

Mr Gene McGlynn
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Department of Climate Change and Energy Efficiency
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18 July 2012

Re: National Building Energy Standard-Setting, Assessment and Rating Framework

Dear Mr McGlynn

Energy Efficiency Council welcomes the opportunity to provide a submission on the *Draft National Building Energy Standard-Setting, Assessment and Rating Framework* (referred to as 'the Framework').

The Energy Efficiency Council is the peak body for energy efficiency, demand response and cogeneration, and brings together Australia's top expertise in demand-side to support the development of policy and programs. Incorporating expert advice into the design of demand-side programs significantly improves their effectiveness.

The Energy Efficiency Council supports the development of a National Building Energy Standard-setting, Assessment and Ratings Framework. A strong system of standards, assessment and ratings is a critical part of a broader process to improve the quality of buildings in Australia. Standards and assessment should:

- **Improve building quality and reduce costs for households and businesses**, by addressing market failures that impede the uptake of cost-effective energy and resource efficiency options. In respect of energy, standards and ratings could help lower both tenants' energy consumption and peak demand, placing downward pressure on system-wide electricity prices;
- **Provide consumer protection** for building owners and tenants, by providing minimum standards and enabling them to identify a building's energy performance;
- **Improve coordination** in building construction and management, by providing clear directions (standards) and metrics (ratings); and
- **Lower the cost of reducing emissions**, by addressing the barriers that impede the uptake of cost-effective energy efficiency and **address unpriced externalities** (this is not relevant for energy while a carbon price is in place).

As noted in the Draft National Framework, an effective Framework would increase the effectiveness of standards and ratings and reduce the regulatory burdens on industry by:

- Structuring policy development so that standards and ratings are well designed, transparent and nationally consistent
- Providing clearer directions to industry and consumers, which would enable industry to prepare in advance, adjust smoothly and innovate.

The Draft National Framework has many positive features and the Energy Efficiency Council agrees that the final Framework should:

- Initially focus on just on energy and greenhouse gasses, and later expand to incorporate water efficiency
- Clearly distinguish between commercial buildings and residential buildings. The standard and rating systems for these broad categories of buildings need to be significantly different and there is little benefit in aligning these two systems.
- Focus on the National Construction Code (NCC) and National Australian Building Rating Scheme (NABERS) for commercial buildings
- Set a pathway for new building standards to 2020 and beyond

However, the Draft Framework currently lacks clarity and detail, and much of the sophistication in the background reports has not made it into the Framework. Furthermore, significant work needs to be undertaken before key decisions can be finalised.

For example, any decision to move NABERS to a 10-star scale requires detailed consideration. In May 2010 the Council recommended that specific consultation would be needed to determine whether to move NABERS to a ten-star scheme, and this has still not happened. The Council reiterates that no changes to NABERS should occur without further work.

The Council recommends a number of changes to the framework, including:

- Clearer definition of the goals of the framework;
- A solid piece on the context and nature of the building stock and the difference between new and existing buildings;
- Sections on standards and ratings that include the policy rationale for those tools, an analysis of the current policy systems and directions for improving those systems; and
- A clear governance structure for implementation that includes specified processes and roles for industry and consumer organisations.

The Energy Efficiency Council supports the development of a National Building Energy Standard-setting, Assessment and Ratings Framework, and looks forward to working with governments to deliver an effective framework. Please contact me on 03 8327 8422 should you require further information on any of the issues raised in this submission.

Yours sincerely



Rob Murray-Leach
Chief Executive Officer

Contents

1. Objectives	4
2. Context	5
3. Standards	6
4. Ratings	7
5. Governance	8
6. Responses to questions in the Submissions Guide.....	9

1. Objectives

The final Framework should articulate its goals far more clearly. The objective set out on page five the Draft Framework, “to drive significant improvement in the sustainability of Australia’s new and existing building stock” is too broad to be meaningful and also fails to capture the role of standards and ratings as part of a broader goal of ‘better performing buildings and cities’.

Following this overarching goal, the role of standards and ratings should be:

- **Improve building quality and reduce costs for households and businesses**, by addressing market failures that impede the uptake of cost-effective energy and resource efficiency options. In respect of energy, standards and ratings could help lower both tenants’ energy consumption and peak demand, placing downward pressure on system-wide electricity prices;
- **Provide consumer protection** for building owners and tenants, by providing minimum standards and enabling them to identify a building’s energy performance;
- **Improve coordination** in building construction and management, by providing clear directions (standards) and metrics (ratings); and
- **Lower the cost of reducing emissions**, by addressing the barriers that impede the uptake of cost-effective energy efficiency and **address unpriced externalities** (this is not relevant for energy while a carbon price is in place).

As noted in the Draft National Framework, an effective Framework would increase the effectiveness of standards and ratings and reducing the regulatory burdens on industry by:

- Structuring policy development so that standards and ratings are well designed, transparent and nationally consistent
- Providing clearer directions to industry and consumers, which would enable industry to prepare in advance, adjust smoothly and innovate.

2. Context

The Framework needs to clearly articulate the nature of the Australian buildings sector, which includes more material on the difference between residential and commercial buildings and the relative importance of new and existing buildings. While the framework will need to cover new buildings, the largest opportunities for improved building performance are in existing buildings and this should be a key focus.

In addition to outlining the nature of the building stock, the Framework needs to articulate more clearly the role of various parties in delivering energy efficient buildings. A wide range of parties, including building owners, tenants, architects, engineers and tradespeople, are necessary to improve the performance of buildings in Australia. Governments have an important but limited role in this system, and this needs to be clarified.

The framework should set out the suite of tools that are required to give a context to standards and ratings. This includes:

- Ensuring that the prices for energy and other resources reflect the true cost, including externalities and the time and location of use. Where cost-reflective pricing is not suitable or desirable, payment for improved resource efficiency that has societal benefits is appropriate;
- Using ratings to make performance transparent and unlock the value that the market gives to higher performing buildings;
- Financial support for innovation and leading edge performance;
- Transitional support as part of a market transformation approach to shift the behaviour of the market;
- Ensuring the appropriate supply of skills in the market; and
- Minimum standards

The Council notes that different approaches will be required to improve the performance of new and existing buildings. While minimum standards are currently driving change in new buildings, they are relatively unimportant in existing buildings. Conversely, transitional support is critical to drive transformation in existing buildings, and ratings and skills are critical to drive performance in both new and existing buildings.

3. Standards

The Framework needs include a brief overview of the current NCC and how it is implemented – this is critical to determine future directions for minimum standards.

The Framework presents an opportunity to step back from the current systems, look at international examples and see if there are opportunities for improvement. A number of Council members have noted that there are options to both improve the effectiveness of the NCC and reduce the compliance costs for business. These options include changes to the NCC itself and the way that it is enforced, with significant variation in enforcement between States and local government areas. The Council would argue that additional resources are essential to effective implementation of the NCC.

The Framework needs to build on this base and set out a sophisticated approach to increasing the stringency in building standards, which includes:

- A statement that minimum standards should only be introduced when they become cost-effective.
- A clear process for setting standards that involves industry, government and consumer organisations (see section 5 of this submission).
- Recognition that effective standards can transform markets by creating volume for more efficient goods and services, improving market coordination and encouraging innovation. As a result, introducing standards and flagging future standards can significantly lower the cost of delivering more efficient buildings.
- Setting a pathway for standards to provide certainty for industry. The Council commends Pitt & Sherry on the extensive work that they have undertaken to forecast possible standards for 2015 and 2020, but does not have a recommendation on the pathway goals. Furthermore, as changes in markets and technologies aren't fully predictable, the actual standards that are implemented will need to be developed through a Regulatory Impact Standard.

The standards system should allow for flexibility and innovation. For example, exemptions could be considered for standards where developers use new technologies or designs to achieve very high performance. However, there should be limited trade-off between long-lived components of buildings (e.g. building fabric) and components that are short-lived or significantly affected by operation and use patterns.

Finally, as the Council recommended in its submission in May 2010, the Framework should flag that governments will look into standards for existing buildings in 2015. Driving minimum standards in existing buildings through the NCC is relatively ineffective, as they are only triggered by substantial retrofits. However, governments could consider requiring existing buildings over a certain size that have NABERS ratings of 2 or less stars to have an audit and implement projects that have attractive payback periods.

4. Ratings

As with the section on standards, the section on ratings needs to include a rationale for rating systems, which includes:

- The need for rating tools to address information asymmetries, protect consumers and improve coordination; and
- The role of agreed performance metrics in helping building designers, builders and operators to understand and improve building design, construction and operation.

The Framework should use this definition of the rationale for rating systems to identify the key features that define effective rating scheme, including accuracy, replicability, comparability and cost.

Following this overarching section, the ratings chapter should be split into residential and commercial rating tools. There are substantial differences between these sectors, as performance ratings (as opposed to modelled ratings) are far more appropriate in the commercial building sector

The framework should set out the current rating systems (NABERS and Green Star), how they were developed and how the market uses these tools (e.g. Green Star is currently used for design, whilst NABERS is used to assess performance). This context is essential in order to identify the strengths and weaknesses of the current systems and what changes should be contemplated for these tools. Improving the consistency between these tools is a key issues, and this should be noted in the framework.

The Council strongly supports the continued use of NABERS as the primary rating tool for rating commercial buildings, and our main concern is maintaining the integrity of the NABERS Energy Tool and the Commercial Building Disclosure tool. As noted in our submission of May 2010, we believe that any major changes to NABERS require detailed consideration.

Therefore, the Council recommends that further consultation is carried out on whether to move to 10-star rating scale, particularly for the NABERS Energy tool. This decision to move to a 10-star scale should not be undertaken lightly, and consultation should include detailed analysis on the implications of changing NABERS to a 10-star system and the costs and benefits of this action.

Building owners and tenants would never compare ratings for houses, appliances and commercial buildings in a purchase decision. Therefore, while the main benefit from standardising the scale of rating tools to a 10-star system appears to be simplifying communication, this benefit appears to be limited. Furthermore, it is possible that consumers may prefer rating systems with around 5 stars, as they may be able to use these more intuitively than 10 star rating schemes.

5. Governance

The Framework should set out far more robust and detailed governance arrangements that include industry, consumer representatives and non-profit organisations. Policy in the building sector needs to be built with an understanding of the social, commercial and technical complexities of the sector, and needs to have strong support to be effective. As a result, industry needs to be engaged throughout the policy development process, rather than simply consulted as an afterthought.

6. Responses to questions in the Submissions Guide

Q1. Should every rating tool used for regulatory purposes use a 10-star rating scale?

The Council recommends that further consultation is carried out on whether to move to 10-star rating scale, particularly for the NABERS Energy tool. This consultation should include detailed analysis on the implications of changing NABERS to a 10-star system and the costs and benefits of this action.

Building owners and tenants would never compare ratings for houses, appliances and commercial buildings in a purchase decision. Therefore, the main benefit from standardising the scale of rating tools to a 10-star system appears to be simplifying communication. The scale of this benefit is unclear and standardising the scale might incur substantial costs. Furthermore, it is possible that consumers may prefer rating systems with around 5 stars, as they may be able to use these more intuitively than 10 star rating schemes.

The Energy Efficiency Council's main concern is maintaining the integrity of the NABERS Energy Tool and the Commercial Building Disclosure tool. As noted in our submission of May 2010, we believe that any major changes to NABERS require detailed consideration, rather than ad hoc change.

Q2. Should there be only one rating tool specified for compliance with building standards that require a minimum star rating?

The Council believes that separate tools are required for rating commercial and residential buildings.

Within commercial buildings, NABERS is appropriate for rating current performance. However, it is not a design tool and it incorporates many technologies and behaviours that are not included in the NCC.

While the Council has not undertaken significant policy work on residential buildings, it appears rational that only one rating tool should be specified for residential building standards.

Q3. Should residential building standards be harmonised across all jurisdictions?

While the Council does not undertake policy work on residential buildings, it appears rational that building standards should be harmonised across all jurisdictions but take into account climatic variations.

Q4. Could any changes to existing governance arrangements improve the development and administration of rating tools used under the Framework?

The Council strongly recommends improvements to existing governance arrangements.

Q5. Do you agree the approach taken by Pitt & Sherry in determining the quantitative goals?

No comment

Q6. What goals should be set for future energy efficiency standards in 2015 and 2020?

No comment.