

## Submission on the Regulatory Impact Statement for Residential Building Mandatory Disclosure

### Executive summary

The Moreland Energy Foundation Ltd (MEFL) strongly supports the introduction of policy measures to increase the energy efficiency of Australian homes. Energy efficiency is not only a highly effective and low cost way to cut greenhouse gas emissions. It is also the best way to stem increases in energy prices both for individual households and the market as a whole.

We view residential building mandatory disclosure as an important measure to increase energy efficiency by raising awareness of energy efficiency as a means to reduce energy costs, and improving the information available to home sellers, purchasers, landlords and renters to enable better choices regarding energy efficiency.

Our community engagement and energy efficiency research programs in Melbourne's north confirm the existence of a large residential efficiency 'gap'. Most homes are of a low energy efficiency standard, and very few have taken measures to bridge this gap. This is despite high levels of concern about rising energy costs, suggesting a lack of information to explain the link between energy costs on the one hand, and energy efficiency opportunities and housing choices on the other.

The Regulatory Impact Statement (RIS) assesses a number of options for addressing this problem, but appears to understate the benefits to be derived from energy efficiency improvements, and overstate some of the key costs. In particular:

- **Assessment costs overstated:** Our experience from undertaking on-the-ground assessments of the energy performance of homes is that the cost of a comprehensive assessment is much lower than suggested in the analysis for Option 1, and this cost could be expected to reduce even further as the volume of assessments increases and businesses find innovative ways to reduce costs.
- **Significant benefits excluded:** The analysis excludes potentially significant benefits from the various options, including reducing the need for new energy infrastructure through reduced peak demand, health benefits for householders, and economic benefits (jobs etc) resulting from the expansion of the energy efficiency industry (assessors, retrofitters and potentially manufacturers). These benefits may be difficult to quantify, but the analysis is flawed if they are not incorporated in some way. The value of these benefits needs to be included in the analysis.
- **Hybrid option:** The RIS considers a range of potential solutions with differing levels of burden and cost on the person required to make the disclosure. However, the RIS does not consider a hybrid option whereby sellers or landlords who do not regard energy efficiency as a priority for their property can opt to undertake a less comprehensive and lower cost assessment for which only a low rating can be returned. While it is important that the majority of housing stock is assessed to a high level, a hybrid option needs to be considered.

Further detail on these points is contained below.

## Background

MEFL is an innovative not-for-profit organisation established by the City of Moreland in 2000 to reduce greenhouse gas emissions. MEFL works within and beyond the Moreland community to implement a range of low emissions energy and energy efficiency programs, including behaviour change programs, research and demonstration projects and advice and information services.

Through the Northern Alliance for Greenhouse Action, a network of MEFL and 9 local governments (representing 25 per cent of Melbourne's population) MEFL is pioneering the delivery of sustainable energy projects at the regional scale.

The submission also relies upon MEFL's research work and experience in delivering a range of energy saving programs to the community, including:

- The 'Zero Carbon Moreland' community engagement project, which is on track to recruit 10% of Moreland households, businesses and community organisations to reduce emissions by 20%.
- The Take Action and On-Ground Assessment of the Energy Efficiency Potential of Victorian Homes research projects, which look at the energy efficiency opportunities in the residential sector.
- Auditing and retrofitting programs, including targeted pre-winter and pre-summer draught proofing and shading programs, and programs focused on low income households.
- A full-time sustainability advice service, including advice for businesses and community members who are building or renovating.
- Bulk buy schemes, including for solar panels and hot water systems, and the broader Delivering Clean Energy Solutions project, which is investigating the possible establishment of an energy service company to provide a range of energy services including energy efficiency assessment and retrofitting services.

## The extent of the problem

MEFL's experience in undertaking energy efficiency research and programs in the Moreland community and across the north of Melbourne suggests that there is an efficiency 'gap' in the market.

This can be seen in the very poor energy efficiency of many existing homes (a recent MEFL research project revealed an average rating of only 1.3 stars amongst homes assessed), and a broad failure of households to adopt the cheapest or most cost-effective energy efficiency measures. The recent Green Light report by Sustainability Victoria<sup>1</sup> confirms this efficiency gap, revealing low levels of uptake for many of the most cost-effective energy efficiency measures, particularly in older homes and rental properties. For example, only 32% of homes have pelmets over curtains or blinds, 51% of rentals report that they have ceiling insulation, 15% of older homes have wall insulation, and 10% of homes have solar guarding on windows.

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<sup>1</sup> Sustainability Victoria Green Light Report, 2010, <http://greenlightreport.sustainability.vic.gov.au/>.

Our experience also suggests that a lack of information is a significant obstruction to increased energy efficiency in homes. MEFL has repeatedly been asked by community members for more information about how to save energy and reduce greenhouse gas emissions in the home, and in March 2010 we convened a 'Next Steps' workshop to provide information about household energy saving, as well as 'sharehoods', sustainable renovation on a budget, lighting workshops and sustainable transport. This information does appear to have made a difference, with 73% of participants having made changes around the home after attending the workshop.

### **Adequacy of solutions**

The RIS considers a number of potential solutions to address the problem, with varying degrees of regulatory burden and cost. However, the RIS does not consider a hybrid approach. In MEFL's view, a hybrid approach may overcome concerns about the cost for some property owners.

Under a hybrid approach, property owners would still be required to have their home assessed except in special circumstances (eg if demolition of the building was certain). However, a property owner for whom the cost of an assessment was a significant concern could opt to undertake a cheaper and less comprehensive assessment such as Option 2 in the RIS. A property assessed using this simpler assessment method would only be eligible for a low star rating (eg up to 2 out of 5 star). If the property owner wished to achieve a higher rating, they would need to undertake a more comprehensive assessment such as Option 1 in the RIS. Further consideration of such an approach is warranted.

The RIS does not recommend a particular ratings tool, and in the Melbourne consultation workshop it was explained that the RIS is 'tool agnostic'. This may mask the significant impact that may result from the decision about which tool to use for assessments. There are likely to be significant benefits from building upon an existing and well-recognised assessment method such as NatHERS, which would for example facilitate comparison of existing homes rated for the purposes of mandatory disclosure with new homes rated for the purpose of meeting building standards.

We note that the RIS includes options that do not require disclosure at the point of lease, and regard these options as sub-optimal. Renters are already placed at a disadvantage in relation to energy efficiency of their homes, because split-incentives often prevent them from taking action themselves to improve energy efficiency and thereby cut energy costs. Most renters only become aware of the running costs of their home after receiving their first bill, which demonstrates the information market failure that mandatory disclosure needs to address.

Finally, we note that Option 5 does not address the stated objective of getting more information into the market about residential properties.

### **Assessment of costs and benefits**

The RIS cost-benefit analysis appears to understate the benefits to be derived from energy efficiency improvements, and overstate some of the implementation costs.

### Significant benefits excluded

In terms of benefits, the RIS analysis does not incorporate a number of significant benefits that can be expected to flow from increased energy efficiency of homes, including:

- Economic benefits such as job creation resulting from the expansion of the energy efficiency industry, including assessors, retrofitters and manufacturers of energy saving products.<sup>2</sup>
- Health benefits for occupiers of more energy efficient homes, which have been well documented.<sup>3</sup>
- Infrastructure benefits in the form of a reduced need for new expensive energy infrastructure through reduced peak demand, which in turn reduces network costs for energy consumers. A report prepared for the Department of Climate Change and Energy Efficiency found that improved energy efficiency in buildings could save up to an estimated \$16.7 billion in infrastructure costs by 2020, with net savings of around \$1 billion per year.<sup>4</sup>

There are clearly significant benefits that will flow from increased uptake of energy efficiency measures in Australia, including increased uptake resulting from the adoption of residential mandatory disclosure. There is also significant research on these benefits, a snapshot of which are provided in the references above.

While it may be challenging to precisely quantify these benefits, there does not appear to be any good justification for not incorporating some estimate of these benefits in relation to each of the options analysed in the RIS. We suggest that this will significantly improve the benefit-to-cost ratio for each option.

### Assessment costs overstated

In terms of costs, our experience through energy efficiency research programs undertaken in conjunction with home energy assessor *Energy Makeovers* reveals that the cost of a comprehensive assessment is significantly less than the estimated cost used in the analysis of Option 1. The analysis of Option 1 needs significant reworking in light of this information.

Further, we would expect costs to come down significantly over time as businesses find innovative ways to reduce the cost of assessments. Some 'learning' needs to be incorporated into the analysis.

### Risks and uncertainties

Any new program such as this requires good regulatory oversight to ensure that the public is protected from poor outcomes and is able to trust the scheme.

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<sup>2</sup> See, for example, 'Stimulating the Australian economy through a National Energy Efficiency Program', KPMG and Brotherhood of St Laurence, 2008.

<sup>3</sup> See, for example, 'Public health benefits of strategies to reduce greenhouse-gas emissions: household energy', *The Lancet*, Volume 374, Issue 9705, Pages 1917 - 1929, 5 December 2009 and 'Health in the green economy: Co-benefits to health of climate change mitigation', World Health Organisation, available via [http://www.who.int/hia/green\\_economy/en/index.html](http://www.who.int/hia/green_economy/en/index.html).

<sup>4</sup> 'Building Our Savings: Reduced Infrastructure Costs from Improving Building Energy Efficiency', Final Report for the Department of Climate Change and Energy Efficiency, Institute for Sustainable Futures and Energetics, 2010.

In order to achieve this, MEFL recommends:

- **Public awareness:** Measures be put in place to raise awareness of the scheme, including through accessible and useful government information.
- **Assessment tool must provide quality information:** The tool that is adopted needs to be well recognised as a good indicator of actual running costs of the home, and needs to be useful for home buyers and renters. Note that there is a significant risk that the less comprehensive assessment options, particularly Option 4, will not be useful indicators of the actual running costs of a home. This may undermine confidence in the scheme, as well as leading to poor outcomes such as money spent on developing information that is not useful.
- **Training:** In order to ensure high quality and efficient assessment of homes, it is important that assessors are well trained, and this needs to be reflected in training and accreditation requirements under the scheme.

We also note that the introduction of carbon pricing is unlikely to have a significant impact upon the baseline uptake of energy efficiency measures. The most cost-effective energy efficiency measures are undervalued by householders despite the financial benefits to be gained, and a marginal improvement in the financial case for energy efficiency is unlikely to solve the problem due to the range of non-price market failures.

## Conclusion

MEFL welcomes the opportunity to participate in this consultation process, and looks forward to the implementation of this policy. We would welcome further engagement on the issues above. Please contact Eli Court, Energy Policy Advocate, on 9385 8529 or via [eli@mefl.com.au](mailto:eli@mefl.com.au) to discuss further.