

City of Melbourne

**Submission to the Australian
Government's Department of the
Environment's Emissions
Reduction Fund Green Paper**

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Introduction

The City of Melbourne welcomes the opportunity to provide a submission to the Australian Government's Emissions Reduction Fund (ERF) Green Paper.

The City of Melbourne is home to 100,000 residents and 16,000 businesses, employing 428,000 people. These include the headquarters and offices of many of the nation's largest financial, industrial, media, scientific, mining and legal institutions. The City's Gross Local Product was \$72B in 2012, contributing 5 per cent to the nation's economy.

The City of Melbourne was an early leader in taking action to reduce greenhouse gas emissions. Council has adopted targets for achieving zero net emissions by 2020, both for its own operations and for the municipality more broadly. In 2012, Council achieved carbon neutrality for its own operations. In order to achieve these targets across the broader community, strategies have been developed and a range of initiatives have been implemented to assist our community in emissions reductions. The various programs that Council delivers have the potential to complement the Federal Government's emissions reduction objectives through participation in the ERF.

Council understands that the bulk of emissions in the central city result from commercial buildings, and has delivered a range of programs which have been effective in delivering meaningful and cost effective emissions reductions in the built environment. Importantly, these programs have the additional effect of improving productivity, economic resilience and creating jobs growth. Council is also exploring the promotion of renewable energy, both locally and up-stream, as a means of decarbonising the electricity supply for the municipality, as part of its suite of strategies to meet its zero net emissions target

In this context, The City of Melbourne is pleased to put forward this submission outlining our response to the Commonwealth Government's Green Paper on the Emissions Reduction Fund, for consideration in developing the White Paper.

Emissions reduction opportunities in City of Melbourne

As outlined in the Green Paper, energy efficiency in buildings is a significant source of abatement. Within the municipality of Melbourne over half of our emissions come from commercial buildings. City of Melbourne recently engaged ClimateWorks to develop a marginal abatement cost curve for the municipality, which demonstrated that over 70% of emissions reduction opportunities were within commercial buildings. Of abatement potential in commercial buildings, the majority was demonstrated to be realised from energy efficiency related opportunities. City of Melbourne currently delivers a number of programs to encourage energy efficiency in Melbourne buildings.

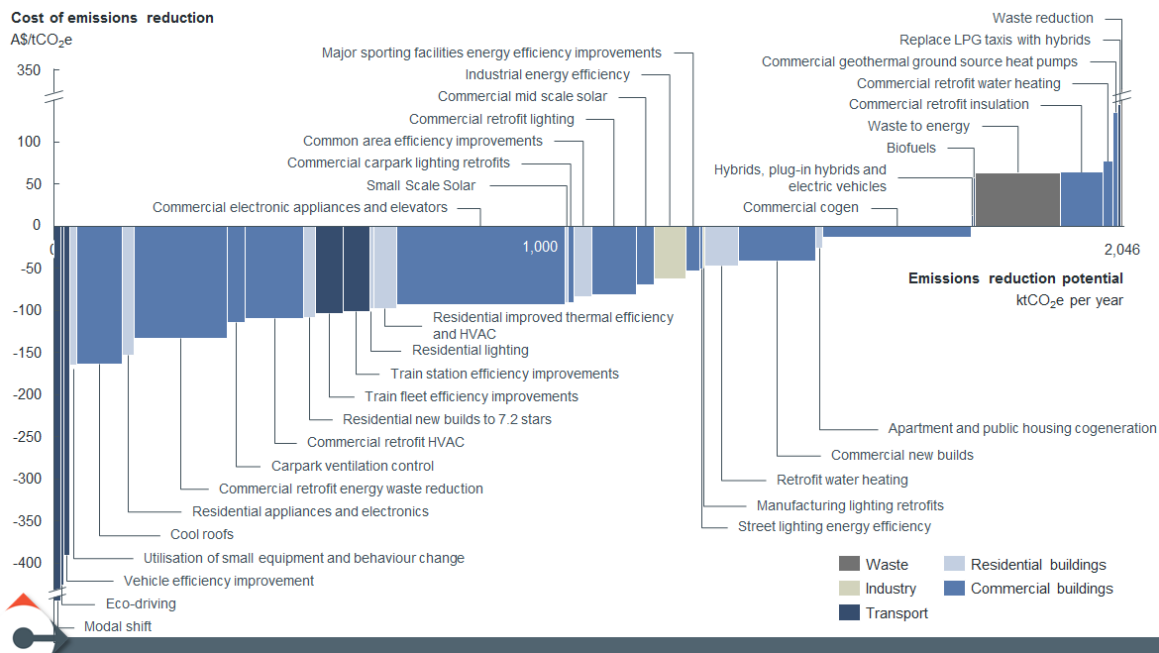


Figure 1 City of Melbourne - Buildings marginal abatement cost curve

Energy efficiency in Melbourne’s residential and commercial buildings could be greatly enhanced by enabling these opportunities to benefit from the financial incentives of the ERF.

Within the municipality of Melbourne, 10% of the buildings, representing 42% of the net lettable area (NLA), are owned by a small number of generally larger corporations and large property trusts, while 80% of buildings, representing 47% of NLA, are owned by a large number of building owners, generally smaller companies, individuals, international investors, and family owned trusts. City of Melbourne has undertaken research into retrofit activity, which indicates that the corporations and large property trusts are already actively retrofitting. There is a much lower level of retrofit activity by the smaller buildings owners (80% of the buildings) and where additional financial mechanisms such as the ERF should target. In order to engage this market in the ERF, an aggregation approach will be needed.

The role of local government

Local governments across Australia have played an important program delivery role in assisting residents and businesses to reduce emissions through energy efficiency and renewable energy programs. Local governments have acted as sources of trusted information and agencies for the delivery of community programs.

The City of Melbourne has been internationally recognised for its energy efficiency programs in the built environment. As the bulk of the municipality's emissions derive from buildings, including over 50% from commercial buildings, the City has implemented a range of energy efficiency programs for buildings including:

- **1200 Buildings** – the flagship program promoting retrofits in commercial office buildings
- **Environmental Upgrade Agreements** – providing financing to commercial buildings for environmentally beneficial upgrades (to date resulting in 62,670t of emissions reductions)
- **Smart Blocks** – providing toolkits for retrofitting apartment buildings
- **City Switch** – a national program assisting office tenants achieve energy savings. (In 2013 the program achieved emissions reductions of 28,100 tonnes across Victoria).
- **Positive Charge** – assisting households and SMEs to reduce energy and emissions
- The City's **commercial solar program** enabling and promoting solar installations on commercial buildings.

These programs deliver ongoing economic benefits, including enhanced job creation, reduced energy costs, and ongoing economic resilience.

Aggregation

Councils have the potential to facilitate the aggregation of dispersed energy efficiency emissions reductions. In addition, through working in regional alliances, Councils could deliver regional programs aimed at commercial and residential buildings at scale. However, the governance arrangements of aggregation would need to work in a local government context if the Federal Government is seeking such organisations to act as aggregators.

Organisations such as City of Melbourne are already tackling a number of the positive cost opportunities outlined in ClimateWorks' marginal abatement cost curve, as shown in the Green Paper.

Methodologies

It is important reductions funded through the ERF are additional. Our recommendation is that actions which go beyond common place should be not only above regulatory requirements but should go above standard practice. If an action is common place, even if not regulated, it should not be credited as additional.

Within the Municipality of Melbourne, energy efficiency in buildings is a key opportunity to achieve credible, additional emissions reductions. To encourage the inclusion of building energy efficiency in the ERF, as suggested in the marginal abatement cost curve on page 13 of the Green Paper, City of Melbourne would recommend that consistent activity based methodologies are developed to ensure consistency throughout Australia. While a large

number of buildings in Melbourne are owned by single building owners, we still have many organisations' that own buildings in various cities. Consistent approaches will ensure ease of involvement for those organisations.

Our independence, expertise and relationships uniquely place to provide useful contribution to the development of such methodologies. City of Melbourne and the Sustainable Melbourne Fund would like to contribute to the development of methodologies for calculating (and aggregating) emissions from energy efficiency in commercial and residential buildings. City of Melbourne staff have combined expertise of over 100 years in working with commercial and residential building owners on energy efficiency opportunities.

Contract period

The contract period of five years may be a disincentive for building owners and business operators to participate in the scheme. While energy efficiency opportunities are cost effective over the life of the opportunity, many projects will appear less financially viable when only looking at the over a five year period. An additional risk for permit generators is that with such a short timeframe, emissions beyond this period may not be purchased.

Complementary measures

The Federal Government should partner with organisations beyond the private sector, such as local governments, to act as aggregators.

If the ERF aims to address activities such as building energy efficiency and upgrades as outlined as the most cost effective, an approach which allows for aggregation of such diverse emissions sources needs to be developed.

For example, the Federal Government could fund the aggregation of emissions reductions in commercial buildings through programs such as CitySwitch Green Office, Environmental Upgrade Agreement (through programs like 1200 Buildings) and Smart Blocks, with capital city councils acting as a promoter, on-seller or accumulator.

This approach will limit any project development responsibility by the federal government and it will make it more attractive for building owners and commercial tenants in the city of Melbourne to participate in our programs. Any such approach will need to allow for the fact that different energy efficiency projects will have different timeframes.

Risk management approaches need to be developed to outline who takes on this financial risk (e.g. building, aggregator or government) where abatement is aggregated.

State Based Energy Saving Schemes

The City of Melbourne has observed the benefits and uptake of the Victorian Energy Saver Incentive Scheme (Energy Saver) through the City's 1200 Buildings and CitySwitch programs, which support energy users to make energy savings with base building and tenancies.

Energy Saver, which generates Victorian Energy Efficiency Certificates (VEECs) for each tonne of lifetime carbon reduced through energy savings, is applicable to small scale projects, with deeming offering certainty for industry providers. This scheme has proved to be effective at driving cost effective abatement projects at a small scale.

Effective market based schemes such as the NSW Energy Savings Scheme (ESS) and the Victorian Energy Efficiency Target (VEET) should be recognised, and retained. These schemes are currently operating effectively to reduce emissions in the built environment, illustrated by high participation rates from stakeholders and simple administration processes. If national harmonisation of these schemes with the ERF is being considered, the engagement and participation of this sector should be retained.

Work has already been done to understand the opportunities to harmonise these schemes nationally. If it is identified that it is more efficient, aggregation approaches should be developed in such a way as to not directly compete with the Victorian Energy Efficiency Target (VEET) scheme. Permits established through the VEET scheme are deemed for 10 years. In order to continue to drive energy efficiency in Victoria it is strongly recommended that this scheme does not undermine an already effectively operating program.

Safeguarding Emissions Reduction

It is our recommendation that baselines should not be set using a high point in historical emissions. Using a high point means businesses could increase emissions above their historical average. It is not appropriate that funding be provided to (or "reward") those business that remain above their historical average. City of Melbourne recommends that the baseline should be set based on an historical average. City of Melbourne would also like to see both scope one and two emissions covered and a lower threshold for inclusion (25,000 tonnes) to ensure higher coverage by this mechanism. The more certainty this mechanism provides in not increasing existing emissions, the more the purchased emissions will contribute to achievement the national target.

Voluntary market impacts

Under this proposed scheme, City of Melbourne will need to work with, and support businesses, who both produce greenhouse gas emissions reduction permits (e.g. energy efficiency in buildings) and purchase permits (e.g. carbon neutral organisations). This section of City of Melbourne's submission focuses on considerations which represent those organisations, including City of Melbourne, who are active players in the voluntary market (e.g. under NCOS). The voluntary market plays a significant role in reducing greenhouse gas emissions and will be essential to City of Melbourne achieving its municipal goal of Zero Net Emissions by 2020 goal.

Credibility

City of Melbourne will work to encourage the uptake of offsets through the implementation of our Zero Net Emissions Strategy, which outlines our objective to make Melbourne a carbon neutral city by 2020. We will be working with businesses and residents of Melbourne to encourage participation in the voluntary market. Therefore we would like to see a viable, credible and cost effective Australian offsets available on the voluntary market.

While streamlined administration is important to encourage participation in the scheme, this should not come at a cost to the credibility of emissions reduction activities, as this will decrease the likelihood the permits can be sold as voluntary offsets. The reductions still need to be credible to the Australian Government, and the domestic and international voluntary market.

A voluntary market will provide an opportunity to sell permits. In the case that permits are not purchased through the ERF, or by businesses required to undertake make-good purchases, the five year contract period will mean permit generators will want to be able to sell to either businesses required to make-good or into the voluntary market. Ensuring that they are credible enough to be purchased via either market will decrease the risk of unpurchased permits.

Price

If the Federal Government purchasing the most cost effective emissions reduction permits, those purchasing voluntary offsets will either have to purchase the more expensive Australian products, or not take voluntary action, or purchase international offsets (In international markets more cost effective, and arguably more credible, products would remain available.) In order to continue to encourage voluntary action, City of Melbourne recommends that the Federal Government considers the impacts of the proposed ERF on the voluntary market in Australia, and works to ensure a viable voluntary market remains in Australia.

Governance

City of Melbourne recommends that the linkages between voluntary programs (such as NCOS) and the ERF be covered in governance structure outlined in the White Paper.

Summary of Recommendations

1. It is recommended that the Federal Government considers forming partnerships with organisations such as local governments to facilitate the aggregation of low cost emissions reduction opportunities.
2. That consistent activity based methodologies, for opportunities such as energy efficiency in buildings, are developed to ensure consistency throughout Australia.
3. In order to continue to drive energy efficiency in Victoria it is strongly recommended that this scheme does not undermine an already effectively operating program, but rather links to the effective elements of the Energy Saver Incentive Scheme.

4. City of Melbourne recommends that the baseline for safe guarding emissions reductions should be set based on an historical average. City of Melbourne would also like to see a lower threshold for inclusion (25,000 tonnes), and both scope one and two emissions covered, to ensure higher coverage by this mechanism.
5. In order to continue to encourage voluntary action, City of Melbourne recommends that the Federal Government considers the impacts of the proposed ERF on the voluntary offset market, and works to ensure a viable voluntary market remains in Australia.