

15 July 2024

Department of Justice and Community Safety  
Victorian Government

Via: [regulationpolicyconsultation@justice.vic.gov.au](mailto:regulationpolicyconsultation@justice.vic.gov.au)

## Victoria's Minimum Energy Efficiency and Safety Standards for Rental Homes – Regulatory Impact Statement

Energy Networks Australia (ENA) welcomes the opportunity to make a submission to the *Minimum energy efficiency and safety standards for rental homes – Regulatory Impact Statement* (referred to hereafter as the Rental RIS).

ENA represents Australia's electricity transmission and distribution and gas distribution networks. Our members provide over 16 million electricity and gas connections to almost every home and business across Australia.

### Key messages

- ENA support the objectives of the Victorian Residential Tenancies Regulations to ensure renters are provided with safe and habitable living arrangements.
- Decarbonising households is a complex issue involving over 5 million diverse households. Natural gas provides around 70 per cent of energy to Victorian homes but only accounts for 7 per cent of Victoria's emissions.
- Research consistently shows that the best 'bang for buck' to decarbonise households starts with rooftop solar and energy efficiency practices, not by electrifying gas appliances.
- The Cost Benefit Analysis has material gaps and errors. It should be redone, incorporating the detailed feedback from AGIG, APA, AusNet Services and Jemena.
- The Victorian Government should ensure it engages with affected stakeholders (such as gas and electricity network businesses) and be transparent in its modelling when updating the RIS.
- If the Victorian Government were to progress with the regulation, it should first test it on state-owned housing to bring to light any practical challenges.

### Decarbonisation priorities

ENA supports the objectives of the Victorian Residential Tenancies Regulations to ensure renters are provided with safe and habitable living arrangements. ENA also supports the objectives of the proposed additional minimum standards to:

- Improve renter health, wellbeing, comfort and safety;
- Reduce renter energy bills; and
- Reduce greenhouse gas emissions, supporting the energy transition and decarbonisation of the rental sector.

ENA also supports reaching net zero emissions by 2050 or earlier<sup>1</sup>, which requires coordinated actions across all sectors. Australia will need to play a vital role to both decarbonise its domestic economy and its emission intensive resources.

Reducing emissions comes at different costs and complexities across sectors. Some sectors are able to reduce emissions in the near term, while other sectors require further technology or deployment cost breakthroughs. The Australian government is currently consulting on decarbonisation pathways in different sectors and aiming to develop a national action plan by the end of 2024.

ENA's member businesses are key enablers to decarbonise the energy sector. Analysis done by BCG highlight priorities for decarbonising the Australian economy focussing on the greatest emissions impact for effort. They are<sup>2</sup>:

- Continue the switch from coal-fired electricity generation to renewables. This will be supported by effective investments in transmission and distribution infrastructure to connect new sources of renewable electricity generation with customers.
- Encourage the uptake of electric vehicles. Smarter use of the distribution grid can encourage renewable generation during the day to be used to replace fossil fuels for cars.
- Develop renewable gas solutions for industry. Many industrial and commercial businesses do not have practical alternatives to the use of gaseous fuel. The volume of fuel required shows a clear pathway for gas networks' key role in decarbonising the energy system.

A focus on decarbonisation of industry will help to achieve economies of scale and accelerate the transition of the rest of the economy. Prioritising renewable electricity generation, EV's, energy efficiency and renewable gas for industry builds the national capability to decarbonise other sectors, such as the built environment, heavy freight, and agriculture.

## A fair transition for all of Australia's families

Australian households can and want to participate in the transition in a meaningful way. While natural gas provides around 70 per cent of energy to Victorian homes (not including transport fuels), it only represents 7 per cent of Victorian emissions.

Australian households should be encouraged to continue to make choices to decarbonise their homes in ways that suit their needs and in an affordable, staged approach. Australia has some of the highest rates of installed rooftop solar and customers want to continue to be a part of the solution to reducing emissions.

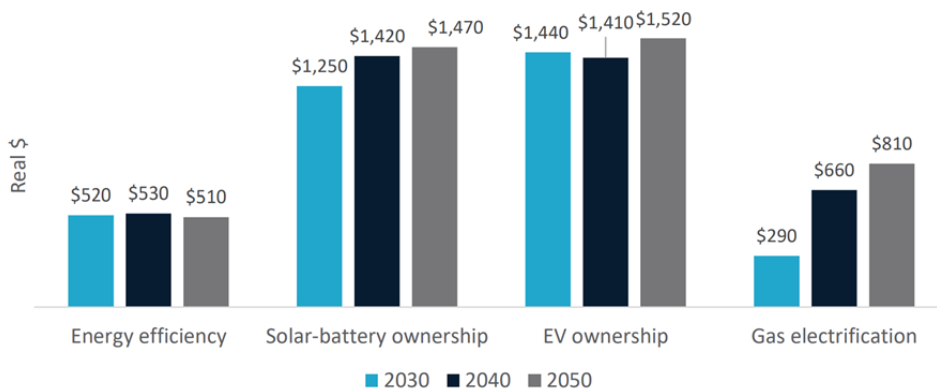
While individual circumstances will vary, research consistently shows that the best 'bang for buck' to decarbonise households starts with rooftop solar, energy efficiency practices and purchasing an EV (and charging it from solar). Electrification of gas provides a lower emissions benefit and is a complex issue involving over 5 million diverse households. The cost implications for households are highlighted by research

---

<sup>1</sup> ENA recognises that the Victorian Government has a net zero emissions target for 2045.

<sup>2</sup> BCG (2023), *The role of gas infrastructure in Australia's energy transition*

conducted by CSIRO and Dynamic Analysis for Energy Consumers Australia (ECA), with key results shown in the Figure 1<sup>3</sup>.



*Figure 1: Household energy transition options provided bill savings (Source: CSIRO/ECA (2023), ENA analysis)*

The greatest near-term benefits come from EVs, solar, and energy efficiency practices.

Any support for household emissions reductions should be targeted at those most in need and initially at the improved efficiency, solar and EV applications that will make the biggest difference for customers. As a whole, electricity and gas networks support helping customers to make *decarbonisation choices* that are best suited to them, at least cost. There is no one-size-fits-all solution, and individual circumstances must be considered, including consumer preferences, location, budget, and home type.

## ENA recommends that the Victoria’s Rental RIS is redone

Victoria’s gas substitution roadmap is part of the Victorian Government’s approach to meet its emission reduction targets.

### Main market failure not addressed

The Rental RIS identifies a range of market failures it is attempting to address. However, it does not address the major market failure of the split incentive between Rental Providers and Renters, where one party pays for an improvement in household living standards but the other party benefits for those. The resulting Cost Benefit Analysis is not balanced as it only counts direct costs to Rental Providers but includes benefits to renters and the whole of society. This should be addressed by also including costs to renters (for example, cost being passed on to renters) and society within the scope of the assessment.

### Impact on gas appliance industry should be recognised

The Rental RIS will have major impacts on Victoria’s gas appliance industry, as well as on investment decisions for both gas and electricity networks in Victoria. The Rental RIS applies to the 704,575<sup>4</sup> rental properties, approximately one quarter of households in Victoria. Noting the range of exemptions outlined, the Rental RIS

<sup>3</sup> CSIRO and Dynamic Analysis, Consumer impacts of the energy transition: modelling report, July 2023.

<sup>4</sup> Rental RIS – Appendix A – Rental housing stock in 2023.

essentially requires gas appliances to be replaced by an electrical alternative at the end of its life. This roughly translates to a reduction by 25 per cent of gas appliance demand for the Victorian market. This would have a profound effect on Victoria's gas appliance manufacturing industry. It would also signal a significant reduction in industry capability in a very short time if the RIS is enacted in 2025. Furthermore, as Victoria accounts for around 40 per cent of Australia's gas appliances demand, the RIS could have a material impact on the availability and costs of gas appliances around the country.

### **Distribution of compliance costs should be considered**

In response to the Redbridge Energy Shift<sup>5</sup> survey, 64 per cent ranked cost of living as the issue that should be prioritised by the Federal government. A RIS on energy efficiency of rental homes in the ACT<sup>6</sup> found that around 77 per cent of rental providers would pass through the additional costs of compliance in whole. This cost pass through is equally as likely to happen in Victoria and this may place more pressure on the cost of living.

The Rental RIS identifies that the current incentives offered through the Victorian Energy Upgrades (VEU) may not be available to support the improvements of rental homes<sup>7</sup>, as the VEU cannot be applied for upgrades that meet regulatory requirements. If amendments were made to the VEU scheme or other incentives offered for upgrades these would ultimately be paid through bill impacts for all electricity customers. The AEC<sup>8</sup> notes that environmental levies such as this account for between 9 and 12 per cent of household electricity bills. In turn, this would increase the cost-of-living pressures for all Victorians but also raise issues about equity. For example, should all Victorians be forced (via a green scheme) to contribute to rental providers' expenses to upgrade their properties?

The flow on effects on cost of living for renters and rental providers from regulating improvements to rental homes should be addressed.

### **The Cost Benefit Analysis is incomplete**

Our members with gas assets in Victoria – AGIG, APA, AusNet and Jemena – have outlined a range of shortcomings with the Rental RIS processes. These include but are not limited to:

- Incorrect costs of appliances and rectification cost of households that electrify,
- Incomplete costs associated with capping gas connections,
- Overstating the cost savings from electrification, and.
- Overstating the benefits from avoided emissions.

ENA considers that these shortcomings in the cost benefit analysis are material and recommends that the Cost Benefit Analysis is redone. The Victorian Government

---

<sup>5</sup> Redbridge, Energy Shift- Tracking Poll: Wave 2 – 29 May 2024, pg 7.

<sup>6</sup> ACIL Allen (2021), *Minimum standards for residential rental properties, Regulation Impact Statement: pg 59*

<sup>7</sup> Section 10.2.2 of the Rental RIS.

<sup>8</sup> <https://www.energycouncil.com.au/media/1jzb4jyq/understanding-energy-bills-4.pdf>

should engage with industry and consumer groups when redoing the CBA to ensure that the best information is available to inform the RIS. This approach would improve the transparency of and confidence in the policy direction for the decarbonisation of Victorian homes.

## Implementation issues

Decarbonising Victorian households is a complex issue involving over 2 million diverse households. The Rental RIS<sup>9</sup> includes an implementation and evaluation plan which does not address many implementation issues. Completing the energy efficiency or appliance replacements as proposed in the Rental RIS will identify a range of unexpected challenges that can inform appropriate exemptions. For example, replacing an instant gas hot water heater with a hot water heat pump will require additional space which may be impractical in apartment or other higher density buildings.

If the Victorian Government were to progress the implementation of requirements to replace gas appliances at the end of their life with electrical appliances and do so in a manner that is appropriately staged and brings to light critical practical challenges, it should first test the regulations on state-owned housing. The Victorian Government would then be well placed to use the learnings to inform a broader program for the rental and home-owners segment of the market. This would also help identify appropriate exemptions from the Rental RIS.

We would welcome the opportunity to work with the Victorian government to improve the assumptions used. If you wish to discuss any of the matters raised in this response further, please contact Dennis Van Puyvelde, Head of Renewable Gas, via: [dvanpuyvelde@energynetworks.com.au](mailto:dvanpuyvelde@energynetworks.com.au).

Yours sincerely,



Dominique van den Berg  
Chief Executive officer

---

<sup>9</sup> See section 12 of the Rental RIS