

Mr Manners and Mr Fisher
The Centre for International Economics
Email: pmanners@TheCIE.com.au, hfisher@TheCIE.com.au



19 July 2019

Re: Commercial Building Disclosure Program Review – Preliminary Findings

Dear Mr Manners and Mr Fisher,

Thank you for the opportunity to comment on the Commercial Building Disclosure (CBD) Program Preliminary Findings Report. The Energy Efficiency Council (EEC) recommends that the CBD Program should be:

1. Continued indefinitely, due to the substantial benefits that it delivers in terms of improved customer choice, reduced energy bills, reduced greenhouse gas emissions and more healthy and productive workplaces.
2. Based on mandatory disclosure of NABERS ratings without GreenPower. A rating without GreenPower provides prospective buyers and tenants with an indication about the quality, comfort and running costs of the building. In contrast, a rating with GreenPower can use a temporary purchase of GreenPower to obscure these important qualities.
3. Extended from offices to also cover (in order from highest to lowest priority) shopping centres, hotels and data centres. This extension should be carefully designed with complementary policies to maximize benefits and minimize costs. For example, the extension of the CBD Program to hotels should initially focus on large hotels and include a phased approach along the lines:
 - Phase 1 Hotel owners are required to undertake a NABERS rating, but do not need to disclose this rating. Governments could potentially offer grants for hotels' first NABERS ratings. These ratings could be used to expand the NABERS Hotels' data set and, if appropriate, recalibrate ratings.
 - Phase 2 Hotel owners are required to disclose NABERS ratings in appropriate forums (e.g. their website and events page, but not on third-party booking sites).
 - Phase 3 Governments introduce procurement guidelines that give preference to hotels with higher NABERS ratings.
4. Expanded into office tenancies through a stand-alone review in 2019-20. Despite apocryphal statements, the data suggests that Tenancy Lighting Assessments (TLAs) have had a significant impact on tenancy lighting. However, we should review the options to improve the operation of TLAs or complement or replace them with NABERS Tenancy ratings. At the very least governments should adopt minimum TLA requirements for their accommodation and the TLA tool should be refined and better marketed.

While the EEC supports many of the findings of the Preliminary Report, we have concerns about some of the conclusions, analysis and framing in the report. This letter is accompanied by an attachment responds to a number of the positions in the Preliminary Findings Paper. We look forward to continuing to work with the Centre for International Economics (CIE) and the Australian Government to enhance the CBD program.

If you have any questions, please contact me at rob.murray-leach@eec.org.au or 0414 065 556.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rob Murray-Leach', with a stylized flourish at the end.

Rob Murray-Leach
Head of Policy, Energy Efficiency Council



energy efficiency
COUNCIL

**Energy Efficiency Council submission on the
Review of the Commercial Building Disclosure Program
– Preliminary Report**

Framing and primary conclusion

The data in the Preliminary Findings Report shows that the CBD Program has delivered major benefits to Australia. This fundamental finding is somewhat buried in the Report, and should be given far greater prominence in subsequent reports.

Objectives of the CBD Program

While the objectives of the CBD Program could be refined, we disagree with the statement in the Preliminary Findings Report that the CBD Program's objectives are unclear. It is entirely legitimate, and actually far more appropriate, for the CBD Program to have multiple objectives. It is common practice for policies to have multiple goals. For example, the *National Electricity Objective* (NEO) is to “*promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to: price, quality, safety and reliability and security of supply of electricity.*” The multiple goals of the NEO are in far more tension than the current goals of the CBD Program.

We believe that the objective of the CBD Program should be along the lines:

“To disclose the energy efficiency of buildings to support consumer decision-making around reduced energy bills, reduced greenhouse gas emissions, improved health and improved productivity.”

Motivations for building owners and tenants

Our members' experience is that prospective buyers and tenants use the CBD Program to consider multiple aspects of a building, including energy costs, quality, comfort and emissions intensity. The Centre for International Economics (CIE) does not have sufficient evidence to conclude that businesses are largely motivated to seek higher NABERS ratings in order to meet greenhouse gas reduction goals. In fact our members' extensive experience is that organisations vary in their motivations for selecting particular NABERS ratings.

While some organisations are primarily motivated by concerns about their carbon footprint, other organisations will have different or multiple motivations. In many organizations, staff in sustainability roles are primarily focused on reducing greenhouse gas emissions; staff in human resource roles are focused on staff retention, comfort and productivity; and staff in financial roles are focused on lease and energy costs. These staff work together to collectively decide on the weight that they should place on the NABERS ratings of various buildings.

Market failures

The EEC strongly disagrees with the conclusion in the Preliminary Findings Report that there are no information asymmetries in the purchase and rent of properties. While prospective buyers and tenants can request energy bills from a property, an energy bill on its own is insufficient for comparing multiple properties as it:

- Fails to normalize for differences between properties without considerable additional information; and

- Fails to provide an indication of the energy efficiency of a property, which is a useful proxy for the quality, comfort and emissions intensity of the property.

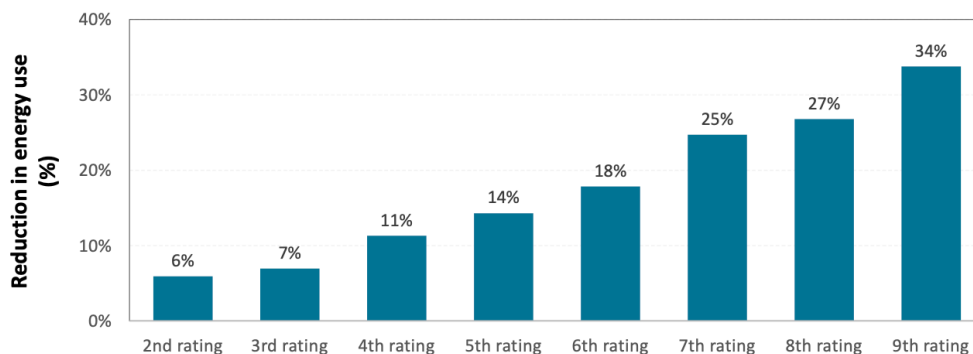
A NABERS rating is simply the energy bill of a property that has been normalized to simplify comparison. Information asymmetry doesn't just refer to the amount of information that is provided to prospective buyers and tenants, but also to the quality and timeliness of that information. For example, long and confusing product disclosure information for consumer goods can actually impede, rather than support, consumer decision-making

We agree with CIE's conclusion that the CBD Program also addresses issues related to bounded rationality, and would argue that there is an overlap and interaction between information asymmetry and bounded rationality. Therefore, we would argue that the CBD program addresses both bounded rationality and information asymmetry to support decision-making.

Extension of the CBD Program to hotels, data centres and shopping centres

The EEC strongly agrees with the Preliminary Findings Report that there are good cases for extending the CBD Program to hotels and data centres. However, we disagree with the Preliminary Findings Report conclusion that there isn't a strong case for extending the CBD program to shopping centres.

There is a strong case for extending the CBD program to shopping centres. The Shopping Centre Council of Australia's analysis of the impact of NABERS ratings on shopping centres is deeply misleading. Far more robust analysis undertaken by the NABERS program on a large dataset demonstrates that shopping centres that have undertaken NABERS ratings have reduced their energy intensity very rapidly.



Tenancies and Tenancy Lighting Assessments (TLAs)

The data in the Preliminary Findings Report suggests that TLAs have had a major impact on tenancy lighting, especially lighting controls. In particular, the EEC notes that TLAs did not become mandatory until after NABERS ratings, and therefore had an immediate and significant impact on lighting.

However, we do believe that there is a case for considering moving to disclosure of NABERS Tenancy ratings, which could replace TLAs. Given the complexity of these issues, we believe that CIE should recommend a stand-alone review of the best route forward for disclosure in tenancy areas.