

January 2020

VCOSS Submission to the Victorian Energy Upgrades: New Activities Consultation

The Victorian Council of Social Service (VCOSS) welcomes the opportunity to provide input to the Department of Environment, Land, Water and Planning's (DELWP's) Victorian Energy Upgrades (VEU): New Activities consultation.

VCOSS is the peak body for the community sector in Victoria. We advocate for a fair and equitable society by supporting social services and representing the needs of Victorians facing disadvantage.

We are concerned that while the proposed activities will reduce state-wide emissions, the benefits of the program will not reach the households who most need lower power bills and healthier homes.

VCOSS recommends splitting the VEU targets into residential and commercial sub-targets to ensure household upgrades are not crowded out by the proposed activities for businesses. A sub-target should also be introduced for low-income households and renters, similar to the priority groups implemented in South Australia and the ACT.

We encourage DELWP to fast-track the assistance for low-income households who cannot afford the upfront costs of engaging with the program. This could include further subsidies with a no-interest loan for high-cost, high-savings activities by appropriating non-compliance penalties.

Ensure households do not miss out

Recommendation

Split the VEU targets into residential and commercial sub-targets.

Three of the four new activities proposed for the VEU program exclusively target businesses rather than households, i.e. building energy management and information systems, cold rooms, and hot pipe lagging. These upgrades will lower emissions due to the high energy usage of commercial operations, but may reduce the number of activities performed in households.

The annual VEU targets could be split into residential and commercial targets to prevent household participation from dropping and ensure activities do not skew towards businesses. Another solution could be replacing one of the three proposed commercial activities with a residential activity, particularly one that is affordable for low-income households.

Target the program at those who need it most

Recommendation

Fast-track measures to increase the participation of low-income households.

Introduce no-interest loans and further subsidies for low-income households to access high-cost activities.

Installing a smart thermostat is the only proposed activity that households can access, yet it will exclude everyone without Wi-Fi, a networked device, and the knowledge to operate new technologies. The digital divide in Victoria is substantial; 305,800 Victorian households (13.2 per cent) did not have Internet access in 2016-17.ⁱ

Low-income households, people with low education, and people aged 65 years and over are more likely to face technological barriers with installing a smart thermostat.ⁱⁱ Furthermore people experiencing financial hardship may be unable to cover the upfront cost regardless of a subsidy because smart thermostats cost up to \$400 to install.ⁱⁱⁱ

The focus of the VEU program needs to take equity into account so higher-income households are not the primary beneficiary of subsidised upgrades delivering yearly savings of up to \$1,100.^{iv} The participation of disadvantaged households will continue to decline as free and low-cost activities reach saturation point, but these cohorts cannot be left behind – especially when they benefit most from energy bill savings and thermal comfort improvements.^v

The Regulatory Impact Statement for the Victorian Energy Upgrades – Targets consultation in December 2019 stated: “The Department (DELWP) will also continue to investigate how the program can continue to deliver for low-income households.”^{vi} These measures need to be fast-tracked so households experiencing disadvantage are not further excluded from the program by activities that target businesses or require technology they cannot afford to own.

VCOSS recommends limiting the out-of-pocket costs for low-income households to improve their access to high-cost, high-savings activities that are currently out of reach. This could include further subsidies for eligible households, as well as no-interest loans paid off by the resulting energy bill savings.

Put the penalties to good use

Recommendation

Use VEEC shortfall penalties to increase the participation of low-income households.

Energy retailers are penalised \$50 per Victorian energy efficiency certificate (VEEC) fallen short by and this will increase to \$70 on 31 July 2021.^{vii} Fines are added to the Victorian Government's general revenue and can be as substantial as EnergyAustralia's \$2.99 million infringement in 2018.^{viii}

The Retailer Energy Efficiency Scheme (REES) in South Australia and the Energy Efficiency Improvement Scheme (EEIS) in the ACT are similar programs to the VEU but fines are directed towards further energy efficiency upgrades.^{ix} A similar model could be adopted in Victoria so penalties are used to help low-income households access expensive upgrades and to finance a no-interest loan scheme.

Embed equity into the targets

Recommendation

Introduce a sub-target for upgrades delivered to low-income households and renters.

South Australia's REES and the ACT's EEIS include a sub-target for upgrades delivered to households experiencing disadvantage.^x In 2020, the sub-targets represented 21.7 per cent and 30 per cent of the schemes' aims respectively.^{xi}

A review of the REES found that the sub-target was an efficient and effective method of providing energy savings to low-income households.^{xii} This mechanism also does not distort the relationship between VEECs and emissions abatement, unlike proposals such as bonus credits or credit multipliers.

The VEU program should adopt a similar sub-target so low-income households receive a fair share of the energy savings. Renters should also be added to the sub-target because the split incentive with landlords has caused the energy efficiency of the rental market to lag behind, yet half of all households living below the poverty line are renting.^{xiii}

*This submission was prepared by Ben Latham and authorised by VCOSS CEO Emma King.
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A fully accessible version is available online at vcoss.org.au/policy.

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- ⁱⁱ Thomas J et al, *Measuring Australia's Digital Divide: The Australian Digital Inclusion Index 2019*, RMIT University and Swinburne University of Technology for Telstra, August 2019.
- ⁱⁱⁱ Department of Environment, Land, Water and Planning, *Victorian Energy Upgrades Proposed Activity: Smart Thermostats Issues Paper*, December 2020.
- ^{iv} Department of Environment, Land, Water and Planning, Victorian Energy Upgrades: About the program, www.energy.vic.gov.au/energy-efficiency/victorian-energy-upgrades/about-the-program , accessed 21 January 2021.
- ^v Council of Australian Governments Energy Council, *Report for Achieving Low Energy Homes*, December 2018.
- ^{vi} Department of Environment, Land, Water and Planning, *Regulatory Impact Statement: Victorian Energy Efficiency Target Amendment (Prescribed Customers and Targets) Regulations 2020*, December 2019.
- ^{vii} Engage Victoria, *Victorian Energy Upgrades – Targets*, engage.vic.gov.au/victorian-energy-upgrades/targets , accessed 21 January 2021.
- ^{viii} Essential Services Commission, *EnergyAustralia shortfall statement 2019*, www.esc.vic.gov.au/victorian-energy-upgrades/how-we-regulate-veu-program/our-veu-audit-and-compliance-functions/energyaustralia-shortfall-statement-2019 , accessed 29 January 2020.
- ^{ix} Essential Services Commission of South Australia, *REES Compliance Framework*, June 2014.
- ^x ACT Environment, Planning and Sustainable Development Directorate, *How the scheme works*, www.environment.act.gov.au/energy/smarter-use-of-energy/energy-efficiency-improvement-scheme/how-the-scheme-works , accessed 29 January 2020;
- South Australian Department for Energy and Mining, *Review into the South Australian Retailer Energy Efficiency Scheme*, October 2019.
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- ^{xii} Common Capital, *Past performance and future policy options for the Retailer Energy Efficiency Scheme*, July 2019.
- ^{xiii} Council of Australian Governments Energy Council, *Report for Achieving Low Energy Existing Homes*, November 2019.