AUSTRALIAN ENERGY COUNCIL

Ms Elizabeth Molyneux
Deputy Secretary Energy
Department of Energy, Environment and Climate Action
8 Nicholson Street Melbourne 3000

Submitted via email.

5th of March

Dear Ms Molyneux

Victorian Building Electrification Regulatory Impact Statement

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission in response to the Department of Transport and Planning (DTP) and Department of Energy, Environment and Climate Action (DEECA) Victorian Building Electrification Regulatory Impact Statement ('RIS').

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC recognises that electrification will play a key role in decarbonising large sectors of the Australian economy. The proposals outlined in the Victorian Building Electrification Regulatory Impact Statement ('RIS') are an important step in Victoria's transition to electrification. We support the Victorian Government's efforts to promote the electrification of buildings. This is particularly important given the growing body of research showing that electrification offers a cleaner alternative to using liquid fuels in transport and gas for residential space and water heating, largely due to the superior thermodynamic efficiency of electrical energy.[1] The AEC notes there are a number of industrial processes not amenable to electrification, for example high temperature heat. The AEC continues to support the use of renewable gases, such as biomethane, for those end-uses.

We note that achieving the goals outlined in the RIS efficiently and equitably will be a significant challenge. In previous submissions, the AEC has highlighted that many of the barriers to widespread electrification adoption relate to the affordability of electrification (e.g. the upfront costs of replacing a gas stovetop with an electric one), the accessibility of electric technology to support affordability (e.g. Consumer Energy Resources), and changing customer habits (e.g. resistance to using electric appliances).[2]

However, there are broader system impacts to be considered which could have significant impacts on energy consumer equity. The AEC disagrees with DEECA that electrification will not have flow on effects to electricity markets. Indeed, analysis from a recent Griffith University paper suggests that electrification will drive material increases to final electricity demand, particularly during the winter periods, which in turn will place a greater reliance on other fossil fuel generation assets.[3]

[1] AEMO, 'Draft 2024 Integrated System Plan', December 2023, p19; The International Energy Agency (IEA), for example, has made it clear that electric technologies like heat pumps are far more efficient, regardless of electricity generation mix
[2] AEC, 'Submission to Electricity Sector Plan,' April 2024, p7-9.
[3] Simshauser and Gilmore, 'Policy sequencing: on the electrification of gas loads in Australia's National Electricity Market', December 2024.

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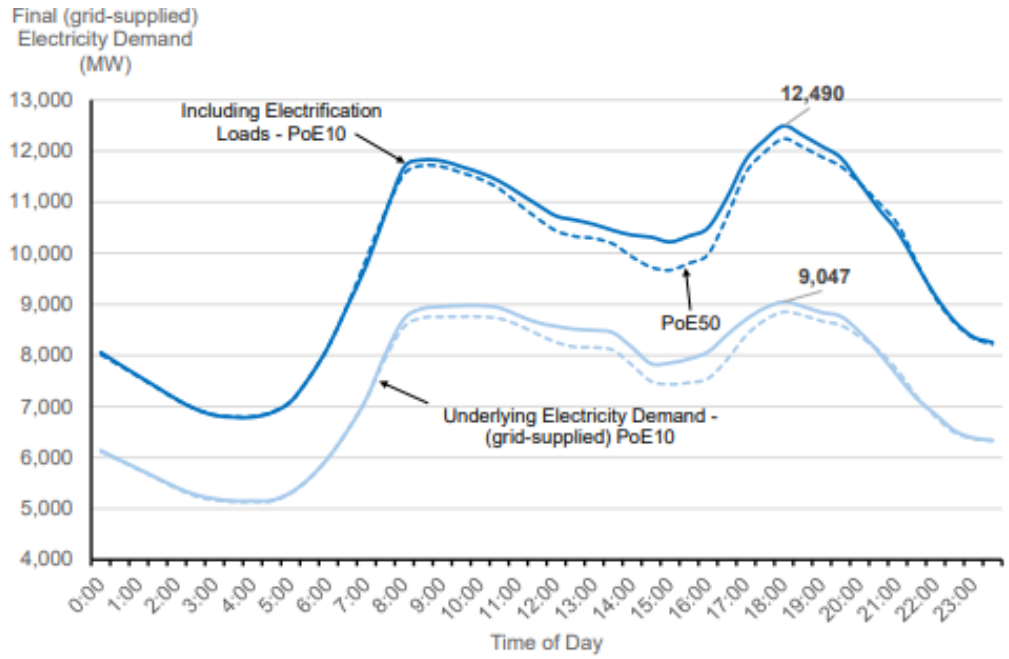

Figure 1: Victorian winter demand in 2030s with and without electrification

AEMO analysis[4] likewise indicates that, even in more optimistic energy transition scenarios, average grid emission intensities in states like Victoria and New South Wales are likely to remain higher than those from natural gas use until the 2030s.

With demand increases driven by electrification and forecasts of ongoing gas supply shortfalls from 2028, which are likely to raise the cost of running gas-fired power stations, there is a distinct possibility that consumers will face higher overall energy prices.

For the AEC, this raises serious concerns about energy equity. While homeowners with their own property and CER assets may be able to mitigate the cost impacts through self-generation and storage, the majority of Victorian energy consumers may not have that option. Vulnerable groups, including renters, apartment dwellers, the elderly, and low-income households, are particularly at risk of poorer energy outcomes. In fact, the cost-benefit analysis behind the RIS shows that the average cost of upgrading the switchboard and supply connection for smaller premises is $4,700, which can be a significant financial burden. Considerations around the variability around residential and commercial infrastructure, ownership and body cooperate regulations, as well as approval process can also complicate electrification initiatives and their cost.

While the RIS proposes exemptions to address energy equity and economic concerns related to mandatory electrification, some issues remain. We recommend that non-distribution level augmentation costs should also be considered as a basis for exemption. Additionally, due to the lack of sufficient data in the Northmore Gordon and Energeia cost benefit analysis and the complexities inherent in electrification, existing commercial buildings should be excluded from any mandatory electrification requirements. Commercial owners need to respond to occupants needs (market demand) regarding the need for electrification in their own buildings.

Furthermore, the AEC believes that mandatory electrification of other new and existing residential and new commercial buildings should not commence until unintended, perverse impacts on emissions, electricity supply and customer energy prices can be avoided.

[4] AEMO, 'Draft 2024 Integrated System Plan',

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In the interim, the Victorian Government should remain cognisant of issues around energy equity. The AEC suggests that upgrading residential buildings for those most in need should be prioritised. This as it relates to thermal improvements (i.e. insulation, weather proofing and draft sealing).

Any questions about this submission should be addressed to Braeden Keen by email to braeden.keen@energycouncil.com.au.

Yours sincerely,

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