

**Victorian Energy Efficiency Target (Project-Based Activities)
Regulations 2026
Regulatory Impact Statement**

Glossary

Term	Definition
AP	Accredited Person
BR	Benchmark rating
CO ₂ -e	Carbon dioxide equivalent
Deemed activities	Upgrade activities that have a deemed emissions reduction under the VEET Regulations
Department	Department of Energy, Environment and Climate Action
ESC	Essential Services Commission
MV	Measurement and verification
NABERS	National Australian Built Environment Rating System
PBA	Project-based activity
RIS	Regulatory Impact Statement
Secretary	Secretary of the Department of Energy, Environment and Climate Action
SLA	<i>Subordinate Legislation Act 1994</i>
SMM	Specified measurement method
The Act	<i>Victorian Energy Efficiency Target Act 2007</i>
The current PBA Regulations	Victorian Energy Efficiency Target (Project-Based Activities) Regulations 2017
The Minister	Minister for Energy and Resources
The proposed PBA Regulations	Proposed Victorian Energy Efficiency Target (Project-Based Activities) Regulations 2026
VEEC	Victorian Energy Efficiency Certificate
VEET Regulations	Victorian Energy Efficiency Target Regulations 2018
VEU	Victorian Energy Upgrades program

Executive Summary

The Victorian Energy Upgrades program (VEU program) is Victoria's flagship energy efficiency and emissions reduction program. The VEU program is established by the *Victorian Energy Efficiency Target Act 2007* (the Act). The objects of the Act are to:

- (a) reduce greenhouse gas emissions
- (b) encourage the efficient use of electricity and gas and
- (c) encourage investment, employment and technology development in industries that supply goods and services which reduce the use of electricity and gas by consumers.

The Government is proposing to remake the Victorian Energy Efficiency Target (Project-Based Activities) Regulations (PBA Regulations). The PBA Regulations enable the creation of Victorian Energy Efficiency Certificates (VEECs) under the VEU program for bespoke activities that achieve greenhouse gas emissions reductions that would not otherwise occur. The PBA Regulations provide for the approval of these activities and the methods used to determine certificate creation.

PBAs enable the VEU program to support emissions reduction projects in the commercial and industrial sector. This sector presents a significant opportunity to deliver further emissions abatement through large custom projects that improve energy efficiency and electrification. Emissions reductions from PBAs are typically larger than those available through the deemed activities in the VEU. Businesses undertaking PBAs are central to the VEU program and to supporting Victoria's energy transition.

The current PBA Regulations expire on 14 June 2027. If these Regulations are not remade before then, PBAs will no longer be possible under the VEU program.

Problem and objectives

If the PBA Regulations were to sunset without replacement, medium and large businesses would have significantly reduced access to the VEU program. This would limit opportunities to undertake eligible emissions reduction projects that cannot be delivered through prescribed activities and reduce the program's ability to support emissions reductions in high-energy-use businesses.

Another effect from the PBA Regulations sunset without replacement is that the overall cost of achieving emissions reductions under the VEU program would increase. Large-scale, cost-effective projects that rely on the PBA pathway would no longer be eligible, reducing the supply of lower-cost VEECs and increasing the cost of meeting the scheme's emissions reduction targets.

The Act provides a wide scope for determining how activities under the VEU program can be included in the Regulations, as long as the activities will result in a reduction in greenhouse gas emissions that would not otherwise have occurred if the activity was not undertaken,¹ and for prescribing conditions or circumstances under which a VEEC cannot be created.²

PBAs widen access to the VEU program for a subset of medium and large businesses compared to the current arrangements whereby most consumers and small businesses already have access to the scheme. Because program costs are shared across energy consumers, excluding

¹ Section 25(2).

² See section 75(1)(d)(e) and (g).

PBAs would mean medium and large businesses contribute to the program through higher energy costs while having fewer opportunities to benefit from it.

Removing PBAs would reduce the range of activities and premises eligible for energy-efficiency upgrades under the VEU program. It would also reduce opportunities to deliver emissions reductions at lower cost by limiting the market's ability to identify and undertake the most cost-effective upgrade activities. As a result, the average cost of creating VEECs would likely be higher than in a program that includes a wider range of eligible activities.

Because PBAs support bespoke upgrade activities, additional arrangements are needed to determine the number of VEECs that can be created for each project. The number of VEECs should reflect the emissions reductions likely to result from the upgrade compared with a business-as-usual scenario. It should also ensure that certificates are only created for emissions reductions that would not otherwise have occurred.

Deemed activities are upgrades for which emissions reductions can be estimated using standard assumptions derived from typical appliance or system upgrades. By contrast, PBAs are bespoke to individual businesses or facilities, requiring emissions reductions to be assessed on a project-by-project basis.

Without adequate controls on emissions reduction methodologies and the verification of estimates, VEECs may be created for overstated emissions reductions. In some cases, VEECs could be created where there has been no genuine reduction in emissions. To maintain the integrity of the VEU program, PBAs therefore require appropriate assurance and oversight to ensure that claimed emissions reductions are accurate, genuine, and subject to a level of scrutiny comparable to that applied elsewhere in the program.

The primary objectives of government intervention are to:

- mitigate climate change by incentivising more efficient emissions reductions
- ensure that businesses can complete large or bespoke energy efficiency upgrades in the VEU.

The secondary objectives are to:

- provide opportunities for VEECs to be created at lower cost
- ensure that VEECs created under PBAs reflect reasonably accurate actual reductions in greenhouse gas emissions and those reductions are genuinely additional.

Feasible options assessed in this RIS

Three options are assessed in this RIS.

Option 1 remakes the current Regulations without change. This option would continue to support lower-cost VEEC creation by enabling bespoke business projects that reduce greenhouse gas emissions, while maintaining existing safeguards to ensure that VEECs represent accurate and genuinely additional emissions reductions. Key features of the current framework include scoping approvals, project plans for MV projects, project impact reports, measurement methods specified by the Secretary, and independent verification by a Measurement and Verification Professional or Benchmark Administrator.

Option 2 retains the current requirements for scoping approvals, project plans and project impact reports, but removes the requirement to use methods specified by the Secretary. Instead, projects would be able to develop their own emissions reduction methodologies, supported by an independent expert's assessment that the methodology provides a reasonable estimate of emissions reductions. Projects could use any methodology that complies with the International Performance Measurement and Verification Protocol (IPMVP), an internationally recognised

framework for measuring and verifying energy savings. Because IPMVP is widely used and supported by established training and certification programs, it would increase flexibility and reduce compliance costs by broadening access to suitably qualified independent experts.

Option 3 removes the requirements for scoping approvals and project plans, relying instead on the final project impact report to determine emissions reductions and VEEC creation. Measurement and verification requirements would otherwise remain unchanged. Under this option, projects would not require ESC approval before proceeding, and an Accredited Person (AP) would only need to submit a final report when creating VEECs.

Assessment of impacts on options

Table 1 below sets out the estimated annual costs, benefits and risks of each option.

Table 1: Annual estimated benefits, costs and risks of options considered in this RIS

		Option 1	Option 2	Option 3
Benefits	Total lower costs of VEEC creation because of PBAs	\$2,975,000	\$2,848,860	\$2,848,860
Costs	Administrative costs to projects to comply with requirements to prepare scoping plan, project plan, impact report	\$1,092,000	\$764,400	\$808,500
	Costs of delay to projects due to waiting for ESC approvals at each stage	\$260,692	\$350,880	\$174,930
	Incremental costs to ESC attributable to PBAs	\$500,000	\$700,000	\$500,000
	<i>Total costs</i>	<i>\$1,852,692</i>	<i>\$1,815,280</i>	<i>\$1,483,430</i>
Net benefit		\$1,122,308	\$1,033,580	\$1,365,430
Risks	<i>Risk that VEECs do not reflect actual GHG reductions</i>	-	\$2,081,520	\$2,081,520

While Option 3 delivers the highest quantified net benefit, it also carries a greater risk that VEECs may not accurately reflect the emissions reductions achieved. Compared with the current arrangements, this could reduce confidence in the integrity of the program's emissions reduction claims.

By contrast, Option 1 does not introduce any material additional integrity risk relative to the base case. It retains the existing measurement and verification framework, including parameters designed to minimise the effect of estimation errors across the portfolio of PBA projects. While the base case may present broader risks to achieving greenhouse gas emissions reductions if the PBA framework were to cease, those risks apply equally to both options and are not affected by the design changes considered in this RIS.

Taking these considerations into account, Option 1 is the preferred option. It provides a positive net benefit while maintaining the existing safeguards for the measurement and verification of

emissions reductions. Importantly, it achieves these benefits without increasing integrity risks relative to the base case.

All options ensure that businesses undertaking large-scale energy-efficiency upgrades can continue to access the VEU program. This addresses the reduced access that medium and large businesses would otherwise face compared with smaller businesses and households. PBAs therefore support more equitable access to the program.

The proposed Regulations are unlikely to restrict competition. As PBAs are primarily used for larger-scale projects, which are not typically undertaken by small businesses, the regulatory burden is unlikely to have a disproportionate impact on small business.

Implementation and evaluation

To provide certainty for businesses with PBAs already underway or in the early stages of planning, the proposed Regulations are intended to be made well before the current Regulations expire. Once the Regulations are made, the ESC will communicate the new arrangements through its website and targeted stakeholder engagement.

The ESC will continue to administer and regulate the VEU program and work with industry to support ongoing compliance. The Department and the ESC will also monitor the operation of PBAs and address any emerging issues as part of the continuous improvement of the program.

Future evaluations of the Regulations will be integrated with the review of VEU program targets and broader program reviews required under the Act.

The proposed Regulations will sunset 10 years after they commence. They will be reviewed as part of the remaking process before that date.

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1 Purpose of this Regulatory Impact Statement

1.1 Requirements for making Regulations

The Victorian Government is proposing to remake the Victorian Energy Efficiency Target (Project-Based Activities) Regulations (PBA Regulations). The PBA Regulations enable the creation of Victorian Energy Efficiency Certificates (VEECs) under the VEU program for bespoke activities that achieve greenhouse gas emissions reductions that would not otherwise occur. The PBA Regulations provide for the approval of these activities and the methods used to determine certificate creation.

The current PBA Regulations expire on 14 June 2027 and need to be remade or replaced if these functions are to continue.

Before remaking any regulations, the *Subordinate Legislation Act 1994* (SLA) requires the preparation of a Regulatory Impact Statement (RIS) if the regulations impose a significant economic or social burden on a sector of the public.³ The purpose of a RIS is to promote transparency in the regulation-making process and support better decision-making by ensuring regulatory proposals are rigorously assessed. This includes clearly identifying the need for regulation, considering feasible alternatives, and assessing the associated costs and benefits. A RIS also supports better regulatory design by providing stakeholders with an opportunity to comment on proposed regulations.

A RIS supports public consultation by explaining why the Government considers the proposed regulations necessary, why their benefits are expected to outweigh their costs, and why they are preferred to other options for achieving the policy objectives. It provides evidence and analysis to inform decision-making and gives the Victorian community an opportunity to contribute to the design of the proposed regulations. This helps improve the quality of regulation.⁴

Under the SLA, a RIS must include:⁵

- a statement of the objectives of the proposed regulations
- a statement explaining the effect of the proposed regulations⁶
- a statement of other practicable means of achieving those objectives, including other regulatory as well as non-regulatory options
- an assessment of the costs and benefits of the proposed statutory rule and of any other practicable means of achieving the same objectives—the assessment of the costs and benefits must include an assessment of the economic, environmental and social impact and the likely administration and compliance costs including resource allocation costs
- the reasons why the other means are not appropriate
- an assessment of the impacts on competition⁷
- a statement on how the proposed regulations will be implemented and evaluated⁸

³ SLA s. 7

⁴ Victorian Guide to Regulation (2024).

⁵ SLA s. 10.

⁶ Including in the case of proposed regulations which amend existing regulations, the effect on the operation of the existing regulations.

⁷ Required to meet the requirements of the Intergovernmental Agreement on National Competition Policy (November 2024).

⁸ SLA s. 10(1)(f) requires a RIS to contain any other information required by the SLA Guidelines. The SLA Guidelines in turn reference (at para. 179) the Victorian Guide to Regulation as a source of further detail on the preparation of RISs.

- an explanation of how the views of stakeholders consulted to date informed the impact assessment and how future consultation will be undertaken.

Before the RIS is published, the Commissioner for Better Regulation provides independent advice on the adequacy of the RIS and the quality of the impact assessment it contains.⁹

Following publication of the RIS and proposed regulations, all comments and submissions must be considered before the regulations are made.¹⁰ A Statement of Reasons is published following the making of the regulations, explaining how the comments and submissions have been addressed in the final version of the regulations.¹¹

1.2 The Victorian Government's approach to regulation

The Victorian Government is committed to delivering better regulation. Better regulation is:

- effective in protecting the community from harm and efficient in terms of limiting burden on businesses and the community
- clear to stakeholders, consistent with other regulatory obligations
- proportionate to the scale of the problem and flexible to changes in technology and society.¹²

The following summary of the principles for regulation in Victoria is taken from the Victorian Guide to Regulation.¹³

Principles for regulation in Victoria

The Government is committed to the following best practice regulatory principles to guide the design, implementation and review of all regulatory proposals and changes to existing regulations in Victoria.

The Government requires regulation to be:

- effective in addressing the underlying causes of harm
- cost-effective
- proportionate to the harm or risk to the community
- flexible to accommodate changes in technology, markets, risks and community views
- consistent with the Government's priorities to enhance Victoria's liveability and inclusive economic growth
- consistent and streamlined across government to avoid unnecessary overlap and duplication
- clear and easily understood by businesses and the community
- appropriately administered and implemented
- regularly reviewed to understand changes in harms.

⁹ SLA s. 10(3) and the SLA Guidelines (2025) paragraph 182-187.

¹⁰ SLA s. 11.

¹¹ SLA Guidelines (2025) para. 197.

¹² Victorian Guide to Regulation (2024)

¹³ Victorian Guide to Regulation (2024), page i.

1.3 Approach in this RIS

The RIS process in the SLA and its associated Guidelines is to ensure regulatory proposals that impose a significant economic or social burden on a sector of the public¹⁴ are adequately analysed and that alternative options are considered.¹⁵

The SLA requirements are addressed through the following chapters of this RIS:

Chapter 2 – Problem that the proposed regulations are addressing

Chapter 3 – Objectives of the proposed regulations

Chapter 4 – Identification of feasible options

Chapter 5 – Assessment of feasible options and selecting the preferred option

Chapter 6 – Implementation and future evaluation of the regulations.

Appendix A sets out the modelling assumptions used in the analysis of options. Appendix B sets out the sensitivity analysis assumptions and calculations. Appendix C describes the test for impacts on competition. Appendix D summarises the consultation undertaken to date.

¹⁴ For the purposes of the Subordinate Legislation Act, a ‘sector of the public’ refers to one or more identifiable groups of people within the community but does not include public sector bodies (SLA Guidelines, para 113).

¹⁵ Subordinate Legislation Act sections 7 and 8; and Guidelines made under the SLA.

2 Problem analysis: Why are the proposed Regulations needed?

2.1 Context

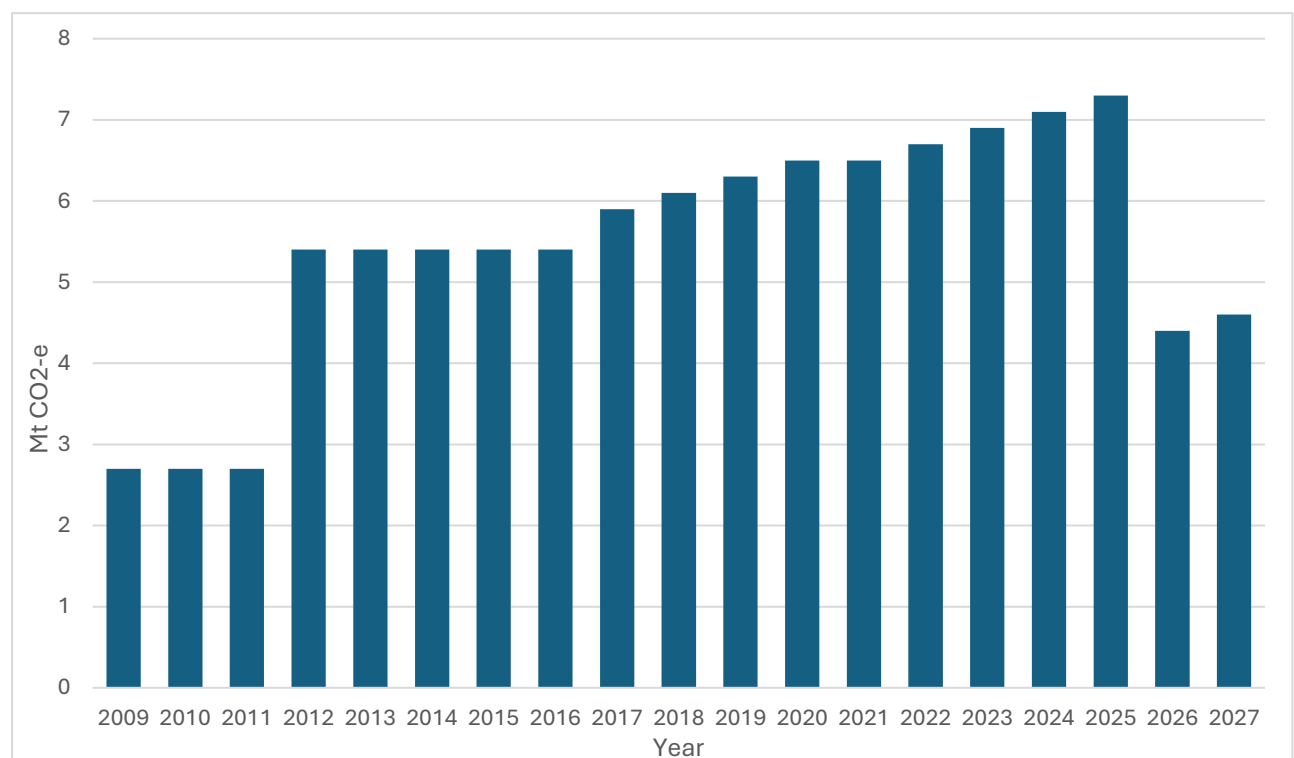
The Victorian Energy Upgrades program (VEU program) is Victoria's flagship energy efficiency and emissions reduction program. The VEU program is established by the *Victorian Energy Efficiency Target Act 2007* (the Act). The objects of the Act are to:

- (a) reduce greenhouse gas emissions
- (b) encourage the efficient use of electricity and gas and
- (c) encourage investment, employment and technology development in industries that supply goods and services which reduce the use of electricity and gas by consumers.

By encouraging the uptake of more energy-efficient appliances and technologies, the program helps households and businesses reduce their overall energy consumption. Lower energy demand can also reduce pressure on the energy system, helping to avoid or defer investment in new generation and network capacity. Over time, this can contribute to lower energy costs than would otherwise occur.

The VEU program sets annual targets for the reduction of greenhouse gas emissions measured in tonnes of carbon dioxide equivalent (CO₂-e).¹⁶ The program's targets since 2009 are shown in Figure 1.

Figure 1: Program targets 2009 to 2027 (million tonnes of carbon dioxide equivalent)



A Victorian Energy Efficiency Certificate (VEEC) is a tradable certificate created under the Victorian Energy Upgrades (VEU) program to represent a verified reduction in greenhouse gas

¹⁶ The most recent targets for 2026 and 2027 were set in 2025 amendments to the VEET Regulations. Targets for 2028, 2029 and 2030 will be determined in regulations to be made before 31 August 2027 (see section 30 of the Act).

emissions resulting from an eligible energy efficiency or renewable energy activity. Accredited Persons create VEECs after an eligible activity has been completed in accordance with the Victorian Energy Efficiency Target Regulations. The number of VEECs issued reflects the estimated lifetime greenhouse gas emissions reduction attributable to the activity, calculated using prescribed methods. Liable energy retailers must acquire and surrender a specified number of VEECs each year to meet their obligations under the Act. This creates a market-based incentive for investment in energy efficiency and emissions reduction activities, while enabling emissions reductions to be achieved at the lowest cost.

The annual target determines how many Victorian Energy Efficiency Certificates (VEECs) liable energy retailers must surrender¹⁷ each year under the VEU program.¹⁸ Energy retailers can generate VEECs if they or their entities are registered as Accredited Persons under the program. Retailers can also purchase VEECs from other market participants. This market-based approach helps deliver emissions reductions at the lowest cost.

VEECs are created when eligible activities improve the energy efficiency of appliances, systems or processes in residential or commercial premises. Only an Accredited Person, approved by the Essential Services Commission (ESC), can create VEECs. Accredited Persons are responsible for overseeing upgrade activities and ensuring all requirements for VEEC creation are met.

To become accredited, applicants must demonstrate that they can comply with the program's legislative and administrative requirements and have appropriate governance, quality assurance and record-keeping systems in place. Accredited Persons may charge a fee for their services and may also supply products used in upgrade activities.

After an eligible activity is completed, the Accredited Person calculates the number of VEECs that can be created using the methods prescribed under the VEU legislation and submits a certificate creation claim to the ESC, supported by the required evidence. The ESC assesses the claim and registers the VEECs if it is satisfied that all program requirements have been met. Once registered, VEECs can be traded between market participants.

Each VEEC certifies one tonne of carbon-dioxide equivalent greenhouse gas emissions is avoided over the lifetime of the energy efficiency upgrade.

A VEEC can only be created for prescribed activities that deliver greenhouse gas emissions reductions that would not otherwise have occurred. Typical prescribed activities for commercial and industrial consumers under the program include heat pump water heater upgrades, building-based lighting upgrades, installing high-efficiency air conditioners and refrigerated cabinets.

The program creates value by allowing participants to sell VEECs to energy retailers at a market-determined price. Revenue from VEEC sales helps offset the cost of undertaking energy-efficiency upgrades, making projects more financially attractive. It can also cover administrative and compliance costs and provide a return to Accredited Persons.

Because VEEC prices are market-driven, Accredited Persons are incentivised to deliver emissions reductions as efficiently as possible. This encourages the creation of VEECs at the lowest cost while maximising emissions reductions.

The Victorian Energy Efficiency Target Regulations 2018 (VEET Regulations) prescribe a range of activities, known as deemed activities, for which VEECs can be created. The VEET Regulations

¹⁷ Liable energy retailers meet their annual obligations under the VEU program by acquiring VEECs and surrendering them to the ESC. Surrendering a VEEC permanently retires the certificate from the market, allowing it to be counted towards the retailer's annual certificate liability while ensuring it cannot be used more than once.

¹⁸ The allocation between retailers is based on their share of annual electricity and gas sales to customers.

are separate to the PBA Regulations. Specifications issued by the Secretary under the VEET Regulations determine the number of VEECs that can be created for each type of activity.

For these deemed activities, emissions reductions are estimated using standard assumptions based on typical energy-use patterns, rather than measuring actual energy consumption before and after an upgrade. As a result, the number of VEECs is determined using deemed energy savings for each activity. This provides a simple and efficient approach for creating VEECs.

2.1.1 Project-based activities

The VEU program includes energy saving activities for both households and businesses. Prescribed deemed activities currently available for business in the VEET Regulations include lighting upgrades, installation of refrigerated cabinets, high-efficiency motors, and upgrades to gas-fired boilers.

The prescribed activities in the VEET Regulations are not suitable for all premises. Some businesses use specialised equipment or processes that are not covered by the prescribed activities, either individually or in combination.

In addition, VEECs for prescribed activities are based on standard assumptions about energy use. For some premises, actual energy savings may differ significantly from these assumptions, meaning the emissions reductions achieved by an upgrade may not be fully recognised under the existing framework.

Since 2017, in addition to the prescribed deemed activities, certificates may also be created under the VEU program from undertaking bespoke projects which result in verifiable reductions in greenhouse gas emissions. These project-based activities (PBA) enable businesses to create VEECs for activities that may not be listed under the deemed activities due to their unique settings or scale.

The inclusion of PBAs in the VEU program recognises that:

- all energy consumers should have the opportunity to participate in the VEU program because the costs of the program, arising from retailers purchasing certificates, are shared across all energy consumers
- there are some types of upgrades that are only practical at larger scales in specific industrial or commercial settings, which cannot be easily included in the deemed activities
- supporting upgrades of larger scales can provide a more efficient way to achieve emissions reductions, including through lower administrative costs per VEEC created.

PBAs are used for larger, more complex and bespoke energy efficiency projects than those undertaken through deemed activities. Completed PBAs have generated around 2,500 VEECs per project on average. By comparison, a typical upgrade in a residential property generates approximately 36 VEECs.

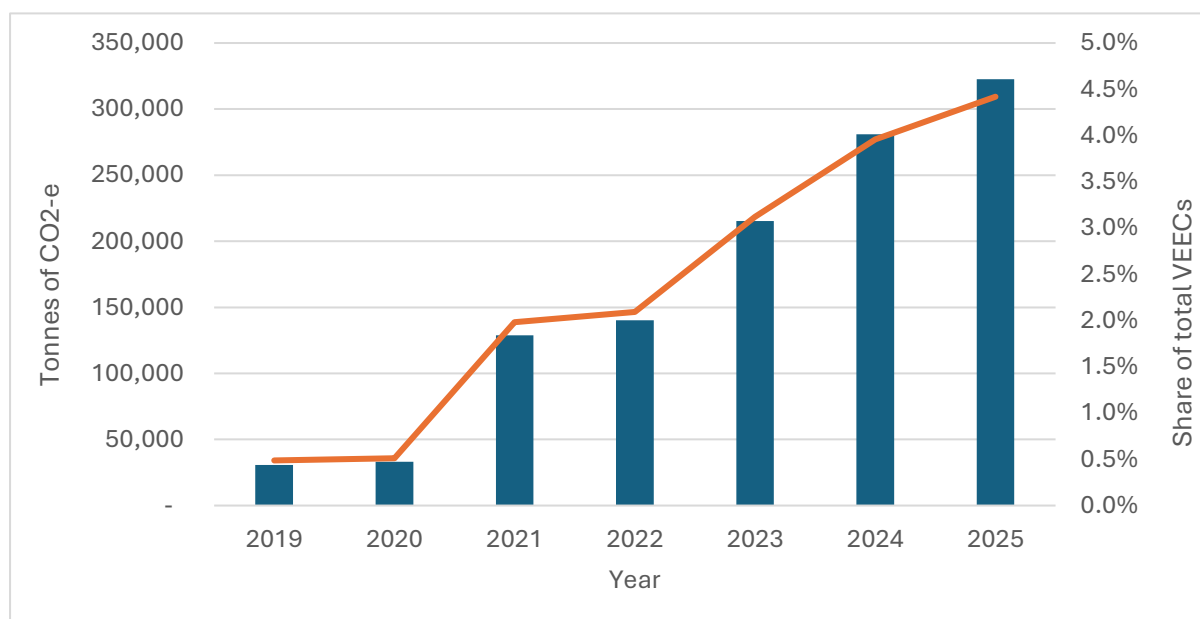
PBAs have been used across many commercial sectors including retail trade, manufacturing, education, agriculture, and food services. Examples of PBA projects include replacing gas boilers with more efficient biomass boilers, large-scale solar system installations, and heating ventilation and air conditioning (HVAC) optimisation.

PBAs can be used to create VEECs for any energy-saving project that uses an approved method for the measurement and verification of energy savings. The methods ensure that the emissions reductions are reliably measured and demonstrate that the reductions would not have occurred in the absence of the project.

Between 2019 and 2025, approximately 1.2 million tonnes of CO₂-e emissions were reduced through PBAs, representing around 2.2 per cent of the overall program reductions over the same period. The number of PBAs and their share of total emissions reductions have steadily increased as shown in Figure 2, highlighting the growing contribution of PBAs to the program's outcomes.

The demand for PBAs shows the potential for PBAs to create VEECs at lower overall cost, even considering additional costs associated with their use. These costs include engaging an Accredited Person, measuring and verifying emissions reductions, and paying a fee to the ESC for each approved PBA.¹⁹

Figure 2: Number of VEECs from PBAs and PBA share of total VEECs, 2019-2025

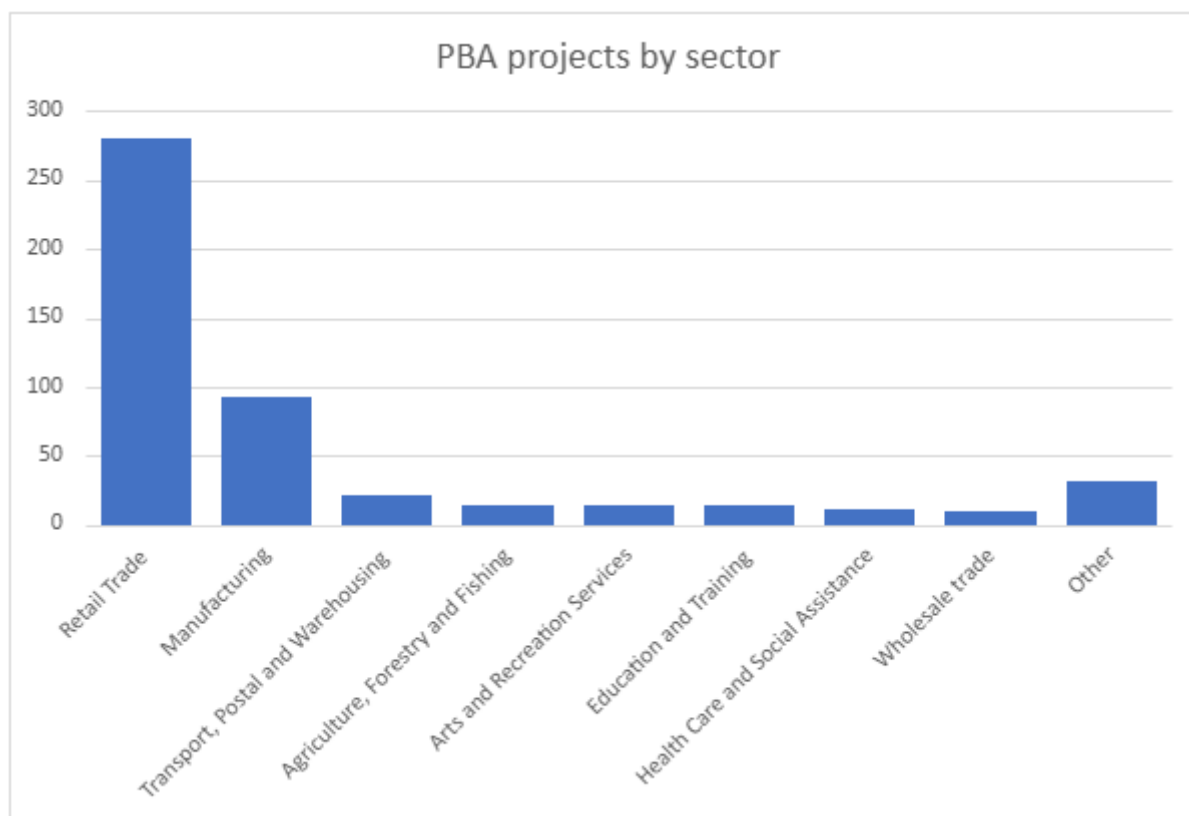


PBA projects mainly occur in the Retail Trade sector, where 281 projects have been completed to date. Manufacturing is the next most significant sector with 93 completed projects. Figure 3 below provides a breakdown of PBAs completed since 2019 by sector.²⁰

¹⁹ A fee of \$500 per project is payable upon approval of the final project impact report. It is payable by the Accredited Person for the PBA. The fee is set by ESC under the Act, which is not part of the proposed Regulations.

²⁰ Other includes sectors with fewer than 10 completed PBAs: Commercial buildings, Accommodation and Food Services, Professional, Scientific and Technical Services, Information Media and Telecommunications, Electricity, Gas, Water and Waste Services, Public Administration and Safety and Administrative and Support Services.

Figure 3: Number of PBAs by industry sector, 2019-2025



Because of their nature, it takes a longer time between project approval and creation of VEECs for PBAs. Since 2018, the average time between scoping and approval to the creation of VEECs has been approximately 19 months.

PBAs are possible under the current Victorian Energy Efficiency Target (Project-Based Activities) Regulations 2017 (the current PBA Regulations), which expire in 2027. If these current Regulations are not remade before then, PBAs will no longer be possible under the VEU program.

2.2 Nature and extent of the problem to be addressed

Without PBAs, the VEU program may be less able to support emissions reduction opportunities at larger commercial and industrial premises, which typically have higher energy use and greater potential for emissions reductions. PBAs provide a mechanism to facilitate these larger and more complex projects, enabling the VEU program to capture additional cost-effective emissions reductions. Without access to the VEU program, some upgrade activities may not occur.²¹

Enabling PBAs helps ensure the VEU program is accessible to all energy consumers. As the costs of the program through retailers purchasing certificates are shared across all energy consumers, excluding PBAs would mean medium and large businesses may have limited access to the program but are paying for it through passthrough costs.

Without PBAs, the range of potential activities and premises in which energy efficiency upgrades can occur would be restricted. This would reduce opportunities to lower the overall costs of the program by limiting the range of activities in which the market identifies most cost-effective

²¹ While some larger-scale activities at some premises could potentially still access VEECs under the deemed activities, allowing some premises to calculate energy reductions that are more tailored to their actual circumstances provides an opportunity to provide a greater incentive for those energy-efficiency upgrades to occur, while lowering the overall cost of the scheme.

upgrade opportunities. As a result, the average cost of creating a VEEC may be higher than in a scenario where a wider range of upgrade activities are available to create VEECs.

The VEU program target for 2027 of 4.6 million tonnes of greenhouse gas emissions reductions²² was set on the basis that PBAs would be an available mechanism to create VEECs. If the Regulations enabling PBAs were not in place, the 2027 target would still apply. However, VEECs could no longer be created from PBAs after 14 June 2027, meaning the target would need to be met through deemed prescribed activities for the remainder of the year.²³

This would increase the risk that the target is not met, leading to higher greenhouse gas emissions with associated environmental and economic costs. However, several factors influence whether the target will be met. All else being equal, discontinuing PBAs may slightly increase the risk that program targets are not met. In addition, it could result in financial penalties for energy retailers that cannot surrender enough VEECs and need to pay the shortfall penalty.²⁴ Alternatively, achieving the target may become more expensive if VEECs need to be generated through a narrower range of activities.

Modelling has not been undertaken on the costs of achieving the 2027 target without PBAs. However, extensive consultation was undertaken to determine the VEU program targets for 2026 and 2027. This involved a cost-benefit analysis which can be found on the Engage Victoria website.²⁵

For future years, the government sets program targets for emissions reductions by considering the demand for upgrades, feasibility of achieving upgrades and the costs of creating VEECs for the potential range of activities. In setting these targets, the government balances the environmental and economic benefits of achieving emissions reductions against the costs of delivering them, which are passed on to energy consumers.

In the absence of PBAs, the government would need to set²⁶ future program targets on the assumption that the smaller-scale deemed activities were the sole source of VEEC creation. This would alter the balance between achieving emissions reductions and managing program costs. As a result, the government may need to set lower targets than would otherwise be the case²⁷, or accept the total costs of the program will be higher compared to the case where PBAs were included. These higher costs would be passed on to all energy customers through higher energy bills.

PBAs expand the range of activities that can be undertaken under the VEU program that can reduce greenhouse gas emissions, creating the opportunity for the market to identify more cost-effective activities to create VEECs. Since 2017, 494 PBAs have been completed which have

²² The target was set in the Victorian Energy Efficiency Target Amendment (Targets and Shortfall Penalty Rates) Regulations 2025, which amended regulation 41A of the VEET Regulations.

²³ If it were known that PBAs were to no longer be available, it would be expected that potential PBAs before that date might also not occur if there were risks the project might not have been completed in time.

²⁴ A shortfall penalty is a statutory penalty payable by a liable energy retailer if it does not surrender sufficient VEECs to meet its annual certificate liability under the Act. The penalty is \$100 for each VEEC not surrendered. It provides a strong incentive for retailers to comply with their obligations and supports the integrity of the VEU certificate market by discouraging non-compliance.

²⁵ Setting new targets for the Victorian Energy Upgrades program: <https://engage.vic.gov.au/victorian-energy-upgrades-program-targets>

²⁶ Program targets for 2028, 2029 and 2030 must be determined by 31 August 2027; targets for 2031, 2032, 2033, 2034 and 2035 must be determined by 31 May 2030; and targets for 2036, 2037, 2038, 2039 and 2040 must be set by 31 August 2035. See section 30 of the Act.

²⁷ Setting lower targets for the VEU program would mean worse environmental outcomes by having higher greenhouse gas emissions, which also has flow-on impacts to the economy, or having to take additional actions elsewhere to reduce emissions to meet the government's emissions reductions targets.

created around 1.2 million VEECs.²⁸ This indicates that there are viable opportunities for lowering emissions from these activities at a lower cost than deemed activities, even after considering the compliance costs associated with the PBA approvals and the ESC fees.

2.2.1 Specific problems that arise from allowing PBAs

PBAs should continue to be permitted under the VEU program. Even if take-up is low or zero, allowing PBAs does not add to the costs of the program except for some PBA-specific administrative costs outlined in this RIS. PBAs provide an opportunity to achieve more cost-effective energy efficiency upgrades and reduce the cost of VEEC creation.

In other words, allowing PBAs to occur would either have no effect on the costs and benefits of the program, if the market does not use PBAs to create VEECs, or improve the overall net benefits of the VEU program if the market determines that PBAs can facilitate creating VEECs at lower cost. This remains the case even after accounting for administrative costs specific to PBAs.

This conclusion depends on VEECs created through PBAs accurately reflecting the amount of genuinely additional greenhouse gas emissions reductions, as occurs under the deemed activities. For deemed activities, emissions reductions for each type of activity are calibrated to achieve the best possible estimate of emissions reductions across all the activities of the same kind. Controls are in place to ensure that the emissions reductions counted in VEEC creation are genuinely additional to business as usual.

These controls include setting the number of VEECs for each upgrade under the deemed activities to take account of a proportion of upgrades that would have occurred soon anyway, efficiency upgrades that only meet minimum energy efficiency in the market, and a proportion of appliances that may not be used in a way that realises the full potential efficiency improvement.

Because of the intended nature of PBAs to allow bespoke upgrade activities, there is a need for an additional mechanism to determine the number of VEECs that should be created for each PBA. The number of VEECs should reflect the actual likely reduction in greenhouse gas emissions from the upgrade compared to the business-as-usual case. It should also ensure that the reductions would not otherwise have occurred if the PBA was not undertaken.

Unlike deemed activities, where the emissions reductions can be estimated based on averaging across typical upgrades of each type of appliance or system, PBAs are bespoke to an individual business or facility. As a result, the emissions reductions need to be estimated for each PBA separately.

Allowing each PBA to estimate the emissions reductions without appropriate controls may not accurately reflect actual reductions or may not be additional to business as usual. Allowing PBAs without appropriate processes and oversight may result in the overall program targets for greenhouse gas emissions reductions not genuinely being achieved. This would undermine the intended benefits of the program.

The problem to be addressed by the proposed Regulations is to provide adequate assurance that VEECs created from PBAs reflect the actual reduction in greenhouse gas emissions, and that these reductions would not otherwise have occurred if the activity was not undertaken, as required by the Act.

In the absence of any estimation and verification requirements in Regulations, many PBA owners may create VEECs that do not reflect the actual additional emissions reductions resulting from their PBA.²⁹ However, some may not.

²⁸ The majority have been MV projects, with only a small number of SMM and BR projects undertaken to date.

²⁹ Even for PBAs, VEECs still need to be formally created only by persons approved by the ESC to create VEECs, which includes meeting ESC requirements for VEEC creation, being subject to the Code of Conduct and Australian

The Department is aware that some PBA proposals are not approved because the emissions reductions cannot be readily demonstrated to be additional to what would have otherwise occurred, or where scoping approvals do not eventuate as planned, or at all.³⁰

Without additional controls on the methods for determining emissions reductions, or the verification of those estimates, there is a risk that VEECs could be created that over-estimate the emissions reductions or without any real reduction in emissions.

Therefore, if PBAs are allowed within the VEU program, there will also need to be adequate assurance and oversight that the emissions reductions claimed through PBAs are accurate and genuine, with at least the same level of confidence as the rest of the VEU program.

Consultation with stakeholders on PBAs occurred in 2022 with a range of feedback on specific issues provided as discussed in Chapter 4. Overall, stakeholders agreed that PBAs should be allowed as activities under the VEU program and accepted the need for controls to be in place to appropriately measure and verify emissions reductions from these activities.

Consumer Law and satisfying a fit and proper person test. Accredited Persons must be able to demonstrate emissions reduction to create VEECs.

³⁰ This may apply to up to 20 per cent of projects.

3 Objectives: What outcome is the Government aiming to achieve?

3.1 Setting objectives

The SLA requires a RIS to include a statement of the objectives of the proposed regulations.³¹ The SLA Guidelines require agencies to clearly define the intended objectives and the reasons for those objectives, to ensure that:

- they are reasonable and appropriate for the intended level of regulation
- they can be clearly and succinctly set out
- they conform with the objectives, principles, spirit and intent of the authorising Act
- they are not inconsistent with the objectives of other legislation, subordinate legislation and stated government policies.

Subordinate legislation, such as regulations, can only cover matters permitted by the authorising Act, and must be consistent with the principles and objectives of the policy issue(s) that the primary legislation addresses.

The Victorian Government has explicit principles for regulation in Victoria discussed in Chapter 1, which ensure that regulations are effective, efficient, clear, consistent with other regulatory obligations, proportionate to the scale of the problem, and flexible.³²

3.2 Principles and objectives of the primary legislation

The stated purpose of the Act is to promote the reduction of greenhouse gas emissions by establishing the VEET scheme which provides for the creation and acquisition of energy efficiency certificates.³³

The Act sets up a market-based scheme to promote the achievement of this objective at the lowest cost.

3.3 Authorising provisions

Section 75 of the Act allows for regulations to be made that prescribe an activity as a prescribed activity in respect of which a VEEC may be created, prescribe conditions or circumstances under which a VEEC cannot be created, and specify when a prescribed activity is to be taken to have been undertaken.³⁴

Regulations made under section 75 of the Act may prescribe an activity in Victoria³⁵ to be a prescribed activity. An activity may be prescribed to be a prescribed activity if the activity will result in a reduction in greenhouse gas emissions that would not otherwise have occurred if the activity was not undertaken.³⁶

³¹ The objectives stated in the statutory rule itself might differ from those in the RIS as RIS objectives should be stated in terms of intended outcomes, rather than means. The objectives in statutory rules are usually narrower than the RIS objectives; they are a summary of what the statutory rule does, rather than any policy objectives of the statutory rule.

³² See Victorian Guide to Regulation.

³³ Section 1.

³⁴ Section 75(1)(d), (e) and (g).

³⁵ Or in another State or Territory in which an approved interstate energy efficiency regime is in force.

³⁶ Section 15(1) and (2).

3.4 The objectives of the proposed Regulations

The primary objectives of government intervention are to:

- mitigate climate change by incentivising more efficient emissions reductions
- ensure that businesses can complete large or bespoke energy efficiency upgrades in the VEU

The secondary objectives are to:

- provide opportunities for VEECs to be created at lower cost
- ensure that VEECs created under PBAs reflect reasonably accurate actual reductions in greenhouse gas emissions and those reductions are genuinely additional.

It is important to note that the scheme is market-driven and does not target a specific number of PBAs or VEECs generated through PBAs. The program is activity-neutral, meaning it is up to the market to determine whether PBAs are adopted, based on whether they provide a cost-effective pathway for creating VEECs.

4 Options: What different courses of action could be taken?

4.1 Base case

The options in this RIS are assessed against a base case of not taking any further action. In the base case, the current PBA Regulations would expire in 2027 and not be replaced. The VEU program would continue under the Act with deemed activities under the VEET Regulations only.

The program target for 2027, which is 4.6 million tonnes of greenhouse gas emissions reductions³⁷, would remain in place. This target would need to be met through deemed prescribed activities only as VEECs would not be able to be created from PBAs after 14 June 2027.³⁸ This creates the risk that targets are not met, or that creating VEECs to achieve the target becomes more costly.

For future years, the program targets would need to be set³⁹ on the basis that PBAs were not an available source of VEEC creation. This would mean a choice between setting lower targets than otherwise might be the case, or accepting the costs of the program will be higher. This analysis assumes VEEC creation continues at current trend levels.

4.2 Consideration of feasibility of options

4.2.1 The current Regulations

The current PBA Regulations allow certain types of projects to be prescribed activities if they will result in a reduction in greenhouse gas emissions that would not otherwise have occurred if the project was not undertaken. This allows creation of VEECs under section 15 of the Act in a way which:

- allows for more certificates to be created for the same activity, because it measures actual reductions rather than relying on the deemed reduction under the VEET Regulations, thereby lowering the average cost of VEECs; or
- allows some bespoke activities that do not fall within the prescribed activities in the VEET Regulations, also creating an opportunity to create VEECs at a lower cost than via deemed activities.

The current PBA Regulations require these activities to be in one of the following four types outlined in Figure 4. There are different requirements for each type to create VEECs, and different methods are used to calculate the number of VEECs that may be created.⁴⁰

³⁷ The target was set in the Victorian Energy Efficiency Target Amendment (Targets and Shortfall Penalty Rates) Regulations 2025, which amended regulation 41A of the VEET Regulations.

³⁸ If it were known that PBAs were to no longer be available, it would be expected that potential PBAs before that date might also not occur if there were risks the project might not have been completed in time.

³⁹ Program targets for 2028, 2029 and 2030 must be determined by 31 August 2027; targets for 2031, 2032, 2033, 2034 and 2035 must be determined by 31 May 2030; and targets for 2036, 2037, 2038, 2039 and 2040 must be set by 31 August 2035. See section 30 of the Act.

⁴⁰ The methods to calculate the number of VEECs are not included in the PBA Regulations but set in Specifications made by the Secretary.

Figure 4: Types of PBAs under the current Regulations⁴¹

MV – measurement and verification project Energy savings are determined before and after measurements of actual energy consumption. Requires project plan.	Advanced MV – advanced measurement and verification Follow the standard MV methodology, but without the requirement for project plan approval	SMM – specified measurement method project Uses a specified measurement method that involves less administration and complexity than a MV project	BR – involving the use of a benchmark process Energy savings are determined using before and after National Australian Built Environment Rating System (NABERS) ratings
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The methods and variables under each project type are set out by the Secretary.⁴² PBA projects can select the appropriate approach based on the characteristics of the method.

MV projects are the default approach for PBAs that use a complex statistical energy model, based on real measured data, to determine energy savings. This can be applied to a wide range of upgrade types and is technology agnostic. MV is responsible for the majority of VEEC creation under PBAs to date.

Advanced MV uses the same approach as MV but does not require a project plan. This approach is appropriate only for suitable experienced Accredited Persons and projects that have an established history.

SMMs provide an alternative to MV where prescribed upgrade types have a reduced statistical complexity which significantly reduces administration and cost. SMM upgrades include whole of site electricity upgrades, whole of site gas upgrades, motors, electrification and solar panels.

BR projects are suitable for building upgrades that are covered under NABERS. As this approach uses a third-party benchmark rating tool that calculates energy performance, there is no requirement to complete statistical analysis of the energy savings directly. Some examples of upgrades that would improve a NABERS rating include upgrades to heating, ventilation and air conditioning systems, installing efficient LED lighting or installing shading, insulation and double glazing.

To create VEECs, the activity must be undertaken as described in an approved application for a scoping approval and project plan for MV projects. Table 2 outlines the different requirements by method type.

Table 2: Requirements to create VEECs from PBAs

Requirement	MV projects	Advanced MV	SMM projects	BR projects
Scoping approval before upgrade activity commences	✓	✓	✓ nominates use of a specified measurement method	✓ nomination of a benchmark administrator

⁴¹ Advanced MV projects are those MV projects specified by the Secretary as being advanced MV projects, with specific measurement and verification methods. To date, no advanced MV projects have been specified.

⁴² See the current Specifications for MV, SMM and BR projects here: <https://www.energy.vic.gov.au/victorian-energy-upgrades/installers/industry-project-based-activities>

Requirement	MV projects	Advanced MV	SMM projects	BR projects
Project plan approval before upgrade activity	✓	X	X	X
Approval of project impact report (after completion of project, before creation of VEECs)	✓	✓	✓	✓
Project impact report to include independent report	✓ a report from an approved Measurement and Verification Professional	✓ a report from an approved Measurement and Verification Professional	X	✓ a document produced by the benchmark administrator
Approval of independent experts able to provide independent report	✓ By ESC	✓ By ESC	N/A	✓ By Secretary

Scoping plans and project plans for MV projects are required to be approved by ESC prior to undertaking the activity. These set out the details of the proposed project, and the methods to be used to determine the reduction in greenhouse gas emissions. After the project activity has been completed, a project impact report is submitted to the ESC for approval, which confirms the amount of greenhouse gas emissions reduced. Once approved, the AP can create the VEECs for the project.

Scoping approvals, project plan approvals and project impact reports must contain the information required by the ESC. Project impact reports for MV projects must include a report from a Measurement and Verification Professional that is approved by the ESC.⁴³ Project impact reports for BR projects must include a document produced by the benchmark administrator in respect of the baseline period and reporting period.⁴⁴

4.2.2 Have the current Regulations been effective in meeting the objectives?

Since 2017, 494 projects have been completed creating around 1.15 million VEECs.⁴⁵ This indicates that viable opportunities exist to reduce emissions from these activities at a cost that is comparable to, or lower than, that of deemed activities, even after accounting for the compliance costs associated with the PBA approvals and the ESC fees.

There are an additional 1,033 PBA projects that have commenced with a scoping plan approval but have not yet completed the final project impact report approval stage. Together with the 494 completed projects, this means around 32 per cent of initiated PBA projects have completed the full approval process, while around 68 per cent have not yet reached final project impact report approval. The available project data does not show how many of these 1,033 projects have completed the physical upgrade but are still awaiting submission or approval of a project impact report, compared with those for which the upgrade is still underway or has not proceeded.

⁴³ ESC has approved 21 MVPs. The current PBA Regulations provide a process for approving further MVPs. See VEU Register published by ESC at <https://www.esc.vic.gov.au/victorian-energy-upgrades-program/veu-updates-reports-reviews-and-data/veu-registers-and-calculator>

⁴⁴ The Secretary has approved one benchmark administrator. The current PBA Regulations provide a process for approving further benchmark administrators.

⁴⁵ The majority have been MV projects, with only a small number of SMM and BR projects undertaken to date.

Projects that have started but not lodged an impact report do not pay any fees to the ESC. Fees are only paid in an application to approve an impact report which is in the final approval stage.⁴⁶ Projects that have commenced are likely to incur a range of commercial costs for professional advice, equipment and accredited provider fees, depending on the completion status of the project.

Some changes to the PBA Regulations were made in 2025 following consultation conducted in 2024 about the operation of the Regulations. The consultation sought stakeholder feedback on opportunities to improve and streamline the PBA methods available under the VEU program to remove unnecessary barriers and encourage PBA uptake. Twenty-three (23) submissions were received from a range of stakeholders including VEU Accredited Persons, government, retailers, energy service companies, peak bodies, industry bodies and members of the public.

The amendments made in 2025 aimed to increase flexibility and reduce compliance requirements for some types of projects, including by introducing new types that have a reduced level of complexity and/or reporting requirements commensurate with project risk, rather than the previous 'one size fits all' approval and reporting requirements. The amendments formally recognised Advanced MV projects and SMM projects, with a more streamlined approval process, and removed the need for BR projects to submit a project plan.

Considering these amendments, it is considered that the current PBA Regulations remain well targeted, effective, and efficient in meeting their objectives.

4.2.3 What alternative approaches exist?

The Act provides broad discretion to prescribe activities under the VEU program in the Regulations provided those activities result in a greenhouse gas emissions reduction that would not otherwise occur.⁴⁷ The Act also prescribes conditions or circumstances under which VEECs cannot be created.⁴⁸

For this RIS, the primary question is whether PBAs should be an allowed activity under the VEU program in addition to the existing deemed activities. Under the base case, no PBAs would be allowed to be used to create VEECs. Under all options considered in this RIS, PBAs would be a prescribed activity for the purpose of VEEC creation.

The scope for alternative options is therefore limited to the processes around how emissions reductions are estimated and verified. This includes the methods to be used, the verification and confirmation steps, and the required approvals and reporting. All these elements have different impacts on the costs to projects, and the potential benefits for the wider VEU program.

The 2022 consultation on the PBA requirements also suggested:

- support from stakeholders for changes for PBAs to provide upfront incentives
- support for further reductions to administrative burden
- where possible, alignment of methodologies with International Performance Measurement and Verification Protocol (IPMVP) could provide for flexibility and consistency with MV projects.

4.2.4 Options assessed in this RIS

There are three options assessed in this RIS:

⁴⁶ The current fee for an application to approve an impact report is \$500 payable by the Accredited Person.

⁴⁷ Section 25(2).

⁴⁸ See section 75(1)(d)(e) and (g).

Option 1 is to remake the current Regulations without any changes.⁴⁹ This would meet the objectives by continuing to allow opportunities for VEECs to be created at lower cost by facilitating bespoke business initiatives that reduce greenhouse gas emissions, while also maintaining the existing assurances that the VEECs created by PBAs represent accurate and genuinely additional reductions in greenhouse gas emissions.

The key elements of the current arrangements are scoping approval, project plans (for MV projects), a project impact report, measurement as set out in the Secretary's specifications, and verification by an MVP or benchmark administrator (depending on the type of project).

Option 2 is to remake the current arrangements for scoping approval, project plans and project impact report, but without methods specified by the Secretary. Instead, projects would be free to develop their own methodology for estimating emissions reductions, with a statement from an independent expert that the methodology used provides a reasonable estimate of emissions reductions. This would give more flexibility to projects.

Under this option, projects could use any method to estimate emissions reductions that meets the requirements of the International Performance Measurement and Verification Protocol (IPMVP). The IPMVP is an internationally recognised approach to energy savings verification, which includes existing certification and training structures. This means that the method is widely understood and there are many independent experts available under the IPMVP community to undertake the measurement and verification for PBAs, resulting in lower costs than the current approach.

Option 3: remove the current requirements for scoping approval and project plan approval and rely only on the final project impact report as the basis to determine the emissions reductions and VEEC creation. Measurement and verification would still be as under the current arrangements. A project would not need to engage with the ESC or await approval for the upgrade, and only the Accredited Person would need to submit the final report at the time the VEECs were created. This option would go further than the reforms made in 2025 which already removed the project plans for low-risk types of projects.

4.3 Options not assessed in this RIS

Options that continue the current requirements but reduce the number of PBA types, back to the situation prior to 2025, were not considered. This would return to a program where the same approval processes including a project plan apply to all PBAs on a 'one-size-fits-all' basis, that stakeholders have already stated was inefficient for some project types and a disincentive to undertake PBAs in some situations. The Department is confident that the range of project types in the current Regulations, and their associated approval processes, is better aligned to the objectives.

The Department also ruled out an option to remake the current Regulations but removing the need to prepare a project impact report. Instead, projects would only need to confirm that the upgrade occurred as outlined in their project plan (a project plan would be required for all projects, to ensure there was sufficient details about the proposed upgrade on which emissions reductions can be estimated). This approach would not only have removed the need to prepare and approve the final impact report but also have allowed VEEC creation to be brought forward to an earlier point, making the incentives from VEECs more up front. While additional compliance measures would have been needed under this approach (e.g., projects signing declarations that the upgrades occurred as approved and/or targeted audits by ESC to verify that upgrades occurred), the Department determined that the risks to the program in terms of over-estimates of

⁴⁹Some regulations have been redrafted for clarity and consistency and the numbering of regulations updated.

actual emissions reductions was too great a risk, and therefore not consistent with the objectives of the program.

The Department also ruled out an option that would replace all the existing requirements for approvals and estimation of emissions reductions with a process whereby ESC-engaged auditors would conduct a site inspection and audit before and after the upgrade and determine how many certificates can be created from the upgrade. This was considered too costly, would lead to excessive delays in when upgrade activities could commence and VEECs be created, and increase uncertainty for projects in terms of the number of VEECs that would be created. These factors would mean PBAs become significantly less attractive for businesses.

5 Assessment of impacts of each option

5.1 Identification and quantification of impacts

5.1.1 Costs

All options impose costs to achieve the objectives. For the options considered in this RIS, the costs fall into three categories: administrative, delay and costs to government.

Administrative costs arise where project owners must comply with the requirements for getting approvals and apply the relevant methodology to estimate emissions reductions. This measures the costs of preparing the required documents to be submitted to the ESC, which can be done by in-house staff (a time cost, reflecting salary costs), or (is more common) an amount paid to an external person to prepare the documents for the planned PBA (which can be the Accredited Person). For the final project impact reports, this cost also included the amounts paid to the MVP or the benchmark administrator.

Delay costs are the opportunity cost to projects that result from having to wait for ESC approval at each stage before proceeding with their upgrade or creating VEECs. This is calculated by the forgone return on investment for the period of delay. For these calculations, the opportunity cost relates to the value of the VEECs able to be created from the upgrade, and the period of delay is the time in which a project is waiting for ESC approval of a scoping approval, project plan or project impact report. The assumed forgone return on investment is taken as 7 per cent (average long-term market rate of return).

Costs to government include the costs incurred by the ESC of determining approvals of PBAs and other monitoring and compliance costs associated with PBAs. For the purposes of a RIS analysis of options, this only includes the incremental costs to ESC that would not otherwise be incurred if there were no PBAs. Without PBAs, there would need to be more deemed activities to reach the program targets; as such the existence of PBAs likely involves some shift of resourcing away from deemed activities to PBAs, and some types of general monitoring and compliance costs would be shared across the program regardless of how many PBAs were undertaken. Therefore, these costs represent only the net incremental costs attributable to allowing PBAs to be prescribed VEU activities.

These costs relate to each PBA undertaken. Under each option, there may be a different number of PBAs completed. In particular, it is assumed that where overall administrative and delay costs to a project are lower on average, there would be a higher number of PBAs completed, as there is a greater financial benefit to be obtained where costs are lower (i.e., more opportunities where the value of VEECs created exceed the additional administrative costs). However, this may also mean that smaller PBAs become more financially viable, so the average number of VEECs created per project may decrease or increase under different options.⁵⁰

These are difficult to model and various assumptions have been made to gain some indicative insights into how the different options may affect overall costs of the program.

The estimated costs of each option are set out below. Further detail on the modelling assumptions is included in Appendix A.

⁵⁰ Based on PBA data to date, there appears to be a threshold of approximately 1200 VEECs as a minimum viable project. Since the introduction of simplified methods in 2025, including solar, we are seeing a lower threshold due to the reduced complexity of the Specified Measurement Method—some APs are advising clients solar PV PBA projects can be done for as low as 200 VEECs meaning the administration is considerably low for those projects.

5.1.2 Benefits

The main benefit of PBAs under each option is to take advantage of the emissions reduction opportunity in the commercial and industrial sectors to 2050. Treasury modelling underpinning the Australian Government's Net Zero Plan projects emissions from the industrial and waste sector could decline from 61 Mt CO₂-e in 2025 to 32 Mt CO₂-e by 2050, while emissions intensity across industrial activities could fall by 72 per cent through electrification and adoption of lower-emissions production technologies.⁵¹ Additionally, the Climate Change Authority has highlighted the built environment, including commercial buildings, as a key sector for emissions reduction through energy efficiency and electrification.⁵²

Enabling emissions reductions through PBAs can generate VEECs at a lower cost than deemed activities, reducing the overall costs of the program. This can lower the price retailers pay for VEECs, reducing the costs passed through to end customers.

The exact benefit is difficult to estimate and will depend on several other factors beyond the scope of the proposed Regulations, such as future program targets and changes in relative demand and opportunities for upgrades via deemed activities.

For the purposes of this RIS—and noting that the primary function of this analysis is to compare the chosen options, rather than re-model the entire costs and benefits of the VEU program—a simplified approach to estimating benefit was used. This involved assuming a differential in marginal VEEC prices between PBAs and other deemed activities that would be sufficient to offset the administrative costs and delays costs to PBA projects.⁵³ This is because, if average VEEC prices were not sufficiently lower from PBAs to offset these additional costs, the market would likely find alternative deemed activities, and there would be few if any PBAs completed. Note that this cost differential represents the minimum cost differential explainable by the aggregate data, and the actual cost differential may be larger (i.e. well below the market price of VEECs), with any additional benefits shared between project owners and Accredited Persons.

5.1.3 Risks

Some of the options represent a non-financial risk to the overall program objectives. Option 1 has been designed to best estimate the actual number of emissions reductions from each PBA using the parameters included in the Secretary's specification and with appropriate verification to confirm upgrades have occurred as planned and the estimates reflect as far as possible the actual use of energy at the premises.

The other options considered in this RIS provide a lower level of assurance than Option 1. By streamlining processes and approvals, Option 2 and Option 3 increase the risk that the methods used to estimate emissions reductions are not as accurate as the current arrangements, or that the claimed emissions reductions are not sufficiently verified as being additional to business as usual. As a result, the emissions reductions achieved under the program are lower than they otherwise would be.

This can be quantified, using the social cost of carbon as the value for each tonne of GHG not actually reduced because of the weaker assurances under some of the options. However, the volume of GHG emissions not actually reduced is difficult to estimate for these options. Therefore, these are not taken as an explicit quantified cost of each option but noted as a risk in the overall

⁵¹ <https://www.industry.gov.au/publications/industry-sector-plan/pathway-2050>

⁵² <https://www.climatechangeauthority.gov.au/sector-pathways-review>

⁵³ This approach does not assume that PBA projects and deemed activities are direct substitutes. PBAs are intended to facilitate larger or more complex projects that cannot readily be undertaken through the deemed activity framework. Accordingly, the modelling does not compare the administrative costs of PBAs with those of deemed activities. Instead, it assumes that the marginal value of VEECs generated through PBAs must be sufficient to offset the additional administrative and delay costs associated with the PBA pathway for these projects to proceed.

assessment (i.e., the risks reflect a potential risk to the program, not a prediction of actual over-estimation of emissions reductions).

5.1.4 Overall impact

Table 3 shows the estimated annual costs, benefits and risks for each option. The estimates are intended as an indicative comparison of the three options. They are not a forecast of future PBA activity or VEEC market outcomes. All estimates are annual and expressed in 2026-27 dollars. The modelling applies a common set of assumptions about the number and composition of PBAs, the number of VEECs created, documentation costs, approval delays and ESC administration costs. Appendix A discusses the modelling assumptions in more detail.

Table 3: Annual estimated benefits, costs and risks of options considered in this RIS

		Option 1	Option 2	Option 3
Benefits	Total lower costs of VEEC creation because of PBAs	\$2,975,000	\$2,848,860	\$2,848,860
Costs	Administrative costs to projects to comply with requirements to prepare scoping plan, project plan, impact report	\$1,092,000	\$764,400	\$808,500
	Costs of delay to projects due to waiting for ESC approvals at each stage	\$260,692	\$350,880	\$174,930
	Incremental costs to ESC attributable to PBAs	\$500,000	\$700,000	\$500,000
	<i>Total costs</i>	<i>\$1,852,692</i>	<i>\$1,815,280</i>	<i>\$1,483,430</i>
Net benefit		\$1,122,308	\$1,033,580	\$1,365,430
<i>Risks</i>	<i>Risk that VEECs do not reflect actual GHG reductions</i>	-	\$2,081,520	\$2,081,520

Option 1 is the preferred option because it delivers a satisfactory overall net benefit, while maintaining existing safeguards for measuring and verifying emissions reductions.

Lower regulatory costs under Options 2 and 3 are assumed to make some additional projects financially viable. Accordingly, the number of PBAs increases from 140 a year under Option 1 to 147 a year under Options 2 and 3. Because the additional projects are expected to be more marginal and generally smaller, average VEEC creation decreases from 2,500 VEECs per project under Option 1 to 2,400 under Options 2 and 3.

The principal benefit quantified is the reduction in the cost of creating VEECs that results from retaining PBAs as an eligible activity. As noted, PBAs expand the range of emissions reduction opportunities available under the VEU program and allow larger or bespoke projects to proceed where they can create VEECs at a lower marginal cost than the next most cost-effective deemed activity.

The analysis does not attempt to forecast the future VEEC market price. Instead, it adopts a steady-state reference value of \$85 per VEEC and applies an assumed marginal cost differential

between VEECs created through PBAs and those created through alternative deemed activities. The resulting estimate represents the resource saving from generating part of the VEU target through lower-cost PBAs.

A differential of 10 per cent is applied under Option 1. A differential of 9.5 per cent is applied under Options 2 and 3, reflecting the assumption that lower regulatory costs would enable some additional, more marginal projects to participate. The 9.5 per cent differential is applied to the expanded portfolio of PBA projects as a simplifying portfolio-average assumption.

Option 1 produces the highest quantified benefit because the assumed 10 per cent cost differential more than offsets the slightly lower number of VEECs created. Options 2 and 3 generate a slightly larger number of VEECs, but these are valued using the lower portfolio-average differential of 9.5 per cent.

The estimates represent the expected lower resource cost of VEEC creation and should not be interpreted as additional revenue received by project proponents or as a forecast reduction in the observable market price of VEECs.

Administrative costs are the costs incurred by project proponents and Accredited Persons in preparing the information and reports required under each option. They include internal staff time and payments to external advisers, Accredited Persons, Measurement and Verification Professionals and benchmark administrators.

The modelling applies an average cost to each required document. Actual costs will vary depending on the size and complexity of individual projects. Project plans are required only for measurement and verification projects, which are assumed to account for 60 per cent of all PBAs. Scoping approvals and project impact reports are required for all projects under Options 1 and 2.

Under Option 1, the costs are based on the existing regulatory requirements and information obtained through previous industry consultation. The average cost per project is \$7,800, calculated as \$1,000 for the scoping approval, plus \$1,800 for project plans (60 per cent x \$3,000), plus \$5,000 for the project impact report.

Under Option 2, the existing approval stages are retained, but project plans and impact reports are assumed to cost less because projects may draw on established IPMVP methodologies, resources and expertise. The average cost per project is \$5,200, calculated as \$1,000 for the scoping approval, plus \$1,200 for project plans (60 per cent x \$2,000), plus \$3,000 for the project impact report.

Under Option 3, scoping approvals and project plans are removed. However, the project impact report must contain the information required to demonstrate the nature of the upgrade, the methodology applied and the resulting emissions reductions. The average cost per project is therefore assumed to be \$5,500.

Option 2 has the lowest estimated administrative cost because it retains the existing approval stages but reduces the cost of preparing project plans and impact reports. Option 3 removes two approval documents, but some of the information that would otherwise have been provided earlier must be incorporated into the final impact report.

Delay costs represent the opportunity cost associated with the time projects spend awaiting ESC approval before they can proceed to the next stage or obtain the financial benefit of creating VEECs.

The modelling does not value delays by reference to the full capital cost of the underlying energy-efficiency investment. This is because some period between planning and implementing an upgrade would occur even without the PBA requirements. Instead, the estimate is based on the deferred value of the VEECs generated by the project.

The modelling assumes cumulative approval delays of three months under Option 1, four months under Option 2 and two months under Option 3. Option 2 has the longest assumed delay because the ESC would need to assess bespoke methodologies rather than methodologies specified by the Secretary. Option 3 has the shortest delay because scoping approvals and project plans would no longer be required.

A 7 per cent annual opportunity cost is applied to the value of VEECs. The calculation applies one-half of the assumed cumulative delay. This is consistent with treating the delay as occurring progressively across the portfolio, rather than assuming the full value of every VEEC is deferred for the entire cumulative period.

5.1.5 Risk analysis

While Option 3 delivers the highest quantified net benefit, it also carries a greater risk that VEECs may not accurately reflect the emissions reductions achieved. The current arrangements are not expected to eliminate all estimation error; however, they include measurement and verification requirements and parameters intended to minimise estimation errors across the portfolio of PBA projects. The risk identified for Option 3 therefore represents the incremental increase in integrity risk arising from relaxing these requirements, rather than suggesting that the current framework is free from estimation error.

Taking these risks into account, Option 1 is the preferred option because it delivers a satisfactory overall net benefit, while maintaining existing safeguards for measuring and verifying emissions reductions.

5.1.6 Sensitivity analysis

Sensitivity analysis was undertaken to test the effect of lower future PBA activity on the quantified results. The core analysis assumes approximately 350,000 VEECs are created annually through PBAs. As the future level of PBA activity is uncertain, a lower-activity sensitivity centred on 250,000 PBA VEECs per year was tested. The sensitivity holds average VEECs per project constant and scales project numbers proportionately, resulting in 100 PBAs and 250,000 VEECs per year under Option 1 and 105 PBAs and 252,000 VEECs per year under Options 2 and 3. All other modelling assumptions are held constant. Appendix B contains the assumptions and calculations.

Under this sensitivity, all three options continue to produce a positive quantified net benefit. Option 1 produces an estimated annual net benefit of approximately \$0.66 million, compared with approximately \$0.54 million for Option 2 and \$0.83 million for Option 3. The results demonstrate that the quantified benefits of retaining PBAs remain positive even if annual PBA activity is materially lower than assumed in the core case.

While Option 3 has the highest quantified net benefit, its advantage over Option 1 is approximately \$0.17 million per year. This difference must be considered alongside the greater integrity risk created by reducing the measurement, verification and approval safeguards that apply to PBAs. The integrity of VEEC creation is fundamental to achieving the objectives of the VEU program. If VEECs are created for emissions reductions that are overstated or not genuinely additional, the program incurs costs without achieving the corresponding greenhouse gas reductions.

Applying the indicative 5 per cent integrity-risk scenario used in the RIS to the lower-activity sensitivity produces potential risk exposure of approximately \$1.49 million per year for Options 2 and 3. This is not a prediction that 5 per cent of emissions reductions would be non-genuine and is not deducted from the quantified net benefit. It nevertheless illustrates the potential scale of the consequence if weaker assurance arrangements result in VEECs being created without equivalent genuine emissions reductions.

Option 1 therefore remains the preferred option. It continues to provide a material positive net benefit under the lower-activity sensitivity while preserving the existing measurement, verification and approval safeguards. The relatively modest additional quantified benefit under Option 3 is not sufficient to justify the increased integrity risk associated with weaker assurance arrangements. Option 1 consequently provides the best overall balance between regulatory efficiency and confidence in the integrity of emissions reductions credited under the VEU program.

5.1.7 Other impacts

Option 1 (and all other options) also ensures that larger-scale energy efficiency upgrades at business premises can access the VEU program, which would address the problem of these businesses being financially disadvantaged compared to smaller businesses and households in the absence of PBAs. Enabling PBAs therefore improves equitable access to the program.

The proposed Regulations are unlikely to result in any restrictions on competition (see Appendix C). As PBAs are intended to be used for larger-scale upgrades, they are generally not used by small businesses, and therefore the regulatory burden imposed by the proposed Regulations would not have a disproportionate impact on small businesses.

While many Accredited Persons participating in the VEU program are small businesses, the proposed requirements primarily relate to the administration of projects undertaken on behalf of participating businesses. APs are responsible for preparing and submitting the required documentation as part of the normal delivery of VEU activities.

Any additional administrative effort is expected to be reflected in the commercial fees charged by APs for delivering these services, rather than imposing a direct regulatory burden on APs themselves. As a result, the proposal is not expected to materially affect the viability or competitiveness of small business APs, and any incremental costs are expected to be modest and proportionate to the policy objective of maintaining the integrity and effective operation of the VEU program.

6 Implementation and evaluation of the Regulations

6.1 Implementation

An implementation plan is not required for the proposed Regulations, as they continue the current arrangements.

To provide certainty for PBAs that are already underway or in the early stages of planning, the proposed Regulations should be made well before the expiry of the current Regulations. It is intended that the proposed Regulations commence on 1 January 2027 or otherwise before the current Regulations sunset on 14 June 2027. This will provide clarity on VEEC creation and associated requirements. Once the proposed Regulations are formally made, the ESC will communicate relevant information through its website and targeted stakeholder engagement.

The ESC will continue to regulate the VEU program and engage with industry to ensure ongoing compliance.

6.2 Evaluation

The ESC will continue to administer and regulate the VEU program and work with industry to support ongoing compliance. The Department and the ESC will also monitor the operation of PBAs and address any emerging issues as part of the continuous improvement of the program.

The proposed Regulations will sunset 10 years after they commence (that is, 2037). They will be reviewed as part of the remaking process before that date.

6.3 Effects of reforms

The Energy and Resources Legislation Amendment (VEET Strategic Review and Other Matters) Bill 2026 was passed by the Parliament on 28 August 2026. The Bill will make amendments to the *Victorian Energy Efficiency Target Act 2007*.

The effect of the commencement of these amendments on the proposed Regulations is limited to:

- *Name change*: The amendments will change the name of the Primary Act to the *Victorian Energy Upgrade Target Act 2007* (that is, the word ‘efficiency’ will be substituted with ‘upgrade’). The name of the Proposed Regulations will need to be aligned with the Primary Act (that is, they will become the Victorian Energy Upgrade Target (Project-Based Activities) Regulations 2026).
- *Statutory review cycle*: The amendments will establish a 5-yearly cycle of reviews of the Act, with the first to occur on or before 1 October 2032. The proposed Regulations will be within the scope of the Review.

7 Appendix A: Modelling assumptions

Modelling parameters

The primary modelling input is the estimated annual greenhouse gas (GHG) emissions reductions achieved through project-based activities (PBAs), expressed in tonnes of carbon dioxide equivalent (CO₂-e). This parameter forms the basis of the cost-benefit analysis.

The estimate for Option 1 was informed by observed PBA activity and certificate creation in recent years (to 2025), projects that were underway or expected to proceed during 2026, and judgement regarding a representative long-term average over the ten-year assessment period.

On this basis, annual emissions reductions of approximately 350,000 tonnes CO₂-e were adopted for Option 1. Options 2 and 3 assume a modest increase in annual emissions reductions (352,800 tonnes CO₂-e) reflecting the expectation that streamlined administrative requirements would enable a small number of additional projects to proceed.

The number of PBAs shown in Table 4 is not an independently modelled forecast of project numbers. Rather, it is a derived value used to estimate project-level costs, such as administrative compliance costs and assessment costs. Total annual emissions reductions were converted into an equivalent number of representative projects by dividing total emissions reductions by an implied average project size. This approach allows project-based costs to be estimated consistently while maintaining the same overall level of emissions reductions assumed under each option.

Accordingly, the assumed number of projects and the average number of VEECs created per project should be interpreted as calculation parameters rather than forecasts of future project numbers or average project size. Alternative combinations of project numbers and project sizes that produce the same aggregate emissions reductions would result in essentially the same modelled outcomes.

The lower average number of VEECs per PBA under Options 2 and 3 is an outcome of the modelling rather than a separate modelling assumption. These options are expected to encourage participation by a small number of additional projects that are smaller than those currently undertaken.

Historical evidence indicates that projects generating approximately 500 VEECs or fewer have generally not proceeded as PBAs because the administrative costs associated with preparing and obtaining approval for a PBA have outweighed the expected benefits. By reducing these administrative costs, Options 2 and 3 are expected to make some smaller projects commercially viable. As a result, the additional projects incorporated within the modelling are assumed to have lower certificate creation than the existing project cohort, reducing the implied average project size while increasing total emissions reductions only modestly.

This is why Options 2 and 3 show seven additional projects per year but only a small increase in total emissions reductions. The reduction in the implied average project size is a consequence of the expected characteristics of the additional projects and should not be interpreted as a separate modelling assumption.

There is no ongoing trend assumption applied to the figures in the table below.

Table 4: Annual emissions reduction assumptions and derived calculation parameters

	Option 1	Option 2	Option 3
Number of PBAs (per year)	140	147	147

	Option 1	Option 2	Option 3
Average VEECs per PBA (per year)	2500	2400	2400
Total GHG reductions (tonnes CO2-e) (per year)	350,000	352,800	352,800

Under all options, it is assumed that 60 per cent of PBAs are MV projects, 5 per cent are advanced MV projects, 20 per cent are SMM projects and 15 per cent are BR projects.

Benefits

Modelling of benefits involved assuming a differential in marginal VEEC prices between PBAs and other deemed activities that would be sufficient to offset the administrative costs and delays costs to PBA projects. This is because, if VEEC average prices were not sufficiently lower from PBAs to offset these additional costs, the market would find alternative deemed activities, and there would be few if any PBAs completed. Note that this cost differential represents the minimum cost differential explainable by the aggregate data, and the actual cost differential may be larger (i.e., well below the market price of VEECs), with any additional benefits shared between project owners and Accredited Persons.

The estimated cost differential is expressed by reference to the assumed VEEC market price (\$85)⁵⁴ to provide a consistent basis for valuing the relative cost of VEEC creation across the options. However, the 10 per cent differential under Option 1 and 9.5 per cent differential under Options 2 and 3 are not intended to represent, or predict, an equivalent movement in the VEEC market price. Rather, they represent the assumed minimum cost advantage of creating VEECs through PBAs relative to deemed activities, after accounting for the additional administrative and delay costs associated with the PBA pathway.

A steady-state VEEC price (in 2026–27 dollars) of \$85 was adopted as the reference value for estimating the benefits of additional VEEC creation. The assumed price is not intended to forecast future market prices but provides a common valuation basis across all options. The analysis assumes that PBAs will only proceed where they provide a lower marginal cost of VEEC creation than the next most cost-effective deemed activity, after accounting for the additional administrative and delay costs associated with the PBA pathway.

For Option 1, a 10 per cent marginal cost differential between PBAs and deemed activities was assumed. For Options 2 and 3, a slightly smaller differential of 9.5 per cent was adopted, reflecting the expectation that lower compliance costs would enable more marginal projects to participate in the PBA program. The differential is therefore not an assumed change in the spot market price of VEECs, but rather a modelling assumption about the relative cost-effectiveness of PBAs compared with alternative means of generating VEECs.

Costs

The compliance costs under each option are based on the following assumptions.

	Option 1	Option 2	Option 3
Cost of preparing scoping approval	\$1,000	\$1,000	N/A
Cost of preparing project plan (if required)	\$3,000	\$2,000	N/A

⁵⁴ This is a 'derived from the spot price' because technically the percentage differential is an assumption applied to the market-price valuation basis, rather than something empirically calculated from movements in the spot price.

	Option 1	Option 2	Option 3
Cost of preparing project impact report (including independent expert report if required)	\$5,000	\$3,000	\$5,500

These are averages across all PBAs, noting that the scale and complexity of some projects may mean costs are significantly higher or lower in individual cases. The costs for option 1 are informed by previous consultation with industry. They are based on typical staff time needed to prepare the relevant documents, and/or costs of engagement of a third party to prepare them. Costs under option 2 are assumed lower where existing IPMVP resources and expertise is used to estimate emissions reductions. For option 3, noting that a scoping approval and project plan would not be required, there is likely to be additional work required to include complete details of the upgrade in the final impact report.

Delay costs are the opportunity costs to projects that result from having to wait for ESC approval at each stage before proceeding with their upgrade or ability to create VEECs. This is calculated by the forgone return on investment for the period of delay. Usually delay costs would relate to the value of the capital investment (i.e., the delay in being able to make a return on the investment), however, for the purposes of this RIS, the delay relates to the additional time a project must wait before gaining the financial benefit of the value of the VEECs created from their upgrade. In the absence of the VEU program, a business premises would still undergo some period between planning an equipment upgrade and the use of the upgrade; these are not delays caused by the VEU approval requirements.

The delays due to the required approval steps under the PBA requirements is modelled as follows: For option 1, 3 months cumulated additional delay; for option 2, 4 months; for option 3, 2 months. The assumed forgone return on investment is taken as 7 per cent (average long-term market rate of return). With respect to option 2, this allows bespoke methodologies (as opposed to standard methodologies in option 1) and ESC has advised that it would take more time to review this information. Option 3 has fewer items to submit and consequently incurs less delay time.

Risks

As noted in Chapter 5, the level of indicative risk was quantified using the social cost of carbon as the value for each tonne of GHG not actually reduced because of the weaker assurances under some of the options. As noted earlier, the risk identified for Options 2 and 3 represents the incremental increase in integrity risk arising from relaxing these requirements, rather than suggesting that the current framework is free from estimation error.

The social cost of carbon was taken as \$118 per tonne CO₂-e.⁵⁵

For options 2 and 3, the risk was modelled based on 5 per cent of claimed emissions reductions under PBAs not being genuine reductions expected under the program. The 5 per cent assumption was selected as a conservative illustrative scenario rather than an empirical estimate. It represents a relatively small, but material, reduction in the integrity of claimed emissions reductions and provides a reasonable basis for testing the potential consequences of

⁵⁵ Department of Energy, Environment and Climate Action, *Building Electrification Regulatory Impact Statement* (2025), Appendix C, Table C.1. The social cost of carbon value is derived from the Intergovernmental Panel on Climate Change, *Climate Change 2022: Mitigation of Climate Change* (Sixth Assessment Report), converted to Australian dollars by DEECA.

reducing the measurement, verification and approval safeguards that apply under the current arrangements.

At this level, the modelling assumes that most claimed reductions remain genuine, while still assigning a meaningful value to the additional integrity risk created by the less stringent assurance arrangements. The assumption should not be interpreted as a prediction that 5 per cent of emissions reductions would in fact be non-genuine. Its purpose is to provide an indicative measure of the potential risk exposure so that this risk can be considered alongside the quantified costs and benefits of the options.

Appendix B: Sensitivity analysis – lower annual PBA VEEC creation (250,000 VEECs)

Given the uncertainty about the future level of PBA activity and the number of VEECs that may be generated through PBAs, a sensitivity analysis has been undertaken to test the robustness of the cost-benefit analysis to a materially lower level of PBA participation. The sensitivity assumes annual PBA VEEC creation of 250,000 VEECs under Option 1, compared with 350,000 VEECs in the core modelling, while retaining the existing assumptions about average VEEC creation per project and the relative level of activity under each option. All other key modelling parameters are held constant. This provides an indication of how the quantified costs and benefits, and the overall assessment of the options, would be affected if future PBA activity is lower than assumed in the central case.

The current modelling assumes 140 PBAs per year under Option 1 at 2,500 VEECs per PBA (350,000 VEECs), and 147 PBAs per year under Options 2 and 3 at 2,400 VEECs per PBA (352,800 VEECs).

Annual PBA VEEC creation under Option 1 is reduced to 250,000 VEECs. This is exactly five-sevenths of the core Option 1 volume, so project numbers are scaled by the same proportion while average VEECs per project are held constant. This gives 100 PBAs under Option 1 and 105 PBAs under Options 2 and 3, with 252,000 VEECs generated under Options 2 and 3. This preserves the existing modelling relationship between the options rather than introducing a new assumption about project size or relative uptake.

The \$85 VEEC reference value; the 10 per cent cost differential for Option 1 and 9.5 per cent differential for Options 2 and 3; per-project administrative costs; approval-delay assumptions; the 7 per cent opportunity cost; and the ESC resource estimates are unchanged. The indicative integrity-risk scenario for Options 2 and 3 is scaled to the lower volume of claimed emissions reductions.

Core and 250,000-VEEC sensitivity activity assumptions

Metric	Opt. 1 core	Opt. 1 sensitivity	Opt. 2 core	Opt. 2 sensitivity	Opt. 3 core	Opt. 3 sensitivity
PBAs per year	140	100	147	105	147	105
Average VEECs per PBA	2,500	2,500	2,400	2,400	2,400	2,400
Total VEECs per year	350,000	250,000	352,800	252,000	352,800	252,000

* The sensitivity reduces PBA VEEC creation by about 29 per cent relative to the core case while preserving the existing relative activity assumptions between the options.

Sensitivity results

Annual quantified impacts under the 250,000-VEEC sensitivity

Annual impact	Option 1	Option 2	Option 3
Lower cost of VEEC creation	\$2,125,000	\$2,034,900	\$2,034,900
Administrative costs to projects	\$780,000	\$546,000	\$577,500
Delay costs	\$185,938	\$249,900	\$124,950
Incremental ESC costs	\$500,000	\$700,000	\$500,000
Total quantified costs	\$1,465,938	\$1,495,900	\$1,202,450
Quantified net benefit	\$659,063	\$539,000	\$832,450
Indicative integrity risk*	-	\$1,486,800	\$1,486,800

* For Options 2 and 3, the risk scenario applies the existing assumption that 5 per cent of claimed emissions reductions are not genuine and values those tonnes at \$118 per tonne CO₂-e. It remains an indicative risk scenario, not an expected cost and is not deducted from the quantified net benefit.

Effect on quantified net benefits

	Option 1	Option 2	Option 3
Core quantified net benefit	\$1,122,308	\$1,033,580	\$1,365,430
250,000-VEEC sensitivity net benefit	\$659,063	\$539,000	\$832,450
Reduction from core case	41%	48%	39%

Interpretation and preferred option

The sensitivity confirms that retaining PBAs continues to generate a positive quantified net benefit even if annual PBA VEEC creation is around 29 per cent lower than in the core case. The estimated annual net benefit is approximately \$0.66 million for Option 1, \$0.54 million for Option 2 and \$0.83 million for Option 3. The ranking of the quantified financial results is therefore unchanged.

However, the quantified net benefit is not the sole basis for selecting the preferred option. Option 3 achieves its higher quantified result by removing regulatory safeguards, including scoping approval and project-plan requirements, that provide assurance over how emissions reductions are estimated and verified. The resulting financial advantage over Option 1 is approximately \$0.17 million per year under this sensitivity.

That advantage is modest when considered against the potential consequence of weakening scheme integrity. Applying the existing indicative 5 per cent integrity-risk scenario to the lower-

activity case gives potential risk exposure of approximately \$1,486,800 per year for Options 2 and 3. This is about 8.6 times the quantified net-benefit advantage of Option 3 over Option 1. The risk figure is not a forecast and is not deducted from the CBA result. Rather, it demonstrates that even a relatively small deterioration in the accuracy or additionality of claimed emissions reductions could outweigh the additional quantified saving under Option 3.

Option 1 therefore remains the preferred option. It delivers a substantial positive net benefit under the lower-activity sensitivity while retaining the existing measurement, verification and approval safeguards that support confidence that VEECs correspond to genuine emissions reductions. The additional quantified saving under Option 3 is not considered sufficient to justify accepting the greater integrity risk created by materially weaker assurance arrangements.

Appendix C: Impacts on competition

The Intergovernmental Agreement on National Competition Policy 2024⁵⁶ requires that regulation should not restrict competition unless it can be demonstrated:

- the benefits of the restriction outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition.

A regulatory proposal is likely to restrict competition if any of the following are likely to occur:

- it affects the market structure of the regulated industry
- it creates barriers to firms entering or exiting the industry
- the impacts of the option affect some stakeholders significantly more than others
- it restricts the ability of businesses to choose the price, quality, range or location of their products
- there will be higher ongoing costs for new entrants compared to existing players
- it inhibits innovation or the development of new products or services.

The proposed Regulations are unlikely to result in any of these outcomes and therefore are considered to not have any restrictions on competition.

The proposed Regulations help support more efficient outcomes of the market-based incentive scheme requiring energy retailers to surrender VEECs equivalent to prescribed greenhouse gas abatement targets.

⁵⁶ See Intergovernmental Agreement on National Competition Policy, November 2024, <https://federation.gov.au/sites/default/files/about/agreements/intergovernmental-agreement-on-national-competition-policy-signed.pdf>

Appendix D: Consultation

Consultation with stakeholders on the operation of PBAs occurred in 2022. The consultation sought stakeholder feedback on opportunities to improve and streamline the PBA methods available under the VEU program to remove unnecessary barriers and encourage PBA uptake. Twenty-three (23) submissions were received from a range of stakeholders including VEU Accredited Persons, government, retailers, energy service companies, peak bodies, industry bodies and members of the public.

Stakeholders agreed that PBAs should exist as activities under the VEU program and accepted the need for controls to appropriately measure and verify emissions reductions from these activities.

The 2025 amendments to the current Regulations established unique activity types to allow the ESC to tailor project requirements based on the risk for each project and to support increased VEEC creation by streamlining administrative processes for PBAs. The changes responded to issues and barriers identified through public consultation undertaken in 2024-25 and received through feedback from industry and Accredited Persons involved in delivering PBA projects. The 2022 consultation on the PBA requirements also suggested:

- support from stakeholders for changes for PBAs to provide upfront incentives
- support for further reductions to administrative burden
- where possible, alignment of methodologies with International Performance Measurement and Verification Protocol (IPMVP) could provide for flexibility and consistency with MV projects.

Each of these points is considered in this RIS as part of the options analysis.

The release of this RIS with the proposed Regulations provides a further opportunity for stakeholders and other interested parties to comment on the proposed Regulations, including whether any unintended consequences are likely to occur, or if there are alternative ways to achieve the objectives that either reduce costs or increase benefits. All comments and submissions on the proposed Regulations will be considered before it is formally made. A Statement of Reasons will be published following the making of the Regulations, explaining how the comments and submissions have been addressed in the final version of the Regulations.