



18 May 2007

By email: veet.submissions@dpi.vic.gov.au

Victorian Energy Efficiency Target Scheme
c/o Department of Primary Industries
Level 23, 80 Collins Street
MELBOURNE VIC 3000

Dear Sir/Madam

Victorian Energy Efficiency Target Scheme

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on the Victorian Energy Efficiency Target (**VEET**) scheme Issues Paper (the **Paper**), released jointly by the Department of Sustainability and Environment and the Department of Primary Industries in March 2007. We would like to make the following comments.

About Consumer Action

Consumer Action is an independent, not-for-profit, campaign focused, casework and policy organisation. It is formed by the merger of the Consumer Law Centre Victoria and the Consumer Credit Legal Service, and builds on the significant strengths of these two centres.

Consumer Action provides free legal advice and representation to vulnerable and disadvantaged consumers across Victoria, and is the largest specialist consumer legal practice in Australia. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and throughout the community directly.

Objectives of the VEET scheme

We strongly support the Government's broad objectives in pursuing energy efficiency, including the objectives of contributing to a reduction in greenhouse gas emissions, improving energy supply security and reducing total energy costs for Victorian households.

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Recognising that it is appropriate for Governments to initiate a broad range of policy responses to climate change, it is our view that energy efficiency is one of the policy options that is of most benefit to consumers. Not only should energy efficiency measures in residential households help prepare Victoria for a carbon-constrained future, but, if managed appropriately, it can also reduce the overall cost of living as well as contribute to more comfortable living.

We support the evaluation criteria and the design principles for VEET outlined in the Paper. However, we believe that equity should be added to the evaluation criteria. We note that the benefits from an energy efficiency program such as the VEET scheme may not accrue to all consumers equally. We urge the Government to ensure that the distribution of actual benefits to consumers is shared among all consumers, including low-income and tenanted households.

We note that criteria relating to equity would be in accordance with the Government's recently re-released social policy, *A Fairer Victoria – Building on our Commitment*. Strategy 6 of that policy aims to make services more affordable, including by assisting consumers to reduce energy usage. The overarching framework of the policy aims to ensure that all Victorians are getting a fair chance to share in the benefits of the State's strong economic performance. Considering this, we believe that where broad policies are introduced that affect all residential consumers, the Government should ensure that all classes of consumers are given the opportunity to participate, and equitably share the benefits and bear the costs of the policy.

Establishment of the VEET scheme will produce not only benefits to consumers, but costs. For example, the costs of scheme administration will ultimately be borne by consumers through energy prices. That said, we expect a net benefit from the scheme to flow to consumers – not only through greenhouse gas abatement, but a reduction in energy bills through increased capacity to reduce energy usage. Every effort should be made to ensure that the net benefits delivered by the scheme are able to be shared across different classes of consumers. This position is advocated not only to ensure that all classes of consumers share equally from benefits, but so that some consumers, who may be more expensive or difficult to service, are not unfairly bearing the costs of energy efficiency measures delivered to others classes of consumers.

Priority groups

The Paper identifies two possible approaches to the VEET scheme – an overall target or a portfolio approach. An overall target approach would encourage energy efficiency to be achieved at least cost, by allowing eligible implementers to identify where the most cost-effective reductions can be achieved. Under a portfolio approach, a proportion of the overall target would have to be met by energy efficiency improvements from particular groups. Considering the need to ensure that the net benefits from the VEET scheme accrue fairly across society, we strongly support the portfolio approach and do not support the overall target approach.

In our view, this approach should ensure that low-income households, the rental sector and perhaps larger households are beneficiaries of energy efficiency improvements. It is our view that many of these households are missing out under other energy efficiency policies. This is particular so of tenants in the private rental market.

Other Victorian Government policies which promote energy efficiency include:

- Rebates, including the *Rebates for Being Green* program and the *Water Smart Gardens and Homes Rebate Scheme*. Rebates essentially provide incentives to homeowners to purchase energy and water efficient appliances and products. Water efficient appliances, such as shower heads, can contribute to a reduction in energy usage by reducing hot water usage. However, there is little incentive for landlords to install energy efficient appliances. This is because any saving from the investment of the landlord will accrue to the tenant.
- *Energy and Water Taskforce*. The Taskforce, which has been extended under the recent budget, retrofits public housing in targeted areas. While this is an excellent program that delivers benefits directly to many low-income consumers who live in targeted public housing, it remains limited in scale and, more importantly, in scope with many low-income consumers also living in the private rental market. Public housing only accords for around 16 per cent of all tenanted households,¹ and the waiting list for public housing is extensive.
- Concessions, including the *Capital Grants Concession*. Capital Grants assist by repairing or replacing major essential gas, electrical or water appliances, which are faulty and/or have failed in the last 12 months. Applicants must show that they have no savings to meet the cost of repairing or replacing the faulty appliance and demonstrate that the cost of energy or water affected by the faulty appliance is currently unaffordable. The program aims to replace faulty appliances with efficient ones.
- *5 star homes*. The 5 Star standard for residential homes ensures that new homes in Victoria are built to incorporate certain environmental features. While this should improve the energy efficiency of new homes, it does not improve the efficiency of current housing stock.
- *Hardship policies* of energy retailers. New legislation requires energy retailers to provide consumers experiencing financial hardship with energy audits and to replace inefficient appliances at low or no cost.² This policy directly assists consumers experiencing financial hardship, but is limited in its applicability. Further, the price path agreement which allows the three incumbent retailers to offer such replacements expires at the end of this year.

¹ Tenants' Union of Victoria, *Victorian Housing and Tenancy – Facts and Figures*, available: http://www.tuv.org.au/pdf/housing_statistics/Victorian_Statistics.pdf.

² *Energy Legislation (Hardship, Metering and Other Matters) Act 2006* (Vic).

The glaring omission from the above policies is the assurance that energy efficiency measures are being delivered to private tenants. It is our view that private tenanted households (together with low-income homeowners) need to be assisted directly with energy efficiency measures. Targeting private tenants as part of the VEET scheme will assist in overcoming the current poor incentives for landlords to implement energy efficiency measures.

We also believe that VEET should prioritise low-income consumers generally, many of whom are tenants. With a range of policies to mitigate climate change impacts being established (including the possibility of a direct carbon price), it is inevitable that the cost of energy will rise. Such price rises will inevitably impact disproportionately on low-income households. While low-income households use less energy than average households, as a proportion of their weekly expenditure, they expend almost double the amount compared to the average household.³ Energy efficiency measures may also perversely incentivise energy retailers to increase fixed charge components of energy bills, so as to ensure that they maintain their revenue. This again will impact disproportionately upon smaller users of energy. It is our view that prioritising low-income consumers is a vital means of redressing the otherwise regressive nature of the VEET scheme and recognising the low carbon footprint of low-income households.

As the Paper notes, the UK Energy Efficiency Commitment (**EEC**) includes an obligation on suppliers to direct at least 50 per cent of energy savings to a priority group of low-income consumers, in receipt of certain income/disability benefits or tax/pension credit. In its recent consultation paper in relation to the third phase of the EEC, the UK Government reiterated that considering the impact of EEC costs on low-income consumers remained a high priority.⁴

While supporting low-income and tenanted properties being prioritised in the VEET scheme, we do not see this as the limit of Government's responsibility in relation to mitigating the impact of price changes due to the need for climate change abatement. It is our view that other measures, such as direct subsidies, higher income support payments and/or alternative tariff structures, are needed to ensure that low-income consumers are not disproportionately affected by price rises due to the need to address climate change.

Finally, we acknowledge that the cost of providing improvements to these groups might be higher than to the general population (due, in part, to having to separately and specifically identify such groups and/or provide a sufficient subsidy for them to be able and willing to take up the relevant measure). This might make the VEET scheme itself marginally more costly, however, we also note that the costs of *not* providing improvements to these priority groups accrue in other ways, for example as ongoing energy bill payment difficulties for these households. The government and

³ Australian Bureau of Statistics, *Household Expenditure Survey*, 2006.

⁴ Department of Environment, Food and Rural Affairs, *The Energy Efficiency Commitment April 2008 to March 2001- Initial Consultation*, July 2006, available at: <http://www.defra.gov.uk/corporate/consult/eec3/consultation.pdf>.

industry, and thus ultimately consumers and the community, pick up the tab for these costs through more and higher concession payments by government, and energy retailer costs in running financial hardship programs and credit management processes. We therefore consider that taking a portfolio approach to the VEET scheme may, in fact, be less costly than an overall target approach when viewed within the overall context in which the scheme will sit.

Eligible activities

We support a wide range of activities being eligible for the creation of VEET certificates, and support the list of activities included in the Paper. A wide range of activities should encourage market development and potentially competition for the creation of VEET certificates.

We agree that there should be a robust process for verifying emissions reductions achieved. Such a process should ensure that any savings accounted for under VEET are 'additional' savings. Considering the costs involved in establishing and administering the scheme, consumer confidence will be impinged if any reductions that would have been achieved otherwise are double counted, causing the scheme not to contribute to a reduction in greenhouse gases. We note that the NSW Greenhouse Gas Abatement Scheme (**GGAS**) has been criticised due to low levels of additionality.⁵

Despite this, we believe that consideration should be given to whether the provision of home energy audits, in addition to retrofitting, should be eligible for the creation of VEET certificates. It is our view that education about simple measures such as better curtains and door snakes can make a big difference to heating and cooling, and indeed sometimes it is simple measures such as these that are the most cost-effective ways to do so within a household. If such energy audits result in reduced carbon emissions, then we see no reason why they should be excluded from the VEET scheme.

Relevant entities and eligible implementers

The VEET scheme proposes energy retailers to be the relevant entities – that is, the obligation is on energy retailers to surrender certificates under the VEET scheme. The Paper asks whether smaller retailers should be excluded from the scheme, on the basis that additional administration and compliance costs may be prohibitive for those businesses, as well as the fact that such retailers will have lesser greenhouse gas emissions associated with their energy sales.

We do not support smaller energy retailers being excluded from participation in the scheme. In our view, all energy businesses and energy consumers should have to bear the costs of responding to climate change. Furthermore, this should be done

⁵ Centre for Energy and Environmental Markets, *The NSW Greenhouse Gas Abatement Scheme: An analysis of the NGAC Registry for the 2003, 2004 and 2005 Compliance Period*, May 2007.

equitably. Not requiring participation in VEET will also have implications for the competitive retail energy market, by not ensuring a level playing field for all energy retailers and energy consumers.

A wide range of parties should be eligible to create VEET certificates, so as to promote the development of innovative energy efficiency measures. We note that the Paper suggests that landlords and real estate agents could act as eligible implementers. While not opposing that position, as it could become a valuable means of providing an incentive to landlords and estate agents to make energy efficiency improvements to tenanted properties, this would need to be appropriately regulated. For example, in a similar context, we have seen landlords and real estate agents act as agents for utility connection services, without due regard for tenants' interests. We would be concerned if the VEET scheme relied upon landlords and real estate agents to deliver energy efficiency measures.

A fair accreditation process should be required for eligible implementers to participate in the VEET scheme. We do recognise that accreditation is a cost for business, and may be a barrier to entry for many possible implementers. As such, we think that the cost of accreditation should be kept to a minimum. However, accreditation will be necessary to ensure appropriate compliance monitoring and enforcement can be undertaken.

Auditing and compliance

As stated above, robust auditing of emissions reductions achieved as part of the VEET scheme is essential. We also believe that there must be transparent and public reporting of the scheme's outcomes. Poor public reporting in relation to the NSW GGAS scheme has been a particular failing.⁶

A comprehensive compliance and enforcement regime should be instituted as part of the VEET scheme. Considering its role in administering the Victorian Renewable Energy Target (**VRET**) scheme, it makes sense for the Essential Services Commission (**ESC**) to act as the administrator and regulator of the VEET scheme. The level of shortfall penalty to apply where retailers do not surrender their quota of VEET certificates is also integral to the scheme achieving its objectives – it must be set at a level which encourages compliance.

We also agree with the separation of scheme administration and policy development proposed in the Paper. Policy oversight will ensure that the VEET scheme will develop in line with market and other trends. To be effective, such policy oversight should engage stakeholders, including consumer representatives. Consultation with consumer representatives ensures that Government deliberations have access to a wide range of views, as well as allowing consumers to have input into decisions which impact upon them. It should also ensure that the efficiency and effectiveness of the scheme is regularly reviewed, in addition to more formal ongoing reviews.

⁶ Ibid.

Should you have any questions about this submission, please contact us on 03 9670 5088.

Yours sincerely

CONSUMER ACTION LAW CENTRE

A handwritten signature in black ink that reads "Gerard Brody". The signature is written in a cursive style with a long, sweeping underline.

Gerard Brody
Senior Policy Officer