

4 October 2023

Committee Secretary
Senate Standing Committees on Economics
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Submitted via the Parliament of Australia's online submission site

Dear Committee Secretary

Inquiry into Residential Electrification

Thank you for the opportunity to comment on the Terms of Reference of the Inquiry into Residential Electrification.

The comments contained in this submission reflect the views of the Energy & Water Ombudsman NSW (EWON), Energy & Water Ombudsman Queensland (EWOQ) and Energy & Water Ombudsman South Australia (EWOSA), all of which consider complaints with regard to the National Energy Consumer Framework (NECF). We are the industry-based external dispute resolution schemes for the energy and water industries in New South Wales, Queensland and South Australia.

We have collectively reviewed the Terms of Reference and have responded to those elements that align with issues customers raise or are likely to raise with our offices as new residential electrification progresses. We have also had regard to the potential financial impacts of this major project on low-income and vulnerable energy consumers who are already challenged by current energy pricing levels.

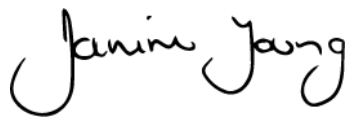
Our submission has regard to, but does not detail, the increasing level of consumer detriment arising from Customer Energy Resources which is very likely to exacerbate as electrification progresses. To demonstrate this, we have attached, and strongly encourage the Inquiry to also consider our joint submission to the AER's Review of Consumer Protections. That submission demonstrates the expertise of Energy Ombudsman schemes to resolve disputes which fall within our jurisdiction; and the need for consumer protections to expand in light of electrification, including increased access to Energy Ombudsman schemes, which in turn will help underpin the intended policy objectives of residential electrification.¹

We have also communicated with Catherine Wolthuizen, Energy & Water Ombudsman Victoria, who will be separately contributing to this process. This joint submission supports much of the EWOV submission noting that EWOV has produced a submission focusing on the Victorian context / regulatory environment and policy settings for residential electrification.

¹ <https://www.aer.gov.au/system/files/EWON%2C%20EWOSA%2C%20EWOQ%20-%20Joint%20submission%20to%20AER%20review%20of%20consumer%20protections%20for%20future%20energy%20services%20-%20options%20paper%20-%2015%20December%202022.pdf>

If you require any further information regarding our submission, please contact Dr Rory Campbell, Manager Policy and Systemic Issues (EWON) on 02 8218 5266, Mr Jeremy Inglis, Manager Policy and Research (EWOQ) on 07 3087 9423 or Mr Antony Clarke, Policy and Governance Lead (EWOSA) on 08 8216 1861.

Yours sincerely



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Overview

Residential electrification is a critical part of the energy transition to net zero greenhouse gas emissions by 2050. This will involve many major changes for Australian households, including for those that use gas for cooking, space heating and hot water, potentially switching to using electric appliances.

If full residential electrification is pursued, from our experience over many years of dealing with energy complaints, there are several challenges and barriers for consumers that will need to be overcome. These are relevant to Inquiry terms of reference (b) and (c) and are discussed in some detail below. Before that, we outline the role of Energy and Water Ombudsman offices in New South Wales, Queensland and South Australia, including with regard to residential electrification and broader aspects of the energy transition.

Our submission makes six recommendations for the Inquiry to consider which will contribute to the smooth transition from both an energy sector and energy consumer perspective:

- 1. That any changes to regulatory frameworks ensure that all customers have access to the external dispute resolution services provided by Energy Ombudsman Schemes.**
- 2. That an energy market body, such as the AEMC, conduct a review into what changes are necessary to the national energy rules, regulations and guidelines, to ensure that households can convert their appliances from gas to electricity smoothly and without unexpected interruptions to their energy supply.**
- 3. That an energy market body, such as the AEMC, conduct a review into what changes may be necessary to the national energy rules and regulations, including AER guidelines, to ensure that appropriate planning is in place to avoid or minimise the possible negative impacts of the exit of the gas network.**
- 4. That all governments (Commonwealth and State) ensure low income / eligible fixed income households are supported by rebate / safety net / energy efficiency programs.**
- 5. That all governments consider options for improving energy efficiency and promoting residential electrification in rental properties including:**
 - direct funding, such as upgrading social or public housing**
 - tax incentives, such as instant asset write offs for landlords for some new electric appliances that replace gas appliances**
 - improved energy efficiency standards for rental properties, such as ceiling insulation and efficient electric appliances.**
- 6. That all governments and industry develop a comprehensive and ongoing information package for consumers, including taking into account the diverse nature of consumers i.e. CALD, literacy, etc to build and maintain confidence and trust in the electrification program and the evolving energy sector.**

The supporting information for these recommendations and an overview of our role and experience are detailed below.

Role of the Energy and Water Ombudsman NSW, SA & QLD

Our role is to facilitate the resolution of disputes between consumers of energy and water services and the providers of those services. We provide free, independent, accessible, fair and informal dispute resolution services to consumers in accordance with the Commonwealth Government Benchmarks for Industry-based Customer Dispute Resolution².

The types of complaints we deal with include:

- Billing disputes
- Disconnection / restriction of energy or water
- Affordability i.e. ensuring consumers have affordability payment plans and options and that energy retailers provide services in accordance with their affordability (hardship) programs
- Debt collection and credit default listing
- Land access and property damage
- Poor customer service.

Electricity and gas transmission, distribution and retail service providers (including some who supply / sell energy under regulator exemption frameworks) and water and sewerage service providers (with some exceptions) are required through legislation, regulations and/or codes to participate in an industry-based ombudsman scheme which complies with the Benchmarks for Industry-based Customer Dispute Resolution³.

It is vital that all energy consumers, especially in this transitioning energy environment, have access to the consumer protections provided for in energy laws and regulations, including access to the Energy Ombudsman in their state.

Effective external dispute resolution is essential for maintaining consumer trust in energy services. This will become even more important as the energy transition to net zero progresses, including during residential electrification processes. While the energy sector overall will be aiming for a smooth transition, it is likely that some energy consumers will experience unplanned supply disruptions or require redress from their electricity and/or gas provider if something goes wrong with the process.

It is also important to note that new energy products and services (sometimes called 'behind the meter' products or 'consumer energy resources') have already prevalent across the market and this will likely continue at pace. This includes rooftop solar PV, storage batteries, electric vehicles, microgrids and virtual power plants. These are likely to become more prevalent with residential electrification. The emergence of these new technologies and associated business models has changed the traditional supply agreement between retailers and consumers. Further it has created barriers for some consumers of these new products and services to some energy consumer protections, including access to our services.

² Benchmarks for Industry-Based Customer Dispute Resolution, 4 March 2015, <https://treasury.gov.au/publication/benchmarks-for-industry-based-customer-dispute-resolution>

³ Ibid.

When faced with a complaint / dispute which their energy provider cannot resolve, consumers utilising these products and services face uncertainty with respect to obtaining external dispute resolution and redress as follows:

- when these products and services are provided by an energy provider which is a member of an Energy Ombudsman scheme, we are able to deal with the aspect of the complaint that is directly related to the supply of electricity, such as a high electricity bill which has resulted from a fault with rooftop solar PV retailed and installed by that energy provider or its contractor on its behalf. Where a manufacturing defect with rooftop solar PV or a storage battery is the source of the problem, the Energy Ombudsman will refer the customer to another body, such as Consumer and Business Services or Offices of Fair Trading.
- when a complaint arises about products and services which are retailed / installed by an entity that is not authorised by an energy regulator and therefore is not a member of an Energy Ombudsman, we are unable to resolve the complaint even if it is impacting the customer's energy bill and instead must refer the consumer to Consumer and Business Services or Offices of Fair Trading.

In recognition of the challenges consumers began experiencing with 'behind the meter' products / 'consumer energy resources', the Energy and Water Ombudsman NSW, Queensland, South Australia and Victoria have initiated a joint project to ensure that all consumers have access to existing external dispute resolution for complaints related to these new products and services.

The joint energy ombudsman project is underpinned by ten key principles identified to ensure the effectiveness of an Energy Ombudsman scheme:

- Consumer protections, including dispute resolution, are provided where a product or service has the potential to disrupt energy supply.
- External dispute resolution is a baseline consumer protection. It supports innovation and contributes to creating consumer trust and confidence in the market.
- If the product or service is with an existing ombudsman scheme member, it is within Ombudsman jurisdiction unless the Ombudsman advises otherwise.
- Where a contractual obligation is underpinned as part of a supply contract with a provider, where there is a dispute about the contractual terms and conditions, it should be subject to Ombudsman oversight.
- Membership of the dispute resolution scheme is underpinned by statutory enforceability.
- Any imposed new jurisdiction for a dispute resolution scheme needs to be supported by appropriate legislation or enforceable rules that will allow the Ombudsman to properly address the complaint and, if necessary, determine the outcome of the complaint.
- The proposed new members of an ombudsman scheme must belong to a defined group which is legally accountable to a regulator.
- The regulator must be able to readily identify all proposed members.
- The Government/Regulator/Authority imposing a dispute resolution scheme membership requirement must be able to specifically identify individuals and businesses and have a range of powers such as licensing, performance monitoring, compliance and enforcement.
- The Regulator must be willing to ensure compliance of the requirement to become and remain a member and remediation of any systemic issues or be in a position to take enforcement action.

Converting a house from gas to electricity – the consumer experience

Converting a house that uses both gas and electricity to one that only uses electricity requires coordination between several parties to ensure that a household can transition from using gas to electricity for cooking, space heating and hot water. In practice, it is not expected that households would convert all of their appliances from gas to electricity at the same time, due to the costs involved. More likely it will occur when appliances need replacing unless / until decisions are made to close off gas supply at a specific date i.e. a mandatory final transition date. This is more likely to affect consumers who are experiencing, or are at risk of experiencing, financial affordability challenges. This will result in multiple service installer visits to each house and interruptions to the supply of electricity and gas numerous times to safely make the conversions. Consumers facing a 'mandatory point in time' transition from gas to electric appliances may also experience rewiring issues or gas pipe or water pipe issues that need resolving. When a house becomes fully electrified, there is also either a fee for disconnecting from the gas network or a much higher cost for permanently abolishing a gas connection, with the latter more likely to be required due to permanent withdrawal of gas supply.

Energy regulatory framework

If residential electrification is going to occur at pace, we expect that new energy rules and regulations will be required to ensure that households can convert from gas to electricity smoothly and without unexpected interruptions to their energy supplies. Any changes to the National Gas Law (NGL), National Electricity Law (NEL) and National Energy Retail Law (NERL) and linked regulations and/or guidelines administered and enforced by the AER would need to consider issues such as:

- the coordination of the gas to electricity conversion process and whether a new energy market participant would be required
- notification procedures between customers, distribution network service providers (DNSPs) and retailers, such as timeframes and who contacts who, as well as information requirements
- the sharing of relevant data and information, including taking into account privacy issues.

Consumer protection should be co-designed with changes to the energy regulatory framework including consumer access to the external dispute resolution services of an Energy and Water Ombudsman for problems with the appliances that have been installed that impact continuity of supply. We note that the Australian Competition and Consumer Commission or relevant state-based bodies, such as Consumer and Business Services in South Australia and Offices of Fair Trading in Queensland and New South Wales are also relevant for some consumer issues.

We therefore recommend that any changes to regulatory frameworks ensure that all customers have access to the external dispute resolution services provided by Energy Ombudsman Schemes.

The rationale behind the need for new energy rules and regulations for residential electrification reflects the issues and subsequent reviews, rule changes, regulatory evolution that has occurred since the introduction of competition in metering in December 2017, as a result of initially having insufficient rules and regulations in place. Six years on, many electricity customers in New South Wales, Queensland and South Australia have experienced, and continue to experience, significant delays in smart metering installation. Energy and Water Ombudsman schemes across the country received a surge in metering complaints in 2018 as a result. While these have diminished over recent

years, they are expected to increase once measures to accelerate the rollout as a result of the AEMC's review of smart metering take effect later in 2023⁴.

Complaint issues include delays in the provision of meters at new connections, the provision of replacement meters and solar meters and problems with meter testing. In some cases, interruptions to electricity supply because of the delays resulted in customers needing to find alternative accommodation and paying rent or motel expenses. The consequential introduction of the Metering Installation Timeframes rule⁵ in December 2018 to resolve some of the initial problems evidenced the need of co-design of consumer protections with regulatory change.

If sufficient energy rules and regulations are not in place to support efficient and timely processes in residential electrification, similar issues regarding delays and unscheduled interruptions to the supply of gas and/or electricity are most likely to emerge, leading to substantial consumer detriment.

We therefore recommend that this Inquiry recommend that an energy market body, such as the AEMC, conduct a review into what changes are necessary to the national energy rules, regulations and guidelines, to ensure that households can convert their appliances from gas to electricity smoothly and without unexpected interruptions to their energy supply.

Planning for the exit of the gas network

Residential electrification, if not effective, could exponentially see an increase in energy costs. As more households switch from gas to electricity, fewer people will be on gas networks and gas prices are most likely to increase to provide the revenue required for DNSPs to continue to maintain the gas pipeline infrastructure to those households.

Additionally, electricity consumers could end up paying more for electricity, if higher levels of investment in electricity networks are required during the energy transition including due to demand outweighing supply, such as for heating in winter, than would otherwise have been the case.

From our experience, this would impact low-income households more, partly because they spend a higher proportion of their income on energy than other households and partly because they are the least likely to electrify their homes earlier in the energy transition.

We therefore recommend that this Inquiry consider recommending that an energy market body, such as the AEMC, conduct a review into what changes may be necessary to the national energy rules and regulations, including AER guidelines, to ensure that appropriate planning is in place to avoid or minimise the possible negative impacts of the exit of the gas network.

Overcoming barriers to electrification for low-income and fixed income households

Terms of reference (h) indicates that the Inquiry will look at solutions to the economic barriers to electrification for low-income households. Fixed income households, such as those reliant on self-funded superannuation which does not extend to multiple appliance upgrades, may also need to be included. There will need to be significant support for low-income / fixed income households and

⁴ AEMC Review of the regulatory framework for metering service Final Report, 30 August 2023, <https://www.aemc.gov.au/market-reviews-advice/review-regulatory-framework-metering-services>

⁵ AEMC Metering Installation Timeframes Rule Determination, 6 December 2018, <https://www.aemc.gov.au/rule-changes/metering-installation-timeframes>

concession card holders. Such support could include rebates for installing electric appliances and interest-free loans, as well as advice on improving energy efficiency.

Some governments have already announced support for electrification. The ACT Government's 'Home Energy Support Program' offers rebates of up to \$5,000 and 'Sustainable Household Scheme' offers interest-free loans of between \$2,000 and \$15,000 for the purchase of some electric appliances, such as rooftop solar PV and battery storage systems, electric ovens and heating and ceiling insulation. This financial support could be extended to all low-income households who may be forced to have their home electrified.

Governments could also provide funding for upgrades to community, social or public and Indigenous housing. The Commonwealth Government has committed \$1.3 billion to establish the 'Household Energy Upgrades Fund', which will support about 110,000 households and 60,000 social or public housing properties to upgrade to electric appliances, improve their energy efficiency and lower their energy bills.

We therefore recommend that all governments (Commonwealth and State) ensure low income / eligible fixed income households are supported by rebate / safety net / energy efficiency programs.

While not all renters are low-income households, renters have a unique set of barriers to residential electrification. These primarily relate to split incentives between landlords and renters to investing in energy efficiency and new fixed appliances, such as water and space heaters and ovens.

We therefore recommend that all governments consider options for improving energy efficiency and promoting residential electrification in rental properties including:

- ***direct funding, such as upgrading social or public housing***
- ***tax incentives, such as instant asset write offs for landlords for some new electric appliances that replace gas appliances***
- ***improved energy efficiency standards for rental properties, such as ceiling insulation and efficient electric appliances.***

Information provision

A part of all of these changes will be the need for governments to provide consistent and targeted communications to households on residential electrification, including but not limited to:

- why it is occurring
- the benefits and costs, including in the comparison of gas and electric appliances
- how best to electrify a home and the support being provided for the transition.

This information provision will be vital to maintain confidence and trust in the process and in the energy market. There have been many major changes to the energy markets over time that would have benefited from a comprehensive information campaign, but this is something that has historically been done poorly by both governments and industry.

We recommend that government and industry develop a comprehensive and ongoing information package for consumers, including taking into account the diverse nature of consumers i.e. CALD, literacy, etc to build and maintain confidence and trust in the electrification program and the evolving energy sector.