

Victorian Government Response to the

Parliamentary Inquiry into community energy projects



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Foreword



I am pleased to present the Victorian Government response to the Economic, Education, Jobs and Skills Committee's report on its Inquiry into community energy projects.

The terms of reference for the inquiry reflect the momentum of, and challenges experienced by, the community energy sector in Victoria.

The committee has made 10 recommendations for government and presented 13 findings in their inquiry into community energy projects report. The topics investigated as part of the inquiry are complex and the resultant report is commendable for its consideration of current issues faced by the sector.

The response addresses each recommendation made by the committee. The government supports all recommendations in full, part or principle.

The submissions to this inquiry show the enthusiasm, dedication and depth of knowledge held by communities around Victoria. Community energy continues to play an important role in the state's transition to renewable energy and in achieving Victoria's energy goals. Community energy projects can provide many benefits, some of which include: improving social cohesion; reducing energy costs; and strengthening local economies. The Victorian Government is committed to providing continued support for community renewable energy projects.

Victoria's energy sector is undergoing a significant transformation. The Victorian Government has set targets of 25 per cent renewable energy by 2020 and 40 per cent by 2025. The integration of new technologies into Victoria's energy system means that various projects being implemented around the state will contribute to this target. Engaging with community groups is recognised as central toward this realisation of and support for renewable energy development.

The government is working to recognise and reduce barriers faced by community energy groups when planning for and implementing renewable energy projects in both regional and metropolitan areas. The government aims to reduce these barriers while continuing to provide energy security and appropriate consumer protections for Victorians.

With renewable energy now being the lowest cost new electricity generation source, it is in the interest of the state to continue supporting communities to plan and implement renewable energy projects. Government will also continue to encourage community groups to incorporate energy efficiency measures into their projects. Several projects are already receiving the benefits that community energy can provide. For example, the tenants at the Black Forest Timber Mill in Woodend now enjoy a 30 kW solar PV system that provides energy at a reduced cost while generated income will be re-distributed to additional renewable energy projects in the community.

Victoria is demonstrating leadership and initiative in the community energy sector. With the backing of the Victorian government, the sector will continue to grow with the benefits experienced by communities across the state.

A handwritten signature in blue ink, appearing to read 'Lily D'Ambrosio', with a long, sweeping underline.

The Hon. Lily D'Ambrosio MP
Minister for Energy, Environment and Climate Change

Official

Introduction

The Parliamentary Inquiry into community energy projects was undertaken by the Economic, Education, Jobs and Skills Committee of the Victorian Parliament. It commenced on 23 June 2016 and the recommendation report was tabled by the committee on 19 September 2017.

The inquiry considered how best to support the role of communities in the Victorian energy economy via the terms of reference:

- a. Look at the potential role of co-operatives, mutuals, social enterprises and community ownership in the energy sector;
- b. Investigate the benefits of community owned energy programs;
- c. Investigate the best ways to encourage the update of community energy projects;
- d. Investigate the ability to expand community energy projects outside of solar and wind power;
- e. Review the best practice models of other Australian and international jurisdictions for supporting community ownership options in the energy sector;
- f. Investigate the challenges to community energy projects in metropolitan areas; and
- g. Investigate ways to support communities to surmount challenges to community owned energy in metropolitan areas.

The inquiry received 99 submissions and held 51 hearings. The Department of Environment, Land, Water and Planning (DELWP) wrote a whole of government submission and represented the government at a hearing in March 2017.

The committee made 10 recommendations and had 13 findings. This document sets out the government's response to the recommendations. The recommendations made by the committee are all supported (in full, part or principle).

The Victorian Government has a stated objective to support and promote community energy projects as a part of the approach to accelerate Victoria's renewable energy capacity and transition to a low carbon economy. The response to this inquiry details a number of the ways government is delivering on this objective.

Summary of recommendation responses

No.	Recommendation	Government Position
1	The Victorian Government support the recommendations of the Finkel review that aim to enhance system security and reduce consumers' electricity bills, while being mindful of the cost impact on renewable energy development.	Support in full
2	The Victorian Government include community engagement or part-ownership as one of the evaluation criteria for the VRET reverse auction scheme with a weighting of at least 20%.	Support in part
3	The Victorian Government work with the COAG Energy Council to support regulatory changes that make local energy trading viable while also protecting grid security and vulnerable consumers.	Support in part
4	The Victorian Government replace grant funding for community energy projects with a loan fund.	Support in part
5	Any financial support the Victorian Government gives to community energy groups has strict criteria to assess a project's financial viability and capacity to become self-funded.	Support in part
6	The Victorian Government continue funding and consider expanding Community Power Hubs to other Victorian regions if results from the pilot program show they are valuable to the development of the community energy sector.	Support in part
7	The Victorian Government support the development of platform solutions for community energy projects through financial mechanisms tied to the Victorian Renewable Energy Target.	Support in principle
8	The Victorian Government work with the COAG Energy Council to develop incentives for electricity distributors to make grid connection less costly for community energy projects.	Support in principle
9	The Victorian Government amend the Local Government Act 1989 to keep debt accumulated by councils for renewable energy installation using s163 off balance sheet.	Support in part
10	That the Victorian Government encourage community energy projects that are based on, or incorporate, energy efficiency measures using financial mechanisms tied to the Victorian Renewable Energy Target.	Support in principle

Victorian Government Response to the Inquiry into the community energy projects

Recommendation 1

The Victorian Government support the recommendations of the Finkel review that aim to enhance system security and reduce consumers' electricity bills, while being mindful of the cost impact on renewable energy development.

Response: Support in full

What has been done

In June 2017, the Victorian Government welcomed the final report for the Independent Review into the Future Security of the National Electricity Market (NEM) (the Finkel Review).

The report provided a national blueprint for the transition of the energy sector in a carbon constrained future, while ensuring affordability, reliability and security of supply is maintained.

It is critical that we have a grid, and energy market institutions that are fit for purpose.

At the Council of Australian Governments Energy Council (the Energy Council) meeting in July 2017, the Victorian Government supported in principle all of the Finkel Review's recommendations, noting Victoria's policies with respect to onshore gas exploration and development.

In August 2017, the COAG Energy Council established the Energy Security Board to oversee implementation of the blueprint.

The Energy Council's report to COAG outlined the following implementation plan for the Finkel Review, based on items identified as a priority for the security of the National Electricity Market, and longer-term reform items in light of the changing energy sector:

- 13 recommendations by the end of 2017
- 20 recommendations by mid-2018
- 16 recommendations within three years.

Disappointingly the Commonwealth Government has walked away from the recommendation to establish a Clean Energy Target.

Next Steps

The Victorian Government will continue to support implementation of the Finkel Review in its role as a member of the COAG Energy Council.

Recommendation 2

The Victorian Government include community engagement or part-ownership as one of the evaluation criteria for the VRET reverse auction scheme with a weighting of at least 20%.

Response: Support in part

What has been done

1. The Victorian Government is committed to strengthening community support for renewable energy projects. As part of the VRET auction the Government has released the *Community Engagement and Benefit Sharing in Renewable Energy Development – A Guide for Renewable Energy Developers*. This Guide is directed at renewable energy developers in Victoria. It sets out the government's expectations for VRET auction proponents, as well as assisting developers to best engage and share benefits with the communities that will host renewable energy projects.
2. For the 2017 VRET Auction, the government has established a two-step process that will help ensure a high level of community engagement is achieved for each project. To ensure that VRET funded projects deliver best-practice, community engagement is the only criteria that is both an eligibility and evaluation requirement:
 - a. To be eligible to participate in the auction, renewable energy project proponents must demonstrate an 'involve' level of community engagement in their submissions, as shown in the spectrum of approaches to community engagement presented in Table 1, Page 9 of the Guide. Proponents are also required to demonstrate how they will share the benefits of the project beyond hosts, including with neighbours and the surrounding community. The eligibility requirement is a minimum threshold that sends a clear signal to proponents that community engagement is a key consideration for the auction.
 - b. Projects that can demonstrate they have met the community engagement and benefit sharing eligibility requirements will then be evaluated as a key component of the evaluation criteria for the auction, with a weighting of 15 per cent. The weighting of 15 per cent specifically for community engagement is considered appropriate given the high threshold that needs to be first met in the eligibility assessment stage. Proponents that propose to deliver a higher level of community engagement and benefit sharing in line with the guide will be scored higher. For example, part-ownership is one approach that proponents can utilise to share the benefits of their project with the local community and improve community engagement outcomes above and beyond eligibility requirements.

Recommendation 3

The Victorian Government work with the COAG Energy Council to support regulatory changes that make local energy trading viable while also protecting grid security and vulnerable consumers.

Response: Support in part

What has been done

As noted in this inquiry, while there are no legislative barriers to implementing local energy trading, it is not financially viable at present. Proponents of local energy trading have argued that regulatory changes to reflect their partial use of the electricity network in network pricing would help local energy trading become more financially viable.

The Victorian Government supports the intent of recommendation 3 to reward community energy projects, including local energy trading, for any benefits they may provide to the electricity grid, such as reduced network costs or improved system security. The government believes, however, that pursuing regulatory changes to network pricing is not necessarily the most effective or equitable way to achieve this intention.

The Essential Services Commission (ESC)'s *The Network Value of Distributed Generation: Distributed Generation Inquiry Stage 2 Final Report* was released in March 2017. The ESC found that using market mechanisms is likely to be more effective and efficient than regulatory changes to remunerate owners of distributed generation (including local energy trading projects) for their network benefits.

This is because the network impact of distributed generation is highly variable depending on its location, time of feed-in, system capacity and technology. This variability would make a mandatory scheme too complex and costly to implement, or else overpay some consumers who are not providing network benefits while undervaluing the benefits provided by others.

Noting this, the government will explore further options to ensure that local energy trading projects deliver the best results. For example, in 2017, the government supported the ground-breaking Decentralised Energy Exchange (deX), led by Victorian energy start up GreenSync, which developed online technologies to allow electricity network businesses to remunerate owners of distributed energy resources for their network benefits through a market-based approach.

Next Steps

The government will continue to work with industry and stakeholders to help progress the development of market-based solutions in Victoria as part of its demand management policy. This includes supporting a trial of the deX in the Mornington Peninsula, and supporting the City of Darebin and the Northern Alliance for Greenhouse Action (NAGA) to explore the cost-effectiveness of using local energy trading for local government facilities.

The government welcomes the Australian Energy Regulator (AER)'s new Demand Management Incentive Scheme, which will provide financial incentives to electricity network businesses to purchase network services from a range of providers, including local energy trading projects. The government is also working with the COAG Energy Council to assess alternative models for electricity network incentives and revenue-setting, as recommended by the Finkel review.

Recommendation 4

The Victorian Government replace grant funding for community energy projects with a loan fund.

Response: Support in part

What has been done

The Victorian Government's financial support for community energy projects has primarily been in grant form, as grants directly ameliorate the difficulty community energy groups face in securing funding for their projects. Grant programs such as the New Energy Jobs Fund (NEJF) have proven benefits including that: a) unlike loans, they can reduce payback periods, providing seed funding and greater financial certainty to private investors; b) they can demonstrate new technologies or financial models that have yet to be proven in a local context, providing case studies for other groups; and c) government is well-equipped to manage grant programs.

The government is also delivering a small number of loan programs relevant to renewable energy. For example, Greener Government Buildings improves energy efficiency of existing government buildings to lower costs and reduce greenhouse gas emissions. Social Impact Investment for Sustainability supports social enterprises to create new jobs and training opportunities, respond to climate change and improve resource efficiency through a combination of grants and low-interest loans. In addition, other state governments run loan schemes to support renewable energy, such as Queensland's Biofutures Fund.

There can be benefits and challenges associated with loans. Loan dollars can support multiple projects and can return invested funds to government. Revolving fund loans and loans plus grants programs can have strong benefit-cost ratios as they are replenished. Providing loans can help build capability in the sector to develop business cases that have clear payback timelines. For proven technology like rooftop solar PV, and for many energy efficiency upgrades, there is now an expected return on investment within five years which makes them well suited to loaned funding. The business case can be strong enough without government support, however government could have a role to play to loan smaller amounts at low interest, as well as long-term loans (e.g. 10 years).

Private sources of funding for pre-implementation project phases and/or for innovative energy solutions have proven difficult for community energy groups to secure from traditional sources such as crowd funding or bank loans. It is unlikely that a community group could repay a loan for a feasibility study or business case, given the impossibility of immediate profit from project implementation. The Victorian Government is exploring other finance structures which will facilitate private investment into community owned projects and which target project development funding.

Loan models can also present challenges to innovative but financially marginal projects, and can be restricted by community groups' limited ability to take on debt. Loans are often more complex than grants for government to administer unless a third-party fund manager is used, and often lack economies of scale to make that administration financially feasible. Community energy groups are required to establish more professional and complex business governance arrangements to secure loans, and often lack any assets for use as collateral (although collateral is not always required).

Next Steps

While many New Energy Jobs Fund and other flagship grant projects are still underway, there are currently no open Victorian Government community energy finance programs. The government will continue to support community energy, including delivering grants for innovative and pre-implementation projects (for example through the NEJF). The options to encourage or incentivise community energy projects using a revolving fund or grant plus loan model are being considered, given their potential to deliver strong outcomes.

Recommendation 5

Any financial support the Victorian Government gives to community energy groups has strict criteria to assess a project's financial viability and capacity to become self-funded.

Response: Support in part

What has been done

The Victorian Government provides financial support to community energy groups to fund feasibility studies, business cases and project implementation. This is primarily facilitated through the \$20 million New Energy Jobs Fund (NEJF).

NEJF is a competitive grant program in which applications from eligible organisations are assessed against weighted criteria. Projects are rated highly where they can demonstrate a clear pathway to long-term financial and operational success. These criteria consider financial viability and project sustainability. Applications for funding are required to submit evidence including:

- At least three years' operating history and financial reports from the lead organisation;
- An assessment of the key risks and challenges for the project;
- Appropriateness of the proposed budget, the amount of funding sought from government and its leverage compared to other sources of project funding;
- The use of commercially-ready technology;
- Demonstrated awareness of all the key tasks required to deliver the project and that the proposed project timeline is realistic and achievable; and
- A minimum of 10 per cent cash co-contribution for project implementation.

This also includes proven project team expertise and evidence of strong partnerships with, and/or support from, relevant organisations such as council, network service providers or local businesses.

Several flagship demonstration projects outside of NEJF have also been supported financially. The merits of these projects are weighed on a case-by-case basis, and due consideration is given to their long-term operational sustainability and the lead organisation's capability to successfully manage the projects for a community's financial benefit into the future. This includes the pilot Community Power Hub initiative, the host organisations for which were assessed on their financial viability and ability to transform the hubs into sustainable, self-funded entities after two years' government support.

Sustainability Victoria also delivers a range of relevant funding support initiatives. For example, the Social Impact for Sustainability fund, which supports investment-ready social enterprises to respond to climate change and recover waste. This is a merit-based loan program in which applicants are assessed on their written submission and on a comprehensive financial assessment of their ability to repay the loan.

Next Steps

The Victorian Government will continue to use robust evaluation criteria to assess applications for project funding. The Commercial Energy Programs and Projects Division will continue to include strict criteria pertaining to a project's financial viability and capacity to become self-funded in any future community energy support programs.

Recommendation 6

The Victorian Government continue funding and consider expanding Community Power Hubs to other Victorian regions if results from the pilot program show they are valuable to the development of the community energy sector.

Response: Support in part

What has been done

The pilot Community Power Hub host organisations were announced in July 2017 and the hubs are now operating in Bendigo, Ballarat and the Latrobe Valley. Each hub is made up of a roundtable of organisations including local governments, not-for-profit organisations, businesses, community groups, individuals and Victorian Government agencies that collaborate to investigate and facilitate the development of viable community energy projects in their area. The purpose of these hubs is to support Victorian communities to access the skills and expertise required to develop and deliver community-based renewable energy projects, characterised by local ownership, participation and benefit sharing. This is a pilot initiative to test and provide empirical evidence for the concept.

In funding these pilots, the government is responding to calls from the sector, acknowledging that despite the strong interest in community energy in Victoria, few groups possess the skills, expertise and finances to complete feasibility studies and business cases on their own. As these steps are a prerequisite to attract investment for full implementation, many good projects stall at the preliminary stages. This initiative has been developed in consultation with the community energy sector and supports Victoria's regional communities to access and build resources and knowledge, such as:

- governance, legal, financial and technical advice;
- project coordination services;
- capacity building and troubleshooting services; and
- networking (peer to peer) and on-line support.

Sustainability Victoria is actively managing this initiative, providing on-ground support to the pilot hubs from their regional offices. A robust monitoring and evaluation plan is in place to ensure continuous improvement processes and to accurately measure the success of, and record the lessons learnt from, the pilot Community Power Hubs initiative.

Next Steps

The Victorian Government intends to continue funding the pilot Community Power Hubs for the program's full two-year duration (until mid-2019). The results of the monitoring and evaluation plan will help inform the government's decision about whether this program will be continued past two years and/or rolled out more widely across the state.

Recommendation 7

The Victorian Government support the development of platform solutions for community energy projects through financial mechanisms tied to the Victorian Renewable Energy Target.

Response: Support in principle

What has been done

The Victorian Government is committed to supporting community energy projects, and recognises the benefits that platform solutions can have in helping community energy groups create economies of scale and replicate their projects. The government also recognises that the sector is already providing significant platform solutions independently. These include the continuing rollout of ClearSky's community-owned rooftop solar projects, More Australian Solar Homes (MASH) and other energy bulk buy initiatives, the Beyond Zero Emissions blueprint for communities' rapid transition towards zero emission targets, Frontier Impact Group's toolkits and others.

To support this trajectory, the government's New Energy Jobs Fund (NEJF) is structured to support projects that are replicable and scalable, contribute to the state-wide development of community energy expertise and provide successful case studies for others. In particular, NEJF has provided grant funding to a number of projects that are creating platform solutions, including the Community Housing Industry Association (Victoria)'s Energising the Community Housing Sector (designed to unlock investment in new energy for community housing), and Moreland Energy Foundation Ltd.'s Solar Capacity Building and Implementation Toolkit (developing standard templates and tools for the community solar sector).

The government is more directly supporting platform solutions through the pilot Community Power Hubs recently established in regional Victoria. The hubs are funded for two years and operate in Bendigo, Ballarat and the Latrobe Valley. The community-owned and operated hubs support the localised development of skills and expertise required to develop and deliver community-based renewable energy projects, characterised by local ownership, participation and benefit sharing.

The government does not consider the Victorian Renewable Energy Targets (VRET) the appropriate financial mechanism for supporting the development of platform solutions for community energy projects. Financial mechanisms linked to the VRET are committed to supporting investment in large-scale renewable energy developments and the legislative requirements of the Renewable Energy (Jobs and Investment) Act 2017 (Vic). Furthermore, community energy projects that meet the reverse auction scheme's criteria are already eligible to participate, including as an aggregation of smaller projects.

Alternative financial mechanisms, such as the New Energy Jobs Fund, are considered more suitable for advancing specific community energy objectives, including supporting platform solutions.

Recommendation 8

The Victorian Government work with the COAG Energy Council to develop incentives for electricity distributors to make grid connection less costly for community energy projects.

Response: Support in principle

What has been done

The Victorian Government supports a network connection process that is transparent, timely and reflects the efficient costs of connecting a generator. The Victorian Government, however, does not regulate connection costs. The generator connection process is regulated under Chapter 5 of the National Electricity Rules and is administered by the independent regulator, the Australian Energy Regulator (AER). These rules establish a clear step-by-step process and timeline for generator proponents and distributors around generator connection applications and require connection charges to be negotiated in good faith.

The government notes that the Chapter 5 connection regime was reformed in 2015 with the intention of addressing many of the issues highlighted by community energy proponents during this inquiry. More recently, a rule change was implemented that requires distributors to publish a network system limitation report as part of their Annual Planning Reports. Reporting on these system limitations provides prospective community energy projects with information on potential network constraints, indicating where it would be most efficient to connect generation.

Next Steps

The Victorian Government agrees that the technical complexities of the connection process make it challenging for community energy projects to engage with this process. The Government believes, however, that the COAG Energy Council is not the appropriate forum through which to address this issue as this forum is targeted towards addressing high level, strategic energy market issues.

Given the government does not regulate the costs of connection, its focus is on improving the systems and processes that influence the costs and ease of connection. For example, the government is aware that there are significant differences between the Victorian distributors in the clarity and accessibility of the information provided to generator proponents around connection costs. The government has worked with one of the distributors to improve the way in which this information is provided to generator proponents. This distributor's website now provides the estimated costs for the connection assets that may be required to connect an embedded generator to the grid and an interactive map indicating connection capacity in its network. The Government will continue this work with all distributors to help improve the process for community energy projects.

Recommendation 9

The Victorian Government amend the Local Government Act 1989 to keep debt accumulated by councils for renewable energy installation using s163 off balance sheet.

Response: Support in part

What has been done

The Local Government Act 1989 already includes a process whereby councils can facilitate private lending for environmental upgrades by securing the repayment of private debts under municipal charges. These are referred to as “Environmental Upgrade Agreements” (EUAs). At present, EUAs are limited to non-residential land. EUAs can be used to help businesses access funding for building works to improve energy efficiency, reduce waste and cut water use.

New legislation proposed to be included in the Local Government Bill 2018 will extend the application of EUAs to residential land. If passed, the new legislation will enable councils to facilitate environmental upgrades at residential properties, including the installation of solar power systems, without the council incurring a debt on its balance sheet. This is anticipated to achieve Recommendation 9’s objective by enabling the EUA model to be applied to a wider variety of building types but without the need to utilise the special charges provisions of s163.

Funding for upgrades would be able to be provided by private lenders to home owners. The debts would be recovered by the council by levying an environmental upgrade charge on the land and repaying the private lender as and when the charge is paid by the land owner.

Next Steps

The exposure draft of the Local Government Bill 2018 was open for public comment between 12 December 2017 and 16 March 2018. Comments received during this period will be considered when developing the final draft of the bill.

Recommendation 10

That the Victorian Government encourage community energy projects that are based on, or incorporate, energy efficiency measures using financial mechanisms tied to the Victorian Renewable Energy Target.

Response: Support in principle

What has been done

The Victorian Government recognises there is potential for community energy projects to benefit from the incorporation of energy efficiency measures. To this end the government supports the inclusion of energy efficiency in community energy projects but does not consider the Victorian Renewable Energy Target (VRET) an appropriate mechanism to deliver this. Other mechanisms, such as the Victorian Energy Upgrades program, that have been designed to encourage energy efficiency uptake across Victoria – as well as in community energy projects – are likely to be more appropriate.

The goals of the VRET and policies that support it, such as the Victorian Renewable Energy Auction Scheme, are to ensure that a proportion of the State's electricity generation comes from renewable sources. These policies provide incentives to electricity generators, which operate at the start of the electricity supply chain. Conversely, energy efficiency measures address the end of the electricity supply chain, at the point of electricity consumption in homes and businesses.

Electricity generators very rarely have direct relationships with electricity consumers, so mechanisms targeting generators (such as the VRET) would be unlikely to make consumers more energy efficient. Instead, incorporating financial incentives for energy efficiency into the VRET could distort its operation, increase its costs, and lead to complex and unintended interactions with existing energy efficiency policies.

The government is committed to improving Victoria's energy efficiency and on 20 November 2017 announced the *Energy Efficiency and Productivity Strategy*, containing \$55 million of funding for new and expanded action on energy efficiency. This includes funding for Victoria's largest and longest-running energy efficiency scheme, the Victorian Energy Upgrades program (formerly the Victorian Energy Efficiency Target (VEET) scheme), and the new Boosting Business Productivity program.

The award-winning Victorian Energy Upgrades program provides households, businesses, and community groups access to discounted energy efficient products and services, and recently expanded to provide for project-based activities (i.e. energy saved from a specific upgrade project – this could be a community energy project).

The Boosting Business Productivity program, run by Sustainability Victoria, offers Energy Efficiency Assessments and Capability grants and a Sustainable Finance service, each of which is open to community groups seeking to invest in energy efficiency.

Next steps

The Victorian Energy Upgrades program is currently developing resources for community groups and others to better take advantage of the opportunities available. The government will continue to consider whether additional financial incentives for community energy projects specifically are required.