

The Garnaut Climate Change Review

A Client Note from Big Switch Projects

Six messages for the commercial property sector

Introduction

Big Switch Projects has reviewed the Garnaut Climate Change Review draft report, published July 4 and extensively covered by the media since. This client note focusses on those elements of the Review less well reported but of special value to our industry sector: Australia's commercial property owners and major corporate tenants.

The policy directions suggested by the Review, while not Australian Government policy, offer insight into likely government policy directions arising from the Emissions Trading Scheme of importance to the property sector.

1. Energy prices up from 2010

It would appear that property owners and tenants will not be directly affected by the Emissions Trading Scheme, which the report proposes as "the central instrument of Australian [carbon emission] mitigation". Direct emissions from large-scale emitters, such as power stations, and transport fuels would be covered but the energy used in buildings would not. The property sector would pay higher electricity prices passed on to energy prices.

While the Review does not put a price on carbon, a \$30/tonne carbon price would lead to a rise of around \$30/megawatt-hour. This may be less significant than other market factors already leading today to power price rises; Investa told a PCA conference on June 30 its average price had now risen from \$38/megawatt hour to almost \$60/MWh. Clearly, owners and tenants planning building works should incorporate higher energy prices in their financial analysis of technology options. The financial return from aiming for high NABERS Energy ratings is improving at a rapid pace.

2. The role of the property sector in cutting Australia's carbon emissions

The Review repeats (p444) the analysis from last year's IPCC report that the global building sector, both commercial and residential, offers five billion tonnes out of the total emission reduction potential of 9-18 billion at under \$US20/tonne.

In Big Switch Projects' experience, Australian governments are well aware that the fastest and cheapest emission reduction potential is through cutting energy use in buildings through efficiency improvements. Our industry is in the energy policy spotlight.

3. Measures complementary to emissions trading

The Garnaut Review accepts there are a range of market failures in the way business uses energy that emissions trading may not fix alone. The classic market failure is the landlord-tenant discrepancy, an example of which is that the landlord owns the lights, which may be low efficiency, but the tenant pays for the power. The landlord has no financial incentive to upgrade the fittings while the tenant has every incentive but does not own the fittings. The Review accepts such market failures and recommends (p462) a number of other measures that together are designed to cut the cost of the emissions trading scheme, listed here as items 5-7 below.

4. Mandatory Disclosure of building energy performance

The Review wants an extension of labelling for appliances to improve market information. It also notes that while there have been concerns about the accuracy of residential building rating schemes, these criticisms “correctly raise the issue that efforts need to be made to ensure that rating tools are as accurate, flexible and useful as possible. Overall, there appears to be a case for a national mandatory energy efficiency rating scheme for buildings”.

Big Switch Projects notes that it is Australian Government policy to introduce such a scheme, due in office buildings by mid-next year.

5. Feeding electricity into the grid from commercial buildings

Commercial property owners are increasingly incorporating on-site energy supply systems such as cogeneration, trigeneration (for example, Stockland’s Head Office in Sydney), or from solar photovoltaics (for example, the Sydney Theatre Company). The Review notes (p435) that the current rules of the national electricity market discourage such investment.

Of potentially huge financial benefit to property owners, the Review supports a special “feed-in tariff” whereby on-site generation that feeds into the network is paid at a special high price.

South Australia now has a feed-in tariff for all solar electricity fed into the network after the building’s own energy consumption – what is called “net metering” - but the Garnaut Review proposes this tariff should be for the total on-site generation, regardless of how much is used on site, what is called “gross metering”. This would dramatically improve the business case for cogeneration and solar PV.

6. Support for mandatory energy schemes and State-based programs

As the company delivering the Business Energy Efficiency Programs for both the Adelaide and Blacktown Solar Cities, Big Switch Projects is aware of the range of state-based energy efficiency and sustainability programs in the market.

The Garnaut Review does not support the view that such programs should be abolished because emissions trading will deliver all the carbon reductions required. On the contrary, the Review accepts that, especially in the early days of emissions trading, such programs lower the total cost of Australia cutting carbon emissions.

The Review supports government-funded demonstration projects, significantly increased government spending on research and development, improved training, and information programs. It also supports (p451) mandatory national schemes such as the Energy Efficiency Opportunities scheme “early in the transition to the carbon-constrained economy” while noting such schemes may not be necessary in future “as new energy management processes become integrated into standard business practices”.

In summary

Beyond its recommendations on an Emissions Trading Scheme, the Garnaut Climate Change Review contains strong pointers towards imminent Australian Government policy directions, and energy pricing, that should be part of any business analysis by the commercial property sector, whether owner or tenant.

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