

12 May 2017

Helen Wilson
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Department of Environment and Energy
climatechangereview@environment.gov.au

Dear Helen,

SUBMISSION: REVIEW OF CLIMATE CHANGE POLICIES 2017

The Property Council of Australia welcomes the *Review of Climate Change Policies* and the opportunity to comment on the discussion paper released by the Department of Environment and Energy (the Department).

The Property Council is the peak body for owners and investors in Australia's \$670 billion property investment industry. Our members have a long-term stake in what is Australia's biggest industry. The property sector represents one ninth of Australia's GDP (the largest of any sector) and employs 1.1 million Australians (more than mining and manufacturing combined).

We welcome the Department's approach in the discussion paper to examine the challenges and the opportunities for emissions reduction across each sector of Australian economy. The potential of Australia's built environment to reduce emissions should not be underestimated: Australia's buildings could meet over half the National Energy Productivity Target (NEPP) and a quarter of the national emissions target with the right policies and incentives in place.¹

The report [Low Carbon, High Performance](#), authored for the Australian Sustainable Built Environment Council (ASBEC) by ClimateWorks, provides a clear policy roadmap for realising this opportunity. Implementing this suite of policy measures could deliver \$20 billion in financial savings by 2030 as well as contributing to improved health and productivity for occupants.

The technical submission that follows this letter calls on the Commonwealth to:

1. establish a national target of net zero emissions by 2050 and a sector plan for net zero emissions buildings by 2050 with interim targets and a process for review.
2. commit to a single national energy efficiency trading scheme with interim support to harmonise existing state schemes and establish schemes in other jurisdictions
3. review and strengthen the RET to support a target of net zero emissions by 2050. Interim targets should be established out to 2050 to ensure the appropriate mix of generation technologies that provide affordable and reliable supply, and boost investor confidence
4. establish a mechanism to identify and pass on to distributed generators the fair value of distributed electricity exported to the electricity grid
5. establish a process for COAG Energy Council and the Building Ministers Forum to agree and implement a trajectory for future upgrades to minimum energy performance requirements in the National Construction Code. The trajectory should have broad industry support and be aligned with the long-term goal of a net zero emissions economy by 2050,
6. Commit to achieve net zero emissions across all Commonwealth services and operations by 2030. Strengthened requirements for government tenancies present the next significant opportunity for the Commonwealth to drive broader market transformation.

¹ ClimateWorks for Australian Sustainable Built Environment Council (ASBEC), *Low Carbon, High Performance*, 2016, p. 60.

The Property Council urges the Commonwealth to prioritise the built environment in its plans for emissions reduction. The challenge for policy makers is to extend the substantial progress made by market leaders across the sector as a whole. Although the built environment represents some of the lowest cost emissions abatement opportunities, there are persistent barriers to the uptake of energy efficiency and distributed energy that require strong and targeted policy support to address.

We also welcome the concurrent process of the Finkel Review into the future security of the national electricity market and note [our submission](#) to the draft report. The two complimentary reviews present a significant opportunity for energy and climate change policy to be crafted in a way that advances solutions to our energy trilemma – energy that is secure and reliable, accessible and affordable, and also reduces greenhouse gas emissions.

It is of paramount importance to integrate energy efficiency and demand side initiatives into Australia’s energy policy. The combination of energy efficiency, demand management, energy storage, distributed energy, smart management systems and new business models forms an integrated package, for which integrated policy and market structures must be pursued.

The Department is to be congratulated on its open and consultative approach to this review, having already taken the opportunity to engage with Property Council and our members early in the review process. We look forward to continuing our engagement as the review progresses and ensuring the Government’s framework for climate change policy into the future leverages the built environment to the fullest extent.

Yours sincerely,



Ken Morrison

Chief Executive

1. A long-term target of net zero emissions by 2050

Australia's ratification of the Paris Agreement means we are committed to "*holding the increase in global temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C.*"² Implicit within this is the just transition to a low emissions economy. To fulfil our obligations, Australia must reach net zero emissions by around 2050.

The property industry has accepted this challenge and is committed to playing its part in Australia reducing emissions. To ensure a just transition and achieve maximum emissions reduction at least cost, the Commonwealth must put in place long term targets and policies to support emissions reduction efforts in every sector.

A long-term target of net zero emissions by 2050 with staged interim targets and progress reviews is an appropriate and necessary step for the Commonwealth. This will provide regulatory certainty for industry and time to progress innovative research and technology as noted in the discussion paper. We note that several state governments have already committed to such targets with Victoria, New South Wales, South Australia, and Queensland adopting long term targets of net zero emissions by 2050.

The business community is already acting to address the threat of climate change with investors increasingly aware of the risks inaction poses to long term productivity. Recent developments include a published legal opinion on the fiduciary duty of Australian company directors to consider climate-related risks to their business,³ recommendations of the Financial Stability Board (FSB) task force on climate-related financial disclosures⁴ and the announcement by the Australian Prudential Regulation Authority (APRA) that it will apply climate change "stress tests" to Australia's financial institutions.⁵

RECOMMENDATION: The Commonwealth should commit to a long-term target of net zero emissions by 2050 with staged interim targets, commensurate with our obligations under the Paris Agreement. The Commonwealth should also commit to public reporting on progress against these targets and set out a process for regular review and adjustment of policy settings.

² <http://www.environment.gov.au/climate-change/international/paris-agreement>

³ The legal opinion can be accessed here: <http://www.futurebusinesscouncil.com/fiduciary-duties-and-climate-change/>

⁴ The TCFD report is available here: <https://www.fsb-tcf.org/publications/recommendations-report>

⁵ Speech given by Geoff Summerhayes, Executive Board Member of APRA is available here: <http://www.apra.gov.au/Speeches/Pages/Australias-new-horizon.aspx>

2. The opportunity in the built environment

2.1. Buildings present some of the lowest cost emissions reduction

The technology already exists today to achieve zero carbon buildings. Market leading Australian property companies have demonstrated the potential for energy performance improvements over the past decade. These and other improvements across the sector have led to emissions reductions of over 180 megatonnes; nearly 20 times the annual emissions of Australia's largest coal fired power station.

The built environment sector is shovel ready, and with targeted policies and support to make improvements more cost-effective, our modelling indicates that energy efficiency and fuel switching can reduce projected 2050 emissions from buildings by more than half. There is sufficient opportunity for distributed solar PV to eliminate remaining emissions, resulting in zero carbon buildings by 2050, if barriers can be overcome.⁶

Implementing all the energy efficiency opportunities identified in *Low Carbon, High Performance* could deliver almost \$20 billion in financial savings by 2030, in addition to productivity benefits and improvements in quality of life for Australian businesses and households. Buildings could also meet over half of the national energy productivity target, and more than one quarter of the national emissions target.

The challenge remains for policy makers to extend the progress made by market leaders across the sector as a whole. Although the built environment represents some of the lowest cost emissions abatement opportunities, there are persistent barriers to the uptake of energy efficiency and distributed energy that require strong and targeted policy support to address.

2.2. The Commonwealth's current policies don't leverage the built environment

The Emissions Reduction Fund (ERF) is currently the central plank of the Commonwealth's emissions reduction policies and it does not work for the very sector that can deliver some of the lowest cost emissions abatement. While the Emissions Reduction Fund (ERF) aims to target least-cost emissions reductions, it considers only a limited range of activities and only compares bids submitted to it.

Structural barriers have prevented uptake in buildings, where many of the lowest cost opportunities exist. Industry experts cite the following as reasons for the ERF's failure to attract bids from the buildings sector:

- a barrier to entry presented by minimum bid sizes of 2,000 tonnes of annual emissions savings
- a requirement for multi-year contracts to be signed, which can create a risk that if savings do not eventuate, the building owner may be financially liable,
- a combination of relatively high transaction costs to prepare and aggregate bids, alongside uncertainty about the price that will be received, and an expectation that the price maybe be relatively low compared to the other potential benefits of a project.

⁶ ClimateWorks for Australian Sustainable Built Environment Council (ASBEC), [Low Carbon, High Performance](#), 2016, p. 59

Of the hundreds of contracts awarded in the five ERF auctions, only four projects used the commercial buildings method and none of those are core building sector representatives. The ERF in its current form fails to incentivise emissions reductions in buildings. It is essential the current view of climate change policy results in a scheme and broader policy settings that actively allow participation by buildings.

2.3. A national plan for net zero emissions buildings by 2050

We call on the Commonwealth to acknowledge the potential of the built environment to meet Australia's current and future emissions reduction targets and establish a dedicated plan for the sector.

Market leaders in Australia's property sector have made substantial progress in reducing their emissions and consistently top international sustainability benchmarks such as Global Real Estate Sustainability Benchmark⁷ and Dow Jones Sustainability Index⁸. Our members operate in a global economy and to remain competitive and attract investment to the Australian property industry, policy settings must support emissions reduction in the sector.

The Commonwealth already has a substantial policy document in the National Energy Productivity Plan (NEPP) that includes many measures targeted at the built environment. The NEPP could be expanded in scope and remit to include sector-by-sector targets and policies for emissions reduction out to 2050. The metric of energy productivity is useful and should be retained although there is currently no clear link between progress against the NEPP and emissions reduction targets.

***RECOMMENDATION:* The Commonwealth should establish a national plan for net zero emissions buildings by 2050, including interim targets and a process for regular review. The plan must contain clear responsibility at the Ministerial level, coordination across different levels of government and public reporting requirements.**

⁷ See the 2016 GRESB results for Australia/NZ here:

https://www.gresb.com/sites/default/files/2016_AU_NZ_Snapshot.pdf

⁸ See the 2016 DJSI results: <http://www.robecosam.com/en/sustainability-insights/about-sustainability/corporate-sustainability-assessment/industry-group-leaders.jsp>

3. The right incentives to drive market transformation

Notwithstanding the potential benefits, improving energy efficiency remains a low priority for many homeowners, renters, commercial building owners and tenants. This is a result of a mix of barriers and impediments, including:

- the relatively low expenditure on energy compared to other business and household expenditures
- complexity or perceived complexity of energy upgrade opportunities,
- high upfront costs and long payback periods.

These barriers have still acted to limit action on emission reduction, even with the substantial increase in energy costs for commercial and residential property owners in recent years.

Targeted incentives can drive accelerated uptake of energy efficiency and clean energy generation in new buildings where higher performance can bring down the cost for others and build market capacity, as well as existing buildings which have proven the hardest opportunity to capture. Incentives can help get the attention of building owners and tenants and motivate them to implement retrofitting activities.

3.1. A national energy efficiency trading scheme to unlock potential of the built environment

If Australia is aiming to achieve maximum emissions reductions at least cost, actions across all activities and sectors should be compared with each other, so that the societal ‘least cost’ measures can be actively implemented and risk of stranded assets avoided.

As described earlier in Section 2, the ERF in its current form is unsuited to incentivising emissions reductions in buildings, and we strongly urge funding and resources are refocused on a national energy efficiency trading scheme to unlock the emissions reduction potential of the built environment.

The review should consider the aspiration of a nationwide energy efficiency trading scheme. Having different schemes limits the ability of institutional property owners to take a portfolio-wide approach to energy efficiency initiatives. For example, it is common for building owners to assess the application of a technology or retrofit initiative across all relevant assets at scheduled review points. A single national scheme would allow the building owner to aggregate projects across their portfolios and go through one streamlined administration process to claim the certificate incentive. The burden of submitting separate applications with different requirements for the same activity in different states severely limits the attractiveness and cost effectiveness of accessing these schemes.

While there are currently schemes in place in New South Wales, Victoria, South Australia, and the ACT, each one is different and requires a bespoke application to access the incentive. We support the introduction of schemes in states that do not currently have them, and the harmonisation of existing schemes in the interim, however the Commonwealth should also embrace the objective for a single national scheme. This, combined with demand response bidding into electricity markets are essential elements of a balanced energy market.

RECOMMENDATION: The Government should commit to establishing a national energy efficiency obligation scheme with an interim plan to harmonise existing state based schemes and assist in establishing schemes in jurisdictions that do not currently have them.

3.2. Review and Strengthen the Renewable Energy Target

The electricity sector urgently needs clear, efficient, and durable climate policy to underpin new investment. A national target of net zero emissions by 2050 means the Commonwealth needs to provide the policy settings to support an orderly transition of the electricity sector to a low emissions future. Of paramount importance is consultative design of policy instruments with industry and broad bipartisan political support for their implementation.

The greatest single risk to an efficient transition is conflicting government policy frameworks in a national market and a lack of regulatory cohesion. We urge the Commonwealth to seize the opportunity presented by the Finkel review and this review to establish long-term coordinated national energy and climate policy. We need long-term targets to support investment in renewable energy that also accounts for the security and reliability of the NEM. In the meantime, the absence of a Renewable Energy Target (RET) beyond 2020 delays investment by our members while they continue to face unprecedented pressures on the costs and availability of electricity and gas for their operations.

Emission reduction mechanisms that focus on the emissions intensity of generation may be effective at phasing high-emissions generation out of the market. However, large withdrawals of generation capacity will lead to short-term but significant displacement of the supply-demand balance driving energy costs upwards unless new zero-emissions generation capacity is built within the generation withdrawal timeframe.

The Commonwealth should review the RET and extend the scheme out to 2050 with interim targets that will ensure the electricity sector's transition to net zero emissions. The review must also look to resolve faults in the scheme, such as the artificial distortion in delineating between the small and large scale systems.

The current RET is the key policy driving new investment in renewable energy across Australia. In 2017, the RET will deliver more than 2.5 GW of new power generation capacity, \$5.6 billion of private sector investment and create some 3,150 jobs in large-scale projects alone⁹, demonstrating unprecedented levels of private sector investor appetite for renewable energy. This investment will only continue with clear, long-term policy settings that are targeted to deliver on the nation's emissions abatement objectives.

Investors in Australia's energy infrastructure are looking to the Commonwealth to establish stable policy settings in the next two to three years that will deliver for the next two to three decades.

We urge the Commonwealth to review and strengthen the RET with staged interim targets out to 2050, in line with a commitment to achieve net zero emissions by 2050. We believe this commitment should be made to ensure strong and long term renewable energy policy beyond 2020.

RECOMMENDATION: The Commonwealth should review extend the Renewable Energy Target beyond 2020 to support a long-term target of net zero emissions by 2050 and provide certainty for industry investment in small and large scale renewable energy projects.

⁹ Clean Energy Council submission to Independent Review into the Security of the National Electricity Market, p.5, <http://www.cleanenergycouncil.org.au/policy-advocacy/submissions.html>

3.3. Introduce green depreciation

Green depreciation is recommended as a priority measure the Commonwealth can influence building owners to include green measures in planned refurbishments. Green depreciation would apply to 'green' refurbishment capital expenditure and would allow the deferment of tax by reducing taxable income in early years in exchange for bringing forward investment.

By allowing investors to defer tax payments, green depreciation can reduce the 'timing gap' problems of energy efficiency investments, where early capital expenditure must be incurred at the outset but financial savings accrue over the life of the asset. Green depreciation would appear as a revenue loss on government budgets, but would be offset by increased tax revenue in later years

RECOMMENDATION: The Commonwealth should introduce green depreciation to accelerate uptake of energy upgrades to existing commercial buildings at the time of refurbishment.

3.4. Fair value given to exported electricity

While technology improvements and price decreases are expected to drive ongoing deployment of solar PV and battery storage, the precise level of future uptake is highly uncertain.

The cost-effectiveness of distributed solar PV is highly dependent on the evolution of energy policy and market reforms, electricity tariffs and prices paid to distributed solar PV generators for excess electricity sent back to the electricity grid.

Excess electricity generated on a building and exported to the grid currently receives a very low rate (between 5 and 8 cents per kWh depending on the jurisdiction) when compared to the value for use on-site. However, there are benefits provided by distributed generators that are not currently recognised or rewarded, including:

- **lower burden on grid infrastructure:** Electricity generated locally is usually consumed nearby, imposing less of a burden on the electricity distribution network than electricity sourced from a centralised generator (e.g. a coal-fired power plant located outside a city). For this reason, the City of Sydney, Property Council and Total Environment Centre proposed a rule change to the Australian Energy Market Commission which would require distribution network service providers to calculate the value of distributed generators operating in their network and pass on this value to them,
- **reduced peak demand:** Distributed energy paired with battery storage could be used to store energy from distributed solar systems at periods when demand is low and release this back into the system when demand is high. This can reduce the costs across the electricity network of meeting demand at peak periods, by reducing the need for higher cost 'peaking' plants that only operate at peak times, and by reducing the load on electricity transmission and distribution infrastructure. Again, the electricity market currently does not provide a mechanism for the value of this potential benefit to be passed on to the distributed generator.

It is clear that a mechanism should be in place to facilitate distributed generators to receive the full benefits that their system provides into the electricity system, however there is not yet agreement on the precise mechanism for doing so. Identifying an appropriate mechanism should be a priority for COAG and energy market regulators.

RECOMMENDATION: The Commonwealth should establish a mechanism to identify and pass on to distributed generators for the fair value of distributed electricity exported to the electricity grid.

3.5. Support for distinct market segments

The breadth and diversity of the built environment sector is a major challenge for policy development. Government can tackle this issue by developing targeted approaches for particular market segments. Priority segments include market leaders, mid-tier building owners, residential and in particular low income and vulnerable households.

There is an opportunity for government to lead or support industry-led groupings of market leaders, sectors, or geographic regions to accelerate action. The Better Buildings Partnership (BBP) is an excellent example of this kind of approach. BBP includes the major landlords and property managers of more than half of the Sydney city centre's commercial office floor space.

Industrial, health and retail are among the sectors where a body of leading organisations with substantial market presence exists. Consideration could be given to developing a collaborative approach in these sectors where there is strong consolidation.

The story is different however for the balance of the commercial office building sector (those B, C and D-grade buildings commonly defined as the 'mid-tier') which operate differently. Mid-tier offices are estimated to make up 52 million square meters of the 64 million square meters of office space in Australia, with an estimated 80,000 individual buildings and 'have lagged significantly in implementing energy retrofits and have lower NABERS Energy ratings

Mid-tier building owners are diverse in their size, business structure, investment strategy, risk appetite and understanding of energy efficiency benefits and opportunities. Although market segmentation data is available for parts of Sydney and Melbourne, there is not a comprehensive data set that details the broader ownership make-up of Australia's mid-tier office segment.

The Commonwealth should commit to resourcing the implementation of the Mid-Tier National Pathway actions including the Building Retrofit Toolkit development and deployment, and support the industry led development of an energy efficiency pathway for the mid-tier retail sector.

RECOMMENDATION: The Commonwealth should establish leadership groups in priority sectors to support innovation and develop collaborative solutions, and should resource the implementation of the Mid-Tier National Pathway actions including market segmentation analysis for the Australian mid-tier office sector.

3.6. Increased support and a focused mandate for the Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) is one of the Commonwealth's most successful endeavours in accelerating Australia's transition to a low emissions future. As the CEFC applies commercial rigour to its investments and generates income for the Commonwealth, its role must be central to achieving a long-term target of net zero emissions by 2050.

We urge the Commonwealth to secure the mandate of the CEFC and ensure its pool of funds is focused on investment in projects that will, over the course of the project life, contribute to Australia meeting its obligations under the Paris Agreement.

The CEFC is actively working with the built environment sector to catalyse increased investment in energy efficiency and renewable energy in new and existing buildings, helping reduce energy costs and emissions.

The Property Council is strongly supportive of its mandate and efforts to date and we see potential for further investment in energy efficiency across various sub sectors including commercial office buildings, community housing and aged care and student accommodation.

RECOMMENDATION: The Commonwealth should secure the mandate and future of the CEFC by ensuring the CEFC is leveraged in federal policies to achieve a long-term target of net zero emissions by 2050. Its funding should be maintained or strengthened to accelerate energy efficiency and emissions reduction activities in the built environment.

4. The role of regulation

Cutting red tape can remove artificial barriers to innovation by industry leaders and maintaining effective and efficient regulation will act to eliminate worst practice and shift the bottom of the market towards better practice.

4.1. Implement a trajectory for future increases to minimum energy performance requirements in the National Construction Code

Despite substantial improvements achieved by market leaders, energy intensity has improved only 2 per cent across the commercial sector and 5 per cent in residential in the last decade.¹⁰

The recent shift to a three-year review cycle for the National Construction Code (NCC) presents an opportunity for strategic reform to its energy efficiency provisions (Section J). The mandatory provisions in Section J can be a highly effective measure to deliver broad improvements by mandating cost effective improvements in energy performance in line with improvements in technology and processes. Government should adopt an evidence-based approach to ensure improvements can be made cost-effectively and will not subject industry participants to sudden price shocks.

If changes to future revisions of Section J in the NCC are designed to incorporate a stable and predictable future trajectory, aligned with the long-term goal of net zero emissions by 2050, this will:

- catalyse **market transformation** in the sector by providing a regulatory signal of the direction for future standards. This will incentivise consumers and suppliers to prepare and innovate to develop solutions ahead of the tightened standards.
- deliver **higher performing buildings**, resulting in:
 - emissions reductions
 - improved energy productivity, including more efficient use of energy infrastructure through reduced demand from new buildings
 - energy cost savings,
 - improved health and comfort for building occupants.

Work on designing long term targets and forward trajectories beyond 2019 for stringency in Section J is already underway and led by a coalition of industry bodies through ASBEC and ClimateWorks Australia. Industry is actively engaging Commonwealth and State Government agencies, including the Australian Building Codes Board (ABCB), around this work to ensure government is a key contributor and partner in the project.

It is unclear however, how the Commonwealth would adopt a long-term trajectory for the NCC once the work is completed. We strongly urge this review to recommend establishing a process through which COAG Energy Council and the Building Ministers' Forum agree on the ambition and implementation of energy efficiency requirements for future revisions of the NCC. This should include the adoption of a trajectory that has broad industry buy-in and support.

¹⁰ ClimateWorks for Australian Sustainable Built Environment Council (ASBEC), *Low Carbon, High Performance*, 2016, p. 35-36.

RECOMMENDATION: The Commonwealth should establish a process for COAG Energy Council and the Building Ministers Forum to agree and implement a trajectory for future upgrades to minimum energy performance requirements in the National Construction Code. The Commonwealth should implement a trajectory that has broad industry support and is aligned with the long-term goal of a net zero emissions economy by 2050.

4.2. Improve compliance with minimum energy performance requirements in the National Construction Code

There is a need for renewed efforts to improve compliance and enforcement with the energy performance requirements in the NCC. States and Territories are responsible for the enforcement of NCC requirements, however it is abundantly clear that a concerted effort on education and training for practitioners in Australia’s construction industry is required to facilitate compliance with the NCC.

The Commonwealth could provide support by:

- pursuing reforms to the NCC that make it easier for practitioners to understand and comply with, for example a future shift to testing based compliance. The ABCB is currently contemplating the inclusion of blower door testing to test compliance with sealing provisions in the code. Trials of this nature across different aspects should be supported in future, including requirements for commissioning
- requiring contractors on government construction projects to meet a minimum level of energy efficiency training or accreditation, for example through the Master Builders Association or Housing Industry Association,
- providing support to continue and strengthen the National Energy Efficiency Building Project (NEEBP), led by the Government of South Australia’s Department of State Development. The NEEBP project is focused on working with industry and regulators to develop tools and resources to enable improved compliance with the NCC, and is continuing to work with pilot councils and industry experts to integrate its pilot NCC compliance tools into ‘a web-based compliance product easily accessible to industry and regulators’. Ongoing support is required for this project to monitor the impact of these compliance tools and track whether they lead to improved compliance or whether additional measures are required.

RECOMMENDATION: The Commonwealth should provide support for increased compliance with the NCC through support for trials of testing based compliance like blower-door testing and commissioning, as well as continued support for the NEEBP.

4.3. Integrate energy efficiency and other demand side action into energy market policy

The combination of energy efficiency, demand management, energy storage, distributed energy, smart management systems and new business models forms an integrated package, for which integrated policy and market structures must be pursued.

Demand side initiatives must be core to energy market policy moving forward: we have the capacity to reduce and modify demand while still delivering the services businesses and households need or want. In doing this we can minimise consumer and societal costs, and reduce pressure on the amount of energy supply infrastructure needed.

This review should recommend the creation of an independent authority to engage with energy policy makers and building, industry, social and other policy makers to achieve the optimal mix of energy-related programs and outcomes, with energy markets playing appropriate roles. A national plan for net zero emissions buildings by 2050 should include strategies to strengthen the role of demand side measures:

- transition to cost-reflective pricing
- market mechanisms to capture social benefits
- making choice easier
- promotion of emerging technologies in energy markets
- reform of governance to keep pace with change
- new market mechanisms for demand response
- improve exchange of market data
- develop an end use model for planning
- review of the National Energy Customer Framework for disruptive technologies
- reduce barriers to financing of energy productivity measures,
- competitive smart meter rollout.

RECOMMENDATION: The Commonwealth should establish an independent authority to investigate and recommend solutions to address energy market barriers experienced by distributed energy, energy efficiency and built environment stakeholders over time, and voice their concerns in the context of energy market processes and reforms.

4.4. Incentivise distributed energy through electricity tariff reform

Energy policy makers have prioritised the welfare of the incumbent industry and in the case of energy networks, at enormous expense to consumers. The narrow policy focus on big infrastructure in the electricity industry results in emerging distributed and demand side solutions treated as fringe issues with patchwork exemptions and minor adjustments.

The technical processes through which electricity tariffs, ‘feed-in tariffs’ for exported electricity and costs of connection to the electricity grid and retailer licensing requirements are set are extremely complex. Policy adjustments have tended towards minimum intervention, and have failed to challenge the powerful market forces, vested interests and market distortions that created the current culture. This limits the ability of non-technical experts (including built environment stakeholders) to participate and effectively prioritise consumer interests.

Energy pricing reform must focus on ‘efficiency’ by formally excluding high fixed charges, high minimum usage requirements, declining block tariffs and unlimited use fixed monthly price contracts. Reform should encourage pricing that sends appropriate signals to consumers and ensuring vulnerable energy users are supported by incentives and programs that assist with installation of rooftop PV, efficient appliances, and improved building energy performance.

RECOMMENDATION: The Commonwealth should ensure electricity tariff structures provide an appropriate incentive for distributed energy and energy efficiency, including through the current shift to ‘cost-reflective pricing’.

4.5. A consistent approach on standards for connection

Building owners with geographically diverse portfolios want to roll out solar PV and new technologies nationally and find that existing electricity distribution businesses have control over other important elements of customers’ connection experiences, often enforced by state legislation and regulation. These requirements differ across states and distribution networks within states, imposing substantial costs on customers and delaying customers’ uptake of new technologies.

Reforms that address barriers to the connection of renewables and supporting technologies to the grid should be adopted, including a nationwide consistent approach on how standards for connection are set, governed, and applied should be adopted.

The Commonwealth should consider recommendations from ClimateWorks Australia and Seed Advisory’s Plug and Play project¹¹, which identifies institutional and policy solutions to make grid connections for new technologies as straightforward and cost effective as possible.

RECOMMENDATION: The Commonwealth should adopt solutions from ClimateWorks Australia and Seed Advisory’s Plug and Play project to make grid connections for new technologies as straightforward and cost effective as possible, while safeguarding electricity security.

¹¹ The paper outlining the findings from Stage One of the project can be viewed here:
http://climateworks.com.au/sites/default/files/documents/publications/plugplay_15.pdf

4.6. A nationally consistent framework for energy performance and disclosure in residential buildings

The Commonwealth, currently through Measure 5 of the NEPP, has a critical role to play in coordinating the alignment and harmonisation of various rating tools in the residential sector, particularly regarding the role of disclosure.

The Victorian Government's Department of Environment, Land, Water, and Planning have developed the Residential Efficiency Scorecard, which can be used to rate the operational energy efficiency of individual dwellings or apartments. NSW Office of Environment and Heritage are also developing a similar tool for use in NSW, as well as a new NABERS tool for apartment buildings that could rate the energy performance of the base building.

To ensure a nationally consistent approach to rating and communication, the Commonwealth should support meaningful engagement between jurisdictions. The Commonwealth must ensure these projects evolve in such a way that the rating tools are complimentary, learn from existing programmes such as mandatory disclosure in ACT, and adapted to other jurisdictions.

We welcome the leadership shown by several state governments in pioneering rating tools for the residential sector, however we will not support the large-scale rollout of rating tools unilaterally by individual states without engaging with other jurisdictions to share the knowledge and resources developed. Property Council would prefer a harmonised and nationally consistent approach supported by the Commonwealth.

***RECOMMENDATION:* The Commonwealth should commit to harmonise residential energy performance rating tools across different state jurisdictions as a necessary step to facilitate future requirements for disclosure.**

5. Government leadership

Government can use their strong market presence to drive improvements in energy performance in government owned and occupied premises. This will not only deliver substantial financial savings for government budgets, it will reduce costs for others, build skills and capability in the market and improve public facilities such as schools and hospitals.

The success of government policies such as the Energy Efficiency in Government Operations (EEGO) policy is evident with a steady increase in the number of NABERS Energy Ratings over 4 stars since the EEGO policy requirement for a minimum of a 4.5 star NABERS Energy rating for government tenancies was introduced in 2006/07¹².

We urge the Government to build on the success of its existing programs and commit to net zero emissions across all government operations and services by 2030. The private sector is already leading the way with leading property companies committing to net zero emissions well before 2050.¹³ A commitment from the Commonwealth to achieve net zero emissions for its operations by 2030 would place the Commonwealth firmly in a leadership position and in doing so, encourage similar commitments from other state governments and Australian property companies. At the heart of this commitment to carbon neutrality should be a trajectory for energy performance requirements over time that follows a mitigation hierarchy of:

- strong minimum standards for new buildings (fabric first)
- onsite energy efficiency
- onsite renewable energy
- offsite renewable energy,
- offsets (for emissions that can't be offset with renewable energy).

Measures to be adopted for the above mitigation hierarchy are expanded on below. These initiatives should be consulted on and implemented at scheduled review points every 3-5 years. Interim energy performance requirements should be based on market analysis and leverage data sets of the NABERS program. For example, the Commonwealth could commit to occupying office space that achieves a NABERS energy rating above a targeted percentile in the spread of applicable ratings. The Commonwealth should also seek to leverage the NCOS program and integrate requirements for all government procured products and services to become carbon neutral over time.

RECOMMENDATION: The Commonwealth should commit to achieve net zero emissions across all government services and operations by 2030. This commitment should include a trajectory of interim targets and staged reviews every 3-5 years. Measures to achieve this target should emphasise the mitigation hierarchy of strong minimum standards for new buildings, onsite energy efficiency projects, onsite renewable energy, offsite renewable energy and lastly offsets.

¹² See NABERS life of program statistics here: <https://nabers.gov.au/AnnualReport/2015-2016/life-of-program-statistics.html>

¹³ See announcements from Investa (<https://www.investa.com.au/news-and-media/news/2016/investa-%E2%80%93-the-first-australian-property-company-to>), Mirvac (<http://www.mirvac.com/About/News/This-Changes-Everything/>) and AMP Capital (<http://www.ampcapital.com.au/article-detail?alias=/site-assets/articles/media-releases/2017/2017-03/ampc-awarded-100-million-mandate-clean-energy>) as examples

5.1. Government as a tenant

Strengthened requirements for energy performance in government tenancies present the next significant opportunity for the Commonwealth to drive broader market transformation. To date, Government procurement policies have put the onus on building owners and have not ensured equal commitment for Government tenants to play their part in increased performance of their tenancies. Stronger requirements for Government tenancies should be complemented by initiatives aimed at improving transparency that pave the way for advances in legislated disclosure. The Commonwealth can show leadership by:

- committing to achieve NABERS Combined Energy ratings for all Commonwealth office tenancies aligned with the base building rating target. The imminent launch of NABERS Combined Energy ratings provides a substantial opportunity to achieve tenancy ratings at less cost and time investment than ever before. Where the landlord undertakes these ratings on behalf of a Commonwealth tenant, the landlord should be enabled to display the tenancy performance alongside the base building publicly.
- committing to support improved NABERS Energy tenancy ratings by joining established programs like CitySwitch that address education and behavior change needs for commercial tenants. It is broadly acknowledged that all government jurisdictions have struggled to comply with existing requirements for NABERS Energy tenancy ratings, so simply increasing the mandated requirement would do little to support compliance in isolation
- setting targets for energy savings at all government owned or tenanted sites and introduce an incentives program and funding for energy efficiency projects to assist in achieving the stated targets. Several Australian governments already have targets for their buildings, the NSW Government Resource Efficiency Policy and the South Australian Strategic Plan are good examples
- establishing a register on an appropriate Commonwealth website that lists the NABERS Energy rating for base building and tenancies for every government owned and occupied building. The register could organise and list buildings according to agency/portfolio with the average performance of each portfolio listed in a prominent place
- establishing targets for the average energy performance of each government portfolio to be embedded as a Key Performance Indicator for the relevant department agency secretary
- displaying the base building and tenancy NABERS Energy and other relevant third party certifications in the public lobby areas of government owned and occupied buildings

RECOMMENDATION: The Commonwealth should commit to NABERS Energy ratings for all tenancies and establish a public register of energy performance across all Commonwealth owned and tenanted assets. Public reporting of energy performance against stated targets should be done by Commonwealth agency or portfolio with average performance included as a KPI for the relevant agency secretary.

5.2. Leverage Government market power as owner/occupiers

Strong minimum standards for new buildings

- Require all government building projects to achieve credible, third party energy certification
- strengthened NABERS Energy performance requirements for new commercial buildings. For institutional owners, 5 star NABERS Energy ratings are the common standard now for many new office buildings and can be achieved cost effectively today. Consideration should be given to cases where increased targets could lead to perverse outcomes e.g. existing older buildings that have already been refurbished where compliance would necessitate demolishing and rebuilding
- adopt mandatory minimum standards for new electrical appliances and equipment in line with the recommendations of the Greenhouse and Energy Minimum Standards (GEMS) review to expand, strengthen, and accelerate future improvements in minimum equipment and appliance standards

Ambitious energy efficiency measures and operational energy performance ratings

- align requirements for NABERS ratings at government owned and tenanted buildings to the thresholds in the Commercial Building Disclosure (CBD) scheme. For example, requirements for NABERS base building and tenancy ratings should apply to spaces 1000m² and above in accordance with the change in disclosure threshold from 2000m² to 1000m².

Government should consider a staged approach in its requirements and could explore initial targets for coverage of ratings rather than mandating star ratings where buildings or tenancies are subject to these requirements for the first time e.g. small buildings and tenancies between 1000m² and 2000m² could be required to achieve a rating and disclose it first, with performance requirements introduced and ramped up over time.

- consider expanding requirements from NABERS Energy ratings for base buildings and tenancies to include NABERS Water ratings. Consideration could be given to other rating tools over time as part of the scheduled review process. This should be done in cases where the tools are mature and there is a track record of voluntary take up. This would include NABERS Waste, NABERS IE, and Green Star Performance.

Onsite and offsite renewable energy

We call on the Commonwealth to show leadership in the procurement of onsite and offsite renewable energy by:

- committing to feasibility studies for onsite commercial scale solar across all government owned and tenanted buildings, working with landlords where government is a tenant,
- identifying opportunities for procurement of large scale renewable energy contracts through leasing or power purchase agreements

5.3. Green Lease schedules

We understand the Commonwealth is currently in the process of reviewing its Green Lease Schedules after ten years of implementation.

The review presents an opportunity to align with current industry best practice and consider aspirations to build on the work industry has championed through projects such as the Better Buildings Partnership Leasing Standard.¹⁴

RECOMMENDATION: The Commonwealth should adopt and leverage best practice industry work on green leasing, notably the Better Buildings Partnership Leasing Standard.

5.4. Influence Government's supply chain through centralised procurement policies

We note the recent shift to centralised procurement for all property services through the Department of Finance. This presents an enormous opportunity to integrate requirements that will help the Commonwealth reach a target of net zero emissions and influence the broader economy:

- leverage the NCOS program and integrate requirements for all government procured products and services to become carbon neutral over time, aligned with a Commonwealth target of net zero emissions by 2030
- require all government building projects to achieve credible, third party energy certification
- establish a mandate that government officers only use NABERS or Green Star accredited hotels that meet a best practice rating threshold
- establish a mandate that government construction contracts use Building Information Modelling

¹⁴ <http://www.betterbuildingspartnership.com.au/projects/leasing/>

6. A plan for adaptation and resilience

The Commonwealth's existing suite of climate policies focus almost exclusively on climate change mitigation and provide little to support and address efforts to support adaptation to our changing climate.

As a first step, we urge the Commonwealth to adopt terminology used in the 100 Resilient Cities framework.¹⁵ This would align the Commonwealth with industry best practice and would facilitate a systematic approach to defining and addressing shocks and stresses. If we are all speaking the same language in how we define the key risks in our urban environments, there is less need to overlay unnecessary bureaucracy to achieve a coordinated approach between different layers of government and industry participants, ranging from small businesses to multinational corporations. The Commonwealth should adopt the following definition:

*Urban resilience is the capacity of individuals, communities, institutions, businesses, and systems within an urban environment to survive, adapt and grow no matter what kind of chronic stresses and acute shocks they may experience.*¹⁶

We also endorse ASBEC's [Built Environment Adaptation Framework](#) which aims to:

- protect the wellbeing of communities through targeted policy initiatives and better urban and building design
- ensure appropriate institutional arrangements to facilitate resilience and adaptation
- realise economic benefits from early adaptation through effective strategic planning and risk minimisation
- advance sustainability through better resource and risk management strategies,
- increase community education and awareness about climate change risks and adaptation.

The framework outlines the ways that the Commonwealth, state, territory and local governments, industry, academia, and the community sector can deliver effective resilience and adaptation strategies through: cross-sector engagement, leading by example, sponsoring applied research, providing better access to information and tools, investing in education, providing incentives, reforming and improving regulation, reviewing building codes and standards, improving planning systems and outcomes, and improving insurance and financial services.

RECOMMENDATION: The Commonwealth should adopt the 100 Resilient Cities terminology around resilience and seek to implement initiatives outlined in ASBEC's Built Environment Adaptation Framework.

¹⁵ <http://www.100resilientcities.org/#/-/>

¹⁶ ASBEC factsheets on urban resilience can be found here: <http://www.asbec.asn.au/research-items/factsheet-resilience-built-environment/>

7. Conclusion

The built environment has a crucial role to play in Australia's emissions reduction efforts. Investment in energy efficiency measures, many of which have a negative cost and profit investors, is one of the most cost effective ways of contributing to our broader societal goals. Implementing the appropriate suite of policies could deliver almost \$20 billion in financial savings by 2030, in addition to productivity benefits and improvements in quality of life for Australian businesses and households.

Conversely, the current under-investment is costing the Australian economy billions of dollars each year. The work we've undertaken with ASBEC in *Low Carbon, High Performance* shows the cost of inaction in the built environment could lead to over \$24 billion in wasted energy and over 170 megatonnes of lost emission reduction opportunities, through lock-in of emissions intensive assets and equipment.

Effective collaboration between all stakeholders will be fundamental to future efforts to reduce emissions across the economy. We would welcome the opportunity to support ongoing consultation and look forward to further supporting the Commonwealth's review and policy development.

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