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3 February 2023

Department of Climate Change, Energy, the Environment and Water EnergyPerformance@dcceew.gov.au

To whom it may concern,

#### **RE: National Energy Performance Strategy Consultation**

The South Australian Council of Social Service (SACOSS) is the peak non-government representative body for health and community services in South Australia, and has a vision of *Justice, Opportunity and Shared Wealth for all South Australians.* SACOSS does not accept poverty, inequity or injustice. Our mission is to be a powerful and representative voice that leads and supports our community to take actions that achieve our vision, and to hold to account governments, businesses, and communities for actions that disadvantage vulnerable South Australians.

SACOSS' purpose is to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake policy and advocacy work in areas that specifically affect disadvantaged and low-income consumers in South Australia.

SACOSS also has a long-standing interest in the delivery of essential services. Our research shows the basic cost of necessities like electricity impacts greatly and disproportionately on people on low incomes and living with disadvantage. The growing cost of the energy crisis on top of a rental affordability and cost of living crisis means that now more than ever we need solid targets and commitments for energy efficiency. Energy efficiency should be a key policy response for addressing the impacts of rising energy prices. From the outset we want to be clear that includes improving the energy performance of low-income homes, including public and private rental housing, Aboriginal and Torres Strait Islander housing and low-income homeowners. Energy efficiency measures are a substantially untapped resource across Australia when it comes to reducing emissions and household costs.

We welcome this opportunity to contribute to a national energy performance strategy that addresses energy affordability, health, climate change, and reduces poverty and inequality. It is our view that such a strategy should prioritise energy efficiency upgrades in low-income housing, including properties in the social and private rental sectors and those owned by lowincome homeowners. Our submission will focus on the Governance, Targets and Residential sections of the consultation paper. We also support the Australian Council of Social Service (ACOSS) submission to this review, but wanted to expand on some of the issues outlined below.

In particular, our submission will focus on:

- The need for the National Energy Objectives to include social equity considerations
- Supporting and resourcing greater consumer involvement and representation in decision-making in the energy performance space
- The need for an energy performance body tasked with overseeing the national energy performance strategy and ensuring that objectives and targets are being met
- The importance of ensuring that demand-side measures do not disadvantage the most vulnerable people in our society
- Creating ambitious and measurable targets with adequate resourcing to drive action to meet those targets
- Delivering better energy performance to all households, regardless of property type or income

## Governance

A strong governance framework – that includes clear objectives, principles, and targets – is essential for improving demand management, energy efficiency and electrification measures as part of a national energy performance strategy. We emphasise that it is also essential to ensuring that demand-side measures and issues are given equal attention to supply or commercial considerations.

SACOSS is of the view that the National Energy Objectives need to better reflect the needs of consumers, and to that end we want to emphasise our support for the recommendation from ACOSS for the focus to shift on the affordability of energy for energy users and to introduce social equity into the objectives. The consideration of social equity is particularly important as the market shifts towards renewables: we must ensure that we have a just transition and that in particular low-income households do not get left behind. International jurisdictions such as the United Kingdom<sup>1</sup> and New York State<sup>2</sup> have successfully included social objectives in their energy regulatory regimes. New Zealand's Energy Strategy can also provide some guidance, as it outlines four priority areas: diverse resource development, environmental responsibility, efficient use of energy, and secure and affordable energy<sup>3</sup>.

We also support and suggest changing the language in the National Energy Objectives to focus on "cost" or "affordability" as opposed to "price". We are of the view that this change would put the focus on bills as paid by consumers and would be more consistent with the intent of the National Energy Objectives. Our concern is that the word "price" can be interpreted as the total payment of a service or the 'price per unit' of a service, yet consumers face a bill composed of multiple components – not a unit price.

<sup>&</sup>lt;sup>1</sup> <u>https://www.gov.uk/government/publications/british-energy-security-strategy/british-energy-security-security-strategy/british-energy-security-securi</u>

<sup>&</sup>lt;sup>2</sup> <u>https://www.nyserda.ny.gov/about/publications/new-efficiency</u>

<sup>&</sup>lt;sup>3</sup> <u>https://www.iea.org/policies/184-new-zealand-energy-strategy-nzes</u>

An ongoing issue in the energy space is that consumer and demand-side interests are not equally represented. In terms of mechanisms or institutional responsibilities for driving energy performance action, we recommend implementing greater consumer voice and consultation requirements as part of the NEPS. This should include recognition of the barriers consumers and consumer representative organisations often face to participating in consultation processes, and include resources and support for consumers and their representatives to participate in these processes. The voices that represent consumers – in particular, those that represent small and low-income consumers – have limited scope and resourcing to participate in industry consultations, particularly when compared to the voices that represent the supply side of the energy market.

As part of a national energy performance strategy, we emphasise the need for a governance structure that will have oversight over and some power to enforce elements of this strategy. Otherwise, it is unclear how a strategy alone would be able to coordinate, monitor, and promote energy performance as well as measure progress towards targets.

It is also essential to ensure that the strategy does not unfairly disadvantage people who are unable to change their demand as it seeks to address demand-side issues related to national energy performance. This is particularly important for low-income households already at risk of or experiencing energy hardship. We raise this in the context of the smart-metering rollout. SACOSS has long-held concerns about low-income households being placed on time of use tariffs. Research shows us that vulnerable households are the least well equipped to understand and respond to different pricing structures, and often have the least flexibility in terms of shifting their electricity use to different periods. This leads to them ultimately paying more than other consumers on time of use tariffs<sup>4</sup>. SACOSS urges that a national energy performance strategy considers the evidence around demand-side measures to ensure that it does not promote inequitable and ineffective demand-side policies. We note that research indicates Australian households in the lowest socio-economic areas do not respond to timevarying prices. Market deregulation, the installation of smart meters, consumer access to consumption data and policy support for default time of use tariffs has so far not been rewarded with improvements in consumer responsiveness to time-varying prices<sup>5</sup>. This has been further confirmed by research SACOSS has conducted, which showed that low-income energy customers were not confident they would be able to shift their electricity use<sup>6</sup>. We would therefore suggest that a national energy performance strategy does not take a "one size fits all" approach to the imposition of time of use tariffs (and other demand-side measures). A more nuanced approach, coupled with an extensive information and education campaign, is needed in consultation with consumer representatives.

Further, consideration must be given to provisions for people with disabilities or with medical needs/conditions that mean they are less able to change their energy consumption and demand. This feeds into concerns held by SACOSS around the smart-meter rollout and

<sup>&</sup>lt;sup>4</sup> White and Sintov 2020: *Health and financial impacts of demand-side response measures differ across sociodemographic groups* <u>https://www.nature.com/articles/s41560-019-0507-y</u>

<sup>&</sup>lt;sup>5</sup> Burns and Mountain 2021: *Do households respond to time-of-use tariffs? Evidence from Australia* <u>https://www.sciencedirect.com/science/article/pii/S0140988320304102</u>

<sup>&</sup>lt;sup>6</sup> SACOSS 2021: Access to energy programs for low-income households

https://www.sacoss.org.au/sites/default/files/public/Major%20research%20report REPS%20and%20TOU.pdf

potential impacts on inequality if we don't have appropriate regulation that would protect those on low incomes with inelastic demand timing. The use of smart meters must benefit consumers and ensure that they are not disadvantaged by their installation or use (no consumer should be worse off).

# Targets

SACOSS firmly supports introducing energy efficiency targets as a means for reducing not only emissions and the energy intensity of the economy, but also for reducing costs to consumers. These targets should be developed in consultation with stakeholders and supported by practical programs and adequate resourcing.

Targets are essential for driving action towards improved energy performance by providing the basis and motivation for establishing energy efficiency policies and programs, and allow for progress towards energy performance goals to be monitored and assessed. In considering energy performance targets, we suggest referring to the work of the International Energy Agency and their guidance on setting energy performance targets<sup>7</sup>. In particular, we note their key recommendations:

- That a target should be ambitious, realistic, and accompanied by a supportive and credible framework to drive action towards achievement
- That a target should be understandable, clearly communicated, and transposed into actions for specific regions or economic sub-sector

From the ACOSS submission we would like to highlight the need for targets to encompass the following:

- A range of national and sectoral targets
- Clearly defined objectives for the targets
- Dates and time frames to achieve the targets
- Clear and relevant indicators to measure progress towards the targets
- Well-designed and appropriately-resourced programs or policies to achieve the targets
- An accountable entity responsible for achievement of the targets (or to coordinate the achievement of the targets)

It is essential to differentiate between residential and industrial consumers, which should be reflected in targets. Residential consumers should not bear disproportionate responsibility for reducing emissions or being having the onus placed on them to improve their energy performance when they are not the largest energy consumers. Where residential consumers are required to change their energy performance, the strategy should ensure that they receive a net benefit from these changes.

International jurisdictions have established objectives beyond just energy performance, and we would suggest that targets under a national energy performance strategy also broaden

<sup>&</sup>lt;sup>7</sup> IEA: Setting Energy Efficiency Targets <u>https://iea.blob.core.windows.net/assets/8c0b7b02-3f86-4662-815f-13d260dd6f99/EnergyEfficiencyTargetsEnergyEfficiencyInsightsBrief.pdf</u>

their considerations given that energy performance does not exist in a silo: it affects and is affected by other policy areas. We therefore strongly suggest that the national energy performance strategy also includes health related targets given the known links and impacts of energy performance on household health. Improving the energy efficiency of homes has been linked to reduced time in hospital, lower blood pressure, and fewer days off from work or school<sup>8</sup>. Further, energy stress also increases among renter households where at least one member has a long-term health condition or disability and less energy efficient housing significantly influences stress outcomes. We find it concerning that, despite the risks, households that include someone with a disability or chronic health condition are much more likely than other households to restrict heating use due to cost. Negative health outcomes resulting from extreme weather events are more likely where multiple risk factors co-exist, and these risk factors include low incomes, existing health conditions, and inefficient housing<sup>9</sup>. It is therefore in our view that it is both entirely appropriate and necessary for targets set as part of this strategy to consider and include public health outcomes associated with improved energy efficiency. We would further encourage the development of targets aimed at improving the energy performance of low-income and renter households.

# **Residential**

Energy prices are rising and will continue to do so over the next few years, which will make it even more difficult for people to be able to afford to keep their homes and themselves healthy. Improving the energy efficiency of homes is essential not only to improving the health of our energy network and the climate, but also essential for providing vital bill relief for residential consumers.

A national energy performance strategy must ensure that the homes of the most vulnerable people are upgraded as a matter of priority to improve their energy performance. Years of inaction have led to Australian homes having such poor energy performance that people on low incomes, particularly those that rent, are getting sick or dying because they can't afford energy bills or to install retrofits to keep their homes warm in winter or cool in summer. This will be discussed further in the sections relating to renters and those living on low incomes.

All residential property types should be considered by the national energy performance strategy to ensure that they're not left behind and that there isn't a steady creep of certain types of properties being put in the too hard basket when it comes to improving and supporting their energy performance. All residential energy consumers should have access to improved energy performance regardless of the type or tenure of the property they live in.

We know that reliance on market forces alone will not be enough to generate the action needed across building stock and that regulation and other policy interventions are necessary<sup>10</sup>. Relying on market forces also ensures that retrofitting activity occurs unevenly

<sup>9</sup> BSL 2022: *Power pain: an investigation of energy stress in Australia* <u>https://www.bsl.org.au/research/publications/power-pain/</u>

<sup>&</sup>lt;sup>8</sup> Maidment, Jones, Webb, Hathway, and Gilbertson 2014: *The impact of household energy efficiency measures on health: a meta-analysis* <u>https://doi.org/10.1016/j.enpol.2013.10.054</u>

<sup>&</sup>lt;sup>10</sup> Climateworks 2022: *Renovation pathways* <u>https://www.climateworkscentre.org/project/renovation-pathways/</u>

and can contribute to longer-term inequalities. Rebates for energy efficiency upgrades are more accessible to those on higher incomes, as the upfront costs pose less of a barrier<sup>11</sup>.

Poorly constructed and underfunded energy efficiency initiatives might make existing inequalities worse and add to the cumulative vulnerabilities of housing affordability stress<sup>12</sup>. However, it is also essential that energy efficiency requirements that might emerge under a new national energy performance strategy do not exacerbate existing housing affordability issues.

### **Existing homes**

While promising progress has been and is being made in terms of energy efficiency for new residential builds, we are concerned about the retrofit of existing homes which risk being left behind. Research has clearly identified that a government championed top-down approach is required to address barriers to retrofitting buildings for energy efficiency<sup>13</sup>. Not only are current minimum standards for residential buildings inadequate, 98.5% of existing housing falls below the economic and environmental optimums for energy efficiency, demonstrating significant market failure in this space. This demonstrates the need for more ambitious building energy regulation to drive improved performance outcomes<sup>14</sup>. Relying solely on market forces is ineffective and insufficient given the scale of retrofitting required. Further, the rate of retrofitting are the most significant barrier to the feasibility of decarbonisation in the residential sector<sup>15</sup>.

We recognise that the Trajectory for Low Energy Buildings aims to address this issue through the development of policies for cost-effective energy efficiency improvements to existing homes<sup>16</sup>, however progress is slow and without clear targets for implementation. We view a national energy performance strategy as an opportunity to accelerate and build on the work of the Trajectory.

It is vital that a national energy performance strategy considers apartment buildings as well, not just standalone housing – particularly as we see a shift towards higher density living and apartment living. Many apartment buildings, particularly older buildings, are currently missing out on energy efficiency opportunities and upgrades. Apartment owners only own or control the internal areas of the apartment, not the outside walls or communal spaces which are owned by the owners' corporation. As such, apartment owners can't undertake efficiency

<sup>&</sup>lt;sup>11</sup> ACOSS 2017: Energy access and affordability policy research <u>https://www.acoss.org.au/wp-</u>

content/uploads/2017/03/Consultation-Paper-Empowering-Vulnerable-Households-and-Decarbonisation.pdf <sup>12</sup> Baker and Lester 2017: *Multiple housing problems: a view through the housing niche lens* <u>https://www.sciencedirect.com/science/article/pii/S0264275116301202?via%3Dihub</u>

<sup>&</sup>lt;sup>13</sup> Alam, Zou, Stewart, Bertone, Sahin, Buntine, and Marshall 2019: *Government championed strategies to overcome the barriers to public building energy efficiency retrofit projects* <u>https://www.sciencedirect.com/science/article/abs/pii/S2210670718312216</u>

<sup>&</sup>lt;sup>14</sup> Moore, Berry, and Ambrose 2019: *Aiming for mediocrity: the case of Australian housing thermal performance* <u>https://www.sciencedirect.com/science/article/abs/pii/S0301421519303878?via%3Dihub</u>

<sup>&</sup>lt;sup>15</sup> IPCC 2022: Mitigation of Climate Change <u>https://www.ipcc.ch/report/ar6/wg3/</u>

<sup>&</sup>lt;sup>16</sup> DCCEEW 2019: *Trajectory for Low Energy Buildings* <u>https://www.energy.gov.au/government-priorities/buildings/trajectory-low-energy-buildings</u>

upgrades on the outside, including installing external blinds or insulation – the strata company for the building controls that. Owners are restricted to making energy efficiency changes to the confines of the inside of their apartment, such as changing their lights, internal blinds, the inside of their windows etc. The large energy consuming devices are likely outside of their control as well e.g. bulk hot water and building space heating and cooling. To be effective, energy upgrades to the whole building need to be integrated. To undertake energy efficiency upgrades, there is a need to liaise with other owners in the strata scheme and the owners' corporation - that is, collective decision making is needed - and renters living in that apartment building are unlikely to be included in these discussions. There are different considerations for private and common areas, and building managers and owners are unaware of the opportunities, or it's not a key priority. There may also be differences of opinion between individual apartment owners and tenants that requires a process to reach agreement. This can be exacerbated by strata laws and regulations that differ between States and Territories. Without specific considerations for apartment buildings, a national energy performance scheme could miss the economic benefits of retrofitting inefficient apartment blocks<sup>17</sup>, with such large-scale retrofits internationally having yielded significant reductions in grid demand<sup>18</sup>.

#### **New homes**

An incremental approach is inefficient when it comes to new housing. Inbuilt energy efficiency is cheapest when it is added during the build, not retrofitted afterwards. If we are serious about increasing energy efficiency and reducing emissions then need to get it right from the start. This will also reduce the cost burden on Australian households. Continuing with an incremental approach, particularly when considering broader retrofit programs and requirements as well as scope for greater ambition on residential energy efficiency in the future, means that households could be locked in to having to retrofit relatively new homes multiple times moving forward. This is not a good outcome.

While it is encouraging that the new National Construction Code will require new homes to meet at least a 7-star rating, a lot more needs to be done to ensure that new housing is sustainable and affordable. Better energy efficiency standards for homes are vital for tackling energy poverty and inequality. It is therefore our view that a national energy performance strategy needs to go further, and should outline and support the shift to zero carbon homes in Australia. This needs to include a ban on gas connections in new homes.

The national energy performance strategy should also include oversight mechanisms to ensure that any minimum standards set are complied with and that skills training and incentives are made available to industry. Such a regulator should be well-resourced with adequate tools and powers to address non-compliance. There need to be protections against the greenwashing in the housing sector where entities may misrepresent the energy efficiency of buildings or the levels of carbon emissions during construction. SACOSS strongly

<sup>&</sup>lt;sup>17</sup> Pikas, Kurnitski, Liias, and Thalfeldt 2015: *Quantification of economic benefits of renovation of apartment buildings as a basis for cost optimal 2030 energy efficiency strategies* 

https://www.sciencedirect.com/science/article/abs/pii/S037877881400824X <sup>18</sup> Race for 2030 2021: *Pathways to scale: retrofitting one million+ homes* 

https://www.racefor2030.com.au/wp-content/uploads/2021/12/One-Million-Homes Final-Report-9.12.21.pdf

suggests that any auditing or measuring schemes for energy efficiency therefore consider actual performance of buildings as opposed to modelled performance based on building plans. We would also advocate for mandatory disclosure requirements for a building's energy efficiency be introduced as part of the national strategy.

### Low-income

People on low incomes are more likely to live in inefficient housing and pay disproportionately more for their energy. They are at risk of being left behind and bearing greater costs during the energy transition. However, they also have the most to gain from improving the energy performance of their homes.

Low-income households are more prone to energy poverty because they are affected by persistent barriers to energy efficiency, lack access to capital and lack adequate and sufficient information. We are seeing a growing energy efficiency gap as persistent barriers have prevented people on low incomes from investing in energy efficiency as a way of reducing costs. These barriers are evident in the lower incidence of insulation, and higher rates of ownership of inefficient appliances that are cheap to buy but expensive to run in low-income households. To date, programs for energy efficiency of low-income households in the world have delivered the greatest benefits, with health improvements representing as much as 75% of the total return on investment of these measures<sup>19</sup>. We know that these measures work, and so our national energy performance strategy should be aiming at enabling such measures across Australia. This would provide not just necessary energy bill relief to low-income households, but would also meaningfully contribute to broader emissions reductions targets.

Energy costs are regressive in that increases in cost will proportionally affect a larger share of income for households with a lower income and pose an opportunity cost on lower income households, particularly renters, who are unable to afford options which would increase the thermal efficiency of their housing. Improvements to energy efficiency also reduce the amount of social assistance and subsidies to low-income households. Energy-efficiency investments in low-income households can also yield direct financial benefits for energy providers. Energy providers can reduce the loss-making sales of energy delivered to low-income households on social tariffs, the cost of billing arrears and bad debt write-offs<sup>20</sup>, which provides a win both for consumers and suppliers.

#### **Renters**

The cost of inefficient housing is distributed unequally with renters spending on average \$150 extra on their energy bills per year compared to homeowners, and this has been directly linked to rental properties being less efficient to heat and cool<sup>21</sup>. Genuine harm can be – and is being – caused by living in a property that is not energy efficient. Poor energy efficiency in

<sup>&</sup>lt;sup>19</sup> IEA (2019): *Multiple Benefits of Energy Efficiency* <u>https://www.iea.org/reports/multiple-benefits-of-energy-</u> <u>efficiency</u>

<sup>&</sup>lt;sup>20</sup> https://www.europarl.europa.eu/RegData/etudes/STUD/2016/595339/IPOL\_STU(2016)595339\_EN.pdf

<sup>&</sup>lt;sup>21</sup> Best and Burke 2020: *Effects of renting on household energy expenditure: evidence from Australia impact of* <u>https://www.sciencedirect.com/science/article/abs/pii/S0301421522002476?via%3Dihub</u>

properties can result in crippling bills, discomfort, and potential health problems. We know up to 40% of renters experience energy hardship<sup>22</sup>, and hardship customers use up to 81% more electricity than general energy customers.<sup>23</sup> The ACCC has acknowledged "this is likely in part due to these households being unable to afford (or being otherwise restricted from accessing) more efficient housing and appliances, including rooftop solar".<sup>24</sup> Combined with growing energy costs, energy inefficient housing can become a source of disadvantage for a significant share of the population given that about 1 in 3 Australians rent.

There is an opportunity for the national energy performance strategy to support and promote the National Framework for Minimum Energy Efficiency Rental Requirements which is intended to guide the implementation of minimum rental standards in Australian states and territories. This is a critical step to meet net-zero emissions targets, lower energy bills, and improve the health and wellbeing of renters.

SACOSS is concerned to highlight the overwhelming evidence that market forces are not capable of encouraging landlords to improve the energy efficiency of rental properties. In fact, some research has indicated that where landlords are making changes/improvements to their properties it is because they have become aware of the thermal discomfort of their tenants<sup>25</sup>. However, these situations are few and far between. SACOSS is of the view that on a national scale energy efficient, healthy housing can only be achieved through regulation – not altruism. SACOSS are not unique in that view: for example, the European Commission's Joint Research Centre has recommended that energy efficiency obligations should have to "include requirements with a social aim in the saving obligations they impose, including by requiring a share of energy efficiency measures to be implemented as a priority in households affected by energy poverty or in social housing". Landlords have an established responsibility and requirement to provide livable housing that is safe, healthy, and decent. We view minimum energy efficiency standards as just another factor in considering what makes housing suitable/livable. The European Commission's Joint Research Centre confirms that introducing minimum energy efficiency standards for rental properties is an effective tool for overcoming the split-incentive barriers to improving the energy efficiency of rental housing $^{26}$ .

## Conclusion

In establishing a national energy performance strategy, we urge the government to prioritise residential energy consumers and their wellbeing. Energy bills are climbing to new heights, and together with the worsening climate crisis households are under severe pressure. The case for improving energy performance has never been stronger, and SACOSS emphasises the need to do so without further disadvantaging or burdening those on low incomes. Too many

<sup>&</sup>lt;sup>22</sup> AHURI 2020: Warm, cool and energy-affordable housing policy solutions for low-income renters <u>https://www.ahuri.edu.au/research/final-reports/338</u>

<sup>&</sup>lt;sup>23</sup> Australian Energy Regulator, <u>Annual Retail Market Report 2021-22</u>, November 2022, p. 56

<sup>&</sup>lt;sup>24</sup> ACCC, Inquiry into the National Electricity Market - May 2022 report, ACCC, 2022, p. 39

<sup>&</sup>lt;sup>25</sup> Lang, Lane, Zhao and Raven 2022: Energy efficiency in the private rental sector in Victoria, Australia: when ad why do small-scale private landlords

retrofit?https://www.sciencedirect.com/science/article/abs/pii/S2214629622000408

<sup>&</sup>lt;sup>26</sup> EU JRC 2017: Overcoming the split incentive barrier in the building sector: unlocking the energy efficiency potential in the rental & multifamily sectors

https://publications.jrc.ec.europa.eu/repository/handle/JRC101251

Australians are unable to afford energy and access the benefits of improved energy efficiency and the renewable energy transition. A national energy performance strategy with fairness and equity principles at its centre is, in our view, a rare opportunity to achieve positive outcomes across the board for people, economy, and planet.

If you have any questions in relation to this submission, please contact our policy officer Malwina Wyra at <u>malwina@sacoss.org.au</u> or on 8305 4229.

Yours sincerely,

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