Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

cc. Dr Helen Haines MP

27 September 2023

Dear Committee Members

Sustainable Upper Ovens Submission to Inquiry into Residential Electrification

Sustainable Upper Ovens is grateful for the opportunity to provide this submission to the Inquiry into Residential Electrification by the Senate Economics References Committee.

COMMUNITY ENERGY GROUPS AS AN ALTERNATIVE MODEL FOR ACHIEVING RESIDENTIAL ELECTRIFICATION

We consider there is an important role for community energy groups, such as Sustainable Upper Ovens, in promoting residential electrification and contributing to the broader energy transition. In particular, groups such as ours can leverage local knowledge, engage local networks, and adopt innovative forms of delivery of electrification programs that may be outside the appetite or core strengths of government or commercial organisations.

BARRIERS TO RESIDENTIAL ELECTRIFICATION

In our activities, we are mindful of the urgency for low-income households to participate fully in the energy transition due to the lower ongoing costs it will deliver to them. We are also acutely aware of the financial obstacles to these households participating in that transition. Recent research by Energy Consumers Australia has drawn attention to an energy divide:

> *For those who earn less than $40,000 per annum, energy bills (electricity and gas) are between 5.7% and 12.7% of their income. In contrast, for those that earn over $150,000 pa, energy bills make up just 1.5%...*
> *Many of the actions that households can take to reduce their energy bills, such as energy efficiency measures and installing solar and a battery, have high upfront costs.*

> *…As those households that can afford it increasingly electrify their homes, households under financial pressure will fall even further behind.*[1]

The research sounded an alarm that this energy divide is widening. This raises the worrying prospect that the energy transition will be a non-starter for low-income households.

Based as we are in regional Victoria, we are also conscious that economic disadvantage in regional areas of the state is of a greater order than in Melbourne. People in regional areas who are 65 and over and people who live alone are especially prone to experiencing economic disadvantage.[2]

OVERCOMING THE BARRIERS FOR LOW INCOME HOUSEHOLDS

Recognising these barriers to the take-up of residential electrification, especially among low-income households and in regional areas, we are preparing to launch a project that will assist such households to increase their energy efficiency and reduce their energy costs.

In November 2022, Sustainable Upper Ovens received a grant from Bendigo Bank as part of its Alpine Community Bushfire Recovery Grants Program. The major part of the grant comprised $40,000 for the purpose of running a proof-of-concept project involving the installation of energy-efficient heat pump hot water systems and solar panels in four low-income households at a cost of $10,000 per household.

To address the usual financial obstacles to purchasing and installing such equipment, households participating in the pilot project will receive an interest-free loan covering the full cost of the heat pump hot water systems and solar panels. Participating households will repay the loan over 10 years at $1,000 per year. We expect that participating households will meet these loan repayments out of expected energy savings bill of $1,500–$2,000 per household per year.

If the proof-of-concept is successful, our intention is to seek further funding to expand the project. In brief, the expanded project would involve:

1. Installing energy-efficient heat pump hot water systems and solar panels, following the same model as the proof-of-concept
2. Installing small batteries and electric vehicle charging points connected to a virtual power plant.[3] Batteries increase energy resilience in natural disaster-

[1] Energy Consumers Australia, *Stepping Up: A smoother pathway to decarbonising homes*, August 2023, p.9. Accessed at https://energyconsumersaustralia.com.au/wp-content/uploads/Stepping-Up-Report-Final.pdf.

[2] Victorian Council of Social Service, *Mapping poverty in Victoria – 2023 VCOSS Insights Report*, August 2023, p.16. Accessed at https://vcoss.org.au/wp-content/uploads/2023/08/PovertyMaps23_VCOSS.pdf.

[3] A virtual power plant is a network of distributed solar power and battery systems that are co-ordinated in a way that feeds some or all of the batteries' stored power into the grid during periods of high demand. Households that participate in a virtual power plant receive a financial benefit for sharing their

prone areas—which, in our region, usually refers to bushfires—and communities on single power lines like ours are very vulnerable.

Additionally, our intention is that the parts of the expanded project targeting households will be financed under a circular funding model. This means that:

- Interest-free loans will be provided to households
- As the loans are repaid, a multiplier effect is created that allows further households to receive loans to install heat pump hot water systems, solar panels, batteries and EV charging points
- The circular fund also covers the costs of depreciation, maintenance and replacement of equipment at end of life.

We consider a circular fund model addresses a gap in many grant arrangements, namely that they are one-off opportunities only. That is, grant arrangements frequently do not establish an ongoing program and do not deal with maintenance and end-of-life costs. The planned circular fund, on the other hand, is to a large extent self-sustaining and takes a whole-of-life approach to the installed equipment.

We envisage that the project will be managed via a community energy hub—building on The Local Power Plan model developed by Dr Helen Haines, MP for Indi[4]—with coordination and support provided by community volunteers. Revenues from the project will be directed back into the local communities in which it is based.

Our proof-of-concept project has, unfortunately, run into an obstacle before it can be launched. Our legal advice indicates that, even though the project would involve loans that are interest-free, it is likely it could not be operated without a licence under the *National Consumer Credit Protection Act 2009* (the National Credit Act). The legal advice also concluded that the regulatory requirements applicable to such a loan scheme would be too complex for a community group led by volunteers to manage.

We have approached two financial institutions to request assistance in running the interest-free loan component part of the project. Both institutions declined to provide this assistance, primarily because it is anticipated that a proportion of households targeted by the project would not pass the credit checks required under the responsible lending obligations set out in the National Credit Act.

While we consider there are safeguards available that would keep the risks both to a household and to a financial institution within reasonable tolerances—in particular, the project would include provision of security to the full value of each loan—we acknowledge that such institutions are limited by regulatory requirements in how they can assist us.

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power. In Victoria's north east, Mondo Power (a subsidiary of electricity distributor Ausnet Services) has been conducting a virtual power plant trial.

[4] The Local Power Plan was developed under the leadership of Dr Haines in 2020 with the aim of bringing cheap, clean, local power to the regions. Details can be found at https://www.localpowerplan.com.

Despite this setback, we continue to search for solutions that would allow for the provision of interest-free loans to low-income households, so as to reduce energy poverty and increase general wellbeing.

CONCLUSION

We are drawing our project to the attention of the Committee to highlight that:

- community energy groups have a place in Australia's residential electrification efforts
- Sustainable Upper Ovens recognises the need to ensure low -income households are included in these efforts and, as a regionally-based organisation, we recognise that economic disadvantage can be more acute in regional areas
- as a community energy group, Sustainable Upper Ovens considers it is well-placed to devise innovative solutions to extending residential electrification efforts to low-income households, solutions that may not be within the appetite or core strengths of government and commercial organisations
- as a community energy group, Sustainable Upper Ovens is also well-placed to leverage local knowledge and engage its local networks to increase the likelihood that its efforts will be successful.

We would be happy to respond to any questions or provide further information sought by the Committee.

ABOUT SUSTAINABLE UPPER OVENS

Sustainable Upper Ovens Inc is a community-based organisation, based in the Ovens Valley in and around Bright in regional north east Victoria. Recognising the importance of the energy transition that Australians are in the middle of, our purpose and activities revolve around helping local households and small businesses switch to renewable energy, adopt improved energy efficiency measures, maximise opportunities to reduce, reuse and recycle our resources and foster stronger feeling of community involvement.

In fulfilling this mission, we work closely with:

- other community organisations in our region
- local government and relevant Victorian Government agencies
- like community organisations in southern New South Wales and Victoria as part of the Community Energy Network
- Indigo Power—a community-owned energy company that is committed to powering its communities with clean energy—which manages the Yackandandah Community Battery,[5] is active in pursuing renewable energy projects in its own and adjoining regions, and is the convenor of the Community Energy Network.

[5] Details about the Yackandandah Community Battery can be found at https://totallyrenewableyack.org.au/watts-happening/yack01-community-battery/.

Regional residents and small business owners who participate in our work are motivated to do so for a variety of reasons, including:

- to reduce their own and the area's carbon footprint as their contribution to addressing climate change
- to achieve energy resilience to mitigate the risks arising from extreme weather events
- to achieve the economic benefits of switching to renewable energy and achieving greater energy efficiency.

Yours sincerely

Dennis Lambert
Vice President, Sustainable Upper Ovens Inc