

10 March 2025

Victorian Department of Energy, Environment, and Climate Action



Submitted online

Strategic Review of 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 the Strategic Review of the Victorian Energy Upgrades 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

- **Certifying new, durable, and scalable methodologies should be of highest priority.**
 - **Additional measures should be taken to ensure market participants are fit and proper.**
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1. Program purpose and objectives

AFMA supports the VEU program and hopes to see the program reinvigorated by this review. AFMA is concerned that the market for VEECs has not been operating well for some time and hopes that this review can address the causes of imbalances between supply and demand in the market. AFMA asks the Victorian government, in any changes to program purpose and objectives, to ensure that the subsequent legislation aligns with the ambition, achievability, and intended longevity of the scheme.

It is AFMA's overarching view that the market needs long term certainty to appropriately plan supply around and that this is of paramount importance to safeguard the scheme's intended success. On this basis, AFMA does not support short notice changes being made to the scheme. Any proposed changes should be clearly articulated to the market and introduced with an appropriate timeframe.

As the government is aware, high VEEC prices as a result of shortfalls in supply, has meant a number of liable entities are choosing to pay the penalty rather than delivering the intended environmental and consumer benefits that we all support. The scheme will therefore need to evolve to address this issue.

AFMA considers that markets will naturally drive the most efficient asset and technology outcomes. On this basis, we generally do not support prioritisation of any asset, activity, or fuel via sub-targets

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on the basis that in a market-based scheme, the market will determine how to achieve the schemes objectives at the lowest possible cost.

AFMA supports the Government's proposal to move away from the Greenhouse Gas emissions reduction method. As the consultation paper highlights, this methodology is becoming increasingly impractical as the Victorian power system decarbonises. We support moving to an 'energy saved' method as used in other jurisdictions.

AFMA Recommendations

- i. VEU should not include technology specific sub-targets.
- ii. AFMA supports moving to an energy saved methodology.

2. VEEC market design and program flexibility

AFMA does not agree with assessments made as to the role of VEEC traders in the market, made under section 4.2. While the paper acknowledges the important role intermediaries play in increasing liquidity and that market forces help identify the most cost-effective opportunities, it negates other essential roles intermediaries play including matching buyers with sellers, aggregating certificates into marketable parcels and providing risk management services. These services have been particularly important during a period in which retailers have struggled to access supply to meet their legislated demand, forward contracting which helps safeguard future business has been challenging to access. AFMA urges the Government to re-consider its view on the role of intermediaries in the VEEC market.

Similarly, AFMA does not believe that the paper's conclusion as to the causality of the current high prices appropriately factors lack of new and scalable methodologies. The paper states:

"Through consultation, the review has heard that the market conditions at the time of writing are such that, despite the high VEEC price, APs are struggling to get sufficient numbers of new VEECs into circulation. This scenario could be caused by a range of factors, but it suggests that the high VEEC price is not driving new activity or generating new liquidity, in the way that might be expected."

While AFMA agrees that generally high prices should encourage increased investment we consider that in the VEEC market policy failures have led inadequate which has caused high prices. Our members' view is that the main driver of high VEEC prices is the lack of new scalable methodologies being approved to replace the supply that previously came from commercial lighting. This has prevented Accredited Persons (AP) from developing the business models needed to supply the required volume of certificates. AFMA views this as the fundamental challenge facing the VEU program and we urge the Government to prioritise certifying new, durable, and scalable methodologies as its first priority.

AFMA Recommendations

- iii. Prioritise certifying new, durable, and scalable methodologies.

3. Accredited persons, aggregators, installers, and products

While AFMA is supportive of the 'fit and proper persons' test, in light of recent enforcement actions taken against those who failed act accordingly, AFMA suggests that this may require review and that stronger measures should be put in place to suspend or remove improper APs. When considering experiences from participants in the NSW Energy Savings Scheme, AFMA urges the department to consider whether the fit and proper test should be likewise extended to the directors, shareholders, and ultimate beneficial owners of an entity applying for the AP licence, in addition to the entity itself. This could aid the prevention of improper participants re-entering the market by registering new entities with unknown directors.

Likewise, AFMA understands from market participants that in instances of poor market practice or where a party has defaulted, they have been able to re-enter the market under a new organisation. AFMA believes the review should look to introduce mechanisms that restrict the ability of failed Directors and key staff of APs to re-enter the market. AFMA considers that promoting confidence in market participants will improve the operation of the VEEC market as we understand that defaulting counterparties have fuelled a lack of willingness to enter into long term forward contracts. This has caused significant challenges for retailers in forward business planning and risk management. AFMA also understands that there would be appetite to enter the market from non-liable entities but that the risk of counterparty default is viewed as too high and thus a barrier to market. AFMA believes that fostering good market practice and reducing the risk of default, should be of high priority to government.

AFMA would also encourage the department to discuss this issue with the Clean Energy Regulator and the relevant practicalities they have considered in this issue. Counterparties may otherwise be prevented from disclosing contractual defaults due to confidentiality restrictions in their contracts as there can be carve outs which permit the disclosure of information 'required' by law. This would need to be carefully scoped to ensure that the regulator is not inundated with normal incident notifications which are not related to misconduct.

AFMA Recommendations

- iv. Review and introduce stronger measures to satisfy the fit and proper person guardrail.

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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