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New Minimum Energy Standards for Rental Properties and Rooming Houses in Victoria

AGL Energy (AGL) thanks the Department of Government Services (DGS) for the opportunity to respond to the New Minimum Standards for Rental Properties and Rooming Houses in Victoria (the Minimum Standards).

AGL is committed to providing our customers simple, fair and accessible essential services as they decarbonise and electrify the way they live, work and move. Proudly Australian for more than 185 years, AGL supplies around 4.3 million energy and telecommunications customer services.

We operate Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emission, affordable, and smart energy future in line with the goals of our Climate Transition Action Plan.

AGL strongly supports the expansion of Minimum Standards for rental properties and rooming houses in Victoria to include requirements around ceiling insulation, draughtproofing, energy efficiency heating and cooling, as well as a broader move towards electrification. With about a third of Victorians currently living in rental accommodation, and data showing that poor thermal performance more acutely impacts rental properties compared to owner occupied homes¹, moves to improve and protect the thermal comfort of all Victorians is strongly supported by AGL. However, we believe the Minimum Standards can be strengthened, particularly as they relate to ceiling insulation compliance triggers, grading of hot water systems, inclusion of compliance activities under the Victorian Energy Upgrades (VEU) program, among other considerations.

Our extended feedback to Minimum Standards is set out in Annex 1.

We would be very happy to meet with the DGS to discuss any of our comments. If you have any queries about our submission, please contact Policy and Market Regulation Manager, Jenny Kim at JKim2@agl.com.au.

Yours sincerely,

AGL

¹ Australian Bureau of Statistics (2012), Household Energy Consumption Survey



Annex 1: AGL feedback to the New Minimum Energy Standards for Rental Properties and Rooming Houses in Victoria (the Minimum Standards)

1. General feedback

1.1 AGL strongly supports the overarching policy objective of the Minimum Standards to further electrify rental properties and rooming houses, in line with the Gas Substitution Roadmap.

As one of the biggest energy providers in Australia, connecting our customers to a sustainable future by decarbonising the way their live, move and work is central to our strategy. AGL is also supporting customers on their electrification journey through our online resources. In an Australian energy market first, AGL's 'Electrify Now' platform uses the Consumer Data Right (CDR) and advanced analytics to provide personalised recommendations to help customers understand the comparative benefits and savings if they were to install solar, a battery, heat pump hot water, induction cooktops, as well as making the switch to an electric vehicle (EV). We want customers to be more informed about which upgrade suits their budget, lifestyle and motivations, based on the estimated energy bill savings, carbon emission savings, and installation costs.

1.2 AGL believes that energy efficiency upgrades made to comply to the Minimum Standards should be recognised under the existing Victorian Energy Upgrades (VEU) program.

Energy efficiency upgrades made to rental properties to comply with the Minimum Standards – which would otherwise be recognised as activities afforded Victorian Energy Efficiency Upgrades (VEECs) under the Victorian Energy Upgrades (VEU) program – should remain in scope for the VEU. The Regulatory Impact Statement (RIS) references the *Victorian Energy Efficiency Target Act 2007*, under which the VEU program operates, stating that an activity must “result in a reduction in greenhouse gas emissions that would not otherwise have occurred if the activity was not undertaken” to be eligible for a rebate. The RIS infers that the ‘VEU program may not be able to provide incentives for upgrades [that are required] to meet regulatory requirements’².

We believe that prohibiting these upgrades from receiving VEECs is inconsistent with the VEU's policy objective, which is to incentivise, reward, and cross subsidise costs incurred by property owners who choose to upgrade their appliances to more energy efficient ones – regardless of whether they are rental properties or owner-occupied homes. For rental providers to miss out on a rebate by complying with complementary rental obligations would be indirectly penalising positive behaviour.

1.3 We encourage DGS to consider policy levers that not only uplift the baseline standards through mandated requirements but also incentivise the installation of the highest quality products.

Mandating a minimum 2-star heating, and 3-star cooling energy efficient appliance (electric only) is a positive course of action in moving off gas and ensuring a certain baseline quality of appliances, particularly in the absence of any existing cooling standards for rental properties. However, these ratings are quite low on the spectrum of products available on the market and may give way to a significant portion of low-quality appliances being installed in these types of accommodation. We encourage the Victorian Government to assess mechanisms to encourage rental providers to seek out higher quality appliances that will last longer

² Regulatory Impact Statement, Deloitte (2024) p.68



and be more energy efficient. For example, existing appliance-based incentives include the Victorian Energy Upgrades (VEU) program which is mentioned in section 1.2.

At the whole of home level, we are aware of broader performance based, energy efficiency ratings for residential dwellings which could complement and intersect with the Minimum Standards. The Commonwealth Government's Nationwide House Energy Rating Scheme (NatHERS) provides standardised, energy efficiency ratings for new dwellings, and now also provides whole of home ratings which verify the energy performance on the major appliances, solar panels and batteries, in addition to the star rating for the building shell.³ As a potential use case, the Victorian Government could consider the requirement for a rental property's NatHERS energy efficient rating to be included in the information for a listing, when it is being advertised for lease. Naturally, rental properties with higher energy efficiency ratings would benefit from increased demand from prospective tenants who know that they would have better thermal comfort and would pay less on their energy bills.

1.4 Compliance processes for the Minimum Standards may create a significant administrative burden on the Victoria Civil and Administrative Tribunal (VCAT). There is also a lack of information relating to how Landlords will assure their tenants that they meet the Minimum Standards.

AGL understands that the compliance and enforcement processes for the new Minimum Standards for rental properties and rooming houses will be administered through existing processes for the current Minimum Standards, and that VCAT will continue to be the main body to deal with disputes between renters and their rental providers. We recommend that adequate financial and operational resources be allocated to VCAT prior to the regulations coming into effect to provide support for the likely increase in disputes that will result from the expanded Minimum Standards, or for other forms of redress to be available to renters.

There is also a lack of information relating to how Landlords will need to assure their tenants that their property meets the Minimum Standards, particularly for standards which are not easily recognisable to the general public. For example, most tenants may not be able to decipher a ceiling insulation level of R 5.0 or less and will need a licenced professional to verify the insulation level (even more so if the roof cavity is not easily accessible). We recommend that certification verifying the level of ceiling insulation or information about the energy efficiency ratings of heating and cooling appliances be included in condition reports. This would ensure that tenants have documented proof that the property meets Minimum Standards before entering into a lease agreement.

AGL is also mindful of the potential financial implications that meeting the Minimum Standards introduce. In supporting the transition of rental properties away from gas and advancing electrification, we recognise the potential for some of these changes to increase costs for Landlords, and subsequently to tenants. The development of coherent standards aimed at enhancing renters' living standards should be supported by policy proposals that avoid placing excessive financial strain on them, particularly for vulnerable cohorts.

³ Nationwide House Energy Rating Scheme (NatHERS) <https://www.nathers.gov.au/>



2. Specific feedback on each standard

2.1 Hot water systems

The quartile approach outlined for assessing compliant hot water systems is confusing for rental providers to adhere to as there is no clear delineation as to what falls within the bottom 75% and what falls within the top 25 percentile. There is also no clear purview as to what the whole hot water system market looks like for the rental market in Victoria, or where a rental provider's hot water system sits on the spectrum of available hot water systems. AGL suggests for the Victorian Government to adopt an existing, energy efficiency rating system for water heating systems to categorise compliant and non-compliant systems. The Commonwealth's Greenhouse and Energy Minimum Standards Act 2012 (GEMS) and minimum energy performance standards (MEPS) are an obvious framework that could be adopted. We note that while conventional electric resistance systems have GEMS determinations, hot water heat pumps are due to have a GEMS determination introduced in 2025, to come into effect possibly a year after. Anchoring eligibility criteria to an existing framework such as GEMS would enhance clarity and comparability across different types of hot water systems.

AGL emphasises that the proposal to exclude resistance hot water systems in compliant options for this standard could drastically limit the available options for consumers, as these systems are one of the cheapest on the market. While historically the running costs of electric resistance systems have been higher than heat pumps, with the emergence of orchestrated controlled load hot water, electric resistance systems scheduled for daytime solar soaking can have materially lower running costs than standard overnight controlled load, and non-orchestrated electric resistance systems. Denying renters from access to these emerging products risks denying them access to hot water solutions with the lowest upfront capital cost and competitively low running costs. We strongly suggest the Victorian government to reconsider the exclusion of electric resistance systems.

Furthermore, heat pump electric hot water systems, while efficient and growing rapidly, currently represent a minority share of the market. They are also not always suitable to all living situations due to factors such as noise levels or other installation constraints. It is important to recognise that consumer preferences and practical considerations, such as noise levels, may influence their suitability for widespread adoption. Exclusively promoting these systems could limit consumer choice and affordability.

We do however strongly support the retiring of gas hot water systems. We believe that with an average lifespan 12 years, coupled with the availability of products in the market, that Victoria can successfully retire all gas systems in Victorian rentals and rooming houses in a 12-year span.

2.2 Ceiling insulation

AGL strongly supports the Victorian Government's requirement for rental properties to install ceiling insulation with an R level of at least 5.0 when there is no ceiling insulation present, as ceiling insulation is one of the most effective thermal barriers in housing to protect against the summer heat and the winter cold.

To more broadly and comprehensively extend this benefit to more Victorians, we believe that the trigger for compliance should not just be initiated when a rental property has zero insulation, but when the ceiling insulation is an R level of 3.0 or less. As a secondary recommendation we would encourage the Victorian Government to align with ACT's compliance trigger to upgrade anything with an R level of 2.0 or below as this would work towards national alignment. There are many older houses in Victoria that have very little ceiling insulation, which would still be considered compliant under the current drafting of the standard. Having a higher R level as the trigger for compliance would ensure a considerable baseline uplift in thermal protection, which in turn would reduce a tenant's reliance on heating and cooling appliances (regardless of how energy efficient they may be).



AGL also very much supports the safety protections listed in the Minimum Standards outlining the requirement for a pre-insulation installation electrical safety checklist to be completed by a licensed electrician prior to insulation installation. The drafted amendments also state that installation will be required to be undertaken by a suitably qualified professional, such as a Certified Insulation Installer. We do note, however, there is no specificity around actions and or certifications required from the licenced installer after the insulation has been installed to verify that the installation meets the Minimum Standard.

2.3 Draught proofing

AGL strongly supports the introduction of this standard, as draughtproofing is cost-effective way to drastically improve the thermal comfort and protection of a dwelling. Further specificity around what constitutes an ‘unreasonable gap’ would be beneficial for both rental providers and tenants.

2.4 Heating and Cooling

As mentioned in the general feedback, we believe that as well as uplifting heating and cooling appliances to meet a baseline efficiency rating, the Victorian Government should also reward rental providers who seek out the highest quality products.

These Minimum Standards outline Heating and Cooling requirements for rental properties but then only outline heating requirements for rooming houses. We query why rooming houses are not privy to minimum cooling standards.

2.5 Showerhead and blind cord anchor safety

AGL supports the minimum requirements for both showerheads and blind cord anchors.

2.6 Other minor technicalities

There were some discrepancies in exemptions for standards in drafted amendments compared to exemptions listed in the RIS. For example, the table below shows the difference in exemptions for installing electric hot water systems:

Exemptions for hot water systems as in the drafted amendments (p. 44 onwards)	Exemptions for hot water systems as mentioned in the Regulatory Impact Statement (p. 46)	Difference
(2) Without limiting the grounds on which it is unreasonable to install an energy efficient water heater in subclause (1), it is unreasonable to install an energy efficient water heater if— (a) the cost of installation is significantly higher than the average cost of installation a Class 1 building or Class 2 building equivalent to the rented premises;	• (for Class 2 rental properties – apartment buildings) the cost of installing a compliant system would be significantly higher than the average cost of installation in a Class 2 building	Drafted amendments mention class 1 and class 2 buildings in the clause relating to prohibitive costs to install hot water systems, but that the RIS only mentions class 2 buildings.
(e) heated water to the rented premises is supplied by a centralised system; or	• (for Class 2 rental properties) heated water to the rented premises is supplied by a centralised system	Similarly, the drafted amendments do not specify the building type in the clause, and just refers to the rental property as the ‘the premise’