Rewiring Australia
11 August 2023

Real Estate and Housing Policy Team
NSW Government
Via email: residentialtenancy@customerservice.nsw.gov.au

Re: Submission to Improving NSW rental laws, Aug 2023

Rewiring Australia is a non-profit, independent, non-partisan organisation dedicated to representing the people, households and communities in the energy system. We empirically demonstrate and communicate the cost savings, emissions reductions, and energy system benefits of electrification. Electrification refers to switching homes away from fossil fuel powered machines (gas heaters, hot water, cooking; and petrol/diesel cars) to efficient electric machines powered by renewable energy.

Rewiring Australia is concerned renters are being left out of the opportunity to live in clean, efficiently powered and electrified homes, leaving them with limited control over their energy bills and the fuels they use to power their homes. The NSW Government has the opportunity to align the economic interests of tenants and landlords to ensure rational investments are made in electrification and efficiency.

Key points:

- **Recommendation 1:** Rewiring Australia **supports the proposal to ensure embedded networks and costs are disclosed in rental advertising**.
- **Recommendation 2:** For many of the same reasons that embedded network costs should be disclosed up-front, **historical weekly energy costs should be disclosed on rental advertisements.** This would better align the landlord with tenant interests to make economically rational energy upgrades.
- **Recommendation 3: Renters should only pay the usage component of energy bills**, while landlords should cover the fixed costs of electricity and gas connections, to more closely align the interests of landlords with tenants when making choices about home appliances and improve solar incentives.

Recommendation 1: Renters should know about embedded network costs before renting

Embedded networks are an important and valuable scheme to help apartment owners benefit from shared services and minimise overall costs. However, if the costs are not transparent for renters, embedded networks can result in unfair and unexpected charges.

Q31: Do you support new laws to require landlords or their agents to tell rental applicants if a rental property uses any embedded network? Why/why not?
Rewiring Australia supports laws to ensure renters know about an embedded network before renting.

Q32: When should a rental applicant be told that a property uses an embedded network?
This notification should be included in the advertising of the property. Permitting the notification to occur later will make this rule much more difficult to enforce and prone to dispute. With a requirement to notify in advertising, a clear record of compliance will be established, and online rental advertising sites will be able to support proactive compliance by making the information a standard inclusion, ensuring landlords understand their obligations.

Q33: What information should a renter be told about a rental property using an embedded network? Please explain.
The advice should include

- the specific tariff fees for the network, as well as
- If possible, the actual 12 month historical weekly cost of the embedded network services, or, if this is not possible, a dollar-amount estimate of the total weekly or monthly cost for a typical home on the tariff

Embedded networks may still provide great benefits to renters
It is also Rewiring Australia's view that overall, this regulation should avoid discouraging embedded networks as a model, and it would be unfortunate if the advertising requirement led to a more negative view of all properties on embedded networks. In particular, they may play a critical role in enabling solar generation for strata schemes.

The hidden cost of utilities is actually an issue for renters more broadly
Instead, we believe that the issues raised from the lack of transparency of embedded network costs should prompt broader consideration of transparency and bill arrangements in all tenancies.

Why should we change how energy bills work for tenancies?

About 30% of Australian homes have solar panels. However, less than 5% of rentals have solar.

Solar panels are a highly positive investment on most Australian houses. When an owner-occupier installs solar, they benefit from lower bills and might typically recover the whole investment within 5 years. This is just one example of the kind of efficiency investment that can be made in a house to reduce running costs - others include insulation and sealing, and electrifying appliances.

The incentives to make these kinds of cost-saving investments are broken for tenancies. Landlords are better off minimising investments with no concern for the actual running costs of a house, because running costs are almost entirely hidden from renters until they occupy a house.

This is most obvious in the case of solar panels, where an up-front investment is recovered quickly from reduced running costs. Similarly, landlords may rationally choose to have gas connected-homes and gas appliances, as the appliances are often cheaper and the cost of changing machines from gas to electric is seen as an unnecessary expense. This is despite the fact that efficient electric appliances in the home are cheaper to run, provide greater inside air quality and eliminate carbon emissions. The benefits of electrification are served to the tenant, providing little incentive for landlords to invest in electrifying rental properties.

This ‘split incentive’ is economically inefficient and unfair. The third of NSW households that rent are often missing out on energy bill savings in homes that need efficiency upgrades, and the transition to lower cost renewable energy is being slowed down at the same time.

Fundamentally, home upgrades like solar panels, appliance electrification and efficiency can save everyone money. And that means we can fix the incentive problems without spending taxpayer money.

Recommendation 2: Rental ads should include historical weekly energy costs

Prospective renters should have more information on the actual cost of occupying a house before they agree to rent it. A home with poor thermal insulation, old inefficient appliances, gas connection fees and no solar panels will cost much more to live in than an efficiently electrified home powered with rooftop solar. However, rental listings do not reflect this.

Collecting this kind of running cost information from historical data has not been feasible - until now.
The Consumer Data Right system now includes energy billing information that will soon cover the vast majority of homes in Australia. With appropriate opt-out controls, a realistic weekly energy bill based on the previous 12 months could be automatically calculated for a rental and included in rental listings.

Transparency makes investments in reduced running costs a positive for landlords.
Rental listings that clearly show actual historical energy costs will make older, unupgraded homes far less competitive in the rental market, help renters more accurately understand real costs for a home, and incentivise landlords to address inefficient homes appropriately.

How could this look on popular rental sites? This is an altered version of existing rental listings by Rewiring Australia.

Understanding the limitations of averages
There are, of course, limitations in the usefulness of averaged historical data. Energy usage can vary significantly between households.

If a renter has an EV charged at home, or operates energy intensive equipment, this will increase average energy bills even on a high efficiency home. Average costs may also be lower for lower income households that choose to avoid energy usage and suffer through cold or heat in poorly performing homes instead. Unoccupied periods and seasonal variations will affect the apparent costs, although it is likely possible to account for this in a sophisticated calculated average.

In any situation, advertisers will have the opportunity to explain past and potential energy costs to prospective renters. Although there are limitations to historical averages, this information, with caveats, is better than the lack of information currently provided to households.

Importance of protecting privacy

Access to Consumer Data Right energy data is highly regulated, and careful consideration would be required around disclosing a household's average energy usage in public documents. However, balanced policy consideration should be given to the benefits of improving transparency and the economics for rentals overall. One option could be to include an opt-out mechanism for households concerned about data privacy.

Recent upgrades should be recognised and encouraged
Historical energy data may not capture recent energy upgrades made to homes. Landlords could be offered the right to note recent upgrades that might be expected to reduce bills into the future. It would be possible for energy estimates to be calculated for substantial upgrades. However, upgrades that are only planned at the time of advertising should not be allowed to reduce the displayed estimated price.

Recommendation 3: Renters should only pay the usage component of energy bills

Landlords should be required to pay fixed utility costs for gas and electricity. This is both intuitively fair and already well understood, because this is how water bills work for most renters (in accordance with the NSW standard form Residential Tenancy Agreement).

Shifting these fees onto landlords would:

- Appropriately place the cost of maintaining both gas and electricity connections onto the landlord, and ensure that economic decisions are made about what type of appliances are installed
- Support the economic incentive to install solar panels and efficiency upgrades

Making gas connection costs fair
The decision to maintain a gas connection and gas appliances is a decision made by the landlord. Over time, decarbonisation policies and electrification is likely to reduce total connections to the gas network, and increase daily fixed supply costs. It is important not to leave renters facing this cost increase with no ability to avoid or address it. If owners bear these fixed network costs instead, they will make more rational decisions about the type and timing of appliance upgrades.

Improving solar incentives for landlord and tenant
If the landlord holds the energy retail bill and invests in solar panels, they can also collect the feed-in tariff for surplus generation. This will offset their cost of daily supply charges and improve the economics of investing in the panels.

The tenant would pay usage fees for electricity from the grid, but benefit from free energy during sunlight hours generated from the roof. This incentive to move all possible electricity usage into the solar generation window is an opportunity for renters to reduce their cost of living while accelerating NSW's progress to net zero emissions.

If supported by transparency on energy bills, this will also further incentivise electrification of the home's appliances, since running on solar power minimises running costs.

A phased in approach will be needed
This policy shift will by default only affect new leases. Imposing a change in how supply fees are paid onto incumbent leases would be disruptive to the economics of existing agreements. As such, this approach should most likely be phased in over time for new leases only.

Incentivising the installation of solar
Landlords will still be less incentivised to install solar than owner-occupiers; tenants will collect the usage-savings component for direct consumption (although this exaggerated incentive for tenants to consume this zero-emissions electricity directly is an overall environmental benefit). Tenants with EVs (or other highly flexible usage) who can consume most of the direct solar will leave landlords with lower FIT returns, but this will also incentivise landlords to install larger solar systems with more spillover returns (again an environmental benefit). A more complex arrangement where renters purchase solar energy at the feed-in rate from the landlord could also be considered to remove this misalignment.

Ensuring against unreasonable rent increases

There is a risk that landlords will respond to any investment in improved energy performance or increased cost of energy supply (through being charged daily supply fees) with rental increases. In the context of rising inflation, increased housing costs and a lack of affordable rental housing options particularly in major cities, policy changes that may result in rental increases need to be carefully crafted. The proposals we are making prioritise transparency on the full cost of living in a rental home and provide greater insight into the benefits associated with greater energy performance. However, additional safety nets may need to be considered to ensure that meeting optimal energy performance standards in a home don't price tenants out of those homes.

Thank you for the opportunity to make a submission to this review. Please feel free to get in contact if you would like further information about our submission.

Regards,