Ref: 25/7784

16 January 2025

Manager, Demand Side Policy, Victorian Upgrades Branch
Department of Energy, Environment and Climate Action
PO Box 500
EAST MELBOURNE VIC 8002

Submitted Via email: energy.upgrades@deeca.vic.gov.au

Dear Sir / Madam,

Re: Stanwell Corporation: consultation on proposed targets for the Victorian Energy Upgrades (VEU) program for 2026 to 2027

Stanwell Corporation Limited (Stanwell) appreciates the opportunity to provide feedback to the Department of Energy, Environment and Climate Action (DEECA) consultation on *proposed targets for the Victorian Energy Upgrades (VEU) program for 2026 to 2027*.

As a major provider of electricity to Queensland, the National Electricity Market (NEM) and large industry users throughout Australia, Stanwell is committed to providing reliable and affordable energy and supporting the changes in the energy market to achieve State and Commonwealth emissions reduction targets.

This feedback contains the views of Stanwell and should not be construed as being indicative or representative of the views or policy of the Queensland Government.

Background:

Stanwell met with members of the Essential Services Commission (ESC) on the 29 May 2024 to discuss the VEU scheme. This meeting was followed up with a letter outlining the record certificate prices and a lack of liquidity in the market as key areas of concern for Stanwell retail customers. [1]

While Stanwell acknowledges the commitment of the Minister to conduct a Strategic Review of the VEU post the 2027 target, we note that the concerns we raised in communications with the ESC have not been addressed to date. As Stanwell believes that these are material and warrant further consideration and action, our submission reiterates those previous concerns in addition to addressing the options presented in the current consultation paper.

Changes to supply / demand fundamentals:

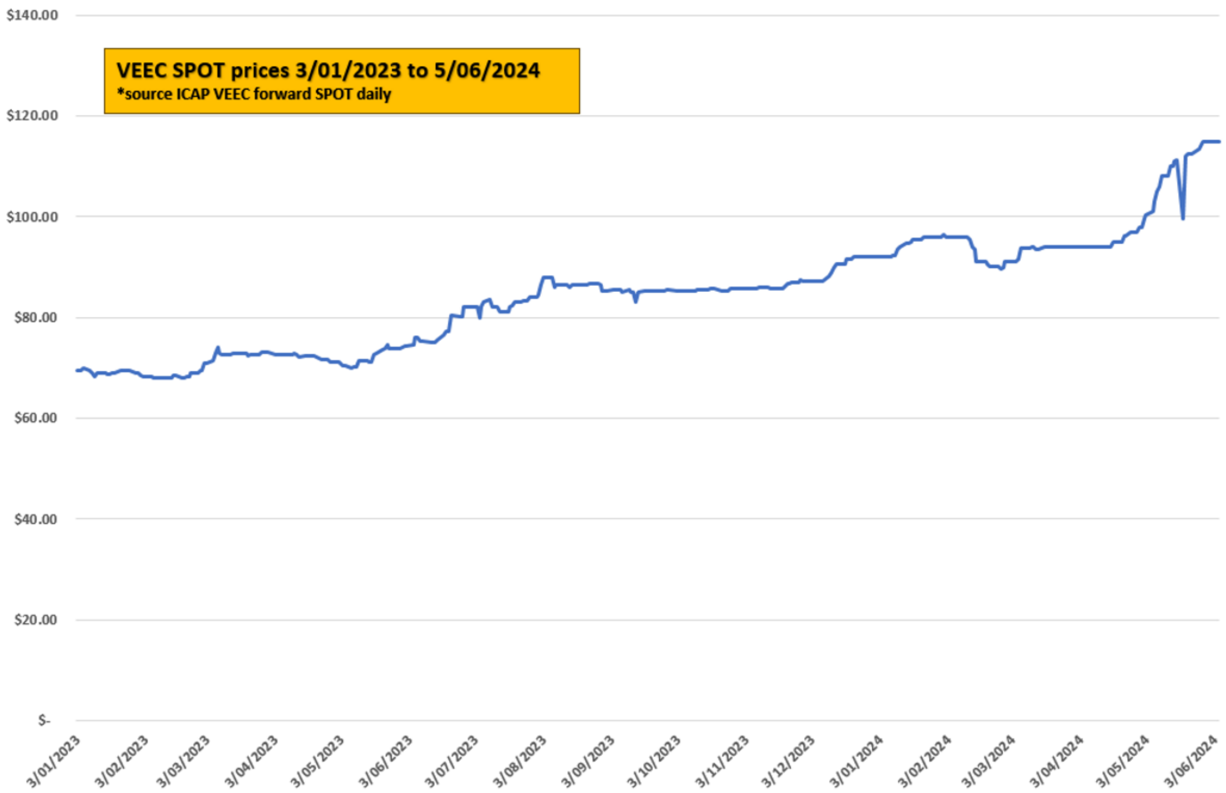
The VEU program moved away from residential and commercial lighting activities, which were phased out on the 31 January 2022 and 31 January 2023 [2] respectively. This has caused certificate supply to slow in 2023. Activities, either existing or introduced, have been unable to replace this supply shortfall which reduced liquidity of the VEU program.

Further exacerbating this, Accredited Persons (APs) have defaulted, forcing participants to source undelivered Victorian Energy Efficiency Certificates (VEECs) at spot price, increasing exposure to shortfall compliance implications. With APs defaulting, there is further risk of contagion to other market participants, potentially further driving up costs and preventing creators and liable entities from not trading forward. This is discussed further below.

[1] 24/195139 ESC Feedback Victorian Energy Upgrades - Relevant Entity compliance meeting signed 2606

[2] Changes to lighting activities, electricity emission factors and the VEEC creation form for weather sealing from 1 February 2023 | Essential Services Commission

Spot certificate prices, as shown in the chart below, have risen steadily since January 2023, with VEECs currently trading at around $110.00, an increase of about $40.00 since January 2023. Our traders are now finding it extremely difficult to purchase forward certificates beyond Cal 2025, and to hedge liabilities. This illiquidity results in our retail business only being able to offer new and existing customers VEECs at the spot price.



Please find below Stanwell's feedback on the VEU consultation below:

1. Which target option is preferred by stakeholders

Stanwell supports Option 1 in the Regulatory Impact Statement (RIS), which sets the target for 2026 and 2027 at 4 million VEECs. We feel this will enable participants to meet their liabilities while putting downward pressure on certificate prices. This would also provide “breathing space” for both participants and DEECA. It is critical that DEECA assesses the adequacy of supply and the impacts of new and existing activities against 2026-27 targets prior to the next target setting process.

Option 1 when compared to Option 2 (RIS preferred option) in Table 16[3] below, also provides an annual bill savings of around $20 to residential customers, and a $5,500 saving to business customers. These savings are important and ccritically, in option 1 are less dependent on the assumed new supply from unapproved activities which underpin the savings in option 2. Should the assumed creation from new sources not arise the impact would be expected to be greater with the higher targets under option 2 and option 1. New activity accreditation and uptake in any scheme is uncertain, and Stanwell considers that relying on such forecasts when scheme participants are already struggling to source compliance volumes carries undue risk.

[3] https://engage.vic.gov.au/download/document/37796 p.49

Table 16: Annual average bill savings for participants

Option	Residential		Business	
	Bill savings	Percentage bill savings	Bill savings	Percentage bill savings
Option 1	$239	17%	$8,096	29%
Option 2	$260	19%	$2,433	9%

2. How stakeholders may be impacted by the target options, and what kind of impacts they would like to be see considered

As discussed with the ESC on the 29 May 2024, Stanwell would like to see the VEU allow for carry forward of liability, such as is allowed in the Renewable Energy Target (RET)[4]. Participants under the RET can carry forward a certificate shortfall of up to 10 percent of their liability for the year without triggering penalty provisions. They are also able to carry forward shortfalls over multiple years, provided it remains within 10 percent of certificate liability. This may free up some certificate capacity in the scheme in the short term, take pressure off high prices and give participants flexibility to manage certificate holdings.

Improving the Accredited Persons (AP) accreditation process

Stanwell would like to see improved rigour in the Accredited Person (APs) accreditation process, to ensure that those accredited are "fit and proper and competent and capable persons" to participate in the scheme. Stanwell is aware of situations where APs have defaulted, leaving participants (including Stanwell) to source undelivered certificates at spot price, with the potential for exposure to shortfall compliance penalties and reputational damage as a result. We believe that a more robust accreditation process would help reduce counterparty risk for retailers and the cost of defaults, which are ultimately borne by customers.

Promoting ISDA Agreements as the Standard

In support of improvements to the accreditation process, Stanwell proposes that ISDA (International Swaps and Derivatives Association) master agreements be the recognised standard for forward trading contracts under the VEU scheme. By making ISDAs the official standard, the onus would shift from forward trading buyers of certificates having to assess and reject AP sellers without ISDAs, to placing responsibility on AP sellers to have ISDA agreements in place before engaging in forward trades.

This approach aligns with the emerging unofficial market practice and would reduce counterparty risk by encouraging all participants to adopt robust legal and financial safeguards. Following the default of APs under the VEU scheme that impacted Stanwell, our current position is to only trade forward with counterparties with ISDAs in place. Scheme preference of ISDAs as the standard would increase trust, facilitate smoother transactions, and support market liquidity by providing clear expectations for participants.

3. What stakeholders think about other aspects of the regulatory impact statement, such as Essential Services Commission fees

Stanwell notes that under DEECA's preferred Option 2 of the Regulatory Impact Statement (RIS) some fixed fees will increase by 35 percent on 1 January 2026. Of particular concern to Stanwell is that Registration of Certificates fee increases, from $2.33 to $3.61 and lodgement of energy acquisition statements from $3,122.00 to $4,829.00 respectively. Stanwell would like to see these fees remain at current levels, until such time as they can be considered as part of the VEU strategic review. If the fee increases proceed as proposed, further costs could be passed on to customers as well as placing additional upward pressure on VEEC certificate prices.

[4] Certificate shortfall | Clean Energy Regulator

Conclusion

Stanwell appreciates the chance to provide feedback on the proposed VEU program targets for 2026 to 2027. Despite previous discussions with ESC directly, and indirectly through peak industry bodies including both the Australian Energy Council and Clean Energy Council, concerns about VEEC market liquidity and high certificate prices remain. Stanwell supports Option 1 for the VEU targets, which offers greater savings for both residential and business customers and provides a balanced approach to managing certificate supply and demand.

Additionally, Stanwell advocates for the ability to carry forward certificate shortfalls and improved accreditation processes to reduce market risks. Maintaining current fee levels is also crucial in avoiding further cost pressures. The promotion of ISDA master agreements as the recognized standard for forward trading contracts would reduce the risk of AP defaults and enhance the overall integrity of the certificate market. A well-regulated and trustworthy market ultimately benefits all participants by lowering costs, reducing exposure to compliance penalties, and improving the liquidity and efficiency of certificate trading. A cautious and measured approach, as outlined above, will benefit the VEU scheme in the long term.

Stanwell welcomes the opportunity to further discuss the matters outlined in this submission. Please don't hesitate to contact Brad Supple, Market Regulation Analyst, via email at Bradley.supple@stanwell.com

Yours sincerely

Ian Chapman
Manager Market Policy and Regulatory Strategy
Energy Market