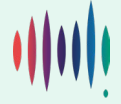


Building Electrification – Regulatory Impact Statement

Submission to Victorian Department of
Transport and Planning

Submitted by: Alice Gordon

DATE: 27/02/2025



Energy Consumers Australia welcomes the opportunity to provide feedback on the Victorian Department of Transport and Planning’s Building Electrification Regulatory Impact Statement (RIS).

The Victorian Government has already made significant progress in helping households and small businesses realise the benefits of electrification through its Gas Substitution Roadmap. This RIS furthers these efforts and is an important step in ensuring all Victorians have access to clean, affordable and reliable energy in a future energy system.

This submission outlines our support for the preferred option (Option 3) and the cost-benefit analysis that has been undertaken to develop it. Option 3 is an ambitious next step in electrifying Victorian households and small businesses while also recognising that further work is needed to understand and overcome the barriers many consumers face.

While Option 3 may be the right option for the present, the RIS rightfully points out the risk of rising gas bills that will be faced by consumers who do not electrify. There is an urgent need for governments to step in and help plan for this future and ensure all consumers benefit from the energy transition.

In particular, governments have a role in:

1. Planning how gas distribution network costs will be recovered as consumers transition off the gas network.
2. Ensuring consumers are informed about the risks of purchasing new gas appliances.
3. Providing support to consumers who face barriers to electrification.

We support the Victorian Government’s proposed option

We support the preferred Option 3. Option 3 is both ambitious in its intention and recognises there remain significant barriers to electrification for some cohorts that must be addressed before mandating that all appliances electrify at end of life.

Through its Gas Substitution Roadmap, the Victorian Government has already recognised that “gas is no longer a cheap and plentiful source of energy” for Victorians, and there is a need to support the electrification of homes and businesses. The Victorian Government’s modelling finds that converting existing homes with solar to all-electric can save households \$2000 a year in energy bills.

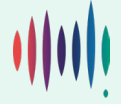
Households and small businesses are growing increasingly aware of these benefits.¹ Our Consumer Energy Report Card finds almost half of Victorians believe reducing household consumption of gas is important to help Australia reach its emissions targets. And more than one-third of Victorian homeowners with gas are planning on cancelling their gas connection in the next ten years.²

Victoria has already made significant progress towards electrifying homes and businesses through its Gas Substitution Roadmap. Limiting new connections to the gas network, coupled with the introduction of upfront connection costs, is a fundamental first step. However, attention must now turn to the two million homes and businesses who are already connected to the gas network in Victoria.³ The Grattan Institute’s *Getting Off Gas* report found that Australia could reach its net zero goals on natural

¹ Victorian Department of Energy, Environment and Climate Action, *Save with an all-electric home*, available: <https://www.energy.vic.gov.au/households/save-with-all-electric-home>, accessed 20 February 2025.

² ECA, How households use gas and their attitudes towards electrification: analysis of the December 2024 Consumer Energy Report Card, January 2025, available: <https://energyconsumersaustralia.com.au/wp-content/uploads/survey-consumer-energy-report-card-dec-24-report-how-households-use-gas-attitudes-electrification.pdf>.

³ https://www.energy.vic.gov.au/data/assets/pdf_file/0027/691119/Victorias-Gas-Substitution-Roadmap-Update.pdf



replacement cycles alone.⁴ Mandating gas appliances convert to electric ones at end of life and expanding regulations limiting new gas connections are the right next steps.

The RIS proposes that residential buildings replace gas hot water and heating with an electric alternative at end of life. We support this approach as the benefits of replacing gas hot water and heating will likely have significant benefits in a jurisdiction that has particularly high gas use. Our surveys find that three quarters of Victorian households with mains gas use it for hot water, and over half use it for space heating. They also find Victorians are significantly more likely than any other jurisdiction to use gas for all three primary purposes: cooking, hot water and space heating.⁵

Consumers who are exempted need support to access the benefits of electrification

The Regulatory Impact Statement suggests a number of exemptions, including commercial buildings and cases where there are significant logistical obstacles to electrification. It also proposes that residential buildings are not required to replace gas cooktops at end of life. We support the cost-benefit analysis that the Victorian Government has undertaken and believe these are the appropriate exemptions at this time.

However, the RIS is correct that consumers who do not electrify are at significant risk of unaffordable energy costs in the coming decades. As consumers electrify and leave the gas network, the costs of maintaining gas networks will be shared by an increasingly small cohort of consumers. In a 2023 report for Energy Consumers Australia, CSIRO undertook modelling to determine the impacts to household energy bills under the Integrated System Plan's 'step change' or central planning scenario. The modelling showed that network prices on household gas bills would more than quadruple – from roughly \$280/year today to \$1,170 in 2050.⁶

As the RIS notes, these are likely to be consumers often considered more vulnerable, such as low-income households who cannot afford the upfront costs of electrification and renters who are reliant on their landlord to electrify. There is an urgent need for governments to plan for these consumers and ensure they are not left worse off in a transitioning energy system.

Develop a plan for the future of the gas network

Victorian households and small businesses currently pay over 90% of the costs of maintaining gas distribution networks.⁷ As these consumers electrify, gas distribution networks are facing the real possibility they will be left with too few customers to pay off their multi-billion-dollar assets, leaving them stranded.

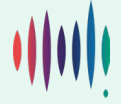
Consumers are currently the only stakeholder paying to reduce the risk of stranded assets. This is occurring through the use of accelerated depreciation, which has been approved by the Australian Energy Regulator.

⁴ Grattan Institute, Getting off gas: Why, how and who should pay, June 2023, available: <https://grattan.edu.au/wp-content/uploads/2023/06/Getting-off-gas-why-how-and-who-should-pay.pdf>.

⁵ ECA, How households use gas and their attitudes towards electrification: analysis of the December 2024 Consumer Energy Report Card, January 2025, available: <https://energyconsumersaustralia.com.au/wp-content/uploads/survey-consumer-energy-report-card-dec-24-report-how-households-use-gas-attitudes-electrification.pdf>

⁶ Graham, P., et. al., 2023, Consumer impacts of the energy transition: modelling report, CSIRO, Newcastle.

⁷ AER, [Gas Network Performance Report](#), 2022, p. 107, Figure 7-9



Last month, the AER said in its draft decision on AusNet’s variation proposal to its 2023-28 Access Arrangement that: “while accelerated depreciation can help reduce asset stranding risk, it has limitations and on its own cannot resolve the issues faced by the gas networks and customers from a declining network.”⁸ It has also recently acknowledged that: “accelerated depreciation will not remove the need to resolve the broader policy question involving consumers, network businesses and governments on who should pay for the costs of stranding risk associated with past capital investments, or when, and how this will occur.”⁹

Governments must step in to define how the costs of a declining network will be recovered. Current arrangements are unfair. Only consumers are contributing to these costs at the moment while reaping little reward. Our report with Dynamic Analysis found that accelerated depreciation alone has only a minimal impact on reducing the risk of stranded assets, reducing the long-term asset base by less than 10 percent.¹⁰ And while networks may receive benefit in an earlier recovery of some of their assets, it does very little to limit the spiralling gas bills remaining gas customers are expected to face in coming decades.

Energy Consumers Australia has recently submitted four rule change proposals to the Australian Energy Market Commission which will help plan for the future of the gas network. These proposals seek to amend the National Gas Rules to ensure they are fit-for-purpose in the context of a gas network in decline. They will help address – though not completely mitigate – the risk that consumers left on the gas network are left paying an unfair or affordable share of gas network costs. Our proposals include:

- Requiring connecting customers pay the upfront costs of connecting (an existing requirement in Victoria but not outside it).
- Requiring gas networks provide greater information to allow better planning for the future of the network.
- Making accelerated depreciation contingent on a broader policy framework that protects consumers in a declining gas network.
- Amending criteria for approving capital expenditure to eliminate any discretionary expenditure.

Inform consumers of the risks of purchasing new gas appliances

The preferred option in the RIS exempts gas cooktops from being replaced at end-of-life. Gas cooktops use much less gas than heating and hot water, and their impact on both emissions and consumer bills is therefore comparatively minimal.

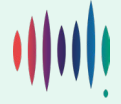
However, purchasing a new gas cooktop could lock a consumer into a further twenty years of fixed charges for gas, at a time when gas prices are set to rise. If a consumer has already electrified all other appliances in their home, upgrading to an efficient electric cooktop if there are minimal barriers to doing so, would eliminate these costs.

Despite growing understanding of the benefits of electrification, many consumers remain unaware. One in five households say reducing household reliance on gas is not important at all to reduce emissions.

⁸ AER, [Draft decision on AusNet Gas Services \(Victoria\) 2023-28 access arrangement variation proposal](#), January 2025, p. 29.

⁹ AER, Draft Decision, [Jemena gas network access arrangement 2025-30](#), November 2024

¹⁰ ECA and Dynamic Analysis, [Turning down the gas: Minimising consumer risk](#), September 2024.



And most Victorian homeowners with gas are not planning on removing their gas connection in the next decade.¹¹

Clear and comparable information when consumers are purchasing a new appliance is necessary to ensure consumers do not purchase new gas stovetops without first understanding they face a risk of rising gas bills. Consumer Policy Research Centre's research on greenwashing found consumers value and rely on upfront information at point-of-purchase. Two-thirds of respondents supported the introduction of an independent, standardised rating system.¹² This should extend to upfront and explicit information on the risks of new gas appliances.

Further, the introduction of new regulations on gas heating and hot water offers the Victorian Government the opportunity to encourage households and small businesses to electrify all appliances. We would expect any communications on the new regulations would continue to highlight the benefits of households and small businesses going all-electric, including stovetops.

Support all households and small businesses to electrify

As the RIS notes, those left behind on the gas network are most likely to be consumers who are least able to keep up with spiralling gas network costs. Many consumers may have the understanding or the desire to electrify but are still unable to replace gas appliances with electric. For example, our surveys find younger households were more likely to recognise the need for reducing gas use. However, they are also more likely to be living in apartments or rental properties and lack the agency to electrify.¹³ Low-income households are also significantly less likely to say they plan on cancelling their gas supply in the next ten years.¹⁴ This was echoed in responses in our qualitative research:

"Ultimately, I would like to not have any gas as it seems redundant if I have a good solar system and good quality electric appliances that do the same thing. I have researched induction stoves and obtained a quote for an electric heat pump hot water system, but currently they are not within our budget."

"I'm limited for options as I rent, so I can't install insulation, solar panels or replace major appliances. However, I would be happy to if I was able!"¹⁵

The Gas Substitution Roadmap outlines numerous pathways beyond this RIS to help Victorian consumers fully electrify. We support ongoing efforts to achieve these, particularly those aimed at electrifying social housing and providing greater assistance for low-income housing. Last year, consultation opened on Minimum Energy Efficiency and Safety Standards. As the Victorian Government continues to review feedback, we reiterate the suggestion made in our [submission](#) that gas-powered cooking appliances are replaced at end of life with electric ones in rental properties.

The Victorian Government notes that the lack of comprehensive data on commercial buildings means they are unable to quantify the costs and benefits of requiring existing commercial buildings electrify. However small businesses have indicated to us that they desire to play a positive role in the energy

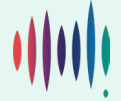
¹¹ ECA, How households use gas and their attitudes towards electrification: analysis of the December 2024 Consumer Energy Report Card, January 2025, available: <https://energyconsumersaustralia.com.au/wp-content/uploads/survey-consumer-energy-report-card-dec-24-report-how-households-use-gas-attitudes-electrification.pdf>

¹² Bell, J & Martin, S, Consumer advocates call for more regulation on household appliance 'greenwashing', December 2024, available: <https://www.abc.net.au/news/2024-12-06/calls-for-appliance-repairability-and-durability-rating/104685858>, accessed 21 February 2025.

¹³ ECA, How households use gas and their attitudes towards electrification: analysis of the December 2024 Consumer Energy Report Card, January 2025, available: <https://energyconsumersaustralia.com.au/wp-content/uploads/survey-consumer-energy-report-card-dec-24-report-how-households-use-gas-attitudes-electrification.pdf>

¹⁴ Ibid

¹⁵ ECA Qualitative Research May 2023



transition. A majority say the transition will be a good thing for consumers, and a majority say they are interested in being a leader who promotes sustainable energy use to others in their community.¹⁶ We have also found that small businesses are more likely than households to be seriously considering cancelling their gas supply.¹⁷

We expect, as part of the Gas Substitution Roadmap, work is actively being pursued to fill this gap in understanding and ensure small businesses have access to the benefits of electrification. Our report, ***Power over their Power***, also suggests a number of practical solutions that can support small businesses to benefit from the energy transition. It outlines the importance of clear and tailored small business communications and practical financial support such as tax incentives with no end date and low-interest loans.¹⁸

Concluding remarks

Victoria continues to demonstrate a commitment to ensuring households and small businesses access the benefits of a transitioning energy system. This Regulatory Impact Statement is further evidence of this commitment, and we support the Victorian Government continuing support of electrification for all Victorians.

As our submission notes, some consumers will need additional support. Failing to proactively plan for these consumers places them at significant risk of facing unaffordable energy prices and being left behind in the energy transition. We trust the Victorian government's commitment to electrification will extend to providing support and planning for these cohorts of consumers. We look forward to continuing to provide feedback as it does so.

Please reach out to Alice Gordon at alice.g@energyconsumersaustralia.com.au if you have any further questions.

Signed,

Brian Spak

¹⁶ ECA, Consumer Energy Report Card: Small business findings Highlights report, February 2025, available: <https://energyconsumersaustralia.com.au/wp-content/uploads/survey-consumer-energy-report-card-dec-24-report-small-business-findings-highlights.pdf>

¹⁷ ECA, Energy Consumer Behaviour Survey, October 2023

¹⁸ SmallBiz Matters & Energy Consumers Australia, Power over their Power: Small Business Perspectives on Energy, November 2023, available: <https://energyconsumersaustralia.com.au/wp-content/uploads/Power-over-their-Power-Report.pdf> .

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