



energy savings
Industry Association

**ESIA Submission:
NSW Government
Energy Security Safeguard
Water Heaters Consultation
Part 1: ESS Annual Rule Change 2023-24**

29 September 2023
(Extended to 6 October)

Submitted to Terry Niemeier, Director – Program and Market Development –
Safeguard | Energy, Climate and Sustainability | Office of Energy and Climate
Change, New South Wales Government
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1. Introduction

The Energy Savings Industry Association (ESIA) welcomes the opportunity to provide this submission to New South Wales Government for the consultation which commenced on 8 September 2023. This consultation is being managed by the Office of Energy and Climate Change (OECC).

The ESIA has referred to: https://www.energy.nsw.gov.au/sites/default/files/2023-09/Energy_Savings_Scheme_Rule_Consultation_Hot_water_heaters_Sept_2023.pdf?utm_source=newsletter&utm_medium=email&utm_campaign=ESS+-+Hot+Water+Systems+in+the+ESS+Follow+Up+-+Sept+2023&utm_id=hot_water_webinar_follow_up including documents that form this consultation, and attended a public forum on 21 September.

About ESIA

The Energy Savings Industry Association (ESIA) is the peak national, independent association representing and self-regulating businesses that are accredited to create and trade in energy efficiency certificates in market-based energy savings schemes in Australia. These activities underpin the energy savings schemes which facilitate the installation of energy efficient products and services to households and businesses. Members represent most of the energy efficiency certificate creation market in Australia. Schemes are established in Vic, NSW, SA and ACT. Members also include product and service suppliers to accredited providers under the schemes. As well, the ESIA represents member interests in national and state initiatives that include energy efficiency and demand reduction, such as the Federal Government's Carbon Farming Initiative energy efficiency methods and the NSW Peak Demand Reduction Scheme.

Further engagement

We welcome the opportunity to discuss this submission further, please contact the ESIA Executive Officer at comns@esia.asn.au.

This submission can be made public.

2. Responses to consultation questions

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

ESIA doesn't support a change of the baseline for the HEER method from 60 litres per day per person (l/d/p) to 45 l/d/p.

It is crucial to know if OECC is excluding from the baseline modelling:

- apartments (ie use only freestanding homes – Class 1 buildings with 3-5 bedrooms and 3-6 persons.) – as apartments may use less, therefore dragging down the /pp average; and
- existing users of solar-electric boosted systems and their energy use (as these are unlikely to switch from these high efficiency types).

As key aspect of potential confusion for stakeholders is information to the market on unit sizing which is different to consumption. It may be worth emphasising in any installation check list that the two concepts are not the same (i.e. consumption versus unit size). e.g. refer to:

- IPART's current HWHP fact sheet
<https://www.energysustainabilityschemes.nsw.gov.au/current-consultations>;
- VEU ESC HWHP sizing guidelines (*);
https://www.energy.vic.gov.au/_data/assets/pdf_file/0032/639761/VEU-water-heating-consumer-factsheet.pdf; and
- Solar Victoria: Deciding your hot water system size and tank
<https://www.solar.vic.gov.au/solar-hot-water-buyers-guide/section-4-deciding-your-hot-water-system-size-and-tank>; and
- ACT government: A guide to HWHPs
https://www.climatechoices.act.gov.au/_data/assets/pdf_file/0005/1898978/Sustainable-Household-Scheme-A-guide-to-hot-water-heat-pumps.pdf.

(*) ESIA does not entirely support the VEU sizing fact sheets as they penalise larger homes which need larger units and therefore would benefit most from accessing greater financial incentives. Other fact sheets have not been closely compared.

All the baseline changes proposed will significantly reduce incentives. Deep analysis of all proposed changes has not been undertaken by ESIA. Hence the need for NSW government to proceed cautiously with these major changes and provide reasonable transition times to any calculation changes.

Where possible, please provide evidence to support your position.

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

There are mixed views on introducing a copayment.

HEER - residential and small business

- For the HEER Method installations, a copayment promptly following Gazettal of Rule changes of at least \$200 per unit seems reasonable amongst ESIA members. The current \$33 for residential is generally considered too low.
- For vulnerable households, \$200 could be too much. The Method Guide states that there is a low-income exemption, however that program has been terminated. So, an update on access is essential to ensure support for that sector.

IHEAB – commercial and industrial

- Currently IHEAB attracts significant levels of rebate and no copayment.
- Some ESIA members have noted that introduction of a copayment with a short lead time will have significant impact on large jobs such as motels where multiple units have been contracted to be installed currently with no copayment per unit. Business challenges will be further amplified without a reasonable transition time on calculation changes that will reduce incentives.
- Options raised include staggering a copayment for IHEAB e.g. based on whether contracts have been written.

Across HWHP activities

- A copayment under HEER for the same product installation type and yet free under IHEAB is problematic.
- A copayment for multiple units needs clarity i.e. a copayment per system or per site (e.g. major impacts on motels etc for already committed projects).
- Some members believe copayments should vary e.g. a combination of a flat \$200 or higher depending on a metric such as thermal capacity for larger systems for businesses or 10% of the system unit cost with a reasonable cap.

Where possible, please provide evidence to support your position.

The precedent set by NSW government in introducing a copayment for RDCs in 2022 was highly effective in providing greater customer protection through more buy-in in choice of upgrade and proceeding with the job. It also stopped inappropriate supplier strategies that emerge when upgrade models are 'free' at door. (This activity was not available to residential customers.)

The key lesson learned is that a copayment for all upgrade types is warranted.

The challenge is that this HWHP activity commenced with very low (HEER \$33) or no copayment for some upgrade types (IHEAB \$0). Businesses that are delivering to market under this model at scale and those that have written contracts are most concerned with a hasty change to both the copayment and calculations.

3. What are your views on the two transition options?

A combination of Options 1&2:

- A **staggering of changes may cool a rush to install**, which may already be occurring since the release of this consultation, and support businesses to transition.
- **Introduce a co-payment for all HWHP activities as proposed: soon after gazettal late in 2023, although consider if locked in contracts can avoid this for an extended period.**
- A longer transition time for changes to the calculations is needed i.e. a **minimum of six months for both HEER and IHEAB**. (ideally 12-24 months for such a major change). Some equipment providers and others with signed contracts request at minimum a nine-month transition to reduce significant financial burden of stock already ordered and in manufacture now or on water. ESIA has encouraged such members to provide NSW government directly with evidence of material impacts such as forward purchase orders for stock. This may assist the government in deciding if any special arrangements are justifiable.
- In tandem, overall there needs to be a current heightened audit and compliance focus, especially for lower cost units which are most likely to have the lowest out-of-pocket gap with either a \$33 (HEER) or \$0 (IHEAB) copayment.

Where possible, please provide evidence to support your position.

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For more information regarding this submission, please email ESIA Executive Officer, comns@esia.asn.au