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sustainable development

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18 May 2007

Victorian Energy Efficiency Target Scheme
c/- Department of Primary Industries
Level 23, 80 Collins Street
MELBOURNE VIC 3000

Dear Sir/Madam

VICTORIAN ENERGY EFFICIENCY TARGET ("VEET") SCHEME
COMMENTS ON ISSUES PAPER - MARCH 2007

Szencorp welcomes the opportunity to comment on the proposed Victorian Energy Efficiency Target ("VEET") scheme.

Established in 1983 and headquartered in Melbourne, Szencorp group companies are at the forefront of Australian industry in the commercialisation and installation of innovative technologies for sustainable buildings. The Group employs 65 people in Australia and 20 in Southeast Asia. Its core businesses specialise in delivering energy efficiency and waste to energy solutions, water treatment and property development. Szencorp's leadership in and commitment to energy efficiency is demonstrated by its corporate headquarters at 40 Albert Road, South Melbourne, Australia's highest rated green building on both design and operational measures.

Szencorp has worked with the Australian Business Council for Sustainable Energy ("BCSE") in the development of its submission on the VEET scheme. In broad terms, Szencorp agrees with the propositions put by the BCSE in regard to wider scheme design details. Additional comment is provided below, however, in relation to scheme coverage, which is raised on pp. 15-16 of the VEET issues paper with the following issue for consideration:

"Should the scheme cover energy efficiency opportunities outside the residential sector, in its first phase and/or in subsequent phases? If so, which sectors would it be practical to include in the scheme, and over what timeframe?"

Szencorp believes there is no reason to exclude commercial sector energy savings from the VEET scheme in its first phase. The commercial sector has similar potential for cost-effective improvements in energy efficiency, according to National Framework on Energy Efficiency research, and faces similar barriers to improved energy efficiency. Indeed the NSW Government's Greenhouse Gas Abatement Scheme ("GGAS") allows energy efficiency in commercial buildings to be included as an eligible activity.

The Issues Paper focuses on practicability and workability as the criteria under which potential inclusion of this and other sectors could be considered. Szencorp believes the "disadvantages" presented by the Issues Paper for including other sectors can be easily overcome, namely:

1) **Difficulty of defining a threshold for small and medium businesses in a way that is competitively neutral.**
2) **Diversity of the small and medium business sector could increase the administrative costs of the scheme because it would require the measurement and verification of emission reductions achieved through a wider range of energy savings.**

The language of the Issues Paper and in particular its reference to "business sectors" needs some clarification. For instance, point 1) above presupposes that the VEET scheme needs to make a distinction between some energy users and others. However, the key administrative distinction to be made by the scheme is between different energy savings activities. For instance, it is equally as simple to measure the incremental energy savings achieved from installing an energy efficient light bulb in a house as it is in a commercial office or restaurant.

Szencorp considers, therefore, that discussion about "thresholds" by which to decide that business sectors should or should not be included as part of the VEET scheme is largely irrelevant. The VEET scheme is more sensibly applied by building type, as practically all of the energy savings activities which might qualify as eligible emissions reductions of the scheme take place within residential, commercial or industrial buildings. This lack of distinction permeates the Issues Paper; for instance, in Szencorp's view the listing of "eligible implementers" provided in pp.17-18 of the Issues Paper should not list "small and medium businesses (if covered by the scheme)", but "commercial and/or other building owners", regardless of their business sector or size.

With reference to Point 2) above, it is true that inclusion of energy savings for certain activity types as eligible activity under the VEET scheme would increase the scheme's complexity and administration cost. However, as noted there are a number of relatively generic activities

such as lighting, heating and cooling upgrades that are consistent with the residential sector, and/or can be addressed through simple deemed-to-qualify provisions under the VEET scheme. This treatment could include base building upgrades of all types, but exclude the vast majority of industrial/factory processes that take place *within* buildings, which have the potential for wide variation between types of energy savings achieved and present risks for overall cost of scheme administration.

Szencorp therefore recommends inclusion of eligible activities in ANY OR ALL of the following building classes, using the Building Code of Australia taxonomy, in the first phase:

	Example of building within this class
Class 1	Residential buildings
Class 2	Apartments
Class 3	Accommodation – Hotels/Motels, etc
Class 4	Single flat in a commercial/industrial building
Class 5	Office
Class 6	Shops
Class 7a	Car parks
Class 7b	Warehouses/storage
Class 8	Factories
Class 9a	Health care
Class 9b	Assembly building, theatre etc, church, library, gymnasium
Class 9c	Aged care facilities
Class 10	Garages or sheds

In this section the Issues Paper also notes the potential overlap with other energy efficiency requirements, namely the Victorian EPA requirements for licensees, and the Commonwealth Government's Energy Efficiency Opportunities ("EEO") program. While regulatory additionality is a minor issue with respect to VEET and the Victorian EPA requirements for licensees, Szencorp notes that additionality is of no practical concern in regard to EEO "requirements", as EEO does not require any abatement or energy efficiency activities to be undertaken. Moreover, VEET's proposed design as a market-based scheme will not directly place obligations on large companies or energy users; rather it will improve the economics of undertaking energy efficiency improvements, which is to be encouraged for all activities, provided administrative cost can be managed. In this sense VEET acts as a complementary, rather than duplicate, mechanism for delivering energy efficiency alongside existing measures commented upon in the Issues Paper.

Further measures to reduce administrative costs of including commercial buildings

In support of Szencorp's recommendations above, further measures are available to reduce administrative costs of the inclusion of additional building types within the first phase of the VEET scheme. In particular, the Australian Building Greenhouse Rating ("ABGR") scheme gives a simple and effective rating of the greenhouse and energy performance of a building site from one year to the next. The NSW GGAS recognises ABGR as a mechanism for determining offset credits from commercial building energy efficiency, acting in essence as an

aggregated “deemed-to-qualify” mechanism for whole building energy efficiency. This approach could be directly emulated by VEET, with the following adjustments:

- Under GGAS, implementers are required to register as an abatement provider for each specific project they do and/or technology they use. This is a significant cost and time issue. It is therefore recommended for VEET that abatement providers should only be required to register once, and the registration allows them to create energy efficiency abatement over multiple projects and markets, subject to standards for monitoring, verification and reporting being met. The initial registration may therefore be more stringent to ensure the ongoing quality of abatement.
- GGAS projects are liable for spot audits which can be very expensive and are an uncapped liability for the project under GGAS. VEET should provide a capped audit fee (say a % of overall savings), with any additional costs to be funded by the scheme.
- Ensuring the longevity of gains made in commercial buildings will be important. Requiring assurance through a “green lease” and/or energy performance contract, both of which provide for minimum performance levels to be upheld over multiple years, will ensure that any energy efficiency certificates generated from commercial building energy efficiency can be substantiated. To this end, Szencorp has proposed a number of working models for improving commercial building energy efficiency to the Victorian Government (refer Appendix 1), which may provide an appropriate or facilitative framework for the consideration of its inclusion in the first phase of the VEET scheme. This proposal is extremely similar to an initiative announced today by the City of Melbourne.

Szencorp is grateful for the opportunity to comment on this important initiative, which will set in place a scheme likely to drive significant uptake of Victoria’s enormous energy efficiency potential and serve as a foundation for possible future approaches to this issue nationally. We look forward to further involvement in the development process and would be very pleased to engage with Government if there are any further queries about our views as expressed here.

Yours sincerely

Peter Szental
Chairman

APPENDIX 1

PROJECT PROPOSAL

STATE-WIDE "BUILDING TUNE-UP" FOR SMARTER ENERGY AND WATER USE IN COMMERCIAL BUILDINGS

Background

This project addresses Government's desire to improve the uptake of energy and water efficiency practices in the built environment, and integrates with existing programs to deliver more sustainable buildings. It builds on successful models that have been completed or are underway elsewhere, notably in Adelaide and in the City of Port Phillip.

The Concept

Commercial building owners within a precinct are selected to participate in a building refurbishment program, whereby their building will be

a) benchmarked according to accepted energy and water performance standards;
b) upgraded to a higher standard, with the costs of upgrade recovered through the energy and water savings generated.

The Building Tune Up that was run in Adelaide upgraded ten buildings at a cost of $1 million. This cost was recouped through the energy and water savings generated **within twelve months**.

How the concept would work in Victoria

In the Victorian context, project steps might include:

1) Sustainability Victoria working with DSE's Sustainable Futures team and local government representatives to establish the project as a joint state/local initiative, under the auspices of the Victorian Local Sustainability Accord.

2) Local governments interested in participating could run the project inception phase, that is, to identify willing "building tune up" participants/commercial building owners from their municipality, and to arrange performance benchmarking on their existing sites in conjunction with industry expertise.

3) Partnerships with energy services industry providers would deliver the building upgrades, according to the specified project outcomes. Capital cost of the upgrades

would be financed using either private finance from the energy services industry or sourced from Victorian Government (in either case, likely to be at lower interest rates to what could be privately sourced by building owners). This funding would also allow provision of a monitoring and verification package for each site, which would prove the upgrade results.

4) SV would work to support local government in the provision of marketing exposure/publicity and community recognition for building participants. This could be delivered through Sustainability Victoria awards programs, or in conjunction with other similar/associated efforts e.g. ICLEI's CCP campaign, or the 'Grow Me The Money' initiative.

5) Commercial buildings upgraded and verified savings generated by this program could be deemed eligible abatement under the Victorian Energy Efficiency Target. This is appropriate given that the initiative overcomes the stated key disadvantage of including commercial energy savings under VEET in the first round, i.e. covering the administrative costs of measurement and verification of emissions reductions achieved through different types of energy savings.

6) To close the loop, Councils could also offer to purchase (perhaps at a rate discounted to the market price) and retire the VEET certificates generated by local building owners, thereby assisting the councils in their efforts to become carbon neutral.

Incentives for participation

This program will encourage uptake of energy efficiency in the commercial buildings sector over and above current practice, because:

- Building owners will have part of their project involvement costs covered by Government funding.
- Building owners will have access to finance at reduced interest rates to what they may be able to attract privately
- Building owners will gain public exposure for improving the environmental performance of their assets
- Building owners will access additional income streams through VEET eligibility.

Local governments benefit from participation through

- Meeting CCP milestones (if members of the ICLEI CCP campaign)
- Extending efforts to make their municipality carbon neutral in a cost effective way

- State Government support to bolster existing programs to engage with the commercial sector on sustainability issues

State government involvement

State Government involvement is largely facilitative but, to create the appropriate incentives for participation, will involve providing funding for the project inception phase and to ensure that monitoring and verification meets requirements under the VEET scheme. It is possible that this funding be provided on a revolving basis; i.e. that it is recovered/repaid to State Government through the energy and water savings generated by the program. The extent to which this is done is proportional to the amount of incentive offered to building owners; i.e. if project inception costs are all to be recouped, then longer payback periods will result.

Amount of funding requirement varies depending on the size of each project and the difficulty of establishing benchmarks for participating buildings. A Melbourne Building Tune Up project proposal has been fully developed and costed for Melbourne, which outlines a relatively ambitious project under which a large percentage of buildings are upgraded (i.e. inception costs are high), and ongoing savings are very significant.