CITY OF MELBOURNE

31 October 2019

Mr Phil Manners and Mr Hayden Fisher
The Centre for International Economics
Ground Floor,11 Lancaster Place
Majura Park
CANBERRA ACT 2609

Dear Mr Manners and Mr Fisher,

Independent Review of the Commercial Buildings Disclosure (CBD) Program – draft report September 2019

Thank you for the opportunity to comment on the above report. We commend the Centre for International Economics (CIE) on the thorough investigation and analysis so far. The City of Melbourne's recent *Climate Change Mitigation Strategy to 2050* aligns our ambition with the Paris Climate Agreement and reconfirms Council's commitment to reduce greenhouse gas emissions across the municipality. In addition, Council recently declared a Climate and Biodiversity Emergency which further confirms our call for all levels of government to take urgent action to limit the impacts of climate change.

Zero Emissions Buildings and Precincts is one of four strategic priorities identified in the Strategy, working towards a goal for all buildings to be net zero emissions by 2050. Energy use in buildings accounts for 66 per cent of total greenhouse gas emissions across our municipality. If all new buildings constructed in the municipality are zero emissions by 2030, with all existing buildings net zero by 2050, the economic benefit to the municipality will be over $4 billion, with a benefit cost ratio of 1.86. Specific actions include:

- Accelerating energy efficiency programs for commercial buildings owners and tenants
- Advocating for energy performance disclosure for a greater range of commercial and residential buildings
- Advocating and facilitating to transition from gas to electricity.

We welcome the recommendations to expand the CBD Program to office tenancies and hotels. However, we believe it is critical to look at this CBD Review in the context of the concurrent *Trajectory for Low Energy Buildings* projects, in particular the current draft report on *Coordinated Policy Options for Existing Commercial Buildings*. Universal, low cost mandatory disclosure has been identified as one of the prioritised policy options to achieve zero-energy and carbon ready buildings in Australia. It is an important component of the complementary and integrated policy approaches of information and capacity building, financial incentives and regulation. The benefit cost analysis undertaken for the draft report is at this stage based only on private benefits (i.e. energy cost savings) rather than broader public benefits, including avoided greenhouse gas emissions. The analysis has a conservative approach to the savings rate, but still shows that for the cumulative financial years from 2021-2030 a benefit cost ratio of 1.8 and a net present value of $1.4 billion. Including the value of avoided greenhouse gas emissions, electricity network costs and other potential benefits such as asset value increases would increase this BCR further. Delaying implementation from the modelled start date of 2021 would also defer and potentially reduce the above benefits.

The Commercial Buildings Disclosure Program is clearly a critical implementation pathway for this proposed policy, and the opportunity should be taken to recommend expansion of the program to all candidate sectors at the earliest possible time. The next review of the CBD Program is not set, but given the intervals of previous reviews we assume it would commence in 2022 at the earliest, with any program changes from 2024 onwards. Delaying the inclusion of any sector, particularly shopping centres, is a risk to achieving the outcomes of the *Trajectory for Low Energy Buildings* and the National Energy Productivity Plan (NEPP), and to Australia fulfilling its obligations under the Paris Climate Agreement. Understanding and managing energy use is the first and most basic step in moving towards significant emissions reductions from the buildings sector and setting minimum performance standards.

Shopping centres

Given that the *Trajectory* report notes that retail is responsible for 33 per cent of energy consumption from commercial buildings in 2019, we strongly disagree with the recommendation not to expand the CBD Program to shopping centres. As the report states, this sector has great leadership and understanding at the top level with a significant uptake of voluntary NABERS ratings by major shopping centre owners. However, it is unclear how shopping centres not using NABERS understand their comparative performance. While tenants may be given energy cost information, also including NABERS ratings makes this information more meaningful and more likely to increase tenant demand for more sustainable centres. Drawing a parallel with premium office buildings, the fact office owners obtain and disclose NABERS ratings outside of the CBD program requirements is not seen as a reason to not regulate this sector, and neither should this be the case for shopping centres. The public and private benefits of rating and disclosing should be extended to the whole sector as soon as possible. Information currently available on sector leaders should not be extrapolated to the sector laggards. Given the concentrated ownership in this sector, we expect that the administration and engagement implications of regulating this sector would be relatively light.

The draft report on *Coordinated Policy Options for Existing Commercial Buildings* also recognises the importance of data collection. Mandatory disclosure will capture information from shopping centres that are not using energy ratings at all, as well as providing data from centres that are using other measurement tools. Thus, addressing the recognised data gap and providing statistically significant energy consumption and intensity data as the foundation for other policies identified in the *Trajectory* project.

Data centres

We note the recommendation to not include data centres at this stage, but believe this should be reconsidered given the context outlined above, especially given the strong growth anticipated in this sector. If this recommendation is adopted by the Minister, then a specific date should be set for the inclusion of data centres in the CBD Program. We strongly agree with the recommendation for all levels of government and associated agencies to require and obtain NABERS ratings for their data centres.

Apartments

We strongly support the recommendation for a detailed examination of mandatory disclosure for apartment buildings, including consideration of an appropriate legal framework. In reviewing a range of current NEPP and Commonwealth consultation documents (this review, the draft reports for the *Trajectory for Low Energy Existing Homes* and for *Low Energy Existing Commercial Buildings*, as well as the *National Construction Code 2022 Energy Efficiency Scoping study*) we note that there is a gap in focus on the needs of new and existing apartment buildings and their occupants. At least 83 per cent of the population of the City of Melbourne lives in apartments, with this dwelling type expected to increase across the whole of Australia. We ask that greater attention is given to the specific needs of this sector, including how strata governance regulations could be improved to enable energy efficiency and emissions improvement.

We concur with the recommendation that local government delivers Commonwealth-funded support, funding and incentive programs aimed at low performing buildings. The success of programs such as CitySwitch, Sustainable Melbourne Fund (now Sustainable Australia Fund), 1200 Buildings Program (City of Melbourne) and the Better Buildings Partnership (City of Sydney) demonstrate that our closer relationships with, and high level of trust from, building owners and rate payers can deliver better engagement, participation and performance improvement.

We suggest that the scope of this review is not sufficient to give full recommendations on how the CBD Program should be designed for each recommended sector, and that details on the most effective operation, including landlord/tenant responsibilities, should be deferred to the program design stage. We also suggest the final report recommends very clear timelines for recommendations for any delayed implementation, and that a date is set for the next program review in three years' time.

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Deferring energy efficiency improvements means that building occupants, owners and investors miss out on the benefits associated with greater energy efficiency and lower emissions. Not realising this potential for energy efficiency means that emissions reduction from other areas, including the stationary energy supply and land use and agriculture, must take a greater proportion of the emissions reduction needed to meet Paris Agreement targets. The Energy Efficiency Council's *First Fuel* report (June 2019) notes that if Australia adopts well-established energy management policies, practices and technologies over $7.7 billion will be saved each year through lower energy bills, and over 120,000 job-years of employment created. Energy management could deliver half of the abatement required to meet Australia's target to reduce emissions by 26-28 per cent by 2030.

Our specific responses to each recommendation in the report are set out below. We look forward to seeing the outcomes of this consultation and participating in future stages of the project.

Yours sincerely

Kim Le Cerf
Acting Manager, Urban Sustainability

Telephone [redacted]
E-mail [redacted]

CoM Reference DM 12947480

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<u>City of Melbourne Response to Recommendations</u>.

1 The CBD Program continues for office buildings. **Support.**

2 The impact the CBD Program is having in offices can be increased, through funding programs aimed at low-NABERS energy star-rated buildings. Some offices have not improved their performance and remain at low levels of energy efficiency. A Commonwealth funding program that is delivered by councils could be targeted at these buildings. **Strongly support.**

3 The CBD Program should be extended to office tenancies, replacing the current TLA requirements. **Strongly support.**

a) This recommendation is subject to developing a system that minimises compliance costs through the use of the NABERS Co-assess tool (which we understand may require legislative changes in some states). This would necessitate moving to a periodic rating system and we recommend that a BEEC be required every two years (rather than on sale and lease). **Our understanding is that the NABERS Co-assess tool is working well for this purpose. Issues of tenant or landlord liability should be deferred to service design stage to maximise the engagement and cooperation – tenancy fire regulations may be a good model. A decision on annual or biannual rating should also be deferred to service design – we would consider biannual ratings to be acceptable, but annual ratings may be easier to implement.**

b) Disclosure of tenancy ratings using the co-assess tool could be trialled in a state where existing legislation would allow this to occur. **No comment.**

c) If the CBD Program is not extended to office tenancies, there is no compelling case to change current disclosure requirements for base buildings. **We strongly support both the inclusion of office tenancies and the change to periodic ratings to regularly capture all eligible buildings.**

4 Disclosure of energy performance should not be mandated for shopping centres. **Strongly do not support- see discussion in main letter.**

5 Mandatory disclosure of energy performance should be expanded to hotels, subject to satisfactory completion of the following steps: **Support**

a) The benchmarks in the NABERS energy tool for hotels should be reviewed to ensure they provide fair comparison across hotels. This should involve industry representation (as is standard NABERS practice) and would be expected to take around one year. If issues are found with the benchmarks, these should be re-issued. This should be complemented with NABERS engagement with the hotel industry to build trust in the outcomes of the tool. NABERS could also consider what could be done to reduce potential confusion with quality star for hotels. **We consider this to be unnecessary, as our understanding is that any issues with the benchmark comparison between hotels are perceived only.**

Any refinement needed to the NABERS tool could be completed as part of the undisclosed rating period described in 5 b).

b) Following this, a period of two years should be allowed for undisclosed ratings to be done by hotels prior to mandatory disclosure being put in place. **Support.**

c) Mandatory disclosure should apply firstly to hotels with more than 100 rooms. This would cover approximately 600 hotels covering ~86 000 rooms. Subject to the review below, this could then be reduced (such as by expanding to all hotels with more than 50 rooms). This does not apply to motels and resorts, which are not rated by NABERS. It is not clear if the ABS defined 'Private hotels' would be covered – this is hotels without a public bar. Our expectation is that these are not appropriately benchmarked in NABERS as they were not part of the sample for initial benchmarking. **No comment.**

d) Hotel ratings should be required every two years. Disclosure should be in the hotel foyer and on the hotel's website. **Defer to service design – annual ratings may be easier to implement.**

e) The Australian Government should consider funding support for obtaining the first NABERS energy ratings. The costs of obtaining the first rating would amount to ~$4 million. **Support.**

f) Four years after mandatory disclosure is put in place, its impact on hotel energy efficiency should be reviewed. **Support across all sectors.**

6 The CBD Program should not be expanded to data centres at the present time. **Do not support - all sectors should be captured by CBD at the first possible opportunity.**

a) Nevertheless, the Commonwealth and state governments should commit to obtaining NABERS ratings on their own data centres. This process should be used to gather information on: the practical challenges associated with rating existing data centres; identifying whether the process of obtaining a NABERS rating identifies any cost-effective options for improving the energy efficiency of existing data centres; and the cost of improving the energy efficiency of existing data centres. **Support.**

b) Based on these findings, the government could re-consider expanding mandatory disclosure requirements to data centres.

7 Disclosure of energy performance for apartment buildings should be investigated in detail, following agreement from states and territories to undertake such an investigation. **Strongly support.**

8 State and territory government should agree to a detailed examination of mandatory disclosure of NABERS ratings for apartment buildings, including consideration of an appropriate legal framework. **Strongly support.**

9 As recovering the costs incurred by DEE in administering CBD Program (including compliance and enforcement costs) through user charges would be consistent with the Australian Government Cost Recovery Guidelines, DEE should the develop a compliant cost recovery framework. **No comment.**