

18 December 2019

Regulation Policy and Governance Services
Department of Justice and Community Safety
GPO Box 4356
Melbourne VIC 3001

Submitted via consultation hub

GEA RESPONSE TO THE REGULATION IMPACT STATEMENT 'RESIDENTIAL TENANCIES REGULATIONS 2020'.

Dear Ms Stephen

Gas Energy Australia (GEA) welcomes the opportunity to respond to the Department of the Environment, Land, Water and Planning's (DELWP) Regulation Impact Statement (RIS) '*Residential Tenancies Regulations 2020*'.

By way of background, GEA is the national peak body which represents the bulk of the downstream gas fuels industry which covers Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG). The industry comprises major companies and small to medium businesses in the gas fuels supply chain: refiners, fuel marketers, equipment manufacturers, LPG vehicle converters, consultants and other providers of services to the industry.

GEA members support in-principle the introduction of proposed minimum standards to ensure rental properties in Victoria meet minimum community expectations of a safe and habitable property. As part of these proposed minimum standards, GEA considers the requirement to ensure fixed heating in the main living areas of the premises to be central to ensuring tenants can heat their home to a comfortable temperature, particularly during winter months.

However, GEA considers that the approach taken in establishing minimum standards for heating, of determining if a particular space heating option is affordable for tenants is an extremely difficult albeit almost impossible task to complete due to the numerous factors which can affect the operational costs of appliances that are beyond the scope of the RIS and can therefore result in widely varying operating costs for the same appliance. These factors are detailed below.

GEA considers that the use of a performance-based metric which compares the energy efficiency of an appliance to be more suitable when introducing minimum heating standards for rental properties.

GEA's responses to the guiding questions are listed below.

1. Do you agree that the proposed Regulations will achieve their stated objectives?

GEA is concerned that in many cases the Regulations will not achieve their objectives because the analysis used to determine appliance operating costs is based on an outdated methodology and averages over the entire Victorian rental market and does not take into account the many factors which influence whether a particular heating type is adequate and affordable. These include tenant

behaviour, differences in comfort levels for individuals, differences in fuel prices paid by individuals, consumer choice, and renters who live in regional and off-grid areas.

GEA considers a performance-based approach to heating appliance minimum standards to be more suitable in ensuring that tenants have adequate heating in the main living area of a premises.

2. The assessment of costs and benefits has relied on various data sources, combined with necessary assumptions to estimate likely impacts where data is not readily available.

a. Are these assumptions reasonable?

GEA notes the below input assumptions used by DELWP that are inconsistent with information provided by GEA members;

- i. The method of calculating star ratings and outputs of reverse cycle air conditioners (RCACs) used by DELWP in the analysis is inaccurate in reflecting the differences in running costs for appliances in different climate zones. The now superseded method of calculating star ratings and outputs of RCACs used in the analysis by DELWP assumes a constant outside temperature of 7°C for heating in all climate zones. The efficiency of RCAC systems is affected by outside operating conditions and drops off significantly below outdoor temperatures of 5°C. The recently introduced Zoned Energy Rating Label (ZERL) methodology recognises this and requires that appliances are tested for heating performance at an outdoor temperature of 2°C and 7°C to calculate the performance for what are classified as “cold” zones. It’s notable that, under the ZERL methodology, Melbourne is classified as a “cold” zone. The ZERL methodology calculates the heating energy required to warm a dwelling and the appliance performance on an hourly basis and then adds up all the figures for a whole heating season, so it’s very accurate (the same applies for cooling performance). There are many ‘sub’ zones in the ZERL methodology, ie, it can calculate separately for even colder regional zones such as Ballarat. The additional information provided by DELWP, demonstrates the use of the now superseded performance data for RCAC’s, which assumes a “fixed” performance for all climate zones (and outdoor temp of 7°C), this is clear from the figures in the tables in the additional information: The RCAC output for both the “moderate” and “cold” climates is the same at 3.43 kW which is not accurate, the output in the “cold” climates will be much lower and corresponding running costs higher than DELWP estimates. Therefore, GEA considers that the information in the RIS with respect to RCACs is inaccurate and cannot be relied upon for decision making. GEA considers that DELWP should recalculate running cost data using ZERL information for the “cold” climate and more specifically for the various zones in regional Victoria to more accurately reflect the running costs of RCACs in cold climates.
- ii. GEA considers the price assumptions for LPG fuel costs to be inconsistent with pricing information provided by GEA members, which determined that the average selling price for LPG in Victoria is within the range of \$100 - \$125 per 45 kg cylinder, with the average sell price for April 2019 in Victoria being \$115 per 45 kg cylinder, not \$150 per 45 kg cylinder. GEA also notes advice provided by GEA members, that in

colder climates there is increased competition in the LPG industry and as a result creates an environment of more competitive pricing.

This demonstrates that the majority of average operating costs for LPG space heating per annum are within the ranges of \$777-\$1253 (based of DELWP calculations) which is up to a 50% decrease in operating costs taking into account more accurate bottle prices and climate zones.

GEA considers that this further demonstrates the complexities when determining appliance suitability based on operating costs over a performance-based metric.

This difference in the operating costs for LPG and other heating appliances is therefore minimised when using the correct assumptions mentioned above and GEA considers that this difference does not warrant the exclusion of LPG space heaters from meeting the minimum standards for rental properties.

b. Is other data available that could assist in understanding the impacts?

The Commonwealth Department's Zoned Energy Rating Label

<http://www.energyrating.gov.au/products/space-heating-and-cooling/air-conditioners#toc7>

3. Are there likely to be any unintended consequences of the proposed Regulations that are not recognised in the RIS?

a. What evidence is there of these?

GEA considers that the phase out of LPG space heating as part of the proposed rental regulations could lead to a significant loss of consumer choice. As noted in the RIS the intention of the proposed regulation to phase out LPG fuelled space heaters by 2023 is driven by the need for heating to be affordable for tenants; "In addition to the capacity and efficiency of a heater, it is critical to the provision of adequate heating that a heater is also affordable to operate". GEA considers this to be overstepping the mark and essentially picking particular technologies which will be used in the future based off averages and flawed assumptions. Determining operating costs for space heating is a difficult task to undertake as demonstrated above and determining **affordability** for a tenant significantly harder. There are endless factors which can affect the operating costs of a space heater that cannot be accounted for and the notion of affordability is extremely subjective.

GEA notes the findings of the 2018 Australia Institute, "*How low income households use electricity*" report which found that the proportion of households using LPG in Victoria is higher in the Q1 high and Q2 high income groups by more than 50% compared to Q1 low and Q2 low income groups. This demonstrates that LPG is a fuel of choice and many individuals in higher income demographics choose to opt for the comfort that LPG fuelled space heaters provide and operating costs would be a secondary consideration.

GEA also considers that prior to the phase out of LPG fuelled space heating options, through the introduction of proposed minimum standards for rental properties, there must be further exploration of the impacts of an increased electrical load in edge of grid areas (where around 28,000 km of Single Wire Earth Return power lines exist in Victoria¹) due to a declining use of LPG for space heating and lack of alternative fuelled options (for example, due to not being

¹ <https://www.energy.vic.gov.au/safety-and-emergencies/powerline-bushfire-safety-program/reports-and-consultation-papers/swer-workshop-appendix-c>

connected to the reticulated gas network). Moreover, this impact would be exacerbated if the phase out of LPG space heating resulted in some households switching from LPG to electricity for water heating and cooking. GEA acknowledges and welcomes DELWP's undertaking of further consultation between it, distribution network service providers and industry stakeholders on this issue.

GEA considers that the proposed minimum standards could create significant cost increases for tenants that have been passed through by landlords where an LPG space heater was previously installed in the main living area of the premises and continues to comply with Australian standards and requirements, and remains in working order. Even though this heater remains in working order and the tenant may prefer to use LPG as a fuel for heating for a variety of reasons, the proposed minimum standards dictates that the landlord would still need to install a space heating option which meets the proposed minimum standards, when a new lease is signed or resigned. This could lead to a situation where landlords are required to install new appliances that could be redundant due to the tenant's preference for LPG fuelled heating, at which the landlord would seek to pass these unnecessary costs (of installation of a secondary heating appliance that may not get used) onto the tenant. The installation of possibly redundant secondary heating appliances in rental properties is counter intuitive and GEA considers that this must be further explored to avoid the installation of unnecessary heating appliances.

GEA considers the RIS also needs to consider the impact of the proposed phase-out of LPG space heating in rented homes on employment in the LPG supply and distribution; gas fitting and the gas appliance manufacturing industries.

4. **The proposed Regulations include transitional arrangements and phasing for the heating, window coverings and electrical safety minimum standards.**
 - a. **Do these timelines provide adequate time for rental providers to adjust?**

GEA is concerned that there may be unintended implications for landlords that utilise tax depreciation for capital expenses associated with their rental properties. GEA considers that prior to the introduction of minimum heating standards, this issue must be further explored to ensure that landlords who purchase LPG fuelled space heating appliances for rental properties between now and July 2020 are able to correctly claim tax depreciation on their assets, which will have a significantly shorter operating life.

Safety-related activities

5. **The costs and benefits associated with maintaining swimming pool fences and water tanks in bushfire prone areas have not been modelled. Neither have the costs associated with safety-related maintenance for carbon monoxide alarms for the private rental sector. You may wish to provide evidence of the costs and benefits of the safety-related activities not identified in this RIS.**

The DELWP gas safety section discussion paper recently released titled *Options for Addressing Risks From Open Flued Gas Space Heaters (OFGSH) in Victoria* canvases mandatory installation of CO alarms and mandatory servicing requirements. GEA believes further investigation and review is

required and has recommended the department use the *Decision Regulation Impact Statement 2012: Report to the Department of Resources, Energy and Tourism on "The risk of carbon monoxide poisoning from domestic gas appliances"* as a good platform to review the servicing and CO alarm discussion².

Please refer to GEA's response to the Energy Safe Victoria Consultation for more detail - "*options for addressing risks from open flued gas space heaters in Victoria*".

Rental minimum standards

6. You may wish to provide evidence of the costs and benefits of any additional standards not identified in this RIS.

GEA supports the development of a performance-based metric for minimum standards for space heating which would be more robust in assessing adequate heating for tenants. As noted in the additional information provided to GEA by DELWP, 'adequate and affordable' heating has been assessed in relation to the building's shell performance, size of the space to be heated, climate zone, capacity of the heater and the efficiency of the heater. These criteria can be significantly different from household to household (ie some houses are better insulated than others, have a smaller/larger space to heat etc).

As noted above, determining operating costs for space heating is a significantly difficult task to undertake. Fuel costs are affected by three main factors, including: the unit cost of your fuel, the efficiency of your heating system and the heating requirements (demand) of home and occupants. Of these, the biggest variable is the last one. Heat demand is dependent on a wide range of factors, such as: the size of the building, the number of external walls, the type of construction used, how much insulation has been installed, the type of glazing installed, and the number of occupants and their behaviour – for example more occupants use more hot water and may need more rooms to be heated for longer, particularly if they are at home all day.

GEA considers that due to the variability of inputs when determining heating affordability, a performance based metric should be employed which dictates, for example the minimum Star rating of an appliance that can be installed in a rental property to ensure that 'adequate heating systems' are installed.

For your consideration



John Griffiths
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² <https://ris.pmc.gov.au/sites/default/files/posts/2012/06/05-Decision-RIS-Gas-Appliance-CO2-safety-strategy.pdf>