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**Energy Savings Scheme
Water Heaters Consultation
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General comment

The Energy Efficiency Council (EEC) welcomes the opportunity to make a submission to the Office of Energy and Climate Change's Energy Savings Scheme (ESS) water heaters consultation.

The EEC is the peak body for Australia's energy management sector. A not-for-profit membership association, the EEC works to:

- Drive world-leading policy on efficiency, electrification and demand flexibility;
- Ensure we have the skilled workforce to deliver Australia's energy transition; and
- Support businesses and households to rapidly decarbonise.

The EEC is currently working on a project to develop a national heat pump hot water system (HPHWS) roadmap, which is funded by the New South Wales Office of Energy and Climate Change (OECC) and the Victorian Department of Energy, Environment and Climate Action (DEECA).

The project is in its early stages; however, the EEC has completed approximately fifteen industry one-on-one conversations with a range of businesses on the topic of HPHWSs. Concern regarding the role of energy efficiency schemes like the ESS in incentivising the installation of poor quality HPHWS has appeared in the vast majority of these interviews, and is a clear industry concern.

Industry concern is nuanced

The primary concerns expressed by industry regarding the impact of energy efficiency schemes like the EES are about perverse or unintended outcomes associated with low or no cost installations. These include:

- Promotion of poor workmanship from installers who need to cut corners to deliver at the low cost;
- Incentivisation of using the cheapest product available all of the time (even where something else may be more suited to the householders needs or climate);
- A lack of incentive for consumers to do their research as they have no 'skin in the game'; and
- Creation of an environment in which consumers are easily taken advantage of through predatory or aggressive sales tactics.

Introducing co-payments has been suggested as one of several possible solutions to these issues.

Despite the above concerns, many of the industry stakeholders interviewed made it clear that incentives have an important role to play in increasing the uptake of HPHWS in homes, and enabling householders to unlock the emissions and bill savings benefits they offer. They also noted the importance of affordable options being available to low income and otherwise vulnerable households.

Community literacy on HPHWS is still lower than desirable, and making sure the product is sufficiently attractive to householders against alternatives may be a priority when looking to electrify quickly and efficiently. Should the incentive fail to be attractive enough, there are fears interest in the product could wane, and this would be a disappointing outcome for many stakeholders.

A holistic view is needed

The paper notes that:

'If the co-payment requirement is set at a small fraction of the product value, consumers may not ensure the upgrade is fit for purpose.'

It is important to be clear that 'fit for purpose' is not a judgement consumers should be responsible for. It is the responsibility of qualified installers with technical skills to ensure the install is fit for purpose. Government must ensure installers are accountable for their workmanship to protect consumers.

Co-payments and reduced incentives are no substitute for other meaningful consumer protection and compliance activities. And while price can be an important indicator of quality, it does not *guarantee* quality. Price settings need to be considered along with many other factors within the scheme ecosystem when addressing consumer protection concerns.

The Roadmap for Heat Pump Hot Water Systems in Australia, which will be released by mid-2024, will consider significant industry consultation and all facets of the HPHWS ecosystem in its advice to government.

This will provide direction in a coordinated and cohesive way, backed by the support and expertise of industry. This roadmap will not only seek to improve outcomes in the near-term, but also set Australia up for wide scale electrification of homes and businesses into the future.

The ESS team is strongly encouraged to stay engaged with this work.

Answers to specific questions

What are your views on amending the baselines for calculating energy savings from residential and small business hot water upgrades? Where possible, please provide evidence to support your position.

It is common sense to ensure energy savings calculations for hot water system upgrades align with real-world savings. Ensuring these calculations are accurate is integral to the credibility of the program and the evidence provided in the consultation paper appears credible.

The EEC is comfortable with amending the baselines for calculating energy savings from residential and small business hot water upgrades. In particular, members noted that they appreciate that there will be no changes to the approved product requirements.

What are your views on the additional co-payments for hot water system installations and upgrades? Where possible, please provide evidence to support your position.

Anecdotally, a co-payment of a few hundred dollars appears to be broadly acceptable to the industry stakeholders the EEC has engaged with. This is a relatively small payment for an item as large as a HPHWS.

The only area in which this may be a challenge is in low-income households. It would be desirable to have a lower or free cost option available for people experiencing hardship, however it may not be economically viable for the ESS to deliver in a tiered approach like this. Other programs may be able to address this issue.

What are your views on the two transition options? Where possible, please provide evidence to support your position.

Feedback from the EEC membership indicated that option one is an acceptable transition pathway:

"The previous rule (meaning the current provisions) applies where an implementation date is within 3 months of the commencement date, or as agreed on a case-by-case basis with the Scheme Administrator, IPART."

Option two, based on contractual building agreements, is likely to be more resource intensive to administer and therefore less desirable from a bureaucratic standpoint.

As the industry does not need to re-test, it would make sense to choose the option with less administrative burden and cost for government.

Should you have any questions about the matters raised in this submission, please contact our Advisor, Rachael Wilkinson at Rachael.Wilkinson@eec.org.au.