

DMITRE Energy Markets and Programs Division

Submitted by email to [DMITRE.WHReview@sa.gov.au](mailto:DMITRE.WHReview@sa.gov.au)

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**RE: Review of South Australia's Water Heater Installation Requirements Directions  
Paper August 2013**

Dear DMITRE,

Thank you for the opportunity to comment on the Directions Paper.

As the peak body for the community services sector in South Australia, SACOSS has a long-standing interest in the delivery of essential services and particular the cost of basic necessities because they impact greatly and disproportionately on vulnerable disadvantaged people.

Hot water in the home is one of those vital end-uses of energy that contributes to the health and wellbeing of everyone in the community. SACOSS therefore welcomes the Review's objectives of simplifying the requirements and improving affordability to consumers.

SACOSS has recently concluded community consultation on priority issues for the Consumer Advocacy and Research Fund established under the Water Industry Act 2012 and was alarmed by the following anecdote paraphrased from SA Water's Customer Assist Team:

*SA Water's Customer Assist Team stated that they encounter a significant number of customers that have had no hot water for a very long period: low income customers (pensioners) whose hot water systems have failed and need replacing but they are unable to pay for it. SA Water currently refer them to the NILS (No Interest Loan Scheme), as under the terms of their free plumbing program they can only assist with the install of the new unit.*

This situation highlights the importance of the affordability objective of this review.

In particular, SACOSS notes that the upfront cost of water heaters, particularly solar and heat-pump units have high up-front costs that do not seem to have declined at anything like the same rate as other manufactured goods of similar value – such as solar photovoltaic power systems or home entertainment equipment.

SACOSS also notes the convergence of the greenhouse emissions intensity of gas and electricity in South Australia. It is assumed that this trend is likely to continue. Similarly, the cost structures of electricity and gas can be observed to be trending towards a higher proportion of fixed charges. Further, SACOSS note that the cost-effectiveness of options is largely determined by the relative price of electricity and gas. It is likely that wholesale gas prices will rise on the back of Liquefied Natural Gas (LNG) exports in coming years, the

impact on relative prices is difficult to predict. It is unclear how the modelling has accommodated future changes in greenhouse intensities, relative prices and price structures.

SACOSS is of the view that the sensitivity of the proposed Directions to the plausible range of price outcomes would make the recommendations more robust.

SACOSS is also concerned that sensitivity testing of discount rates has not been performed. On face value a discount rate of 7% per annum appears incompatible with a nominal 10 year service life. The discount rate is what relates the upfront capital cost with ongoing costs (i.e. the cost of energy) and this is considered too important to not be tested over a range of values. Arguably, most individual decision makers would have a higher discount rate than this.

SACOSS is also of the view that households should not be discouraged from moving to all-electric homes. Interrogation of the Australian Bureau of Statistics 2009-10 Household Expenditure Survey (HES)<sup>1</sup> microdata illustrates that households with gas have, on average, combined energy bills 25% larger than all electric homes.

Noting the South Australian Government's Energy concession is a fixed amount applied to electricity bills and not directly related to expenditure on gas, it is not surprising that the household 'types' with the relatively highest bills when gas is connected are those in receipt of the Aged Pension (around 15% of households) or Disability Support Pension (around 5% of households).

SACOSS is therefore concerned that the proposed Direction 5.2.1 may lock households with limited financial resources into what may become an expensive solution.

In conclusion,

SACOSS notes that this is a final stage of the review but would be pleased to engage further. We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via [jo@sacoss.org.au](mailto:jo@sacoss.org.au).

Yours sincerely,



Ross Womersley  
Executive Director

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<sup>1</sup> ABS 6530.0 - Household Expenditure Survey, Australia: <http://www.abs.gov.au/ausstats/abs@.nsf/PrimaryMainFeatures/6530.0?OpenDocument>