Chapter 4

Support for the bill

4.1 This chapter identifies the key arguments in support of the bill.

4.2 The Second Reading Speech identified several advantages of the scheme proposed in the bill. They are as follows:

- it is mandatory rather than voluntary for the building owner, thus leading to the systemic upgrade of all of Australia's non-residential buildings. The scheme requires that many thousands of participants seriously apply themselves to the question of improving efficiency;
- it creates both incentives for action and penalties for inaction, in other words it can be characterised as a carrot and stick approach. By contrast a white certificate scheme[1] (from the point of view of the building owner) is just a carrot approach;
- in addition to creating an incentive to upgrade a building itself, including heating and cooling solutions for example, the scheme also creates an incentive to reduce energy consumption by changing behaviour;
- the price signal created by the scheme is long term and predictable, increasing investment confidence;
- it rewards early movers, advantaging those who have already undertaken improvements in energy efficiency;
- it requires the disclosure of energy and carbon performance information which in itself will improve the awareness of many building owners and tenants and motivate improvements especially when coupled with minimum standards for Government tenancy;
- it will stimulate the upgrade of inefficient buildings which will mean clean energy jobs;
- it will also stimulate investment in innovative solutions—clean energy products and materials; and
- it will serve as a much needed building performance measure for building occupants.[2]

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1 A white certificate scheme establishes a reward for improved energy efficiency (the certificate). Certificates are tradeable among market participants. An leading example of a white certificate scheme is the New South Wales government's GGAS scheme.

2 Second Reading Speech, *Senate Hansard*, 17 September 2009, p. 6826.

4.3 WSP Lincolne Scott[3], Lend Lease[4] and Advanced Environmental[5] have been key players in developing the ideas behind this legislation.[6] In their submission to this inquiry, the companies note they have been working for the past three years 'to identify a simple, cost-effective and appropriate way to unlock the full abatement potential of non-residential buildings'.[7] From this work, they recommended the Efficient Building Scheme, which is essentially a cap and trade scheme for non-residential buildings and very similar to this bill.

4.4 Lend Lease, WSP Lincolne Scott and Advanced Environmental argue that the scheme in the bill would be 'a simple, fair, affordable, and accurate process that will drive deep, fast, cost-effective reductions in the non-residential building sector'.[8] Specifically, they claim that the bill offers:

- market benchmarking and decision-making through robust labelling;
- accurate carbon reporting; and
- the direct monetisation of carbon.[9]

Overcoming 'split incentives' in the sector

4.5 Chapter 2 noted the problem of split incentives in the non-residential building sector. Lend Lease and WSP Lincolne Scott argue that in so far as the scheme will offer strong financial incentives for the actual owners of builders, it will overcome the

3 Lend Lease is an Australian based multinational property management and investment company. Within this company they have subsidiaries that focus on Pharmaceuticals, Construction, Project Management & Private Finance Initiatives and Retail Development Investment. The largest of these subsidiaries, Bovis Lend Lease is an international construction management company, which operates in over 30 countries worldwide employing over 8000 people. In 2008, Lend Lease reported a net income of A$259 million and a revenue of A$15 billion.

4 WSP Lincolne Scott is an environmental building services and engineering consultancy lead by Managing Director Mr Ché Wall. In 2007, Lincolne Scott joined the WSP Group in a bid to expand across the US and European markets. The firm has more than 400 staff in 12 offices across Australia and the Asia Pacific.

5 Advanced Environmental is a green building consultancy firm that was established in Australia in 1996 by the now Managing Director of WSP Lincolne Scott, Mr Ché Wall. They have consulted on a number of globally recognised buildings such as the Melbourne Convention Centre. In Australia Advanced Environmental are fully integrated with WSP Lincolne Scott.

6 Second Reading Speech, *Senate Hansard*, 17 September 2009, p. 6825.

7 Lend Lease, WSP Lincolne Scott, Advanced Environmental, *Submission 6*.

8 Lend Lease, WSP Lincolne Scott, Advanced Environmental, Efficient Building Scheme, http://www.lendlease.com.au/sustainability/pdf/EfficientBuildingScheme.pdf

9 Lend Lease, WSP Lincolne Scott, Advanced Environmental, *Submission 8*.

'split incentives' problem and encourage owners to seek developments that meet high energy efficiency standards.[10]

4.6 However, the committee notes that the 'split incentives' problem in the non-residential building sector has not been clearly identified. A January 2010 report by Citigroup Global Markets was sceptical of the split incentives problem. It noted that:

> If the owner invests to save the tenant's energy costs, this should eventually be reflected in rents. Direct industry feedback, however, suggests that in the recent weak Australian office market environment, where competition for tenants has been tough, owners have not been able to increase rents on this basis.[11]

4.7 Citigroup commented that while energy efficiency is becoming a mandatory criterion in leasing deals, 'it is hard to find evidence that rentals are higher'.[12]

The Carbon Pollution Reduction Scheme (CPRS) and voluntary measures

4.8 Lend Lease and WSP Lincolne Scott argue that the federal government's CPRS, the voluntary measures in the National Strategy on Energy Efficiency (see chapter 2) and mandatory disclosure are all inadequate to drive energy efficiency improvements in the non-residential building sector.

4.9 Firstly, they argue that the CPRS will not send a sufficiently strong signal to create the right incentives throughout the economy. Mr Ché Wall, Managing Director of WSP Lincolne Scott, told the committee that it has been proven 'time and time again' in countries that have an emissions trading scheme that the signal is inadequate to deal with electricity and building owners specifically.[13] He argued that even if a CPRS is introduced in Australia, it will have little impact on the sector because:

> ...energy costs are a small percentage of costs for non-residential building occupants, in the order of 1% of total costs; unlike householders who will bear the brunt of any energy price rises under the CPRS, non-residential building owners can negotiate cheaper prices; and building owners do not pay the electricity bills–those who occupy the building do because owners can pass the additional price increases through to tenants.[14]

4.10 Secondly, Lend Lease and WSP Lincolne Scott argue that voluntary abatement schemes have not worked. While they welcome the Council of Australian Governments' (COAG) initiatives on commercial buildings as part of the National

10 Lend Lease, WSP Lincolne Scott, Advanced Environmental, *Submission* 8, p. 8.

11 Citigroup Global Markets, 'ASX-listed office trusts: Does "Green" pay?', January 2010, p. 48.

12 Citigroup Global Markets, 'ASX-listed office trusts: Does "Green" pay?', January 2010, p. 48.

13 Mr Ché Wall, *Proof Committee Hansard*, 12 February 2010, p. 4. Mr Wall noted that as the United Kingdom's Carbon Reduction Commitment covers only 50 per cent of built stock, they are now looking at whether they can apply the commitment to small and medium enterprises.

14 Lend Lease, WSP Lincolne Scott, Advanced Environmental, *Submission* 8, p. 17.

Strategy on Energy Efficiency, they argue that these measures will not provide the financial incentives to drive investment in energy efficiency.

4.11 Mr Wall told the committee that there has been 'much international experience' that voluntary measures alone are inadequate to achieve meaningful emissions reductions in the non-residential buildings sector.[15] He noted that:

- the Tokyo municipal government implemented mandatory disclosure and voluntary rewarding of carbon abatement in 2005. By 2008, however, 'they had only achieved a two per cent reduction in their building emissions';
- the UK has had a white certificate scheme since 2002 which allowed for voluntary recognition of carbon abatement towards their full emissions trading scheme. In 2007, the UK Government announced it will introduce a mandatory Carbon Reduction Commitment Scheme.[16] This Scheme provides that public and private organisations that use more than 6000 MWh of electricity in 2008 will have to purchase and surrender allowances each year to cover their $C0_2$ emissions; and
- the New South Wales government's GGAS scheme—the first white certificate scheme in the world—targeted a 40 per cent yield for emission reductions from the non-residential building sector. It has realised a yield of 0.4 per cent.[17]

4.12 Thirdly, while Lend Lease and WSP Lincolne Scott strongly support mandatory disclosure they caution that it will:

> ...not benchmark standards and will not fully address the impacts of environmental externalities associated with buildings, nor will it provide reporting in a manner compatible with monetising carbon.[18]

Mandatory disclosure

4.13 The National Australian Built Environment Rating System (NABERS) scheme is a national initiative managed by the New South Wales Department of Environment, Climate Change and Water. It rates a building and parts of a building on a scale of one to five stars in terms of energy efficiency and whether there are proposals to improve it. A building will be rated for its energy efficiency from one star (very bad) to five stars (excellent).[19]

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15 Mr Ché Wall, *Proof Committee Hansard*, 12 February 2010, p. 2.

16 Lend Lease, WSP Lincolne Scott, Advanced Environmental, *Submission* 8, p. 20.

17 Mr Ché Wall, *Proof Committee Hansard*, 12 February 2010, pgs. 2 and 5. See *http://www*.carbontrust.co.*ukl*cut-carbon-reduce-costs/reasons/impact - policylegislation/pages/carbon-reduction-commitment.aspx

18 Lend Lease, WSP Lincolne Scott, Advanced Environmental, *Submission* 8, p. 19.

19 http://www.environment.nsw.gov.au/government/nabers.htm

4.14 This inquiry generated debate as to whether the NABERS scheme is adequate to achieve the result of the scheme proposed in the bill. Mr Rob Murray-Leach, Chief Executive Officer of the Energy Efficiency Council, told the committee that there is no need to create an alternative to NABERS. He argued that the bill's mechanism for measuring and calculating emissions intensity essentially replicates that of NABERS:

> …there would be no reason to create a new tool. [NABERS] looks across a whole range of metrics of the building and it works out how to rate it based on its energy use per square metre. The only thing it does not do is say, 'What is an appropriate level? What is a benchmark for the industry?' It basically just rates it.
>
> …
>
> Our question is: why would you create a new tool to do something that is already done and is well accepted by industry?[20]

4.15 Mr Dave Peebles, Director of National Policy and Public Affairs at the Green Building Council expressed similar sentiments. He told the committee that NABERS:

> …is a standard that everyone is familiar with. We embed the NABERS standards into our own green star rating tool. So I think you would have to recognise that there would be a cost to business and industry in changing from a scheme which they are already familiar with, which is widely accepted and which is obviously a key part of the government's mandatory disclosure legislation and so on. Industry does support the current NABERS framework, as do we. So it really would be a question of: is this change for change's sake? Even if something is perceived to be simpler, nonetheless the industry is already familiar with the NABERS tool.[21]

4.16 However, in their second supplementary submission to this inquiry, Lend Lease and WSP Lincolne Scott countered that NABERS 'would not and could not' achieve the same result as the proposed scheme. It noted the following points:

- NABERS may encourage, but will not necessarily lead to, action on energy efficiency. Unlike NABERS, the bill imposes a financial penalty for inefficient buildings;
- NABERS is more costly than the reporting requirement needs to be. An assessment generally costs between $1000 and $4000, depending on the size of the space being rated; and
- the uptake of NABERS has been poor with an average of only 30 new ratings each year (230 in total) for the eight years it has been in operation.[22]

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20 Rob Murray-Leach, *Proof Committee Hansard*, 12 February 2010, p. 15.

21 Mr Dave Peebles, *Proof Committee Hansard*, 12 February 2010, p. 19.

22 Lend Lease, Lincolne Scott and Advanced Environmental, *Second supplementary submission*, p. 10.

4.17 The committee notes that while NABERS is an established scheme, its uptake has been quite poor and the cost of an assessment is high. It supports the bill's endeavour, through the Register of Emissions Intensity, to make the monitoring and disclosure of buildings' emissions mandatory.

Summary

4.18 The Greens, Lend Lease and WSP Lincolne Scott support this legislation on the grounds that mandatory reporting, financial incentives and financial penalties are crucial to improving the energy efficiency of the non-residential building sector. They argue that the CPRS and voluntary abatement measures are both inadequate to drive emission reductions in the sector.

4.19 In this context, the bill's supporters emphasise the importance of the mandatory disclosure of carbon performance information, the establishment of a carbon price and the penalties for inaction. This combination, it is hoped, will provide key information to building occupants on building performance, stimulate investment in energy efficient innovations and prompt the upgrade of inefficient buildings.