

Carrot and stick: Getting to the root cause of energy inequity



The following article is the second of three finalists in the 2018 Gill Owen Essay Prize – a contest honouring the memory of Dr Gill Owen, a tireless campaigner in the fields of energy efficiency and social equity. The competition is sponsored by AGL Energy, the Institute for Sustainable Futures at UTS, the Association for Environmental and Energy Equity, Uniting Communities and RenewEconomy. The first finalist essay was published here yesterday, and the third will be published on Wednesday.

A passionate and pioneering campaigner for social justice, Gill was one of the first women to bring the voices of the consumer and the disadvantaged to the Boards of the UK's and Australia's competition and economic regulators. Gill advocated passionately for these causes until her untimely death from an aggressive brain tumour in August 2016.

To celebrate Gill's contribution to empowering disadvantaged consumers, and improving energy efficiency, the Gill Owen Essay Prize invites emerging voices under the age of 35 to offer their own perspective on energy efficiency and social equity. The overall winner of the Gill Owen Essay Prize will be announced at the Energy Consumers Australia Foresighting Forum in Sydney on Wednesday 20 November. The winner receives a prize of \$3000 and the runners up receive a prize of \$1000 each.

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Improving access of low income renters to energy efficiency (the 'energy-equity issue') has no 'silver bullet' solution

because, in the words of Professor Gill Owen, “disadvantaged households are not a homogenous group and they do not have identical needs”.

This is therefore a complex social problem that requires a systems thinking approach that focuses on the bigger societal picture to understand what systems must change, rather than on single-issue activities and programs.

Addressing such a complex social issue inevitably requires the involvement and cooperation of multiple societal stakeholders. Government, businesses (e.g. energy retailers) and associations, and citizens (including landowners and tenants) each have their own role to play. As discussed further below, a key barrier is the split incentive between landlords and tenants, and one that the government is best placed to remedy with policy and legislation.

If we analyse the energy bill, the key variables are usage and cost. Many factors at either the landlords’ or renters’ discretion can influence household energy usage.

Much has already been proposed to this end, including by Professor Owen. Options include self-generation (e.g. PV solar panels on rooftops), use of energy efficient appliances, energy efficient design of buildings, installation of smart energy devices/automation and general energy conservation behaviours (e.g. switching off lights in the day or when rooms are empty). Whilst, these are similarly important, they can be left to the free market and will not be the focus of this essay.

While cost-oriented solutions such as off-peak usage, tariffs and government rebates assist low income earners in meeting their energy bills, these tend to be ‘band-aid solutions’ that fail to address the root cause/s of the problem.

As the Australian Council of Social Service said, “government and industry programs so far have largely targeted people on

low incomes with behaviour change and minor retrofits”.

Additionally, these do not assist with the overall energy used, thus ignoring related environmental consequences of non-renewable energy and system peak energy demand management.

Root Causes Systems thinking advocates identifying the root cause/s of the issue.

Firstly, the most significant root cause is the split incentive between landlords and tenants. Landlords have little incentive to invest the time, effort and resources into renovations/upgrades that improve energy efficiency if it does not benefit them until the property is sold.

Conversely, tenants lack the power to make capital upgrades (such as energy-efficient heating/cooling, which contributes roughly 40% to energy bills) and for some, lack the desire to do so if they are only renting the premises in the short-medium term. In particular, some existing apartments (including flats and units) face additional barriers such as “energy regulations... and getting all landlords on board” in order to retrofit common areas.

Secondly, current standards do not appear to be sufficient. For example, new properties should adhere to the Australian Building Codes Board National Construction Code (NCC), which is legally binding through its incorporation into state and territory legislation.

In New South Wales, this is through obtaining a BASIX certificate required for new homes, or renovations worth \$50,000 or more. The requirement does not capture a portion of properties, especially as it is older, existing homes which are likely to have less energy-efficient fitouts. Furthermore, compliance and enforcement of the NCC need to be tightened.

Thirdly, governments rely largely on energy concessions such as rebates to address affordability for low income earners but

the uptake on these have not been fully maximised.

This could be due to landlords not sufficiently incentivised to leverage these, especially where it is not an owner-occupied property, or in some cases, concessions being aimed at low income homeowners rather than renters.

Additionally, this could also be due to a lack of awareness and education by low income renters, who tend to be of a diverse background such as those with disabilities or are non-English speaking. According to the Queensland Treasurer, only about a quarter of 160,000 eligible households applied for a concession in the past two years.

Solutions

A core part of any win-win solution to this issue needs to involve a reduction in the overall use of energy as this results in both a societal benefit (low income earners pay less on their bills for less energy used) and environmental benefit (less strain on peak demand and fewer non-renewable energy resources used – at least for the majority of states that still use such sources).

Furthermore, any solution should address the barriers preventing energy efficiency in apartments, considering the upward trend in apartment-living.

According to the 2016 Census, 59 per cent of apartments and 21 per cent of separate houses across Australia were being rented. A reasonable portion of this would be low income renters, as an estimated 49% of low income households are renting, and are twice as likely to rent than those in the highest income quintile.

This represents a gap where low income renters are locked out of maximising energy efficiency and corresponding potential if this gap is addressed. This inherently requires an alignment of landlord and renter incentives, and a restructure of the

system to make it as easy as possible for landlords to move towards energy efficient properties.

Tax

The introduction of tax incentives such as deductible expenses or offsets would have effect at a nation-wide level, and the immediacy of benefits through annual tax returns would appeal to landlords. For example, this could be tied to existing energy efficiency home rating initiatives such as in the ACT and complemented by proper communication of energy efficiency ratings to potential tenants.

Alternatively, the government could leverage the Nationwide House Energy Rating Scheme (NatHERS), a star rating system that rates the energy efficiency of a home out of ten based on its design. Tax incentives could potentially be offered based off a minimum score/rating for landlords, as assessed by appropriately certified independent accreditors.

Analysis will need to be undertaken to provide the government comfort that the potential tax revenue lost is offset by societal and environmental gains from enhanced energy efficiency and usage for low income renters. Furthermore, the potential tax incentive needs to be sufficiently substantial to influence landlord behaviour, including strata committee decisions.

For landlords who are not sufficiently incentivised, tax incentives need to be complemented by minimum energy efficiency standards.

Minimum energy efficiency standards

Positive steps have been made in Victoria and Queensland with recent introductions of minimum standards for rental properties.

Whilst being developed with public consultation, there is

always a risk that such regulations would not place a high enough bar for landlords to comply with, in an attempt to incorporate diverging opinions.

Nevertheless, minimum standards, appropriately enforced, would require idle landlords to maintain more energy-efficient properties.

Key messages

At its core, solutions to address the energy-equity issue for low income renters is a matter of reward and punishment to incentivise behaviours of various societal actors. The government is uniquely placed to implement some solutions, such as legislation, regulations and enforcement.

Governments should use its limited resources efficiently by moving away from 'band-aid' rebates/concession programs towards tax and regulatory policies to align landlord, renter and society's interests.

Governments should offer both the carrot and the stick – both tax incentives for landlords and minimum energy efficiency standards for rental properties with which landlords must comply.

The former would be much quicker to implement with an amendment to existing tax legislation or tax office ruling. The latter would require a longer timeframe to introduce, assuming proper consultation with landlords and the public are undertaken, and regulations drafted to balance the interests of various stakeholders.

Realistically, it may not be within the state or federal government's will or resources to introduce both carrot and the stick. Change and the push for social equity should come from all societal actors and not just the government and landlords.

Where government policies are deficient, the free market may and should devise alternate measures that address the root causes of the energy-equity issue. By hitting at the root causes, efficiency applies not only to energy but also to directing the limited resources and efforts of those seeking to alleviate the issue.



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