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Terry Niemeier
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via email

Dear Office of Energy and Climate Change

Submission on the ESS Rule water heaters consultation

The Independent Pricing and Regulatory Tribunal (**IPART**) is the Scheme Administrator and Scheme Regulator of the NSW Energy Savings Scheme (**ESS**). As the Scheme Administrator we support ongoing efforts to improve the efficiency and effectiveness of the ESS and welcome the opportunity to make a submission to the Energy Savings Scheme Rule (**ESS Rule**) Water heaters consultation.

We support the proposed changes to the ESS Rule to:

- amend the baselines for calculating energy savings from residential and small business hot water upgrades
- adjust co-payments for hot water system installations and upgrades.

We also support including transitional arrangements that are administratively simple and provide certainty to stakeholders about how to comply with requirements.

We again thank the Office of Energy and Climate Change (**OECC**) for the continued collaborative spirit with which they work with IPART to develop the Energy Security Safeguard. This collaboration contributes to continual improvement of the readability and functionality of the regulatory framework.

We have carefully considered the proposed changes to the ESS Rule and have provided our responses to the consultation questions along with some additional feedback in **Appendix A**.

IPART's contact officer for this matter is Dr Lynette Au-Yeung, Principal Analyst, contactable on (02) 9113 7706.

Yours sincerely

29/09/2023

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Michelle Coco
Executive Director, Regulation and Compliance
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Appendix A

Consultation questions

Question: What are your views on amending the baselines for calculating energy savings from residential and small business hot water upgrades?

We support changing the baselines for calculating energy savings to reduce the incentive and reflect current hot water use in residential and small business settings.

Question: What are your views on the additional co-payments for hot water system installations and upgrades?

IPART supports amending the co-payments for hot water system installations and upgrades.

We agree with OECC that a co-payment set at an appropriate level can improve customer engagement with the upgrade to help ensure they receive a fit for purpose product. We support setting the co-payment at the same level for all hot water activities. This approach is administratively simple and easy to understand.

Consumer concerns about installer behaviour

We are receiving more consumer complaints relating to hot water systems, including reports about:

- installing heat pump water heaters that are not fit for purpose or result in issues relating to space, noise, cold air, or reduced service levels
- safety issues where heaters have been incorrectly installed
- aggressive and misleading sales and marketing tactics.

To help consumers make an informed decision about installing heat pump water heaters and ensure they receive a fit for purpose product, we are currently consulting on consumer fact sheets that we propose ACPs will be required to provide to consumers before installation.

We hope the changes to co-payments will help reduce some of the concerns but encourage OECC to consider additional ways they can improve the end customer's experience with the scheme.

Co-payments for manifold systems

The consultation paper states: "...where a combination of two or more hot water tanks (and for heat pumps multiple condensing units) replaces one existing system, those manifold systems must be listed on the product register before energy savings can be calculated. As a result, only one co-payment is required for registered manifold systems."

Our published [27 July 2023 guidance](#) on the requirements for installing water heaters that are joined together does not require manifold systems to be separately registered. Rather, so long as a system consisting of multiple water heaters is joined in parallel, consists of identical models, and has balanced water flow, there is no need to separately seek acceptance of the system.

To provide clarity we suggest adding a new clause to the ESS Rule to reflect the policy position in the consultation paper that only one co-payment is required for manifold systems that meet the above requirements.

Question: What are your views on the two transition options?

We support including transitional arrangements to allow accredited certificate providers (**ACPs**) time to prepare their systems and processes for the changes and for existing contracts to be completed.

We consider transitional arrangements that allow implementation of existing contracts on or before a specified date option 1) are easier to understand, implement and administer than transitional arrangements allowing existing contracts when the rule commences to be honoured (option 2). The same transitional arrangement should apply to all changes to the ESS Rule where possible.

We do not support the proposed provision for other arrangements to apply as agreed on a case-by-case basis with the Scheme Administrator. We consider this approach is uncertain and would be difficult to administer. It is also unclear in which circumstances such a provision would be used.

Additional feedback

Offering inducements to consumers

We have received reports of ACPs offering consumers enticements of cash/gift cards. We support clarifying in the ESS Rule that the undermining of co-payment requirements by offering cash or other inducements is not allowed.

Activity Definition F16

Based on queries received from ACPs there is misunderstanding in the industry about WHCap and HPCap when calculating energy savings under Activity Definition F16 (Replace one or more existing hot water boilers or water heaters with one or more air source heat pump water heater systems). A change in the definitions provided in the ESS Rule would reduce confusion and help ensure scheme benefits are realised.

WHCap is defined in the Rule as the total rated capacity (kW) of the End-User Equipment being replaced. The compliance labels on tanks often have a 'max rated capacity' or 'rated power' that is higher than the actual power being drawn. Some ACPs have incorrectly claimed the higher figure. Amending the wording in the Rule to clarify the WHCap figure should not exceed the power the water heater could draw would reduce confusion.

HPCap is defined in the Rule as the total *rated* capacity (kW) of the heat pump water heater(s) being installed. Some ACPs have used "Total thermal capacity (kW)" from the Products List to calculate energy savings rather than "Total *heat pump* thermal capacity (kW)" (neither factor is explicit in the Rule). We are concerned that using Total thermal capacity to calculate HPCap could result in smaller heat pump systems with larger supplementary heating being installed, reducing the energy savings realised. Clarifying in the Rule that HPCap is calculated using the "Total *heat pump* thermal capacity" would reduce confusion and help ensure scheme benefits are realised.