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Commercial Building Energy Efficiency Team  
Department of the Environment, Water, Heritage and the Arts  
GPO Box 787  
CANBERRA ACT 2601

Dear Sir/Madam

**MANDATORY DISCLOSURE OF COMMERCIAL OFFICE BUILDING ENERGY EFFICIENCY**

Thank you for the opportunity to submit comments on the Consultation Regulation Document and Consultation Regulation Impact Statement for the proposed scheme for mandatory disclosure of commercial office building energy efficiency.

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 to create lower emission energy generation and end use, particularly in relation to non residential buildings. The Group directly employs approximately 60 people in Australia and 20 in Southeast Asia; through its 'preferred developer' status for Coles and Woolworths supermarkets it employs more than 400 people indirectly through its construction activities. Its core businesses specialise in delivering energy efficiency, waste-to-energy solutions and property development. Szencorp's leadership in and commitment to a lower-emission future is demonstrated by its corporate headquarters at 40 Albert Road, South Melbourne, a green building rated at the very top of the Australian scale on both design and operational measures.

**Szencorp Group Companies:**

Energy Conservation Systems Pty Ltd ABN 59 002 702 525  
Water Conservation Systems Pty Ltd ABN 69 106 510 561

Jaemax Developments Pty Ltd ABN 33 621 310 911  
Carbon Partners Pty Ltd ABN 17 098 302 268

Szencorp welcomes the development of the proposed scheme for mandatory disclosure and the fulfilment of the long-held commitment under the National Framework for Energy Efficiency to implement such a scheme. Mandatory, rather than voluntary, approaches to overcoming energy efficiency barriers have been proven highly effective in initiating actions leading to outcomes. Indeed UNEP found in its 2007 report '*Assessment of Policy Instruments for Reducing Greenhouse Gases in Buildings*' that many regulatory and control instruments were among the most cost-effective instruments for improving energy efficiency take-up in buildings. Mandatory disclosure of building energy performance is a key building block in overcoming some of the information failures that exist in the non residential building sector.

Szencorp supports the NABERS energy rating tool as the market accepted and appropriate measure for disclosing building performance, as it is an annual performance based rating tool.

#### Consultation Regulatory Impact Statement

Any RIS is only as good as its assumptions, and there are a wide range of cost and benefit figures derived from detailed assumptions in the document. Szencorp accepts the degree of transparency afforded by Government in the provision of these assumptions and does not wish to comment in detail about all of these assumptions, despite the fact that they have the potential heavily influence the outcomes of the RIS. A couple of points to note, however, are that

- The analysis of benefits of Options 1 and 2 assumes a conversion rate from better building performance information to implementation of upgrades that is difficult to substantiate in concrete terms and could be a significant variable. It also assumes a willingness to pursue better energy efficiency voluntarily, in the context of a CPRS that will likely inhibit rewards for those who take voluntary action (for more background on this issue, refer Denniss (2009), *Fixing the Floor in the ETS*).
- The analysis of benefits of Option 3 limits cost savings to those achieved over a 10 year period (Section 4.5, p.46). This is relatively arbitrary and potentially underestimates the lifespan of energy upgrade equipment likely savings achieved; for example, chillers and air conditioning equipment have a typical life span of 15 to 25 years.

- The estimated \$3/m<sup>2</sup> that accrues from a one star NABERS energy upgrade and is applied throughout the analysis is a relatively low and static figure that does not adequately take into account likely changes in energy costs and greenhouse (carbon) costs over time. It also does not capture the potential benefits to occupiers of an upgraded building in terms of the benefit to staff productivity and well-being, corporate branding, ability to attract and retain staff and reduced absenteeism, all of which are fundamental to the business case for such upgrade activities.

The combined impact of these factors is to create a result whereby Mandatory minimum energy efficiency standards (Option 3) is severely disadvantaged against the other recommended options.

#### Consultation Regulation Document

Szencorp wishes to bring a number of individual points to the attention of the Department in the design of the scheme:

- **Administrative consistency and alignment** – many of the building owners who will be required to report energy performance under the proposed scheme will already have requirements to disclose energy use and/or greenhouse gas emissions under other Commonwealth systems and policy initiatives, such as the Energy Efficiency Opportunities Program and the National Greenhouse and Energy Reporting System (NGERS). Further, some building owners will have reporting obligations under state EPA requirements. All efforts should be made to streamline and reduce the reporting burden on parties potentially facing duplicate requests for disclosure, and to leverage from information collected under each respective reporting requirement.
- **Size threshold for eligibility** – Szencorp accepts that administrative costs rise more than proportionally with a lower threshold for eligibility and a resultant higher number of buildings that are captured by the proposed scheme. However, this may be justifiable depending on the level of conversion into implementation and outcomes, i.e. higher benefits may be achievable through incurring the costs of including a lower size threshold. It may also be the case that increased information provision at the smaller scale

of the market helps to raise market awareness of the scheme and conversion to implementation, as well as the fact that smaller buildings are typically more likely to be underperforming and therefore may be more cost effective to upgrade. Figures released by the Property Council of Australia (refer below) show that buildings of more than 2000m<sup>2</sup> make up approximately 49% of Australia's buildings, but account for 90% of space; buildings of more than 1000m<sup>2</sup> account for 70% of buildings and 97% of office space. Note that these figures relate to the 22 largest business districts in the country and do not, therefore, capture the multitude of regional areas in Australia for which buildings of under 2,000m<sup>2</sup> would be extremely prevalent. Given that mandatory disclosure is effectively a behavioural change mechanism, its penetration rate and ability to engage a majority of building owners and change cultural practice is therefore important, and is difficult to capture under the cost estimates applied in the RIS. While Szencorp accepts the recommended 2,000m<sup>2</sup> threshold canvassed by the paper, it also recommends a more detailed consideration of a threshold set at 1,000m<sup>2</sup>.

MARKET	All		>1000m2			>2000m2		
	Area (m <sup>2</sup> )	No. Bldgs	Area (m <sup>2</sup> )	% of total	No. Bldgs	Area (m <sup>2</sup> )	% of total	No. Bldgs
Sydney CBD	4713792	558	4682549	99%	494	4570607	97%	414
Melb CBD	3660994	444	3631139	99%	395	3508592	96%	312
Bris CBD	1689048	162	1686403	100%	158	1667749	99%	145
Canberra	1684437	454	1588937	94%	272	1477743	88%	192
Perth CBD	1367387	222	1339387	98%	168	1282900	94%	129
Adel CBD	973159	186	954711	98%	150	897600	92%	108
St Kilda Rd	923771	168	909085	98%	133	869751	94%	107
North Sydney	837405	144	831882	99%	135	790394	94%	105
Brisbane 'Near City'	749529	258	715294	95%	209	602641	80%	128
Parramatta	627461	224	572562	91%	119	506774	81%	70
Southbank	448341	118	424518	95%	74	392021	87%	50
West Perth	398058	392	306086	77%	130	200206	50%	51
Crows Nest/ St Leonards	381353	158	356000	93%	116	273676	72%	54
Chatswood	336569	66	332254	99%	59	311485	93%	45
Hobart CBD	336541	190	284565	85%	74	240595	71%	43
Gold Coast	263045	150	228935	87%	84	165191	63%	39
Newcastle	219288	150	179718	82%	67	128689	59%	33
Adelaide	216340	134	184424	85%	80	121317	56%	33
Frame Adelaide	210329	124	184605	88%	83	108092	51%	29
Fringe	50746	14	50746	100%	14	42266	83%	8
Robina	46278	9	46278	100%	9	39777	86%	5
Upper Mount Gravatt & Macgregor	32534	5	31600	97%	4	31600	97%	4
Chermside								
Grand Total	20166407	4330	19521679	97%	3027	18229667	90%	2104

Source: PCA 2004

- **Penalties for non compliance** – Szencorp believes that the potential penalty of \$8,000 for non compliance is far too low to be an effective deterrent. Given the size of potential property investments involved, it is to be expected that a vastly underperforming building would be prepared to pay this penalty rather than disclose its performance information in order to conceal underperformance, and it is not necessarily reasonable to expect that a potential purchaser or lessee would apply sufficient pressure on the seller/lessor to comply. Significant enforcement costs that may also result from an inadequate scheme of penalty may undermine the cost effectiveness of the proposed scheme for Government. Szencorp recommends that the penalty regime be built around a penalty per square metre calculation, for example \$10/m<sup>2</sup>, further stipulating that there is to be no ability to pass the penalty on to tenants via outgoings.
- **Time between disclosure events** – Szencorp considers it appropriate that an EEAR is valid for seven years (for a base building) and a BEEC is valid for 12 months. In the case of an EEAR for a tenancy, it may be preferable to create an EEAR for the term of the lease, rather than a fixed period. However, concerns arise due to the likely slow introduction of information into the scheme under this proposal - while limitations on the reporting interval improve its cost effectiveness in the RIS analysis, its efficacy may be compromised if building information does not find its way to the market in sufficient volume to affect behaviour. As it is currently proposed and given the urgency to reduce Australia’s greenhouse gas emissions, disclosure of performance of under half Australia’s buildings on sale or lease may not see a rapid increase in awareness nor uptake of energy efficiency measures of the scale and at the speed potentially required. A mandatory disclosure scheme that required annual performance disclosure is preferable to the “sale or lease” trigger, to drive real information provision into the market more quickly.
- **Administration of the NABERS rating tool** – Szencorp firmly believes that the instatement of the NABERS rating tool as the instrument of choice for this national scheme should see administration of NABERS be retaken from the NSW Government and correctly resourced by the Commonwealth Government.
- **Public Display of Building Performance Information** – the UK Scheme referenced in Appendix 2 contains some background on the ‘Display Energy Certificates’ that public sector building owners and tenants are required to publicly display in a building, with consideration being given to extending this to all commercial buildings. Given that mandatory disclosure is in essence aims at awareness and behavioural change, a similar public disclosure for the proposed Australian scheme could be a

potentially highly motivating force. In relation to an earlier point Szencorp notes, also, that the UK has a minimum size threshold for building eligibility of 1,000m<sup>2</sup>.

Once again, Szencorp appreciates the opportunity to make this submission and would be happy to elaborate on any of the ideas contained within if required.

Yours sincerely

**Peter Szental**  
**Chairman**