers.

For the benefit of both the market and Victorian taxpayers, AFMA believes the Government should reconsider if achieving Option 2's target is viable. AFMA would not be opposed to a review at the end of 2026 should oversupply occur, which would allow for a 2027 target increase. AFMA supports the VEU scheme and looks forward to the enhancements that the VEU scheme review will result in. We likewise hope that market supply will be resolved with the introduction of scalable new and recently approved methodologies.

3. Emissions Factor

Separately, AFMA encourages the Government to reconsider its proposed emissions factors for VEEC emissions reduction calculations for 2026-27, which proposes to keep the emissions factor at the same level as in 2025 at 0.393 tonnes of CO₂e/MWh. We understand this factor is based on a 2019 forecast, while the actual emissions intensity of the Victorian grid is currently closer 0.7 tonnes of CO₂e/MWh. The lower emissions factor means that more activities are required to be undertaken to generate a VEEC, which ultimately, leads to higher consumer costs. AFMA urges the Department to revise its emissions factor based on emissions grid intensity.

AFMA Recommendations

- i. The scheme target should be aligned with a realistic assessment of the volume of VEECs that are likely to be produced.
- ii. The Department should revise the emissions factors to ensure they reflect the emissions intensity of the Victorian grid.

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact Monica Young via myoung@afma.com.au or 02 9776 7917.

Yours sincerely,

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