



30 March 2018

By email: [EnergyMarket.Review@delwp.vic.gov.au](mailto:EnergyMarket.Review@delwp.vic.gov.au)

**RE: NAGA Response to the Bipartisan Independent Review of the Electricity and Gas Retail Markets in Victoria**

The Northern Alliance for Greenhouse Action (NAGA) welcomes the opportunity to make a submission on the Emissions Reduction Fund Safeguard Mechanism Consultation Paper. NAGA is an alliance of Moreland Energy Foundation and the nine councils spanning the northern metropolitan region of Melbourne from the CBD to the rural/urban fringe. Our members include the Cities of Melbourne, Yarra, Banyule, Manningham, Darebin, Moreland, Hume, Whittlesea and the Shire of Nillumbik, and covers a quarter of Melbourne's population. NAGA is working to deliver and support urgent, regional action in our transition to a climate-adapted, low-carbon future. To achieve this, we share information, coordinate emission reduction and adaptation activities, and develop and implement innovative regional projects.

*The case for equitable access to solar and efficiency for all Victorian households*

The growth in rooftop solar over the last ten years has been phenomenal. Victoria now has more than 1100 MW of solar panel systems smaller than 100 kW.<sup>1</sup> The uptake of rooftop solar by Victorian households is playing an important role in reducing the strain on our energy grid. Rooftop solar capacity also plays an important role in reducing the costs of electricity to consumers where the additional capacity serves to moderate or shift peak demand, thus reducing wholesale price spikes which feed into higher retail prices for consumers.

In addition, energy efficiency has the potential to build on its already impressive performance; without efficiency standards for appliances and new buildings introduced over the last 20 years, consumption across the National Electricity Market would have been about 37 TWh higher in 2013 than it actually was. The majority of household energy use goes towards keeping our homes warm in winter and cool in summer and heating hot water. Cutting waste through simple measures like insulation, draught-sealing and low-flow showerheads can reduce annual energy costs by 40 percent<sup>2</sup> - delivering savings of up to \$1,000 per year for an average pre-2005 home.

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<sup>1</sup> Australian PV Institute, <http://pv-map.apvi.org.au/historical#4/-26.67/134.12>

<sup>2</sup> Sustainability Victoria, [www.sustainability.vic.gov.au/About-Us/Research/Household-retrofit-trials](http://www.sustainability.vic.gov.au/About-Us/Research/Household-retrofit-trials)



Efficiency improvements also deliver rapid, cost-effective emission reduction opportunities. Recent analysis identified efficiency as the number one global action to achieve peak emissions by 2020 and significant declines by 2030,<sup>3</sup> while building efficiency improvements could deliver more than one quarter of Australia's commitments under the Paris Agreement.<sup>4</sup>

Given the aforementioned benefits of household efficiency and solar, NAGA welcomes the Review's acknowledgement of the role of efficiency, expressed in Recommendation 6B:

“The Victorian government to support programs that help low income and vulnerable households reduce their energy consumption”.

NAGA urges the government to consider the role that efficiency and rooftop solar can play and commit to addressing the range of barriers that prevent much larger scale take-up of efficiency and solar by all Victorians.

#### *Leverage complementary sources of investment*

While household retrofit programs continue to be financed largely through a direct government investment model, available public funding will limit scale and ambition and therefore assist a far smaller percentage of homes. Furthermore, while Victoria's most vulnerable households should be a priority for public assistance, the public policy justification for spending public money on private assets such as investment properties is less clear.

Hence, government should seek to leverage complementary sources of investment to allow for increased ambition and reach to diverse groups of households. Key opportunities include:

- Establishment of a state-wide revolving capital fund to give local government the option of offering *Environmental Upgrade Agreement* rates-based financing for solar and efficiency upgrades to residents. Such financing helps overcome the upfront cost barriers faced by low income households, while allowing repaid capital to be returned to government or re-invested in further programs. The *Solar Savers* initiative which is financing solar for aged pensioners across 22 council areas, and the proposed amendment to the Local Government Act to extend EUA financing to residential properties, provide an excellent foundation on which to build a state-wide revolving fund scheme.
- Partnering with energy retailers to co-finance efficiency and renewable energy retrofits. Co-financing to expand the revolving capital fund as well as data-sharing arrangements (see below) would support the expansion of low-cost retrofit financing

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<sup>3</sup> IEA 2015, *World Energy Outlook: Special report on energy and climate change*, International Energy Agency, [www.iea.org](http://www.iea.org)

<sup>4</sup> ASBEC 2016, *Low Carbon, High Performance: How buildings can make a major contribution to Australia's emissions and productivity goals*, Australian Sustainable Built Environment Council, <http://www.asbec.asn.au/research-items/low-carbon-high-performance-report/>



options to households beyond aged pensioners, particularly non concession-card holding households with high housing and transport costs who are at increasing risk of energy hardship. Opportunities for further expanding the capital fund through collaboration with private lenders, social impact investors or philanthropic organisations should also be explored.

- Raising Victorian Energy Efficiency Target beyond 2020. Recent industry analysis indicates the Victorian Energy Upgrade Scheme is delivering savings 44 percent above that required to achieve current targets, at 50 percent below expected cost.<sup>5</sup> At the same time, activity is currently dominated by commercial lighting, leaving significant efficiency opportunities in the residential sector untapped. This suggests there is ample scope for cost-effectively achieving much higher targets while kick-starting activity in the residential sector. In addition, establishing a priority household sub-target would ensure low-income and disadvantaged households benefited from expansion of the scheme. Costs and risks to retailers associated with reaching these households would be mitigated by complementary investment in targeted outreach and delivery programs (see below).
- Setting minimum efficiency standards for rental properties. The generally poor efficiency performance of Victoria's rental housing stock is exposing renters, many of whom are low income to high energy bills and health risks. However, the well-established 'split incentive' facing landlords and tenants is hindering much needed investment in improvements. As voluntary measures and incentives have been shown to be ineffective<sup>6</sup> and there is limited justification for investing public money in private assets, the only way to overcome the split incentive is to set minimum efficiency standards at the point of lease. The current review of the *Residential Tenancies Act* provides a unique opportunity to deliver this long overdue reform. Minimum standards for health, safety and amenity are being considered. Including basic efficiency measures such as insulation in these standards would catalyse (individually relatively small, but collectively significant) investment in rental housing that will not otherwise happen.

#### *Reduce delivery costs to increase impact of retrofit programs*

Separate delivery models are currently being developed for the *Home Energy Assist* and *Latrobe Valley Home Energy Upgrade* programs. This is contributing to potentially higher than necessary program overhead costs. Developing a statewide shared services model, based on partnerships with local government and the community sector would provide the necessary

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<sup>5</sup> <https://eicca.org.au/news/highly-successful-nsw-and-vic-energy-savings-schemes-over-deliver-under-cost-time-to-increase-targets-10-july-2017>

<sup>6</sup> Lovering, M. 2013, 'Can low income tenants rent an energy efficient home?', AHURI Evidence Review 040, [www.ahuri.edu.au](http://www.ahuri.edu.au)



risk mitigation and quality assurance, but in a more cost-effective way – leaving a greater proportion of available funds for investment in more home retrofits.

The shared services model being developed through the *Solar Savers Program* could provide a model for a state-wide delivery approach, embedded in a broader home energy service providing tailored efficiency and solar advice, finance and services according to individual household need (see below).

Providing streamlined referral services for households with different needs would also reduce the costs of targeting and recruiting households to individual programs. Instead, local government, community sector organisations and energy retailers already in contact with households in need, would have an easily accessible means of referring them to relevant programs. This would also assist in minimising the costs of delivering a priority household sub-target within VEUP.

#### *Partner with retailers to drive data innovation*

Victorian households in need of assistance to access solar and efficiency upgrades are more diverse than low income or concession card-holding households alone. A growing segment of retailer hardship program participants are larger families with high energy use combined with high transport and/or housing costs.<sup>7</sup> Effectively targeting interventions to these high usage, but financially struggling households will maximise environmental and social benefits. However, data-sharing limitations are hindering the effective targeting of these households.

Government has an opportunity to partner with energy retailers to drive innovation in program delivery through open data arrangements. Amalgamation of diverse data sets on energy consumption, outstanding debt, concession card eligibility and location would enable the cost-effective targeting of programs to households with specific needs within discrete geographic areas.

#### *Solar incentives for landlords*

Several innovative financing mechanisms are being offered by companies such as Sun Tenants and Matter which allow landlords and tenants to split the benefit of solar.<sup>8</sup> Victoria should follow Queensland's lead in providing support to help these models reach scale.<sup>9</sup> However, careful attention is needed to ensure tenants are not left worse off and vulnerable tenants are protected.

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<sup>7</sup> <http://agblog.com.au/2015/09/effective-support-for-vulnerable-households-closing-the-gap-between-capacity-to-pay-and-cost-of-consumption-part-2/>

<sup>8</sup> For example, SunTenants [www.suntenants.com/](http://www.suntenants.com/); Matter <http://matter.solar/>

<sup>9</sup> \$4 million trial targeting up to 1,000 properties <https://www.dews.qld.gov.au/electricity/solar/solar-future/rental-properties>



### *Protect consumers*

Affordable supply of energy is essential to health, wellbeing and social participation. But as the energy market becomes more complex, with a wide range of new products, technologies and services entering the market, the way we engage with the system – both as consumers and producers of energy services – is changing. As the system evolves and becomes more complex, we need to make sure consumers particularly vulnerable consumers, remain protected.

There are two broad categories of reforms to our consumer protection regime we need to actively progress now – addressing barriers to informed decision-making by consumers in an increasingly complex market, and making sure consumers are protected when things go wrong.

A number of initiatives could be adopted in the short to medium term, including:

- Requiring energy service providers to identify the consumer’s purpose in acquiring a service, to ensure it is appropriate;
- Testing the need for and best ways to help customers make good decisions; and
- Expanding the jurisdiction of the Energy and Water Ombudsman of Victoria (EWOV) – the main port-of-call for settling consumer disputes – to cover the providers of new energy products and services such as solar leasing, residential battery storage, electric vehicles and community energy projects.

The acknowledgement in Review recommendations of the limitations to EWOV’s jurisdiction is welcome, as is current work being progressed by EWOV in this policy space. But there is an opportunity to go further to implement a comprehensive reform agenda as outlined by consumer advocates.<sup>10</sup> Voluntary initiatives are also emerging, such as the Clean Energy Council Solar Retailer Code of Conduct, which allows leading Australian solar energy companies to ‘show their commitment to responsible sales and marketing activities, and solar industry best practice.’<sup>11</sup>

### *Conclusion*

The energy system is undergoing rapid change. If we recognise the great opportunity this offers – to decarbonise our electricity sector, to increase the equity in the provision of energy services, to become more efficient in how we use energy, and to empower consumers – then regulators and policy-makers can ensure that technological change leads to widespread

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<sup>10</sup> CALC 2016, *Power Transformed*, Consumer Action Law Centre

<sup>11</sup> Clean Energy Council, *Solar Retailer Code of Conduct* <https://www.solaraccreditation.com.au/retailers.html>



community benefits. If this opportunity is ignored, or if we fail to ensure the costs and benefits of change are shared fairly, it will lead to poor outcomes for all concerned.

Thank you for receiving this submission, and we would be happy to provide any further information to assist with the next steps of the Review.

Yours sincerely,

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Executive Officer