

Setting Victorian Energy Efficiency Targets

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About VCOSS

The Victorian Council of Social Service (VCOSS) is the peak body of the social and community sector in Victoria. VCOSS works to ensure that all Victorians have access to and a fair share of the community's resources and services, through advocating for the development of a sustainable, fair and equitable society. VCOSS members reflect a wide diversity, with members ranging from large charities, sector peak organisations, small community services, advocacy groups and individuals involved in social policy debates.

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Introduction

Energy is an essential service for all Victorian households. Its consumption is also a cause of greenhouse gas emissions that cause climate change and its adverse effects.

The Victorian Energy Efficiency Target (VEET) scheme is designed to make energy efficiency improvements more affordable, contribute to the reduction of greenhouse gases, and encourage investment, employment and innovation in industries that supply energy efficiency goods and services.¹ VCOSS supports this scheme as a measure to reduce greenhouse gas emissions and help prevent the adverse effects of climate change on all Victorians, particularly low-income Victorians. VCOSS welcomes the VEET review as an opportunity to explore potential methods for best achieving this goals.

VCOSS recognises that the VEET scheme's primary objective is to reduce greenhouse gas emissions. Extreme weather events (such as heat waves) have a disproportionate impact on low income households. Modelling suggests that climate change is likely to increase the frequency and intensity of extreme weather events. Climate change will affect low income households, which are least able to adapt to increased temperatures and weather variability. Therefore, VCOSS supports the continuation and expansion of the VEET scheme with the objective of reducing greenhouse gas emissions and climate change mitigation.

However, VCOSS also recognises that energy efficiency has other benefits for low-income households, including helping low-income households to mitigate the adverse effects of climate change and help reduce the fuel poverty and energy affordability pressures they face. The Victorian Government should take action so that low-income households can achieve these benefits, although this need not be directly through the VEET scheme.

In this submission, VCOSS puts forward what we believe is the optimal energy efficiency policy for Victoria to pursue, which is to complement VEET with a substantial publicly funded program that assists low-income households improve their energy efficiency. This will help reduce the risks of climate change, support low-income households to adapt to its adverse effects and also reduce the fuel poverty pressures low-income households face.

In the absence of a funded low-income energy efficiency program of sufficient scale, there are other measures that could be taken within the VEET scheme to help low-income households improve their energy efficiency, a range of which are outlined in this submission, which also identifies some additional activities that could be included in VEET to improve its operation.

¹ Essential Services Commission, Victorian Energy Efficiency Target website, available at <https://www.veet.vic.gov.au/Public/Public.aspx?id=Home>

Reducing barriers to energy efficiency for low-income households

VCOSS supports the principle of the VEET scheme, as it plays an important role in enacting Victoria's commitment to greenhouse gas abatement, which ultimately assists in preventing the adverse effects of climate change.

However, VCOSS also recognises that energy efficiency has other benefits for low-income households. Fuel poverty is when a household is unable to afford its required energy needs at a reasonable cost. Increased energy efficiency can help low-income households to reduce the fuel poverty energy affordability pressures they face, as well as mitigate the adverse effects of climate change. The Victorian Government can support low-income households to achieve these benefits, by introducing a funded program that enables low-income households to use energy more efficiently.

Effects of climate change, such as extreme weather events, are likely to disproportionately affect low-income households for a range of reasons. Low-income households are least able to adapt their homes to better deal with increased temperature and weather variability, due to cost and other barriers. Low-income households are also less likely to be able to avoid these effects by moving to areas less prone to climate risks such as flooding or bushfires.

. As well as being an important element of climate change mitigation and adaptation, energy efficiency is also an important component of reducing fuel poverty for low-income households. For many in our community, access to sufficient electricity and gas is compromised by low incomes, financial hardship and rising prices. As a result, some Victorian households experience fuel poverty because they cannot afford to pay for the energy they need, and so either ration their use of it or face disconnection for non-payment of energy bills.

Improving energy efficiency can help low-income households reduce their energy consumption and hence their energy bills, thus reducing their risk of disconnections and other fuel poverty pressures. It can also help them mitigate the adverse effects of climate change, and reduce the greenhouse gas emissions that cause it. However, low-income households face multiple barriers in accessing energy efficiency measures. These include lack of access to capital, lack of control over their living environment, and low energy literacy.²

² Australian Council of Social Service (2013) *Energy Efficiency and People on Low Incomes*, available at http://acoss.org.au/images/uploads/ACOSS_ENERGY_EFFICIENCY_PAPER_FINAL.pdf

Lack of access to capital

Low-income households are more likely to live in homes with poor thermal efficiency and, due to limited resources, tend to purchase cheaper but less efficient appliances. For example, people on low incomes are more likely to own older, cheaper and inefficient fridges, heaters and electric hot water systems.³ Low-income households are more likely to have gaps in doors and windows.⁴

An analysis of VEET by The Brotherhood of St Laurence showed that households in relatively disadvantaged geographic areas were less likely to access efficient hot water services, space heating and insulation, because of the high cost of these items.⁵

Lack of control over living environment

More than a third of low-income households rent their homes in the private market.⁶ These rental households face an additional barrier to increasing their energy efficiency. While the cost of energy efficiency upgrades and any increase in the value of the property that arise from them accrue to the landlord, the savings from reduced energy use accrue to the tenant. This complicates the potential to create incentives to encourage improving energy efficiency in rental properties, as landlords do not receive the resultant energy costs savings, while renters do not 'own' any improvements they pay for, and may not be able to re-coup the investment due to insecurity of tenure. A further complication is that tenants cannot modify rented properties without the landlord's permission; and such permission, if granted, may include a requirement that the modifications are removed and the property restored to its original state at the end of the tenancy, at the tenants' expense.

Low energy literacy

Energy companies, various government agencies and some non-government organisations provide energy efficiency information in the form of leaflets, booklets and websites. This type of information is appropriate for some sectors of the community. However, for others, such as people with low reading comprehension in English, or limited access to information technology, it is less useful. The plethora of information that can be found on the internet about energy efficient products and energy efficiency programs can be conflicting or complex.⁷

³ Australian Council of Social Service, *Energy Efficiency and People on Low Incomes*, 2013, available at http://acoss.org.au/images/uploads/ACOSS_ENERGY_EFFICIENCY_PAPER_FINAL.pdf

⁴ Ibid.

⁵ Sullivan, D. & Johnson, V. (2012) *The Power to Save: An equity assessment of the Victorian Energy Saver Incentive in Metropolitan Melbourne*, Brotherhood of St Laurence, available at http://www.bsl.org.au/fileadmin/user_upload/files/research/reports/SullivanJohnson_Power_to_save_equity_assessment_of_VESI_Melbourne_2012.pdf

⁶ Australian Bureau of Statistics (2013) *Survey of Income and Housing 2011–12*

⁷ Australian Council of Social Service, Op. Cit.

A low-income household energy efficiency program

VCOSS believes the optimal policy for Victoria to pursue is to reduce greenhouse gas emissions, while also assisting low-income households to improve their energy efficiency and reduce the fuel poverty pressures they face.

The Victorian Government could best achieve this by funding an energy efficiency program targeted at low-income households to help them improve their energy efficiency. The primary features of such a program would include:

- Home energy audits and practical energy use information for low-income households
- An efficient appliance replacement program for low-income households
- Home energy efficiency retrofits for low-income households

Home energy audits and practical energy use information

Home energy audits and practical energy use information is an effective part of increasing energy efficiency in people's homes. By being able to systematically assess a whole property, the most effective efficiency improvements can be identified for that particular household. To alter energy use patterns, households can be given information about how to use energy most effectively without reducing their standard of living, including which appliances use the greatest energy, and which type of changes in usage patterns might yield the largest reductions in energy use. Significant reductions in energy use can be achieved by this method, even without additional purchases. These approaches are particularly important for low-income households, as their limited ability to purchase improvements means targeted investment is essential, and well as being able to maximise opportunities to reduce energy use by practical changes.

Later in this submission, we also suggest including energy audits and practical energy use information as Prescribed Activities in VEET, which would further expand their availability and recognise their contribution to greenhouse gas abatement.

An efficient appliance replacement program

By including a source of funding to replace inefficient appliances in low-income households, a low-income energy efficiency program could yield significant energy efficiency improvements and their attendant benefits. Because low-income households often own old, cheaper and less efficient appliances, appliance replacement is a significant energy efficiency opportunity in these households. It has the added benefit that when these are portable appliances, they can continue to assist with energy efficiency when people change tenancies.

This source of funding would work in tandem with VEET. While the sale of VEET abatement certificates covers part of the cost of purchasing some appliances, the remaining capital cost presents a barrier to purchase for low income households. By providing a further source of capital directly, or by providing the administrative resources to help households utilise a No-Interest Loan Scheme (NILS), this cost-gap can be bridged.

Home energy efficiency retrofits

As part of a coalition of organisations, VCOSS has previously recommended the homes of one million low-income households be improved, including through retrofits.⁸ Energy efficient retrofits involve conducting significant alterations to a property, such as by installing insulation, that improves the thermal efficiency of the home.

One concern about publicly funded retrofitting programs has been whether to extend these initiatives to rental properties with low-income tenants, as the increased value of a retro-fitted property will most likely accrue to a landlord. In approaching this problem, VCOSS advocates that the Victorian Government should adopt a state-wide perspective, understanding that increasing the energy efficiency of the State's residential housing stock has benefits regardless of housing tenure. Low-income households will disproportionately end up residing in the poorest quality stock, so investment that improves the most inefficient homes will ultimately benefit low-income consumers, even if they are owned by an investor.

Further measures

VCOSS has had a long history of advocacy to reduce fuel poverty and increase the standard of living in low-income households. Other measures we have advocated include:

- Improving the availability and structure of energy concessions to better assist households with high energy use, including removing the energy concession cap⁹
- Introducing minimum standards for rental properties¹⁰
- Improving the financial hardship programs of energy retailers to prevent energy disconnections.¹¹

⁸ For example, see VCOSS, *Victoria without poverty: 2014 State Election Platform*, available at <http://vcoss.org.au/documents/2014/05/EP2014-WEB.pdf#page=18>

⁹ VCOSS, *Building a Victoria without poverty: VCOSS State Budget Submission 2015-16*, 2015, p.50 <http://vcoss.org.au/documents/2015/03/VCOSS%20State%20Budget%20Submission%202015-16.pdf>.

¹⁰ VCOSS, *A Future Focused Housing Standard*, 2009.

<http://vcoss.org.au/documents/VCOSS%20docs/Housing/VCOSS%20minimum%20housing%20standards%20Oct%202009.pdf>

¹¹ VCOSS, *Inquiry into the Financial Hardship Programs of Energy Retailers: Submission to Approach Paper*, 2015

Adapting VEET to target low-income households

While VCOSS believes the optimal policy to pursue is a separate publicly-funded program that complements VEET, it may be that the Victorian government is unable to fund such an energy efficiency program to complement VEET, of sufficient size to reach significant numbers of low-income households. In the absence of a fully funded program of sufficient scale, VCOSS supports the inclusion of a mechanism to target low-income households within the VEET scheme.

There are a number of different ways VEET could be modified to benefit a greater proportion of low-income households. Each of these has potentially different effects on the way the scheme operates. VCOSS is interested in further discussion on any proposed modification of the scheme to benefit low-income households, and has not adopted a position on the best method to modify VEET to achieve greater energy efficiency benefits for low-income households.

VCOSS understands there may be a trade-off involved in adapting the VEET scheme to achieve this goal. This trade-off could occur if measures taken to increase the proportion of low-income households assisted through VEET significantly interfered with the market mechanism that underpins VEET's overall operation. If VEET should incorporate higher-cost abatement opportunities for low-income households, at the expense of extending least-cost greenhouse gas emission abatement measures as far as possible across the entire Victorian community, this might add to the overall cost of abatement. VCOSS believes it may therefore be preferable to pursue measures that pursue low-income household emission abatement measures through a separate, but complementary program.

The range of practical proposals for modifying VEET to reduce greenhouse gas emissions while also targeting support for low-income households to improve their energy efficiency include:

Banding

Banding establishes a separate target for VEET certificates redeemed from energy efficiency measures in low-income households. This occurs in the South Australian Residential Energy Efficiency Scheme, which has a separate target to ensure a minimum level of energy efficiency activity delivered to low-income households. The banding mechanism requires that retailers purchase a set proportion of separate, 'low-income household' certificates when acquiring certificates under the scheme.

Banding can ensure that low-income households benefit from the scheme, and that an enforceable target for low-income households can be set. However, as learned from the South Australian scheme, these certificates trade at a premium to other certificates, adding to the cost of the scheme, and leading to less expensive opportunities for abatement elsewhere being neglected to generate sufficient low-income certificates. It also requires a mechanism to determine and confirm which households qualify as 'low-income' for the purpose of generating these specific certificates.

Selected items available only for low-income households

This option would restrict certain items in the VEET scheme to low-income households. By 'ring-fencing' certain activities, (e.g. LED lighting or home energy audits) certificates could only be generated if they are completed in low-income households, while the same activities would not attract a certificate in another location.

This approach would target those activities likely to particularly benefit low-income households solely at those households. Careful consideration would be needed about which items might be selected for this category. Priority would likely be given to items that required little capital outlay on behalf of residents, which other households or businesses could be reasonably capable of affording without the assistance of VEET – essentially, activities that are likely to have high additionality for low-income households but much less (or negligible) for others.

Other considerations would efficient appliances, such as refrigerators, that could transfer with tenants should they move homes. This option also requires a mechanism to identify and confirm that a household is low-income. It similarly distorts the principle of least-cost abatement, in that it excludes certain items capable of generating genuine abatement from the scheme for the majority of households and businesses. However this may be lessened if the additionality is markedly different between income groups. Unlike banding, this approach does not guarantee any particular level of participation by low-income households, but does give those households a greater variety of options than other households to participate in the scheme. However, it will tend to favour low cost measures, so is unlikely to improve access to higher-value activities for low-income households.

Bonus certificates

This option would allow additional certificates to be generated if the activity was conducted in a low-income household. For instance, for every two certificates generated in low-income households, the provider could be awarded a 'bonus' certificate. This effectively increases the value of conducting activities in low-income households, and may provide an additional incentive for providers to involve low-income households in their abatement activities, and provide additional resources to cover the costs of activities for capital-poor households.

Like some options above, this option also requires a mechanism to identify and confirm that a household is low-income. It also provides no guarantee that any particular level of participation by low-income households will result, although the higher value of abatement in low-income households would likely yield greater activity in this demographic.

It also is a radical departure from the central idea that certificates represent abatement, as it would create certificates that represent no abatement at all. This could present difficulties in adopting targets for the scheme, as the relationship between the number of certificates and the amount of abatement generated begins to break down, and would likely require some estimate of the number of 'bonus' certificates generated to adjust the target accordingly.

Low-income levy

Instead of funding a separate energy efficiency program for low-income households directly from general revenue to run in tandem with VEET, an alternative is to hypothecate these funds through the VEET scheme. This option would require that when purchasing an abatement certificate, retailers would pay an additional fixed levy on top, which would be directed to fund energy efficiency activities in low-income households via a complementary program.

This option has the benefit that it does not distort the market mechanism underlying VEET: the scheme would still target the lowest-cost abatement activities. It also does not require low-income households to be identified at the point of abatement, although the energy efficiency program itself would require this ability.

However, it would mean energy retailers would incur an additional cost, over and above the cost of abatement, which would be passed on to consumers. In effect, low-income energy efficiency programs would be funded by energy consumers, rather than taxpayers. This option also raises the concern that it would increase the cost of abatement activities, which may run counter to the objective of a program that seeks to encourage abatement.

Mandated activities

Rather than trying to alter the VEET market mechanism to shift market outcomes towards low-income households, the government could simply regulate retailers to require them to conduct these activities. For instance, retailers could be required to conduct home energy audits with a specific proportion of their low-income households. The South Australian scheme requires that as well as purchasing abatement certificates, retailers must conduct (or pay for the conduct of) a specified number of home energy audits. These could be targeted at, for example, consumers who claim an energy concession, or who were enrolled in a hardship program.

This option has the benefit that it does not interfere with the market mechanism of VEET, which would remain focused on lowest-cost abatement. It also means that responsibility for targeting low-income households would lie with retailers, who may be best placed to target activities due to their greater access to information about individual consumers. For example, retailers could target people enrolled in their hardship programs, or their concession customers showing high levels of energy use.

This option would mean retailers incur additional costs to meet these extra obligations, which would be passed onto consumers. It would also require additional regulatory oversight for retailers to ensure they were meeting these additional obligations to a satisfactory standard.

Monitoring and targets

An aspirational target could be established within the VEET scheme for certificates to be redeemed from energy efficiency measures in low-income households. Progress towards the target would be voluntary for retailers and providers, but reinforced by the threat of more interventionist regulation if the targets were not met voluntarily.

This option would require the ability to identify the extent of abatement occurring in low-income households. It would also require a sufficiently credible commitment by government to pursue more interventionist regulatory options if the targets were not achieved. This option also has the disadvantage of being seen as not being strong enough to achieve meaningful change in industry operations, and instead perceived as a mere 'marketing exercise' to create the illusion of action, without meaningful change actually occurring.

Additional Prescribed Activities to be introduced to the VEET scheme

VCOSS suggests that the following Prescribed Activities be included in the VEET scheme.

Ceiling insulation

Ceiling insulation is a practical and cost effective way to increase the thermal efficiency of a home and to reduce energy use. Now that the federal government's Home Insulation Program has been scrapped, the reason for the exclusion of ceiling insulation from the VEET scheme no longer exists. Ceiling insulation could be reinstated by assigning it an abatement factor sufficient to ensure its installation.

Energy audits with practical energy use information

Confusing and conflicting information has been identified as a barrier to adopting energy efficiency measures and behaviours by low-income households.¹² In-home energy audits can play an important role in helping households to overcome the energy literacy barrier.

In-home energy audits provide independent advice on measures that work best for individual households. By including in-home energy audits as a VEET Prescribed Activity, the VEET scheme could help households overcome the energy literacy barriers they face that may prevent them improving their energy efficiency. Audits are of particular value to tenants, who may be unable or unwilling to invest in higher cost energy efficiency installations, but are able to change energy consumption patterns.

¹² Australian Council of Social Service (2013) *Energy Efficiency and People on Low Incomes*, available at http://acoss.org.au/images/uploads/ACOSS_ENERGY_EFFICIENCY_PAPER_FINAL.pdf

VEET target and other matters

VCOSS does not have the expertise to recommend a specific target for the VEET scheme.

VCOSS' only concern regarding a substantially higher target would be the impact of the target on energy prices – a target set too high may increase energy prices, reducing the benefits of the scheme, especially for low-income earners. In principle, the highest possible target should be determined, provided it does not significantly contribute to energy price escalation.

The modelling reported in the *Setting future Victorian Energy Efficiency Targets* consultation paper shows the highest net benefit occurring with the highest target modelled. Modelling a range of higher targets would provide a better basis for determining the right target for the scheme.

Similarly, in response to the modelling approach regarding the greenhouse gas co-efficient and value of greenhouse gas emissions reduction, VCOSS' only comment is that consideration should be given to enhancing consistency with interstate energy efficiency schemes. This would make it easier for energy retailers and energy efficient product suppliers operating across state borders.

In principle, VCOSS does not oppose the inclusion of any particular business sector in the VEET scheme. However, VCOSS supports the additionality requirements in the VEET legislation. Large and energy intensive businesses have considerable capacity to invest in energy efficiency without the benefit of the VEET scheme, given the short pay-back times and relatively high returns; and comments by some representatives of large businesses at the VEET forum on 16 April 2015 suggested that many of these businesses have invested heavily in efficiency improvements without VEET. Participation of large and energy intensive businesses in VEET will necessitate stringent additionality assessments.

VCOSS welcomes this opportunity to contribute to the ongoing discussion about setting Victorian energy efficiency targets, and how to increase energy efficiency in low-income households. We look forward to ongoing discussions with the Victorian Government on these issues.

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