

Suite 201 T: + 61 3 9929 4100
18 Kavanagh Street F: + 61 3 9929 4101
Southbank VIC 3006 E: info@cleanenergycouncil.org.au
Australia www.cleanenergycouncil.org.au
ABN: 84 127 102 443



12 September 2011

Residential Energy Efficiency
Buildings and Government Energy Efficiency Branch
Department of Climate Change and Energy Efficiency
GPO Box 854
Canberra ACT 2601
By email: residentialdisclosure@climatechange.gov.au

Dear Sir / Madam,

CEC response to the Consultation RIS on Residential Building Mandatory Disclosure

The Clean Energy Council (CEC) is the peak body representing Australia's clean energy and energy efficiency industries with close to 550 members.

Its priorities are to:

- create the optimal conditions in Australia to stimulate investment in the development and deployment of world's best clean energy technologies;
- develop effective legislation and regulation to improve energy efficiency; and
- work to reduce costs and remove all other barriers to accessing clean energy.

The CEC works with members and the government to identify and address the barriers to efficient industry development in the energy efficiency and stationary energy sector.

The clean energy industry and its members contribute to the generation of electricity using wind, hydro, solar, biomass, geothermal and ocean energy as well as the emerging technologies and service providers in the energy efficiency sector including solar hot water and cogeneration.

INTRODUCTION

The CEC is pleased to comment on the Residential Building Mandatory Disclosure Consultation Regulatory Impact Statement (RIS).

Energy efficiency remains one of the most important policies that governments can deliver to both emissions reductions and to protect consumers from rising electricity bills. The CEC believes that more can be done to reduce energy consumption, reduce emissions and lower energy bills in the built environment. With the building sector accounting for almost 19 per cent of the country's total energy consumption and 23 per cent of greenhouse gas emissions and its contribution expected to increase each year, a clear and consistent approach is needed to address the barriers to energy efficiency and drive the uptake of energy efficiency improvements.

Community appetite for energy efficiency is strong. A nationwide survey of 1000 participants conducted by Auspoll for the CEC in June 2011 found that Australian households wanted more support to save energy and money on their electricity bills. While 95 per cent of people surveyed said they were concerned by rising energy costs and 89 per cent said they were willing to take action to use less energy, half knew little or nothing at all about the key aspects of their energy use. 73 per cent of respondents said they would welcome more information on how they could use less energy or use it more efficiently. These findings confirmed anecdotal evidence based on enquiries from the public to member companies and to the CEC itself that the appetite in the community for more information is on the rise.

Mandatory disclosure of a building's energy rating at the point of sale or lease allows buyers and tenants to make informed choices and is a powerful driver for change. Mandatory disclosure of the energy rating of a building at the point of sale or lease provides knowledge to tenants and new buyers about an aspect of a building that has previously been undisclosed and can allow owners to monetise any investment in energy efficiency through higher rents or higher sales value and through shorter timeframes to lease or sell a property.

Nature and extent of the problem in residential building energy, greenhouse and water performance

A general lack of information about the energy, greenhouse and water performance of residential buildings, a lack of awareness amongst property owners about what they could do to save on energy and water costs and the value that any improvements would have, as well as low energy prices, have led to underinvestment in the energy efficiency of buildings. Market failures have led to large inefficiencies in the existing housing stock with significant long term effects.

The CEC commissioned ACIL Tasman to undertake an assessment of mandatory disclosure for residential buildings. The full report is attached. ACIL Tasman identified market failures as being: inadequate and asymmetric information, adverse selection, split incentives and behavioural failures. The Consultation RIS also identified inadequate and asymmetric information and adverse selection as market failures and looks to address this information market failure but understates the extent of the problem that these market failures cause and neglects the impact of split incentives and behavioural failures. While the Consultation RIS recognises that underinvestment is likely to apply across residential housing stock and will grow overtime, it fails to recognise the long significant term effects these market failures will have, given that lower efficiency buildings are likely to be operational for at least another 50 years.

ACIL Tasman found the economic rationale for the introduction and implementation of residential mandatory assessment and disclosure lies in the existence of these market failures. The study established that a lack of readily available information about the energy and water efficiency of properties makes it difficult for prospective tenants and buyers to make informed decisions on energy and water efficiency when searching for suitable housing. ACIL Tasman found that in the absence of this information, properties will sell or rent according to attributes other than energy efficiency. This means that builders, sellers and investors would not fully capture the benefits of constructing or purchasing properties with better energy

efficiency through higher prices or rent resulting in markets undersupplying residences with superior energy efficiency.

Split incentives mean landlords are likely to try to keep down initial costs rather than install energy efficiency measures as they do not receive any of the direct savings benefits from reduced electricity and gas running costs. Behavioural failures include the tendency for buyers and lessees of residential properties to give more weight to the extra upfront costs of buildings and appliances rather than undertake any research or analysis of the lifetime energy savings of an energy efficiency investment.

Adequacy of the options assessed in the Consultation RIS

The Consultation RIS canvasses four regulatory options with differing degrees of information provision and regulatory burden on households and two non regulatory options to address the information problem. The adequacy of the options and the suggested scheme characteristics as listed in the Consultation RIS do not go far enough to address all the market failures listed above.

The CEC believes a regulatory mandated model is essential to address the market failures. Non regulatory options will not achieve the desired objective to improve community well being and environmental sustainability. ACIL Tasman identifies the benefits of mandatory assessment and disclosure to homeowners in terms of lower electricity and gas bills are more than twice as large as the costs incurred over the 20-year period. ACIL Tasman after examining the ACT and other schemes in Europe concluded the optimal national scheme should have the following characteristics:

- Scheme should cover the sale of all existing residential properties as well as the rental of all existing properties
- Both Class 1 and 2 dwellings should be included
- The energy efficiency performance assessment of the dwelling should cover the thermal performance of building envelope as well as the performance of fixed appliances.
- The energy efficiency performance of the dwelling must be independently assessed
- The energy performance certificate should provide clear and easily understood information on the energy efficiency performance of the dwelling and its environmental impact, details on the features of the dwelling related to its energy performance (such as the R rating of its ceiling insulation), as well as recommendations on how its performance can be enhanced (and their associated energy and cost savings)
- A well conceived and implemented public information campaign will assist the public in understanding the objectives of the scheme and how the information contained in the energy performance certificates should be interpreted

- Building energy efficiency assessors need to be undergo appropriate mandatory training and be properly licensed, as proper accreditation of professionals to ensure high quality certification and public confidence in the scheme
- The energy performance certificates should be quality assured (either by government or private organisations), with appropriate penalties for the incorrect issuance of certificates.

The Auspoll survey identified that one of the key factors affecting consumers is a general feeling of a lack of control over their electricity costs and a lack of information about the differences that energy efficiency or energy conservation actions will make on electricity costs. The simplicity of the energy performance certificate should be paramount so that recommendations on how its performance can be enhanced (and their associated energy and cost savings) can be easily understood by householders enabling them to respond accordingly.

The content of the energy performance assessment and certificate must be tightly defined and quality assurance closely monitored and regulated (with appropriate financial penalties for non-compliance beyond suspension) to ensure compliance to the scheme. The CEC encourages the Committee not to fix or prescribe the cost of an energy performance certificate, to drive competition and lowest cost delivery to property owners and discourage non-compliant or poor value entrants to the market

The CEC strongly encourages the Committee to implement all these characteristics to assure the robustness of the scheme and ensure the objectives of Government intervention are met.

Assessment of costs and benefits of the options assessed in the Consultation RIS

While the Consultation RIS finds that there appears to be justification for government intervention based on the costs and benefits identified in its modelling, further benefits also need to be taken into account when reflecting on potential costs and benefits. Community wide benefits acknowledged by ACIL Tasman, that a residential mandatory assessment and disclosure scheme would generate include:

- savings from deferred construction of new electricity generation capacity
- savings from reduced capital investment in gas infrastructure
- reduction in greenhouse gas emissions due to lower energy usage
- water savings and deferred need for new water sources.
- a positive impact on energy efficiency related industries such as the insulation and glazing industries and associated employment gains.

Comparing the Consultation RIS benefit-cost modelling and the modelling performed by ACIL Tasman in the attached report, some differences have been identified. The CEC recognises there are differences in the underlying assumptions, measurements and parameters. ACIL Tasman estimates a benefit-cost ratio associated with a residential assessment and disclosure

scheme for a representative Victorian homeowner who chooses to undertake upgrades in response to the scheme varies between 1.8 (for thermal performance of building assuming upgrade to 2 stars) and 2.55 (for thermal performance of a building and energy efficiency of fixed appliances) over a time horizon of 10 years. In addition to energy savings, homeowners who undertake the full complement of energy and water efficiency upgrades can expect to reduce their CO₂ emissions by up to 18.0 tonnes per year if all upgrades are undertaken.

The CEC asks that the Committee to take into account the results of modelling performed by ACIL Tasman when reflecting on the costs and benefits of introducing a residential mandatory assessment and disclosure.

Closing

The Clean Energy Council looks forward to continuing engagement with the Department of Climate Change and Energy Efficiency on its proposal for Residential Building Mandatory Disclosure consultation. If you have any further questions please contact Felicity Sands via telephone on 03 99294100 or by email: felicity@cleanenergycouncil.org.au

Yours sincerely

<original signed>

Russell Marsh

Policy Director