

29th Sep 2023

Safeguard Implementation Team

Office of Energy and Climate Change, NSW Treasury

Hot water systems consultation

Electric Future Sustainability Services (EFSS) welcomes the opportunity to comment on the hot water heater consultation.

EFSS supports the review of all water activities under the ESS and the introduction of the higher min co-payment for residential hot water installations under definitions D17-D21 and new minimum co-payment for commercial heat pump water heater installations under activity F16 & F17.

While we believe that there is merit in reducing the baseline for commercial heat pump activities for some industry types, the reduction in the baseline for residential activities seems to be rushed, resulting in further slowdown in the uptake of the activity in the residential sector and it is inconsistent with the proposed IPART fact sheet.

Please see below our detailed response to the consultation questions:

Response to the Consultation Questions

- 1. 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.**

Answer: EFSS does not support the proposed reduction to the baseline for the residential water heater upgrades under schedule D of the ESS rule. Since activities F16 & F17 provide a more attractive financial benefits, majority of service providers have shifted their business model to purely focus on commercial heat pump activities. This has resulted in Residential customers being left out of receiving hot water upgrades under the ESS with limited active providers in that space. We believe that policy makers must consider this factor combined with the increasing cost of living and provide residential activities higher financial incentives to attract more service providers. This approach questions the intention of the scheme on whether it aims to reward the actual saving or provide enough financial incentive to promote the activity and increase the uptake in the residential sector.

Additionally, this consultation uses 45 litres per person as a guideline for the average water consumption per person per day while the proposed fact sheet is advising customers to use 100 litres per person/ per bedroom as a benchmark. This needs to be carefully reviewed by both IPART and OECC to ensure that the approach is consistent.

On another hand, we believe that the baseline calculation for the commercial hot water activities under Activity definitions F16 & F17 are over estimated and can be reduced. In our opinion, the

reduction in commercial heat pump calculation should be considered prior to any further reduction for residential heat pump activities. In our experience, there are only a certain number of commercial sites such as a restaurant, accommodations or some industrial sites using excessive amounts of hot water, while many others have a limited use of their hot water but are still highly rewarded by the current calculations. For example, this can be updated by introducing a simple multiplier factor (ie 0.5) for industries that don't have high hot water consumption to reflect the actual savings from the site.

2. 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.

Answer: EFFS strongly support the introduction of the minimum co-payment for commercial heat pump hot water heaters installed under activities F16 & F17 and the increase of min co-payment for residential customers under activities D17-D21 from \$33 to \$200.

Based on our experience operating under ESS, VEU and REPS program, there is strong evidence from comparing activities under ESS with the minimum co-payment requirement with similar activities in other states such as VEU supporting that the min co-payment creates stronger customer engagement and results service provider to provide a fit for purpose solution.

At the same time, selecting the right hot water system can be very complex and requires in depth technical knowledge and we believe that more educational material needs to be provided for customers, scheme operators and installers to close the gap in that space to ensure that customer engagement results in a desired outcome.

Considering the nature of the industry with high financial incentives, we see a lot of scheme participants with no water heater background, providing advice to customers with limited knowledge. To protect both the integrity of the scheme and customers, more educational material must be provided in conjunction to improving the standards for hot water systems.

There are also many Hot water systems introduced to the market within a short period of time and in the absence of a min standard such as GEMS registry, the quality and performance of these units are not proven and questionable. Introduction of a national standard for hot water units seems to be a necessary step to protect the customers.

On another note, since the current "Low-income Energy program" which exempts the customers from min co-payment under the HEER method has ended and no other similar program is in place, we suggest a review and the introduction of a program to support the NSW low-income households.

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

Answer: We strongly support option 1, this will create less administration complexity for ACPs. In our experience with previous transitional arrangements e.g., activity F1.1, obtaining a contact that is deemed satisfactory by the regulator was very challenging and added to the complexity and administration burden for processing jobs by ACPs.

However, the lifecycle of the product from manufacturing to final product installed which takes between 6-9 months also needs to be considered. This suggests that the 3 months transition is not enough, and this may result in some unintended outcomes in form of increased high-pressure sales tactics and low-quality upgrades.

Kind Regards,

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