



3 February 2023

National Energy Performance Strategy
Department of Climate Change, Energy, the Environment and Water
Via email: EnergyPerformance@dcceew.gov.au

Dear Colleague

National Energy Performance Strategy

The Australian Banking Association (**ABA**) welcomes the opportunity to provide feedback on the Department of Climate Change, Energy, the Environment and Water's (**DCCEEW**) consultation to the discussion paper on the development of a new National Energy Performance Strategy (**Strategy**).

The ABA supports the intent of the Strategy, including the value of setting sub-sectoral targets that encourage the reduction of energy emissions, support energy performance and align with existing commitments relating to net zero. Banks take their responsibility, as home and commercial property lenders, to lead in this field seriously and align with the Government's ambition to reduce emissions.

The ABA considers that enhancements to building codes and regulations, coupled with decarbonising the grid, can be an effective way to support improvements to energy performance. While the efforts of the Government in this respect are acknowledged through initiatives such as the Nationwide House Energy Rating Scheme, faster progress is required to fill gaps in data that are fundamental to the success and pace of any proposed target or targets set by Government.

The ABA recognises that poorer energy performance disproportionately affects individuals from low-income households, who may not have the capacity to fund energy efficiency upgrades. It is critical that the Government ensures all parts of the community are able to benefit from improved energy efficiency, with the view of not leaving behind low-income households, renters, regional, remote and First Nations communities and small businesses. Through the Strategy, there are opportunities for the Government to consider the support required for these groups, such as via rebates.

Banks play an active role in supporting the transition to net zero through a range of product offerings, such as green loans. Through these product offerings, banks can help customers overcome access to funding issues that can act as a deterrent to upgrading to more energy efficient technologies or transitioning to net zero. However, the banking sector is seeking greater transparency and access to and disclosure of information relating to energy efficiency of properties. Banks also require better data to make more informed decisions regarding investment, appropriately measure financed emissions for loans and mortgages and reliable climate-related financial disclosures.

The ABA further notes recent announcements by the Government, including a consultation on mandating disclosure of climate-related financial risks and opportunities in Australia, the development of a Government Sustainable Finance Strategy and the adoption of the Advice Report of the Climate Change Authority. There are clear opportunities for alignment between these work programs, particularly with respect to policy outcomes, regulatory expectations and data gaps.

We outline some of the opportunities to develop the policy in our response below and would welcome an opportunity to participate in further discussions with the Government as it develops the Strategy.

If any further information is required, please contact me

Yours sincerely

Director, Business Engagement and Policy



Australian Banking
Association

About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.



Appendix

The ABA's comments are set out in relation to the themes (Targets, Residential, Commercial, Industry and Supply Chains and Workforce) raised by the discussion paper on the development of a new National Energy Performance Strategy (**discussion paper**).

The ABA recognises from the outset the role of all levels of Government – Federal, State and Local – in the effective development and delivery of the Strategy and frames its comments in this context.

Targets

Targets for energy efficiency can be a meaningful parameter through which to drive development and uptake of energy efficiency strategies and policies for both government and industry. The discussion paper identifies that Australia lags in comparison to other countries, which have targets, sub-sector targets or frameworks in place to spur the adoption of energy efficiency policies and investment.

The ABA broadly supports the Government's proposal to introduce targets that encourage the reduction of energy emissions, support energy performance and align with existing commitments relating to net zero.

Considerations

It is noted some members of the banking sector are part of the Net-Zero Banking Alliance, which is an industry-led, UN-convened group that is committed to aligning their lending and investment portfolios with net zero emissions by 2050 and intermediary targets for 2030 or sooner. These targets will focus on priority sectors where banks can have the most significant impact, with further sector targets to be set over the coming years.

The ABA encourages adoption of targets that reflect and align with pre-existing commitments made by the banking sector to maximise effort and accelerate the ability to meet or beat set targets. Some banks, for example, already publish targets for a number of carbon-intensive sectors. The setting of conflicting targets, particularly in terms of how the targets are measured or reported on, can cause additional burden, lessen transparency and slow desired progress.

Government can also consider the setting of sub-sectoral targets for industry sectors (for example, transport) in addition to an overarching target, to steer sub-sectors towards a benchmark. While such an approach would require close consultation with industry sectors to define the requirements and parameters of each sub-sector, these targets may help provide a clear pathway that identifies the energy efficiency improvements needed by each sector to achieve the overarching target. Again, these sub-sector targets should align with pre-existing commitments or obligations set by industry or Government to reduce unnecessary burden.

It is noted that while targets are broadly supported, the Government is encouraged to frame these in a way that is sufficiently detailed so each sector understands the purpose and goal of the target but flexible enough to foster market-led developments and innovation that may lead to increased energy efficiency and performance in the future.

The Government is also encouraged to clearly specify within the Strategy whether emissions and consequently, any associated targets, are in relation to operating emissions or embodied emissions, which will yield different results. We note that the Partnership for Carbon Accounting Financials (PCAF) is intending to expand its current guidance from "Home Operational Emissions" (energy used in the home) to 'Embodied Emissions' (energy used in the materials construction of the home) by 2024. As noted in our introductory comments, the Government is consulting on mandating climate-related financial disclosures for financial institutions and large firms. Likewise, industry continues to consider methodologies for measuring financed emissions. The ABA recommends that any measurement standards ultimately adopted in the strategy be consistent with global standards, international best practice and be aligned with other Government initiatives.

Consideration should also be given to clarifying the difference between 'energy efficiency' and 'energy performance' in the setting of targets under the Strategy. For example, a poorly managed property that relies on solar panels or ultra-efficient heat pumps may still consume more energy than a better



managed property with fewer energy efficient technologies. The Strategy should delineate, where appropriate, between energy efficiency and energy performance to ensure stakeholders have a common understanding of the goals and initiatives set by it.

Data and information

One of the greatest challenges in encouraging the adoption and measurement of energy efficiency is the availability of high quality, reliable and comparable data. Currently, industry, consumers and landlords do not have access to a reliable set of data against which decisions can be informed or made. Achieving the stated outcomes of the paper, being to reduce pressure on the demand-side of the energy market and reduce emissions, requires an uplift on the data available to measure both energy efficiency and actual energy usage (such as access to consistent electricity and gas usage, information on solar and battery capacity and home thermal efficiency data). This data is critical to the ability of industry to track progress and deliver against any proposed targets set by the Government. The Government should play a key role in coordinating the provision of, and consent to, such data to support banks and other sectors in being able to meet and report against their net zero commitments.

There is shared value in promoting the availability of robust and reliable data. More broadly, banks require better data to appropriately measure financed emissions for loans and mortgages, make reliable climate-related financial disclosures and support the development of new product and service offerings for customers that can help them more readily take up green technologies in their home or business. Consumers and landlords need improved means to accessing information, supported by data, to understand more personalised insights on the reasons for upgrading their property, such as to save money on energy bills or making the building warmer or cooler. In these respects, government also has a key role to play in providing access to reliable and nationally consistent data, information and resources to consumers and industry.

It is noted that there are many ways that energy performance can be improved – such as by substituting products or appliances to more energy efficient models, rather than like-for-like, and using different materials during the retrofit or construction of a building. However, information from different sources can be conflicting and difficult to understand, with differences in quotes and no real way to understand the financial impacts of choosing a particular product over another. This is particularly the case when information comes from product-specific providers that are advertising the benefits of their product, rather than ways to achieve energy efficiency generally. Government is encouraged to develop a ‘one stop shop’ for customers and industry to access reliable information and help support informed decision making.

Likewise, volume builders working on new build homes or renovation in homes may suggest multiple products to the owner; many of which may not be energy efficient. This information barrier can result in homeowners purchasing or replacing their product or appliance with one that is energy inefficient, without the need for a further upgrade to home until many years later, leading to ongoing inefficiencies. Here, government can also play a coordinating role in bringing together different sources of data into one accessible location via a portal, system or calculator to support energy performance in a property.

While the efforts of government in this respect are acknowledged through initiatives such as the Nationwide House Energy Rating Scheme and changes to the National Construction Code, faster progress is required to fill data gaps and drive progress towards the reduction of emissions across all segments of the market.

The range of energy sources is another issue that requires consideration. Currently, consumers may not clearly understand the benefits or costs associated with a particular form of energy due to conflicting information, such as whether to use a battery or rely on the grid, and when. Beyond emissions, customers may also be unaware of the complementary benefits that could be associated with changing energy source, such as lower costs or improvements to health, while product and service providers are unaware of the behavioural drivers behind why a customer may choose one source over another. Without access to clear, streamlined and reliable information (such as via a government-led website or portal) that details environmental, cost considerations and other key impacts, consumers are likely to continue to choose the energy source they have historically relied upon, rather than one that is more beneficial. Again, the ABA supports access to better data and information for consumers to make informed decisions around



energy sources and when to use the grid in order to achieve peak energy performance, reduce cost or achieve other benefits.

The ABA also notes that questions regarding data availability have been raised in the Treasury consultation on climate-related financial disclosures and the ABA encourages the DCCEEW to develop a common approach with their Treasury counterparts. While the ABA will have further comments to make regarding data availability in our submission to that consultation, we note that agreed measurement, target and performance methodologies for quantifying impact of investment remain critical to supporting an uplift in energy efficiency.

Residential

The discussion paper identifies that Australia's residential building sector accounts for around 24% of electricity consumption and is responsible for around 11% of national greenhouse emissions. Every sector has a role to play in supporting a reduction in energy consumption. For example, banks play an active role in supporting the transition to net zero through a range of product offerings, such as green loans. Through discounted green lending and reduced interest loans, banks can help customers overcome access to funding issues that can deter a homeowner from upgrading their home.

Beyond Australia, many countries overseas already have effective strategies in place for supporting uptake of energy efficient products or appliances in residential and other sectors. For example, the Italian Government ran a program to reimburse homeowners, via tax deductions and rebates, for up to 110% of the cost of building improvements that increased energy efficiency. This program allowed for the tax incentives to be used by suppliers or loan providers as collateral, which supported the provision of further funding to homeowners to support the improvement of their home.

The Government is encouraged to consider international best practice and leverage the learnings from overseas to overcome some of the challenges that will be faced by Australians as we transition towards emission reduction. It is also encouraged to adopt tried-and-tested measures used overseas that may be suitable in an Australian context.

In addition to bridging the gap in data, managing information asymmetry and the setting of targets, the Government can play a key role in supporting a move to energy efficient technologies and building products in the residential sector through changes to the National Construction Code and building regulations, further research into energy efficient technologies and decarbonisation of the grid. These initiatives should continue to support a drop in price of these technologies as they become more widely used by, and accessible to, the public.

While further information on these points is set out below, it is noted that the Government should consider these matters with the view of not leaving behind low-income households, renters, regional, remote and First Nations communities and small businesses. The ABA recognises that poorer energy performance disproportionately affects this cohort of individuals, who may not have the funding to support upgrades to enable energy efficiency. It is imperative that the Government identify ways it can support those who may not have the means or ability to upgrade their home and consider targeted interventions that can make a difference to people's homes and lives without imposing further stress or burden. The ABA would welcome further discussion with the Government on how banks can jointly participate in initiatives being run by the Government, where appropriate, to support this cohort.

Building codes and regulations

By making changes to building codes, regulations and policies, the Government can drive an uptick in the minimum or best practice standards for new and existing buildings and encourage behaviour changes by all practitioners in the chain of responsibility, particularly in the areas of electrification and generation of energy via solar and batteries.

Countries overseas have seen reasonable success in such legislative change. For example, in the UK, owners are required to improve the energy performance of any property for rent to at least a grade E (on a scale of A to G). In the EU, the star rating of a home must be included in a seller's mandatory disclosure. Measures like a rating system, complemented by low-cost home assessments, and property disclosures are important tools that can encourage investment in the energy efficiency of a home, both by landlords



and homeowners, and provide consumers with greater transparency to make informed decisions about their property purchases and potential living costs. While we note the Government is working on a series of initiatives to support the development of a national rating system for class 1 and 2 buildings, we encourage ongoing, targeted effort and resources to this work to ensure it can be delivered upon effectively.

As noted above in this submission, any changes to codes and regulations should be introduced in a way that supports, rather than stifles, the ability for the community to partake in improvements to residential energy performance, without resorting to penalties or higher costs for failure to do so. Currently, there are barriers that make improvements to energy efficiency more difficult based on factors such as level of income, access to capital and if you are a tenant. Some homeowners rely on inefficient appliances or technologies, which are more expensive to run or ration their energy consumption in response to higher prices, rather than focusing on an energy efficient response.

The ABA supports the provision of incentives such as grants, tax relief or subsidies, coupled with regulatory change, to encourage property owners to upgrade their home, particularly with a focus on those who are from a lower income household, to include all parts of the community on this journey. Government support via grants, relief and subsidies has historically led to a rapid adoption of such technologies – for example, via measures to support the uptake of solar panels. However, other product upgrades, such as heat pumps, induction cooktops and thermal efficiency upgrades continue to attract a premium and cost more for the customer to adopt. Expansion of government support to a broader range of energy efficiency products should support an uplift energy efficiency overall and lower prices in the long term as manufacturers produce a greater supply of these products in response to demand.

It is noted that consideration should be given to providing sufficient transition periods for compliance (such as through voluntary changes that become mandatory overtime) and directing government support towards those who may face barriers to improving energy efficiency in their home, such as lower socio-economic communities or renters whose landlords generally do not face an incentive to upgrade the property.

Apartment-specific considerations

While the residential theme extends to both dwellings and apartments, there are some unique additional challenges that relate to the apartment sector. For example, apartment owners may face constraints in making changes to their property due to the owners corporation, which can delay whole-of-building upgrades, such as the installation of solar panels. There may also be challenges faced by apartment blocks that are subject to embedded networks, where upgrades to the building may not be as easy, cost-effective or timely as those that could occur a freestanding dwelling. Consideration should be given to these and other factors when developing the Strategy.

Commercial

Many of the challenges and opportunities that face the residential sector also face the commercial sector, particularly in relation to lack of incentives and challenges faced by lower income cohorts.

The ABA emphasises the points we make above, as applicable to the commercial sector. We support measures that result in energy efficiency in the commercial building stock and note that grants, subsidies and relief should be geared towards small and medium sized businesses that may have reduced access to cash, and landlords who may not currently have an incentive to upgrade their property for their tenants.

It is noted that consideration should also be given to the emissions resulting from a business's operations within the commercial property, which may be the main source of emissions, in addition to or rather than the property itself.

Industry

The ABA notes the Climate Change Authority's Advice Report, which called for the Government to set a long-term strategy that sets "expectations for when, how, and by how much, emissions should be reduced across different sectors of the economy". We further note that the Government accepted the advice and recommendations of the Advice Report.



The ABA supports sector specific targets, as noted above, in order to measure or meet any overarching benchmark set under the Strategy. These targets can help guide high emitting industries, such as manufacturing, along a clear pathway that identifies the energy efficiency improvement needed by each sector to achieve the overarching target. It can also help prioritise the efforts of government in terms of which sectors are currently high emitting but have significant opportunity to reduce emissions, such as transport. The development of the Strategy will further support greater investment as industry will have an established framework by Government against which to align investment.

The Government is also encouraged to consider industry-specific initiatives, such as regulatory capital relief for financing towards energy efficiency upgrades and buildings for the banking sector, to drive towards industry targets.

Supply chains and workforce

Key industries, such as the construction and manufacturing sectors, are facing impacts to their supply chains and availability of labour. Any uplift in the use of energy efficiency products, or the carrying out of tradesperson related work to install these products, must be accompanied by initiatives to address workforce shortages and supply chain constraints. This must be coupled with the upskilling of a workforce who are qualified and available to do this work. Without this occurring, customers will continue to experience a delay in having work done and may opt for the more accessible product, often being less energy efficient than its counterpart.

A rapid upscaling of the workforce will be critical to ensuring that any energy efficiency or performance targets set by the Government are able to be achieved and at a reasonable price. Estimates suggest that the renewables industry would need around 15,000 new workers within five years in order for the Government to meet its target of 43% emissions reduction by 2030.¹ This figure will only be exacerbated as greater initiatives come online or obligations are set. We encourage the Government to introduce further educational measures, such as short training courses, to build on the skills base of this workforce.

Additionally, Australia has a unique opportunity to capitalise on its resources and develop its domestic manufacturing capability, particularly in relation to energy efficient technologies such as batteries, which would reduce both price and wait time. Supporting domestic manufacturing will also lead to upskilling of local workers, communities, and regions as they transition from the coal industry to future industries and ensure skills are available in both major cities and regional and rural areas.

Any steps taken to future proof supply chains and the workforce, and respond to these shortages, must be addressed by all levels of government working together to invest in this capability uplift.

¹ Institute for Sustainable Futures, University of Technology, Sydney.