



25 August 2020

Helen Sofele

Acting Director Energy Demand and Efficiency Policy

Department of Environment, Land, Water and Planning (DELWP)

helen.sofele@delwp.vic.gov.au

CC: lily.dambrosio@parliament.vic.gov.au

(Please redirect as necessary to the appropriate person)

Dear Ms Sofele,

Shocks to the Victorian Energy Efficiency Certificate scheme market

I refer to a letter from AFMA to the Hon Lily D'Ambrosio and DELWP dated 27 April 2020, which raised concerns expressed by our member firms in relation to the combined impact of COVID-19 and regulatory changes to the Victorian Energy Efficiency Certificates scheme (VEEC) market.

Concerns remain about the impact of the COVID-19 pandemic on the supply of VEECs. Given that Stage 3 restrictions were introduced in Victoria in July, and that Stage 4 restrictions introduced in early August will continue through to at least 13 September 2020, the issues around access are substantially more significant than those experienced in April when we first communicated our members' concerns. We understand that under Stage 4 restrictions, VEU upgrades are restricted to critical repairs that can only be undertaken at any premises where required for emergency or safety.

We note that though the 2021 VEU target announced in June remains the same as the 2020 target of 6.5 million certificates, this target was determined prior to the situation in Victoria escalating and prior to the introduction of Stage 4 restrictions. We reiterate that protracted lockdown periods have resulted in further supply side limitations which have impacted market liquidity and resulted in market distortion. Price volatility has increased since April, with spot prices trading in a wide range of \$30 to \$36 per certificate.

As noted in our April letter, in the current environment, sellers may be unable to deliver volumes as promised under contracts that fall due throughout the year, some of which with very near-term deadlines. This means that they may have to pay counterparties a penalty price for any shortfall, which may cause suppliers significant financial distress. If smaller, thinly capitalised counterparties cannot survive a default event, that could lead to a loss of supply diversity, driving market price even higher.

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Buyers may have incomplete certificate inventories and pay higher costs that may be passed through to customers. While there are enough registered certificates to supply the 2020 compliance year, a well-functioning market would currently be creating and trading certificates ahead of the 2021 compliance year, which is why the government needs to act now.

Again, we request that you consider implementing liability relief and defer implementation of currently proposed policy changes. This will ameliorate demand-side pressures and allow buyers to pay that leniency forward to sellers, offering more flexible terms to suppliers in response to the COVID-19 situation.

We wish you and those close to the VEEC scheme the very best and hope that the situation in Victoria recovers soon.

Please contact Natalie Thompson either on 02 9776 7979 or by email at nthompson@afma.com.au if further clarification is required.

Yours sincerely

A handwritten signature in blue ink that reads "David Love". The signature is written in a cursive, flowing style.

David Love
General Counsel & International Adviser