

18 December 2019

Thank you for the opportunity to make a submission on the proposed Residential Tenancies Regulations 2020.

Renew is a national, not-for-profit organisation that inspires, enables and advocates for people to live sustainably in their homes and communities. Established in 1980, Renew provides expert, independent advice on sustainable solutions for the home to households, government and industry.

**We congratulate the Victorian government on the introduction of new minimum rental standards.**

We strongly welcome the intention of the Victorian government to strengthen protections for renters. Absent strong and clear government standards and protections, renters will face rising costs and a diminishing quality of housing in an increasingly precarious rental housing market.

As an organisation representing household energy consumers, we particularly welcome the Victorian government's commitment to implementing minimum standards for the energy performance of rental homes.

Rental homes are less energy-efficient, less prepared for climate change and more expensive to run than owner-occupied homes. Victorian renters are paying high power bills and are vulnerable to the serious health impacts of winter cold and summer heatwaves.

**While the introduction of minimum standards is a positive step forward, it is important that these minimum standards are further strengthened.**

We agree with the government that this process represents a 'once-in-a-generation' opportunity to revisit regulation standards that have been in place since 1997.

Missing the opportunity to set strong and appropriate energy efficiency standards will lock in decades of high energy costs for renters. Furthermore, missing this opportunity would also lock in decades of high greenhouse gas emissions from household energy use that could easily be reduced with clear action now.

**Appropriate minimum energy efficiency standards for rental homes will protect vulnerable Victorians, reduce living costs for renters and reduce greenhouse gas emissions at low cost.**

In this submission we highlight actions that would promote energy justice and the rights of Victorians to live in safe, energy-efficient and climate resilient homes.

**Recommendations**

- 1) Raise the minimum heater energy rating for new heaters to 4 Stars
- 2) Apply minimum energy efficiency standards for heaters to Class 2 homes (with exemptions)
- 3) Implement minimum standards for insulation in rental homes as soon as possible
- 4) Implement minimum efficiency standards for hot water systems as soon as possible
- 5) Remove barriers to small energy efficiency adjustments
- 6) Require mandatory disclosure of energy performance
- 7) Consider further minimum standards for cooling and climate resilience

## **Minimum standards for heaters**

We strongly support the introduction of regulations to mandate heaters in all homes.

Insufficient heating has major health impacts and renters currently have disproportionately limited access to safe heating. According to the RIS, approximately 14% of rental homes (9% of Class 1 rental households and 16% of Class 2 rental households) currently have no heating system in their home.<sup>1</sup>

Nonetheless, we are concerned that the proposed approach is insufficient to protect Victorian renters from high power bills and unsafe homes.

The proposed regulations introduce a basic minimum standard that all Class 1 homes have a heating system with an energy efficiency rating of at least 2 stars.

The Regulations are proposed to set a low minimum standard that is currently met by the majority of rental homes with heating systems. According to the Regulatory Impact Statement, only 2% of Class-1 homes currently have heaters that would not meet the proposed 2-star energy efficiency standard and would therefore need to be upgraded under these regulations. (A further 9% of Class-1 homes have no heating at all.)

**Renew has conducted in-house analysis on a selection of popular low-cost reverse-cycle heating systems.** These models can be expected to be installed by rental providers to meet their obligations under the proposed Regulations.

Our analysis (see appendix) demonstrates that:

- 4 Star heaters are between 29%-39% cheaper to run than a 2 Star heater, depending on size
- Renters with a 4 Star heater in a typical open-plan setting would save over \$100 per year relative to a 2 Star heater, and potentially much more with higher usage
- savings by renters from higher efficiency units outweigh costs to rental providers over a period of 4-9 years. Lifetime of units is typically 20 years or more.
- there is only a modest difference in the capital (purchase and installation) costs between 2 Star and 4 Star heaters currently available in the market (approximately \$400 for larger units, which equates to no more than approximately one week's typical rent<sup>2</sup>). The difference is primarily due to cheaper installation costs for 2-star window/wall units
- purchase and installation costs for small and large systems remain similar for a range of units rated 3 stars and above

A 2-star minimum standard presents further performance problems that are not taken into account in the above analysis. The cheapest 2 Star systems to purchase and install are window/wall or 'box' heaters. Typically when these are installed they can leave unsealed gaps, creating draughts and similar problems. Poor or 'DIY' installation is likely to exacerbate the problem of draughts and unsealed gaps, particularly where rental providers are motivated to install heating at the lowest cost. It can also lead to other safety and amenity problems such as overloading electrical circuits and blocking natural light and ventilation. Raising the minimum standard will ensure that poorly performing systems of this kind are not locked in for the duration of their asset life.

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<sup>1</sup> Regulatory Impact Statement, p54

<sup>2</sup> Median weekly rent in Victoria, September quarter 2019, is \$400 (Department of Health and Human Services, *Rental Report, September Quarter 2019*, Victorian Government, Australia. September 2019)

Renew recognises that a significant proportion of the existing heating stock is 2 Stars. This is however at the lowest end of the market range with respect to energy performance and quality.

In our view, part of the aim of this policy should be to **lift the performance and quality of the heating stock in rental properties over time**. This can be achieved at very low capital cost and significant benefit/value over time, to both the tenant (in the form of lower energy bills) and the landlord (in the form of the market attractiveness of their rental property).

Many of the existing 2 Star heaters will have been in place for a significant time and will require replacement at some point. In our view, the existing stock of 2 Star heaters should be able to remain until they reach the end of their asset life, at which point replacement with a higher performance 4 Star heater should be required.

Setting the minimum standard too low runs the risk of locking in poor energy performance for thousands of rental households for decades to come.

Renew calls on the government to allow existing 2 Star rated heaters to remain in use while functional, but to require all newly installed heaters to possess a higher rating of 4 stars.

While only 2% of Class 1 homes are expected to require an upgrade to *existing* heating systems to meet the proposed minimum standards of 2 stars, it is expected that a significantly larger number of rental providers will be required to install heating systems where none was present.

Establishing a minimum standard for *new* heaters of 4 stars would greatly improve energy performance for renters and of the rental housing stock over time.

This approach would have no impact on rental providers who have already provided a heating system rated at 2-3 stars. Increased costs to rental providers for purchasing and installing the higher-rated new heaters will be negligible and should be seen in the context of improving the rental housing stock over time, and the health, comfort and energy costs of renters.

#### **Recommendation 1:**

- ***Raise the minimum heater energy rating for new heaters to 4 Stars***

#### **Ensuring the energy performance of apartments**

The proposed regulations only require minimum heater energy efficiency standards for Class 1 properties (standalone homes). Class 2 properties (apartments/units) are exempted from any minimum efficiency standard. The RIS notes that due to 'structural barriers' it may not be feasible to install 2-star or above heaters in all apartments.

The proportion of Class 2 homes where it is impractical to meet the heating standards proposed for Class 1 homes is unclear, however it is reasonable to expect that many Class 2 homes would be able to meet these minimum standards.

There is a significant risk that a blanket exemption for apartments is too broad and will result in substandard heating systems in apartments where more energy-efficient heaters could reasonably be installed.

The RIS notes that 16% of Class 2 rental homes (26,998) currently do not have a heating system, and that regulations are likely to lead to the installation of heaters in 33,720 Class 2 homes.<sup>3</sup>

We are concerned that failure to set a minimum standard for the new heaters installed under these Regulations will lock in poor energy performance, high bills and high greenhouse gas emissions for the duration of the life cycle of these heating system, likely decades.

Rather than exempt apartments (Class 2 buildings) altogether as a class from energy performance standards for heating, we argue that apartment owners should be required to install energy efficient heaters in line with standards for Class 1 homes except where they are able to demonstrate that this is not feasible due to structural barriers.

Where certain gas or ducted heating options are impractical, other more efficient options including reverse cycle air conditioning should be reasonably expected rather than heating that fails to meet the minimum efficiency standard.

We propose that rental providers seeking to install heaters that are below the energy efficiency standards required for Class 1 homes be given an opportunity to demonstrate that installing such a heater would be unfeasible or would come at a cost that is unreasonable in comparison to installation in a Class 1 home.

Demonstrating that it is not reasonable to install a heater that meets efficiency standards would have a minimal cost for rental providers and apartment owners but would ensure that renters are not unreasonably forced to pay higher bills or live in unsafe and inefficient homes.

**Recommendation 2:**

- ***Apply the same minimum energy efficiency standards for heaters for Class 1 homes to Class 2 homes, with appropriate exemptions in place where rental providers can demonstrate that installing such heating is not feasible***

**Insulation**

The RIS notes that a ceiling insulation standard to improve the thermal performance of rental properties and maximise the effectiveness of heating has not been developed as a part of the proposed Regulations, but that a separate process is planned from 2020 to develop standards.

We strongly support the implementation of minimum standards for insulation in rental homes, including ceiling insulation as a basic minimum standard.

The benefits of well installed insulation for household energy performance are clear and well documented.<sup>4</sup> Sustainability Victoria estimates that a fully insulated home compared to a non-insulated home can reduce the cost of heating and cooling a home by around 40 to 50 per cent. Savings to renters on energy bills would outweigh the costs of installation by rental providers after a period of approximately 5-6 years. Furthermore, the impact of insulation as a passive cooling and heating strategy would reduce energy consumption and improve health outcomes for vulnerable renters in the face of heatwaves and extreme weather.

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<sup>3</sup> Regulatory Impact Statement, p55

<sup>4</sup> Sustainability Victoria, 2019. "Comprehensive Energy Efficiency Retrofits to Victorian Homes".  
<https://www.sustainability.vic.gov.au/About-us/Research/Household-retrofit-trials>

We acknowledge that the Department is undergoing further work on standards for insulation. If these standards are not to be considered in the current proposed Regulations, we call for a clear pathway to regulating minimum standards in these important areas in as short a timeframe as possible. This should also be done in line with available incentives under the Victorian Energy Upgrades (VEUP) program.

**Recommendation 3:**

- ***Implement minimum standards for insulation in rental homes as soon as possible***

**Hot water systems**

The RIS notes that a hot water system energy efficiency standard has not been developed as a part of the proposed Regulations, but that a separate process is planned from 2021 to develop standards.

We strongly support the implementation of a hot water standard. Hot water typically comprises around 25% of a home's energy usage<sup>5</sup>.

If these standards are not to be considered in the current proposed Regulations, we call for a clear pathway to regulating minimum standards for hot water in as short a timeframe as possible. This should also be done in line with available incentives under the Victorian Energy Upgrades (VEUP) program.

**Recommendation 4:**

- ***Implement minimum efficiency standards for hot water systems as soon as possible***
- ***Link standards to available incentives under the Victorian Energy Upgrades program***

**Removing barriers to small energy efficiency adjustments**

We welcome the proposal to ensure that landlords cannot refuse permission for renters to make small energy efficiency improvements to their homes, including draughtproofing, adding film to windows, and installing efficient shower heads. We support the right of tenants to make reasonable alterations that will improve energy performance.

We believe that the government must ensure that barriers to these forms of energy improvements are minimised.

Rental households may be unable to undertake similar improvements for a range of reasons not directly linked to the refusal of a landlord. These might include lack of finance or information about effective energy efficiency measures.

We strongly support government programs to provide finance and informational support to households – with a priority placed on low-income households – to maximise energy efficiency through steps such as draughtproofing.

Responsibility can be further placed on rental providers where appropriate to undertake appropriate energy efficiency steps.

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<sup>5</sup> <https://www.energy.gov.au/households/energy-basics-householders>

The Department has considered further steps to remove barriers to energy efficiency, including mandating the ability of renters to make reasonable draught-proofing amendments to homes without requiring permission from rental providers. However, the Department has considered that these proposed changes would present a safety risk due to open flued gas heaters.

We recommend that the regulations set out a clear pathway for the complete phasing out of unflued and open flued gas heaters.

Older open flued gas heaters are in general less energy efficient than other heating models. Furthermore, we are concerned by barriers to households making simple draughtproofing amendments that are an easy way to improve home safety and costs.

The phasing out of open flued gas heaters would improve energy performance of homes and would maximise the ability of renters to make reasonable draughtproofing alterations to their homes without the added barrier of requiring approval.

#### **Recommendation 5**

- ***Remove barriers to small energy efficiency adjustments***
- ***Implement a clear pathway for the complete phasing out of open flued and unflued gas heaters***

#### **Mandatory disclosure of energy standards**

We welcome proposed introduction of new mandatory disclosure requirements around a range of issues, including the presence of an embedded network, planning and building issues, the presence of asbestos, exit fees and the disclosure of past criminal activities in the home.

We believe that further work is required to improve the information available to prospective tenants with regard to energy performance.

As per the Federal Government's Trajectory for Low Energy Existing Building's process<sup>6</sup>, minimum standards and mandatory disclosure of energy performance at the point of sale or lease, are the two primary policy mechanisms that can deliver a step change in the energy performance of existing Australian homes over the next decade.

Renters entering new leases currently have limited information about the energy performance of their home and the energy costs they will face. The RIS notes that further mandatory disclosure requirements on energy performance and efficiency were encouraged in submissions but not considered for the proposed regulations.

While we support the direct regulation of energy performance standards to lower energy costs for vulnerable renters, mandatory disclosure of expected energy performance and costs is a critical additional policy to provide further protection to energy consumers of all types.

We call on the Victorian Government to instigate a formal process in 2020 to plan for the implementation of mandatory disclosure of energy performance for Victoria. Considerations for disclosure should include:

- overall household thermal efficiency ratings;
- major appliance efficiency ratings; and

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<sup>6</sup> <http://www.coagenergycouncil.gov.au/publications/trajectory-low-energy-buildings>

- expected monthly/annual energy costs

Analysis undertaken as part of the national “Trajectory” process, identifies substantial long-term economic value from the implementation of mandatory disclosure, as well as significant public health and environmental benefits.

Mandatory disclosure has been commenced in the ACT, where property owners or investors must disclose the existing building’s energy rating. The ACT Government is also considering providing more information to prospective and current tenants in the Territory.

We note the difficulty of accessing clear information on the energy performance of some heating systems that are subject to minimum standards. Star ratings for many forms of heaters are unclear or unpublicised. While reverse-cycle air conditioners are rated through the E3 program backed by COAG and NZ governments, other heater types such as gas heaters are not included. The RIS does not make clear the basis to be used for assessing ratings for heaters not included in this rating system. A lack of clear ratings and consumer information will make it more difficult for renters to understand their rights and lead to consumer uncertainty.

**Recommendation 6:**

- ***Implement a plan in 2020 to require mandatory disclosure of energy performance at the point of sale or lease in Victoria.***

**Cooling and climate resilient homes**

The proposed Regulations do not introduce minimum standards for cooling. The RIS notes that future work is required on whether standards for cooling should be prescribed. This consideration is welcomed.

We are concerned that Victoria’s rental housing stock is not equipped to protect vulnerable Victorians from the serious health and safety danger posed by increasingly severe heatwaves. We are concerned that no minimum standards exist in law to protect vulnerable renters from unsafe housing in hot summer conditions.

Heatwaves kill more people than any other natural disaster. According to analysis by the Victorian Department of Health & Human Services, during the January 2014 heatwave there were 167 deaths in Victoria beyond expected mortality rates. During the 2009 heatwave the same analysis found an estimated 374 excess deaths above expected mortality rates. The heatwaves furthermore correlated with increased presentations to hospitals and other health services.<sup>7</sup>

Climate change is increasing the frequency and severity of serious heatwaves; 2018-2019 was the hottest summer recorded in Victoria.<sup>8</sup>

A wide range of cost-effective cooling solutions are available to many rental providers. These include passive cooling design (such as shading, insulation, draughtproofing, ventilation and landscaping) and efficient active cooling systems, including fans and efficient reverse cycle air conditioners.

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<sup>7</sup> Department of Health and Human Services, 2014. “The health impacts of the 2014 heatwave in Victoria.” <https://www2.health.vic.gov.au/about/publications/researchandreports/health-impacts-january-2014-heatwave>

<sup>8</sup> Climate Council, 2019. “The Angriest Summer.” <https://www.climatecouncil.org.au/resources/angriest-summer/>

The major impact on home cooling for renters under the proposed Regulations is a side-effect of the introduction of minimum standards for heaters. It is considered by the Department that the heating standards will lead to more homes purchasing reverse cycle air conditioners in order to comply with the standards, and that these units will be able to provide cooling to an increased number of homes. The number of homes likely to improve cooling through the purchase of RCACs is unclear.

Ensuring cooling is available in more homes through RCAC is a positive step. Appropriate energy efficiency standards for RCAC systems are important as price sensitive residents may be less likely to use cooling systems when required. Further analysis of the running cost of RCAC units is included in the appendix to this submission.

We believe that further work is required to ensure minimum safe standards for cooling that will have a tangible effect in protecting Victoria's renters.

We welcome the support of the Victorian government for current COAG processes to improve the energy performance of new and existing homes and the impact that these measures may have on cooling and climate resilience. We support the inclusion of appropriate protections for renters alongside this process.

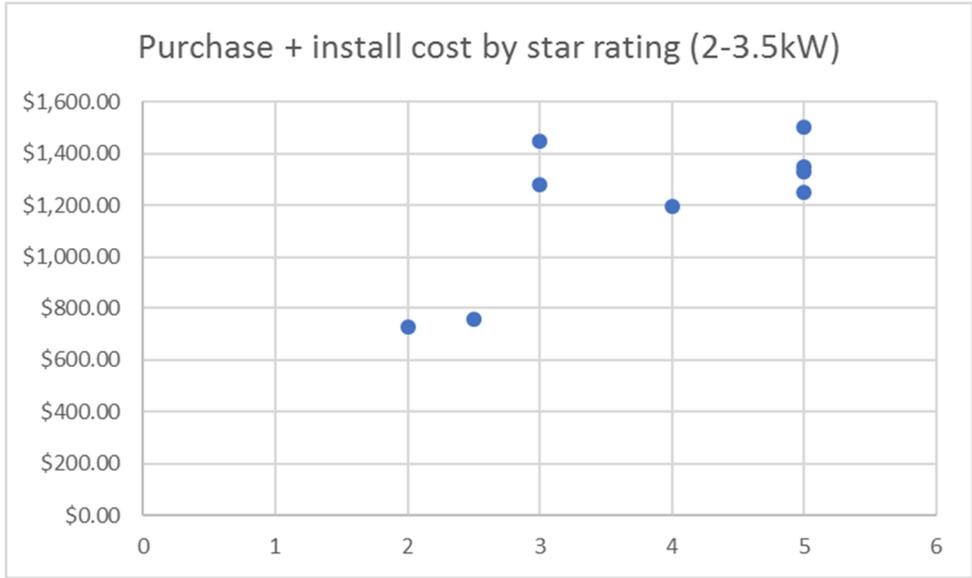
**Recommendation 7:**

- ***Consider further minimum standards for cooling and climate resilience***

# Appendix: RCAC analysis

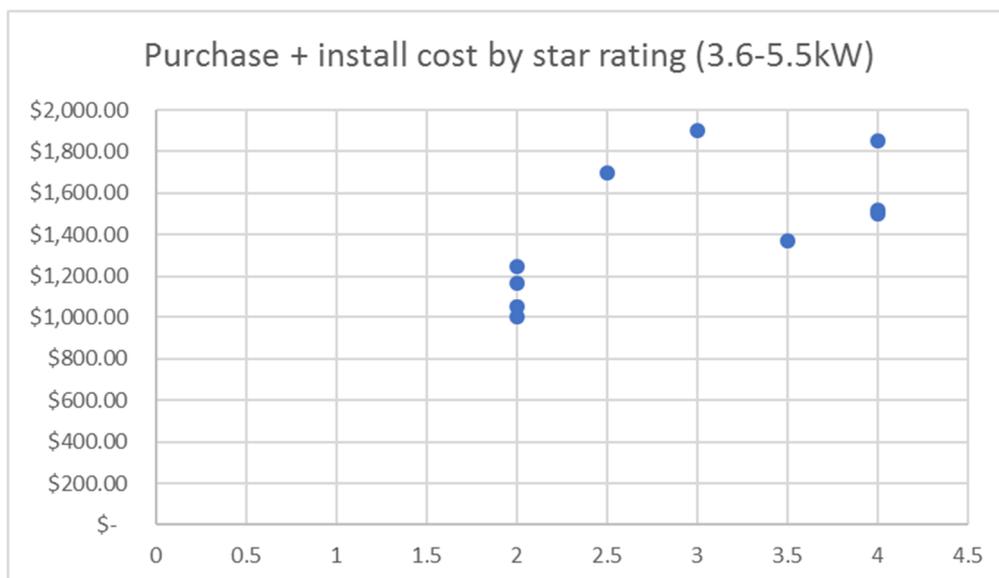
Smaller units (2-3.5 kW)

Star rating	Average typical purchase + install cost	Average annual running cost	Annual running cost premium for inefficiency (\$)	Running cost premium for inefficiency (%)
2-2.5	\$744.00	\$238.74	\$25 higher than 3-3.5 star \$67 higher than 4-5 star	12% higher than 3-3.5 star 39% higher than 4-5 star
3-3.5	\$1,365.00	\$213.75	\$42 higher than 4-5 star	24% higher than 4-5 star
4-5	\$1,324.20	\$171.91		



### Larger units (3.6-5.5 kW)

Star rating	Average typical purchase + install cost	Average annual running cost	Annual running cost premium for inefficiency (\$)	Running cost premium for inefficiency (%)
2-2.5	\$1,233.00	\$479.65	\$72 higher than 3-3.5 star \$109 higher than 4 star	18% higher than 3-3.5 star 29% higher than 4-5 star
3-3.5	\$1,636.00	\$407.97	\$37 higher than 4 star	10% higher than 4 star
4	\$1,622.00	\$370.77		



#### Data sources

Install costs: \$200 for Window/Wall units (BSL data), \$600 for Split Systems (small survey of installers).

Retail prices of RCACs from popular large retailers, Q4 2019 (BSL, online searches). Models used are low cost popular models. Details available on request.

Energy usage calculated from specification sheets using NatHERS criteria for 2-star houses in Melbourne – 25 sq. m for small RCACs, 50 sq. m for large ones. Includes heating and cooling, noting that heating is 80% of the total energy allowance.

Victorian Default Offer for 2020 (mean of all network areas) used to calculate running costs. Volumetric rate only.

Models are low cost popular models. Details available on request.