23 October 2014

Emissions Reduction Fund Governance
Emissions Reduction Fund Division
Department of the Environment
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By email: EmissionsReductionSubmissions@environment.gov.au

To whom it may concern

Draft Carbon Credits (Carbon Farming Initiative) Methodology (Commercial Buildings) Determination 2014

I write to provide feedback on the above mentioned Emissions Reduction Fund (ERF) methodology which seeks to capture emissions reduction from existing commercial buildings which are able to obtain a rating under the National Australian Built Environment Rating System (NABERS). This includes shopping centres with a Gross Lettable Area Retail (GLAR) over 15,000m^2. The Shopping Centre Council of Australia (SCCA) is a member of the Department's Emissions Reduction Fund Reference Group and Building Energy Efficiency Technical Working Group and have been consulted throughout the development of the methodology.

The SCCA has identified a number of barriers to entry under this methodology, and the ERF policy framework more broadly, which will make it difficult for owners of existing commercial property, shopping centre owners in particular, to participate in the ERF.

Although some of the following comments relate to policy positions outlined in the Government's ERF White Paper (and, therefore, possibly immovable at this stage), we think it is important to understand the barriers to entry in a broad context as it will be the combination of these barriers which may preclude the participation of owners of existing commercial buildings, including shopping centres. Some information that is relevant to the implementation of the ERF, specifically the approach to how aggregation will be used under the methodology, is still pending. We make some general comments as to what is required from Government in this regard so as to maximise the opportunity for shopping centre owners to participate in the ERF.

Methodology

As far as the SCCA can understand from the draft methodology and the accompanying Explanatory Statement, the methodology would not be able to accommodate a building which, during the crediting period, is the subject of a redevelopment which results in additional floorspace being added to the building.

We don't think the methodology is intended to be applied when a building is redeveloped, and floorspace is added. This means that the methodology won't apply if 1) the redevelopment and additional floorspace is unrelated to the project which has been contracted under the ERF or, 2) the redevelopment and additional floorspace is associated with, and incorporates/facilitates, the emissions reducing project under the ERF. This was verbally confirmed by Department Officials at a meeting of the Technical Working Group on 14 October. As we understand the advice of the Department on this issue, a new, additional method would be required to accommodate these scenarios.

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The requirement under this methodology for the buildings within an ERF project to remain the same size over the life of a project conveyed on page 9 of the Explanatory Statement: "...the previous NABERS energy rating for the building **must cover the same area** containing energy-consuming equipment as the building in the measurement period". We note that this statement is made in the context of the potential shift of emissions due to improved metering systems and speculate that, in an attempt to close one perceived loophole, the Department is, in fact, taking the ERF off the table as an opportunity for any shopping centre owner considering a redevelopment of their centre in the short or medium term.

The inability of the ERF methodology to accommodate additions to floorspace is problematic for a number of reasons:

- More so than any other commercial building type, shopping centres are regularly subject to redevelopment which results in additional floorspace.
- Redevelopment cycles in shopping centres are usually between 5 and 7 years (meaning that capital investment to change the form or functionality of the centre typically occurs within this timeframe). This means that if an owner was successful in obtaining a contract with the Government under the ERF, in order to maximise the number of credits they could receive, they would have to put a hold on redevelopment plans for at least the length of the crediting period (which would probably end up being several years longer to account for the planning and implementation lead time of an ERF project).
- It is through the redevelopment of a shopping centre that projects with the greatest emissions reduction capacity (eg. replacement of HVAC or lighting systems or upgrading of transport technology eg. lifts) can be delivered most efficiently.

The inability of the method to accommodate floorspace growth position also seem counter to the broader policy position outlined in the ERF White Paper which details that "the Government...is committed to supporting economic growth in Australia, improving productivity and seeing businesses grow". The apparent prohibition against floorspace growth under this methodology seems to contradict this broader position of the Government.

We have been advised verbally by Department officials that a new, additional methodology would be required to accommodate the redevelopment and floorspace scenarios we have raised. We have two concerns in this regard. Firstly, it is our understanding that the NABERS for Shopping Centres tool can already accommodate increases in floorspace year to year within its methodology and that star ratings are determined by comparison to equivalent centres, not by reference to the previous rating of a single asset. Secondly, if the existing NABERS tool can already accommodate growth scenarios, the development of a new, additional ERF method would be a waste of Government's time and resources. It would also push back indefinitely the delivery of a methodological framework that shopping centres owners could confidentially use if they wanted to access the ERF.

We recommend that the Department engage further with the NABERS Team within the NSW Office of Environment and Heritage to understand how NABERS can best work within the draft ERF methodology and be explained in the Explanatory Statement, and how both should be modified so as to accommodate buildings which increase their floorspace over the period of an ERF project.

The second barrier to entry specific to the methodology rests with the requirement that minimum abatement equivalent to one star be met in addition to a 0.15 star annual 'business as usual' reduction in baseline emissions. We understand this to mean that a building (and, as far as we understand, **every** building in an aggregated scenario) must achieve the equivalent of a 1.15 star emission improvement from the baseline in year one, a 1.30 star emission improvement from the baseline in year two, and so on. Over a seven year crediting period, the emission improvement for an existing commercial building would need to be equivalent to over two stars (2.05) in order to continue to receive credits under the ERF. We understand that this is equivalent to close to the equivalent of a 50% reduction in emissions over a seven year period. Owners may also want to mitigate the risk of the project by achieving the two star improvement in year one of the project as, as per our understanding, any failure to meet this improvement incrementally over the 7 year crediting period would result in no credits being paid in any given year. These emissions reductions requirements are a significant ask of owners of existing commercial property and we also understand that this methodology is the only current draft methodology which applies a degrading emissions baseline. Why does this seem to be an additional hurdle that must be passed by owners of shopping centres and other commercial property, but not by other emitting sectors?

We are of the view that the methodology need not specify minimum emission reductions (being 'one star', which accumulates to two stars over the crediting period). If the Government is only interested in lowest cost abatement, and is intending to credit emissions reductions consistently across asset types under the methodology, the amount of abatement shouldn't matter. If it costs the Government the same per credit regardless, why should they care if the equivalent of 0.5 star emissions is reduced, as opposed to one star?

ERF Policy framework

There are two aspects of the ERF policy framework which we think need to be reconsidered in the context of the commercial building methodology.

The first relates to the 2000 tonnes CO_2 –e / year average project size which must be satisfied for a project to even be lodged with the Clean Energy Regulator (this compounds the issue raised above regarding the minimum 'one star' emissions reduction improvement). This is a high barrier to entry which does not readily translate to the emissions profiles of the commercial building sector and it is improbable that a project under this methodology could achieve this threshold if applied to only one building, or even a number of buildings within the portfolio of one owner (this may be impractical in any case, as an owner would unlikely have the human resources or upfront capital to facilitate a portfolio-wide emissions reduction project). This means that a project under this methodology could only be constructed through the aggregation of a number of buildings in different ownership. This introduces a complication into the ERF process and may discourage building owners from participating.

This complication is compounded by the current lack of guidance available on how the Department and/or the Clean Energy Regulator will seek to control/govern aggregation. We also note that the ERF White Paper only discusses aggregation in terms of "households and small businesses", with no mention of the parameters and additional complexity of aggregating the emissions reductions attributable to existing commercial buildings owned by major publically listed and unlisted property trusts, and the aggregation of assets that may be held in joint ownership (ie. a single asset may be held by two or entities – this is not uncommon with regard to shopping centres).

In order to be effective, the policies which sit around aggregation need to be as flexible as possible so as to accommodate a number of discrete and distinct activities to be undertaken over the portfolio of buildings (ie. the activity undertaken at one shopping centre to reduce emissions must be able to be different to the activity at another in the aggregated project), the buildings must be able to be different asset types (ie. a shopping centre, a commercial office and an industrial shed must be able to be aggregated into one project) and there must be flexibility around when in the reporting period each NABERS assessment is undertaken (ie. not all NABERS assessments will be able to be undertaken in the same time period). The Department should continue to use the Technical Working Group to inform the preparation of guidance material regarding aggregation, and make this available as soon as possible to ensure that this guidance is available at the point at which the ERF is formerly established (both through the passage of the Bill through the Parliament and the adoption of the methodology as a legislative instrument).

The second concern relates to the ability of the Clean Energy Regulator to **require** a proponent to obtain an initial audit at the beginning of the crediting period and **a minimum of three** audits in total over crediting periods of seven years or more. As far as we understand, the draft ERF methodology for existing commercial buildings which uses NABERS is the only draft methodology which requires certification (ie. NABERS certification) as a mechanism of compliance. Indeed, we understand that under the draft methodology a NABERS assessment would be required to be undertaken each year (or every second year) in order to validate emissions reductions and see the payment of credits.

If a certification tool is used (a tool which, by the way, is considered appropriate under other Commonwealth legislative instruments ie. the CBD program under the *Building Energy Efficiency Disclosure Act 2010*) why should a proponent be required to pay for an initial audit and up to three additional audits over the life of a ERF contract? This is unnecessary and existing commercial buildings should be exempt from the auditing requirements.

Conclusion

We want the ERF to work for shopping centre owners but we are concerned that the draft methodology, and the broader policy framework it sits within, will not deliver the outcome the Government or the industry wants. We encourage the Department to continue to engage with the NABERS Team within the NSW Government to further understand the capacity of NABERS for Shopping Centres to make sure that redevelopments are not knocked out of contention under the ERF, and the minimum emission reduction thresholds are not so onerous as to make them unachievable. We also recommend that the Government reconsider a number of bigger picture ERF policy parameters so the scheme has a better opportunity for take up in the commercial building sector.

If you have any questions, please contact Kristin Pryce, Senior Advisor, on 02 9033 1941.

Members

The SCCA's members are AMP Capital Investors, Brookfield Office Properties, Blackstone Group, Charter Hall Retail REIT, CFS Retail Property Trust Group, DEXUS Property Group, Eureka Funds Management, Federation Centres, GPT Group, ISPT, Ipoh Management Services, Jen Retail Properties, JLL, Lancini Group, Lend Lease, McConaghy Group, McConaghy Properties, Mirvac, Perron Group, Precision Group, QIC, Savills, Stockland and Scentre Group (formerly the Westfield Group and Westfield Retail Trust).

Yours sincerely

Angus Nardi
Executive Director