



public interest
ADVOCACY CENTRE

PIAC submission to the NSW Energy Savings Scheme- Draft Statutory Review Report

13 May 2020

About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in Sydney.

Established in 1982, PIAC tackles barriers to justice and fairness experienced by people who are vulnerable or facing disadvantage. We ensure basic rights are enjoyed across the community through legal assistance and strategic litigation, public policy development, communication and training.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. The program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives input from a community-based reference group whose members include:

- NSW Council of Social Service;
- Combined Pensioners and Superannuants Association of NSW;
- Ethnic Communities Council NSW;
- Salvation Army;
- Physical Disability Council NSW;
- Anglicare;
- Good Shepherd Microfinance;
- Financial Rights Legal Centre;
- Affiliated Residential Park Residents Association NSW;
- Tenants Union;
- The Sydney Alliance; and
- Mission Australia.

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Contents

- 1. **Introduction2**
- 2. **Objective 1 – to create a financial incentive to reduce the consumption of electricity by encouraging energy saving activities2**
 - 2.1 Whether the policy objectives are being met2
 - 2.2 Whether the policy objectives remain valid.....5
- 3. **Objective 2 (a) – to assist households and businesses to reduce electricity consumption and electricity costs5**
 - 3.1 Whether the policy objectives are being met5
 - 3.2 Whether the policy objectives remain valid.....6
- 4. **Objective 2 (b) – to complement any national scheme for carbon pollution reduction by making the reduction of greenhouse gas emissions achievable at a lower cost6**
 - 4.1 Whether the policy objectives are being met6
 - 4.2 Whether the policy objectives remain valid.....6
- 5. **Objective 2 (c) – to reduce the cost of, and the need for, additional energy generation, transmission and distribution infrastructure7**
 - 5.1 Whether the policy objectives are being met7
 - 5.2 Whether the policy objectives remain valid.....7
- 6. **Whether the overall scheme design remains appropriate for securing those objectives7**
- 7. **Continued engagement8**

Summary of recommendations

Recommendation 1

Expand the list of eligible residential activities in the ESS, prioritising activities which improve the thermal performance of dwellings and create the biggest savings.

Recommendation 2

Set a household target for the ESS to ensure a higher number of residential retrofits are undertaken.

Recommendation 3

Create incentives, such as a constraint area factor, to encourage ESS services in areas which would benefit most from a reduced load.

Recommendation 4

Set a sub-target for the ESS to ensure inclusion of low income households. Eligibility criteria should be broader than just concession card holders and include people in retailer hardship programs and holders of Low Income Health Care Cards.

Recommendation 5

Additional financial support should be included for low income participants as well as access to No Interest Loans to repay upfront costs in manageable ways.

Recommendation 6

Coordinate the ESS with other energy efficiency programs such as the Trajectory for Low Income Homes, energy efficiency disclosure at time of sale/lease and minimum rental standards to develop the market for certificates, improve the uptake rates of the ESS and increase its impact.

Recommendation 7

Match or refer participants of ESS to other programs such as the Appliance Replacement Offer, Empowering Homes Program and Energy Switch and vice versa to enhance uptake of all programs and outcomes for households.

1. Introduction

PIAC supports the Energy Saving Scheme (ESS) as a mechanism to deliver energy savings for NSW households.

Energy efficiency is an effective way to provide financial benefits to households who have energy saving actions undertaken as well as, to a lesser degree, all households due to network savings. Energy bills continue to be of high concern for NSW households and ways to alleviate this cost of living pressure should be a priority for the NSW Government.

As well as being a climate mitigation tool, when steps are taken to make dwellings more comfortable and resilient during extreme temperatures energy efficiency is an essential climate adaptation tool. Heating and cooling are usually the largest component of a household's energy use, and with a changing climate and the projections of more extreme weather, households are likely to pay even more to keep their homes comfortable. To address this, the ESS should include and prioritise energy efficiency measures which improve the thermal performance of a dwelling as well as the replacement of old, inefficient heaters and air conditioners. This would reduce energy use as well as help protect the health of people who limit their use of mechanical heating or cooling beyond what is comfortable or safe for them to save money.

A substantial energy efficiency retrofit program delivered via the ESS would be a powerful post COVID-19 stimulus project that would deliver long term benefits to households, create jobs and economic activity as well as contribute to addressing climate change. The ESS could be linked to other programs such as the Trajectory for Low Income Homes, energy efficiency disclosure at time of sale/lease and minimum rental standards. This would help remove barriers to energy efficiency uptake and produce myriad benefits for households and the economy.

2. Objective 1 – to create a financial incentive to reduce the consumption of electricity by encouraging energy saving activities

2.1 Whether the policy objectives are being met

This objective is only being partially met because the ways households can benefit and the number of households who can directly benefit are limited.

2.1.1 Limited number of activities

While businesses can benefit from a number of activities in the scheme, currently the only measure households can access is halogen downlight replacement and this is further limited by upfront costs and minimum requirements.

At least one approved ESS supplier (the only supplier we found on the ESS website who is active in Sydney) requires a minimum of 15 halogen lights to replace, limiting participation to people with larger homes and/or homes with many downlights (which tend to be newer homes).

This supplier has an upfront cost of at least \$284.85 (15 lights changed at \$18.99 each). This upfront cost would be difficult to manage for many low income households and may exclude them from participating. For renters, even if the upfront cost could be managed, there is no guarantee they will benefit from the lifetime savings of the lights, reducing their incentive to participate.

Lighting is not the 'low hanging fruit' in energy efficiency that it once was, as many households already have energy efficient lights. Thus lighting does not generally represent a large portion of a residential energy bill and improving lighting alone will not achieve substantial energy savings.

Replacement of air conditioners broadened the scheme somewhat (particularly with a goal to remove barriers to eligibility for many households), but it is noted this activity has been suspended.

Additional activities need to be introduced to the ESS to achieve broader energy savings and assist more households. In particular, activities which improve the thermal performance of homes (and keep their occupants safer in weather extremes) and measures which generate the largest energy savings, such as replacement of mechanical heating and cooling appliances and hot water heaters, should be prioritised. Additional assistance should be provided to ensure low income households can access these activities. Activities could include:

- weather sealing;
- insulation;
- thermally efficient window treatments;
- reverse cycle air conditioners;
- non-fixed efficient heaters to replace inefficient (and less safe and healthy) heaters such as fan heaters;
- heat pump or solar water heaters to replace electric water heaters;
- switching appliances from gas to efficient electric (and disconnecting gas where practical and cost effective);
- stand by controllers;
- in home energy display units;
- large appliance swaps, such as fridges; and
- electric vehicle charging infrastructure.

Recommendation 1

Expand the list of eligible residential activities in the ESS, prioritising activities which improve the thermal performance of dwellings and create the biggest savings.

2.1.2 Services are available in limited areas

There appear to be few approved suppliers providing services to households and in many parts of NSW, the service for households appears to be unavailable. PIAC entered various NSW postcodes into the 'Find an Approved supplier in your area' for household services on the ESS website and found there are substantial areas of NSW where there are no service providers, including in large residential areas such as Wollongong.

To improve this, a target number of households to reach should be set so the benefits of the scheme are less skewed towards commercial upgrades.

Recommendation 2

Set a household target for the ESS to ensure a higher number of residential retrofits are undertaken.

Energy system benefits can be increased if energy saving activities are undertaken in areas where there are constraint issues. Additional incentives, such as a high constraint area factor should be implemented. As constrained areas are often regional, this would also help address the issue of low service provision in some regional areas.

Recommendation 3

Create incentives, such as a constraint area factor, to encourage ESS services in areas which would benefit most from a reduced load.

2.1.3 Ways to make the program more inclusive

Households which stand to benefit most from energy efficiency measures are the least likely to participate, often because they cannot afford the upfront cost or do not have appliances which qualify. The Report notes there are other NSW Government programs which are targeted at low income households. However, these programs have eligibility requirements, such as having a concession card, which means other low income households are unable to access energy savings programs. Many of these households, such as working families and renters, have limited capacity to control their energy usage and struggle to pay their energy bills and would benefit from participating in the ESS.

To make the ESS more inclusive for NSW households, mechanisms to overcome barriers to participation need to be introduced. A target for low income households would ensure the inclusion of households most in need. Eligibility should be broader than concession card holders to include people who are in a retailer hardship plan and holders of the Low Income Health Care Card.

Recommendation 4

Set a target for the ESS to ensure inclusion of low income households. Eligibility criteria should be broader than just concession card holders and include people in retailer hardship programs and holders of Low Income Health Care Cards.

The upfront cost of energy efficient products is a barrier to more households participating and benefiting. Additional financial support should be included for low income participants, as well as access to No Interest Loans to repay upfront costs in manageable ways.

Recommendation 5

Additional financial support should be included for low income participants as well as access to No Interest Loans to repay upfront costs in manageable ways.

Coordinating the ESS with other energy efficiency programs such as the Trajectory for Low Income Homes, energy efficiency disclosure at time of sale/lease and minimum rental standards would develop the market for certificates, reduce customer acquisition costs and increase the uptake rates and impact of the ESS. Coordinating with the Trajectory for Low Income Homes

would provide a good starting point for people who have had an assessment scorecard undertaken to begin to improve the energy efficiency of their home. Coordinating the ESS with energy efficiency disclosure at time of sale/lease would incentivise property owners to undertake ESS measures in time for a sale or lease, while coordinating it with minimum rental standards would help address the split incentive barrier for energy efficiency uptake in rental properties.

Recommendation 6

Coordinate the ESS with other energy efficiency programs such as the Trajectory for Low Income Homes, energy efficiency disclosure at time of sale/lease and minimum rental standards to develop the market for certificates, improve the uptake rates of the ESS and increase its impact.

Participating households can save more and the ESS can be more effective by matching households with other energy saving programs they are eligible for (such as the Appliance Replacement Offer and Empowering Homes Program) as well as Service NSW's Energy Switch. Participants in these programs should likewise be referred to the ESS services as appropriate.

Recommendation 7

Match or refer participants of ESS to other programs such as the Appliance Replacement Offer, Empowering Homes Program and Energy Switch and vice versa to enhance uptake of all programs and outcomes for households.

2.2 Whether the policy objectives remain valid

The barriers to increasing energy efficiency for households remain, particularly the financial barriers of upfront costs and rental split incentives.

3. Objective 2 (a) – to assist households and businesses to reduce electricity consumption and electricity costs

3.1 Whether the policy objectives are being met

Although there are overall benefits for NSW energy consumers and participating households can make more substantial bill savings, many households miss out on assistance to reduce their electricity consumption and electricity costs.

The ESS would more effectively meet this objective if:

- there were more activities to increase savings;
- more areas were covered by suppliers;
- there were residential targets;
- there were targets for low income households and assistance for households who cannot afford the upfront cost;
- the scheme was coordinated with other energy saving programs; and
- participating households were informed about how to use their energy saving equipment effectively.

3.2 Whether the policy objectives remain valid

This objective should be changed from 'electricity consumption and electricity costs' to 'energy consumption and energy costs' so gas is included. Without this change there is the potential for a perverse outcome where inefficient gas appliances are not included. This is particularly important given the changing relative costs (both up-front and ongoing) that increasingly favours electric over gas appliances.

Energy bills remain a pressing concern for households and energy efficiency remains a crucial means to reduce energy consumption (which has overall system benefits) and energy costs.

There are other non-financial barriers the ESS needs to address, including information about which upgrades could be made, how to go about choosing upgrades, and having a trustworthy supplier/installer.

4. Objective 2 (b) – to complement any national scheme for carbon pollution reduction by making the reduction of greenhouse gas emissions achievable at a lower cost

4.1 Whether the policy objectives are being met

The ESS could coordinate with national schemes to more effectively reduce greenhouse gas emissions and assist with Australia's international emissions reductions obligations.

For many households the upfront cost of solar or heat pump water heaters is out of reach, even with the Small-scale Renewable Energy Scheme (SRES). Efforts to improve energy efficiency in NSW could be improved if the focus shifted from replacing appliances with a similar appliance (which is particularly a problem in residential tenancies) to replacing inefficient technologies (such as electric hot water systems) with efficient technologies (such as solar or heat pump hot water systems). The ESS could be used as a mechanism to enable this, and work with the SRES to achieve it.

The ESS should also coordinate with the national Trajectory for Low Energy Homes. As the Trajectory scheme progresses, certain actions which are recommended through the Residential Energy Scorecard (or whatever the final delivery tool may be) could form part of the ESS to remove as many barriers to households implementing energy efficiency as possible.

4.2 Whether the policy objectives remain valid

Federal requirements to reduce greenhouse gas emissions as part of the Paris Agreement remain. Energy efficiency is still an important way to cost effectively meet these requirements.

5. Objective 2 (c) – to reduce the cost of, and the need for, additional energy generation, transmission and distribution infrastructure

5.1 Whether the policy objectives are being met

The ESS has reduced the need for additional energy infrastructure through overall energy savings. It would be more effective if it also addressed network constraints in certain areas, including some more remote and regional locations. This could be achieved by introducing a factor to incentivise service providers undertaking work in areas of network constraint.

5.2 Whether the policy objectives remain valid

Many NSW households, particularly in regional areas, will see increased network costs on their bills in future because of an excessive regulated asset base brought on by historically higher-than-necessary reliability standards and the anticipated significant increase in transmission spending. Reducing energy use overall remains an effective way to reduce the cost of, and need for, additional energy generation, transmission and distribution infrastructure.

6. Whether the overall scheme design remains appropriate for securing those objectives

The scheme as it is currently functioning has a residential offering which is too limited to be effective. However:

- The potential for energy efficiency remains high and the scheme can meet its objectives with more approved activities.
- Household targets should be set and barriers removed to enable a greater number of households to participate and benefit from the scheme, including low income households, renters and those in regional areas.
- When PIAC attempted to find ESS services for households via the ESS website, it found that where there was a service provider, there wasn't more than one operating in an area, including in Sydney. The limited number of service providers for households across the state indicates the scheme may not be operating in an optimal manner.
- Coordinating with other government programs will improve uptake and the effectiveness of the ESS.

Low cost greenhouse gas emissions reductions continue to be required to meet Australia's international climate obligations and the ESS has further potential to assist in meeting this goal.

NSW households face future additional network costs on their bills. Energy efficiency remains a cost-effective way to reduce the need to increase generation, transmission and distribution infrastructure. These savings can be particularly cost effective if they are undertaken in areas of constraint.

The ESS can help stimulate the economy following the COVID-19 pandemic. With some reconfiguring, for example by encouraging accreditation for social enterprises to participate, the scheme could help boost employment, including in regional areas. Including the ESS in COVID-19 economic recovery could help rebuild the economy while reducing greenhouse gas emissions. It would also generate long term savings for households and support homes which are healthier and more comfortable during temperature extremes.

7. Continued engagement

PIAC would welcome the opportunity to meet with the Department and other stakeholders to discuss these issues in more depth.