RE: 2019 Review into the Possible Expansion of the Commercial Building Disclosure (CBD) Program

Thank you for the opportunity to comment on the draft document by the Centre for International Economics (CIE). NABERS congratulates CIE on their expertise and insights to date and looks forward to continuing to support this process.

Background

The National Australian Built Environment Rating System (NABERS) is a national program administered by the NSW Government that provides robust, verified ratings that enable the fair comparison of the operational performance of many building asset classes.

NABERS has been highly effective in driving energy efficiency improvements. It has evidenced $870 million savings to date and delivered ratings in over 6000 commercial buildings around the country.

The NABERS strategic plan defines a path to expand to all major building assets classes over the next five years using a robust method for onboarding new sectors and developing benchmarks in collaboration with industry (called the entry path). The NABERS strategic plan is backed by all States and Territories and is partially funded by the Federal Department of Energy and Environment.

NABERS expansion aligns with the various states and territories' public commitments, most notably the Commonwealth and NSW Government who have a commitment to achieving net zero greenhouse gas emissions across all sectors by 2050.

NABERS will continue to be a critical tool and data set for government and industry to evaluate the progress being made by the built environment towards these commitments.

NABERS has provided eight key recommendations below, which are substantiated on the following pages:

1: That this analysis be viewed alongside other Government policy toolkits that recognise the importance of widespread performance disclosure.

2: The CBD Program be reviewed and iteratively expanded using the NABERS entry path process.

3: The CIE report consider removing prescriptive recommendations where further evidence or detailed program design is required before definitive conclusions can be drawn.

4: NABERS agrees with further hotel industry consultation to alleviate any concerns with the NABERS hotels product.

5. NABERS recommends that shopping centres be required to undertake mandatory non-disclosed ratings to inform the next CBD Program review.

6: NABERS notes that data centres are high energy users and agrees that more research needs to be done in this sector.

7: That CIE explore a variation on Option 2a and adjusts assumptions and parameters to deliver an acceptable CBR for office tenant participation in the scheme.

8. NABERS recommends that detailed program design for office tenant inclusion should be deferred to the next stage of the project and defined by a Technical Working Group.

General Recommendations

Recommendation 1: That this analysis be viewed alongside other Government policy toolkits that recognise the importance of widespread performance disclosure

All levels of government will require reliable, comparable, place-based data to inform progress towards their net zero targets. This data is also valuable to inform policy across the built environment, especially in industry segments that are not taking up voluntary public rating opportunities.

Numerous government and industry policy toolkits suggest the multiple policy benefits of expanding mandatory disclosure; specifically, the draft *Addendum on Existing Buildings to the Trajectory for Low Energy Buildings* currently proposed for COAG Energy Council approval; the proposed *Commercial Building Baseline Study Data* project; the Property Council of Australia's *Every Building Counts*; the Green Building Council of Australia's *Opportunity Knocks* and the City of Sydney's *Sector Strategies*.

One of the observed constraints of the CIE analysis has been limited insight into what non-disclosing actors are doing in each sector, and the need to infer their behaviour from leading market participants.

Increased mandatory disclosure would reduce the data gap and would enable even more accurate and targeted policies to be developed over time.

Recommendation 2: The CBD Program be reviewed and iteratively expanded using the NABERS entry path process

The *Trajectory for Low Energy Buildings* requires a regular review with an expectation of iteratively increased measures to drive new buildings towards net zero greenhouse gas emissions. This sends a clear signal to market to prepare for implementation.

NABERS recommends a similar approach be taken by the CBD Program to drive the performance of existing buildings, wherein market expectations are managed via an iterative roll out of mandatory disclosure to all sectors.

NABERS has an entry path process that supports new industry sectors to familiarise themselves with the product and to optimise it through a consultation process and real data provided by industry. Once enough data has been obtained to confidently benchmark a sector, the full rating product is developed. This ensures high stakeholder buy-in to the final product and high accuracy of product benchmarks.

Conceptually the expectation of assets and business sectors in an expanded CBD Program might follow the pathway below:

Phase 1: Mandatory Reporting – No disclosure

Sectors report into the NABERS Entry Path. This will ensure that new sectors are brought into a fair and equitable and low-cost reporting pathway and that benchmarks are highly representative.

Phase 2: Mandatory Rating - Voluntary Disclosure

This enables all market participants who did not participate in voluntary ratings to commence their efforts towards improving their reporting and reducing emissions.

Phase 3: Mandatory Rating – Mandatory Disclosure

This enables leaders to utilise their competitive advantage and creates transparency to drive the rest of the market.

This approach assumes that sectors receive support to implement efficiency projects from complementary programs, capability building and financial incentives, such as those already being delivered by State and Local governments (e.g. CitySwitch, NSW Energy Savings Scheme, Building Upgrade Finance).

Recommendation 3: The CIE report consider removing prescriptive recommendations where further evidence or program design is required before definitive conclusions can be drawn.

There are several sections in the report where CIE recommend specific actions e.g. a two-year time frame on hotel consultation. As noted above, NABERS has defined processes to develop and refine tools. This process commences with consultation and real data capture from a representative range of asset types within a sector. It uses the data to form a benchmark and explore sector specific variables. It then establishes a benchmark, generates a rating certificate. It then continues to work with customers to review and refine the product as new data and edge cases emerge. It then adapts the Rules and technical guidance as required.

NABERS recommends that CIE point to existing NABERS consultation and program design processes for onboarding new sectors and avoid prescriptive recommendations at this stage that might create unintended consequences in implementation.

In sectors where there is insufficient evidence of the behaviour of non-leading industry participants, we would recommend more analysis be undertaken before definitively concluding that expansion will not be effective. For example, for shopping centres of 5,000+ sqm, introduce mandatory reporting with no disclosure.

Sector Specific Recommendations

Hotels

CIE notes that concerns have been raised by some stakeholders over the applicability of the NABERS hotel product for every accommodation type, and consequently recommends a review of the tool.

The NABERS Hotel product was developed in 2007 with high engagement from the hotel industry.

Since then NABERS has continued to work with customers to continually review and refine the product. This work, which forms part the NABERS business-as-usual processes, reviews the application of the Rules and provides project-specific or product-wide technical clarifications as they are required. All queries and issues raised through this standard process have been resolved through these clarifications.

There has been no evidence to date of any required changes to the benchmarks underlying the product.

That said, NABERS will be pleased to work with industry stakeholders to collect data and feedback and to explore any refinements that need to be made to the product. It would also be pleased to deliver briefing sessions for hotel sector stakeholders with lower awareness of the program, process, costs and benefits of rating.

Recommendation 4: NABERS agrees with further hotel industry consultation to alleviate concerns with the NABERS hotels product

NABERS estimates this consultation would consist of two workshops, that assist in producing a report back to stakeholders and a prioritised tool refinement over a 6-month period. (This would need to be re- scoped if new evidence emerges that the benchmark itself requires changes.)

It may be important to set expectations for this review upfront however, such that non-participation by the sector during the review should not prevent hotels from being included in a mandatory disclosure recommendation in the future.

Shopping Centres

CIE has requested further data to understand the ownership composition and sustainability performance of shopping centres to test the conclusion that there is no low performing tail of the market that would benefit from mandatory disclosure.

Shopping Centre Ownership

The CIE report concludes that there are a negligible number of privately-owned shopping centres. But this assertion is not settled. To assist, NABERS has conducted a further analysis of the shopping centre sector ownership using Property Council of Australia (PCA) data and internal expertise (Excel sheet attached). Whilst still not definitive, this depicts a different market capture percentage than the report suggests.

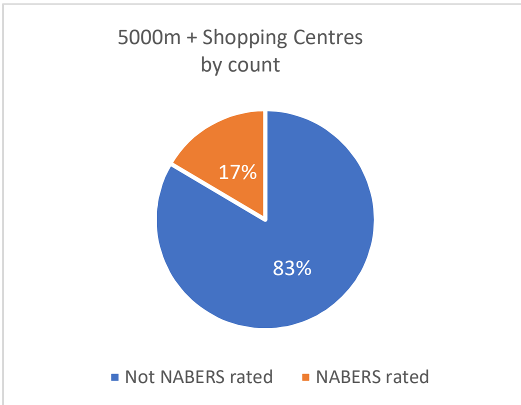

Figure 1.a Comparison of NABERS and Non-NABERS rated shopping centres by count

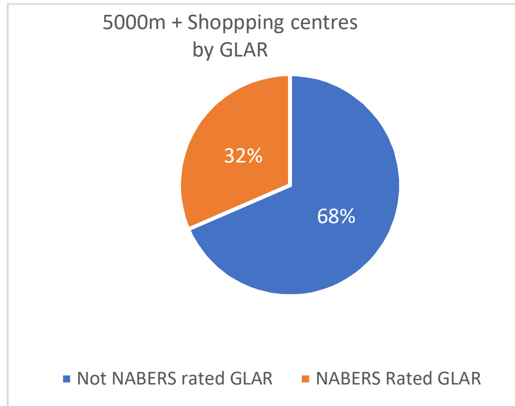

Figure 1.b Comparison of NABERS and Non-NABERS rated shopping centres by GLAR

The NABERS analysis shows that only 17% (by count) of shopping centres have NABERS ratings, and 32% by gross lettable area of retail (GLAR). This represents less than a third of the market by GLAR rather than the 'almost half of the centres' having a NABERS rating per CIE Draft report (page 92).

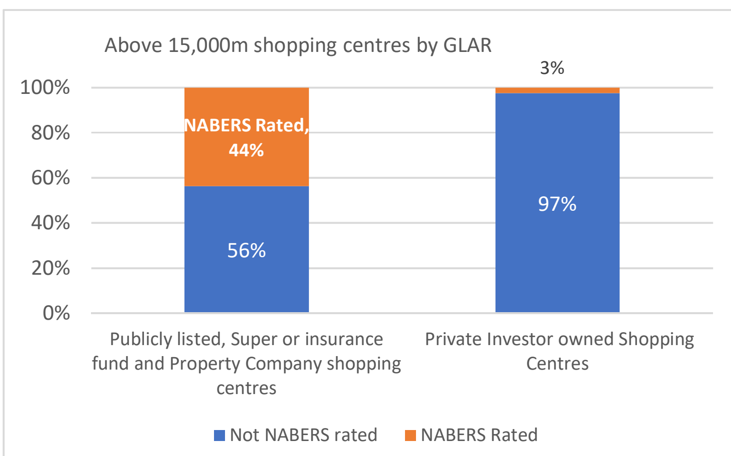

Figure 2 Comparison of NABERS and Non-NABERS rated shopping centres by ownership type

Our analysis of the larger 15,000m and above market found that only 44% of the companies that are categorised as 'Publicly listed, Super or insurance fund and Property Company shopping centres' are NABERS rated and less than 3% of private investor owned centres have been NABERS rated.

Even if some centres noted as private investor owned are, in fact, owned by larger groups, there are still a considerable number and proportion of centres that are not disclosing their performance in a verified, fair and comparable method.

Evidence of Energy Efficiency Opportunities in Shopping Centres

The CIE report states that shopping centres, whether rating or not "have achieved similar improvements in their energy efficiency" (page 92). This assertion is not supported by NABERS benchmarking data which shows a considerable tail of shopping centres at the bottom end of the NABERS rating range. This is provided in a confidential appendix to this document.

Given that there is in fact evidence of diverse ownership and available cost-effective energy savings amongst shopping centres of large and small size, NABERS suggests that a more comprehensive analysis is undertaken prior to concluding that mandatory ratings would not be effective in this sector.

Recommendation 5: NABERS recommends that shopping centres of 5,000sqm and above be required to undertake mandatory reporting with non-disclosed ratings to inform the next CBD Scheme Expansion review.

Data Centres

CIE acknowledges that the data centres analysis was limited by poor availability of data and low engagement.

Unlike NABERS for Data Centres, there remains no standard definition of Power Usage Effectiveness (PUE) with a consistently applied boundary, inclusions and assumptions, that is subject to third party quality assurance.

Given the high energy consumption, growth trajectory of the sector over time, and high concentration of corporate procurement for these services (for whom a trust marque like NABERS has demonstrated value in contract procurements), NABERS believes that expansion into this sector should not be dismissed.

Recommendation 6: NABERS notes that data centres are high energy users and agrees that more research needs to be done in this sector.

Office Tenants

NABERS supports the conclusion that tenants can be in included in a periodic rating regime at a positive cost benefit rating (CBR) via the Co-Assess process, with appropriate program design.

Cost of Compliance

Recommendation 7: NABERS recommends that CIE explore a variation on Option 2a and adjusts assumptions and parameters to deliver an acceptable CBR for tenant participation in the scheme

Adjustments to tenant assumptions should include:

NABERS is delivering several projects designed to streamline the rating process and reduce compliance costs. It suggests that tenant cost of compliance be reduced by 20%. This is largely by reducing the time to collect and manually enter data into NABERS platform. NABERS Online will implement ratings assessment efficiencies such as an automated data capture and storing of building rating information.

The tenant cost of upgrade assumption be halved in the model to reflect that 50% of efficiency activity will be delivered via behaviour change programs. This is supported by this extract from the 2018 CitySwitch report (and corroborated in the 2017 CitySwitch annual report) where, having removed waste projects, about 50% of the remaining reported projects are engagement and policy and 50% are lighting, HVAC and ICT and equipment upgrades.

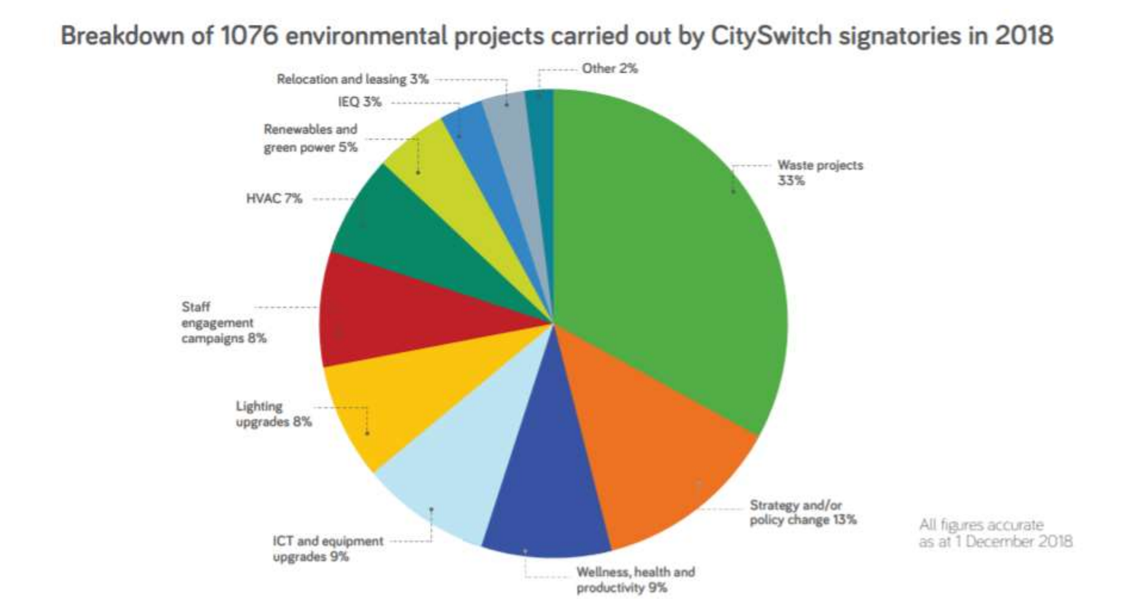

Figure 4: Projects undertaken by CitySwitch office tenants to improve their energy and waste efficiency in 2019

Behavioural science suggests that annual ratings are preferable to encourage commitment and continuity, but a dual trigger could be explored;

- with base buildings reporting annual;
- and tenants biennially.

A NABERS rating only lasts for one year. If biennial reporting is favoured for this sector (and/or hotels), adjustments would need to be made to the product in order that the trustworthiness of the NABERS brand is not compromised by inaccurate claims in non-rating years. NABERS would work with the department on this at detailed design stage to identify the best mechanism to balance the need for cost minimisation and high product confidence. For example, tenants might provide 2 years of data in one rating, or they might use the NABERS Online platform to enable ongoing performance transparency.

All tenants in a building are preferred to rate but a tenancy size limit (or calculated assumption for small tenancies) could be considered to further reduce assessment costs.

If the model assumes that mandated entities are supported to act by programs such as CitySwitch (which is available nationally) then the average energy saving assumption in the cost benefit model should be increased substantially.

Program Design

Recommendation 8: NABERS recommends that detailed program design for tenant inclusion should be deferred to the next stage of the project and defined by a Technical Working Group.

NABERS notes that the scheme designs set out in the CIE draft report are indicative and only created for the purposes of informing a cost benefit analysis. Whilst these are valuable, they do not represent the full suite of design options and their operational implications. As noted in recommendation 3, CIE should refrain from prescriptive scheme design in this report that might create unintended consequences in implementation.

NABERS is confident that it can design a scheme that can provide a streamlined experience and positive cost benefit for tenants. Whilst the detailed work has not been completed at this stage, NABERS insights into the sector to date suggest that program design should follow the following principles:

- Tenants are the liable disclosing entities
- Landlords advise tenants of their legal obligations and are encouraged to coordinate the Co-Assess rating
- The CBD compliance team be used to deal with non-participation under the scheme
- No party can prevent the other from complying with the regulation through non-participation

Thank you again for the opportunity to participate in this important work.

Submitted on behalf of NABERS

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Acting Branch Director

7 November 2019