ENVIRONMENT AND NATURAL RESOURCES COMMITTEE

Inquiry into energy services industry

Melbourne — 14 March 2006

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Mr P. Szental, Chairman; and
Mr M. Lister, Policy and Strategy Adviser, Szencorp Group.
The CHAIR — The committee welcomes Mr Peter Szental, the chairman of the Szencorp Group, and Mr Mark Lister, the group’s policy and strategy adviser. Thanks very much for your time today, Peter and Mark. We appreciate your coming to see the committee. All evidence taken by the committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review; however, if you make comments outside the precincts of the hearing, they are not protected by parliamentary privilege. Hansard is recording all evidence today, and you will receive a proof version of the transcript within the next couple of weeks. We have half an hour, which is not a lot of time, but we will make the most of it. I will hand over to you to make your presentation, but could you leave us some time for questions?

Mr SZENTAL — Certainly. Thank you very much for the opportunity. Let me introduce myself first. I am the owner and chairman of the szencorp Group, which is a group of companies involved in energy performance contracting, energy efficiency, water conservation, a company called Carbon Partners — which is organic waste-to-energy projects — and Jaemax, a property developer. That is my group.

I also sit on a lot of industry boards. I am president of the Business Council for Sustainable Energy and the president of the Australasian Energy Performance Contracting Association, which is the main purpose for my being here. I believe the BCSE has already presented. I also sit on ASBEC — the Australian Sustainable Built Environment Council, the Renewable and Sustainable RoundTable, various government bodies such as the Greenhouse Challenge, plus the Standards Australia Building Code and so on. I have a great passion for the built environment and energy efficiency.

I am not sure how much you know about performance contracting, so I can give you a brief introduction to it. If you have had that, I can skip through.

Mr DRUM — You can skip that.

Mr SZENTAL — There is a presentation I have here, and I will leave a copy. I gave it in, I think, October and November in Asia at the first Asian ESCO conference. It runs through what Australian performance contracting looks like. Just very briefly, I guess it shows what the procurement process does in Australia. Most importantly it is not just energy efficiency. It is greenhouse, water, upgrades and maintenance savings. In fact it can be applied to almost anything, and its main advantage is that you guarantee outcomes. The moment you guarantee outcomes — I mean bank guarantee-type guarantees — the funding problem becomes solved.

Typically the big barriers to implementing energy efficiency are risk; turn key, which is the knowledge barrier; and funding. I have been doing this for 23 years, and we have done this to solve the barriers to the market in delivering energy efficiency, and I think it is a particularly effective approach.

The other thing about it is that it typically saves about 25 or 30 per cent of the energy bill as opposed to an energy audit. The reason is that we are held accountable and we aggregate — whether it be savings, sites or technologies. We also innovate. An energy audit might show that you need to have an efficient light. I need three tenderers for that procurement process and to know what is the lowest common denominator. Also, an auditor is not held accountable, but we are.

I have an important example. A Hornsby Shire Council energy audit identified $15 000-worth of savings, and EPC came along and implemented what was $176 000 with a bank guarantee and ended up delivering more than $190 000 in the first year. The order of magnitude is greater.

Overheads shown.

Mr SZENTAL — This slide shows different procurement processes. I am happy to go through that again — the advantages of the EPC and the types of savings that can be made — so that you understand. Basically it is a financial product, because we are saying that the guaranteed savings — in this case it is a $5 million project with $1.25 million of savings, and annual repayments of $935 000. The fact that the annual savings of $1.25 million is guaranteed means that this can be chopped and diced any which way. This is not a shared savings program. There are companies around who offer tariff analysis.

Given that this is on the record I will be a little more circumspect, but they certainly have not done the industry any good. This is not that type of program. This is implementing equipment upgrades and equipment to save energy,
water and so on. That is the heart of this thing. Once you understand the financial guarantees, all sorts of financial arrangements can be made.

Internationally — and this was part of the conference — we stand up very well. This slide is more to illustrate the size of the market and the role we can play in delivering energy efficiency. I am going to skip over a bit. I have a submission we made to the Productivity Commission if it is of interest, but these are more national figures.

I guess the big thing is the $37 billion in energy infrastructure. New South Wales just spent $7 billion on wire upgrades. It committed to that in December. The other side of efficiency is what accrues in productivity. You use less to produce the same or more. That is in terms of particularly buildings, but the whole energy infrastructure is a debate we do not have. There are no avoided network investment price signals, and there are no environmental signals. These skew the market, and that is why we get the outcomes that we do.

This slides shows the contribution. A 1 per cent increase can deliver $3.6 billion in annual savings. I am sure that you have seen a lot of the macroeconomics. I can bore you as much as you like with that, but it is an important part of it.

We talked about EPC delivering 10 per cent of that. We are currently delivering almost $50 million a year, and if we wanted to grow that we could be replacing one of the major generators very quickly.

This slide shows some of the things that are going on overseas, and in particular the EU directive, and using energy performance contracting for delivering demand-side solutions.

I will come back to policies in a moment. This slide gives an idea of some of the sales overseas — $3 billion in the US. In Australia we have delivered over $200 million, and the interesting part is that for every dollar in the government sector we find at least a dollar in the private sector, which is not really so obvious, because there may not be the same tendering requirements. EPC is a partnering process, so we do not necessarily have open tenders in the private sector.

Capital and access to capital is a minor part of the business. Turn key delivery and risk are the key issues that drive EPCs.

We stand up very well compared to overseas industries in terms of the infrastructure. We have accreditation for ESCOs, and we want to develop accreditation for facilitators. We have a best-practice guide and standard contracts, and we also now have the best-practice guide for monitoring and verification, which I note the Department of Environment and Heritage has used to monitor the Solar Cities program. So we are doing some quite good work in terms of industry. You know the history.

There are six accredited companies around, and there has been a lot of discussion about competition. This is a complex industry. It takes a lot of engineering to guarantee outcomes, so it takes a significant commitment. You will notice on the slide that they are all pretty large companies, so it does take a significant balance sheet and significant knowledge to undertake this. To attract more competition we need a lot bigger industry size. If we are talking $50 million and there are six players; this is not a large turnover.

This slide shows a breakdown of typically where the projects have occurred. That is probably as much as I want to do in terms of that. There is one example of rolling out a program that I will tell you about and which I think illustrates how industry can develop. This was done with local councils. We started with the Local Government Association of Queensland. It was a small $50 000 or $100 000 project. There was a short payback period of three years, but it was a demonstration of guarantees.

The next one we had was the Hornsby Shire Council. Two audits were involved. I said $15 000 before; that was the first one, and about three years later they did a second audit, which identified $30 000 in savings, but there is still no implementation part, because there is no hook between the report and implementation. Then the EPC came along and delivered the $191 000 in savings. The next stage was the Brisbane City Council, which now has 125 buildings — a $3.5 million project. The net result is more than 20 councils and $16 million of investment in energy efficiency. So programs can be designed, replicated and rolled out.

I draw your attention to two that I know you have learned about. One is Queensland. The Queensland Premier came and said, ‘We want $22 million in savings’, and that got everybody’s attention. There is no doubt that
government leadership at that level is what is required. I have an example here — memorandum of departments, from Michael Egan, New South Wales, who was the minister for energy. That is another example. That and the Queensland government one are examples of what makes agencies move forward. Some of the spin-offs that this was talking about included some innovative airconditioning and so on that was developed as part of that, so it is not just energy efficiency; we get equipment.

It is good business: it improves productivity; EPCs are an excellent delivery mechanism that address not all forms of energy efficiency but certainly are applicable in the built environment and industrial processes where you have to address risk, finance and aggregation — typically the advantages.

I know we have invited you to look at my project at Albert Road, and I would extend the invitation again. It is an interesting project. We took an existing building and refurbished it, so it was a spec-built 20-year-old building, and we have saved 70 per cent energy, 82 per cent water, 80 per cent waste and zero emissions — a lot of the types of outcomes that the government is looking for — and we will be exporting energy to the grid. All of this is done commercially. That project, for various reasons paid for itself. We doubled the value of the building, it had paid for itself by the time it opened. So energy efficiency is a really good industry and business case.

Turning to Victoria, there are no targets. I know there is a 15 per cent target, and my understanding is they will reach that target and you will find then that the hospitals will shut their cogen plants because the maintenance cost is making it prohibitive. Hospitals have been slow to adopt this. We have been promoting EPCs in Victoria for a number of years and have been singularly unsuccessful.

In New South Wales the government has now invested about $88 million in EPCs. The Queensland government, as you know, will be investing $150 million to $200 million. It needs to come from the top. I gave the two examples of Queensland and New South Wales. If you want to see this adopted, Victorian agencies can save $16 million, which I believe is the figure, with a four-year pay back. It is a 25 per cent return on your money. With a bank guarantee behind it, you have to wonder it is only 25 per cent and not closer to the bond rates.

Mr LISTER — I might as well pick up on that point, Peter, to say that we have some feedback as well, obviously through ESCOs working with the Victorian government. Some of the feedback around the barriers that department facility managers face are things like they are unsure if they achieve savings that they will get the benefit of those savings and whether that would not just lead to a future budget cut; also that there is a reluctance to incur debt, and that is something that within the public sector has been a strong culture for a number of years.

To the extent that undertaking a capital works program through an EPC that incurs any kind of financial liability, there is a certain reluctance there from facility managers as well, and it comes back to the high level support that Peter has talked about in terms of letters from treasurers and so on and other high-level support that breaks through that.

Mr SZENTAL — I think that is really the message. You have to have a clear funding path. New South Wales with SEDA — that is the first thing they did. There was a Treasury fund, a slightly different model. If we are going to make a long-term budgetary cycle — you go through budget and Treasury approval — that is not an incentive for agencies to adopt it, and more importantly it tends to waste a lot of engineering. Our most precious resource is engineering. We do not do energy audits; it is not our game. We get paid by implementing projects, and if our engineering, which is done to a high level, sits around for 12 months or 18 months waiting for budget approval, that engineering is gone.

That is one of our barriers and that is why you are looking at large companies that have deep pockets who can compete with their engineers and invest in that engineering. To do a tender can cost anywhere from $100 000 to $200 000 worth of engineering costs. So a clear funding path and a clear message from the top, and the industry is ready to deliver.

Mrs COOTE — I find it interesting that Queensland and New South Wales are so far in advance. Given that you said it would go to the top here in Victoria — whereabouts at the top? We have heard from other people that it is a silo mentality and it is very difficult to be able to go to get that proper message. Does it need to go to the Premier? Does it need to go to the minister for conservation, to the industry? Where does it need to go to?

Mr SZENTAL — How political do I need to be?
Mrs COOTE — I am from the opposition!

Mr SZENTAL — It has to come from the top. We have had people within DSE, and I think we have had strong support from within DSE, and I have sat in a meeting where other agencies have said, ‘My minister has other priorities’, and DSE has said, ‘My minister has a priority to deliver this’, and basically — I am being very polite — I have said, ‘The ministers had better sort it out’.

Mr LISTER — My own personal experience of working within state government, which is what I did before joining szencorp, was that it is very hard to run a whole-of-government program, particularly on something to do with energy or more broadly on sustainability, which is something I have direct involvement with through DSE. Running that from a line agency perspective and having an agency that is seen at least by other departments as having a particular portfolio, and to try and have that portfolio hoisted on to other departments, is a very difficult position to be in.

That is why we are saying this needs to come from central agencies of government; this needs to be something that is adopted and pushed heavily by both the Premier’s department to the extent that it is a mentality and a sort of a paradigm in sustainability, and also Treasury because at the end of the day it is something about hard dollars; it is a business case; it is saying that energy efficiency is actually smart for budgetary reasons. We would see something being attached to both premiers’ and treasury departments. The letter we have had in New South Wales has come from the Treasurer, and that has been effective, but that is not to say there are not other ways of doing it, particularly if the Premier wanted to take a lead on sustainability as an issue, and position Victoria in that way.

Mrs COOTE — We are a bipartisan committee, and in fact we are searching for recommendations that we can put to the government along those lines, so thank you. May I ask one further question: how did the New South Wales and the Queensland governments convince the facilities that the money they saved would not be taken off their bottom line in a budgetary sense?

Mr SZENTAL — How did they convince them?

Mrs COOTE — Yes. You said before they were very concerned. Here in this state one of the barriers is that they cannot be convinced that they — —

Mr DRUM — It is mandated.

Mr SZENTAL — That is what has to happen. It was my understanding that that was not the case. I have been down to the school level — this was a while back — and they again had the problem about, ‘Do we get to keep the saving?’, so it has to be mandated that they can. My understanding from a meeting about a week ago with Sustainability Victoria was that that is now the case. You have to be able to convince them. They have to have that surety. They are going to have to repay the loan, if it is a loan, to Treasury — I am using the New South Wales model. We have to accumulate the savings somewhere. If they do not get the savings, they are not going to do it. It is hard enough for them to take an interest as it is.

The other part of it is that there has to be a resource there. If you go to the health department, their job is to save lives and run hospitals, so if you do not give them the resource, it is very hard to do the energy efficiency part time.

Mr SEITZ — How would you see that compared with Our Water Our Future? Would you see the energy efficiency target go down the same sort of track? That has had a lot of support from the Premier.

Mr SZENTAL — It has had a lot of support from the Premier but it is also mandatory, isn’t it? Yes, I would be in it. It is a really good analogy. Why is it that we say we are going to mandate water savings and we all go, ‘Yes, and can I do more?’; but with energy efficiency we get very touchy about using it more efficiently? There is an education role.

There are many market signals that do not support energy efficiency. They are real in terms of price, but it is like I said with New South Wales: $7 billion was committed to new wires and poles without any debate about it. The last time I looked at it that was a huge amount of money, and it is very easy with energy to simply say, ‘I want to have more; I want a switch on the wall’. So there is a lot of education, a lot of smart government business, government leading by example — a very strong role. There are minimum performance standards. A whole suite of these policies is needed. There is no silver bullet on this one, either.
Mr SEITZ — Do you find it hard in your own company to employ suitably qualified staff, and are there enough suitably qualified people around in this industry to push it as we have seen in the environmental scene relating to water?

Mr SZENTAL — There are insufficient resources in Australia on energy efficiency — no doubt. We take on qualified engineers and it takes us 12 months to make them productive inside ECS. Yes, there is need for all industry capacity building standards in accreditation. Energy auditors — I am sorry, most of them are not good at what they do. We need good standards, accreditation, high levels of training. We are starting to see sustainability as a bigger picture being picked up in a lot of universities, RMIT in particular and so on, and particularly with the built environment there is a fairly serious opportunity there.

Mr LISTER — I might just add, comparing the water debate to the energy industry is quite an interesting exercise because a lot of people who are working in energy have tried to study pretty closely the idea that we can get people to save 22 per cent of our water and be thrilled about it and want to save more. If you had that situation in energy you would really be well on the way, especially given that energy saves you a lot more money, so the case should be there for doing a similar thing. But I think the debate on the energy side of it is some years behind, and that is because water is not seen to be man-made or something that people can make more of; it is something that falls out of the sky. When you have a drought situation there is an increased urgency in people’s minds about that.

With energy there has been a mentality that we can create more if we need to, and the risk of climate change is seen as much more diffuse. I guess my point in saying that is it means that some of these bases of interest, skills and behaviour change are not there in the same way, and it is not that one develops in isolation. When we see more interest and engagement with climate change as an issue we need to do something about, we will see more uptake of engineers into those kinds of skills. It is something that will develop in an intuitive way rather than being one or the other. I guess I am pointing to the awareness raising that still needs to be played that will feed into some of that, and we are a long way behind the water debate.

Mr SZENTAL — I am sorry — you have asked the right question, but 5-star housing is in the paper again today. Compare the debate between the housing industry which says, ‘Our least first cost’, and that is all they are concerned about — I will not go to how informed the debate is — with what we want, which is the whole-of-life performance: sustainable use of resources, whether it be energy or building materials. That is the debate you are having. We are still stuck in a ‘least first cost’ procurement process, and it happens in the building industry also. We can specify double glazing. As the head of Mirvac said yesterday, when the costs come in and the prices are going up, he is going to take out the double glazing because he does not have to live with the heat load. First cost, and that is what we procure things by.

Mr LISTER — It is interesting in that debate as well to note an article that I think was in the paper today — a report that was just done by RMIT centre for design, comparing 5-star housing with some of the standards overseas and finding that 5-star still falls short of where other countries are, so even if we make it to 5-star we are still off the pace.

Mr HILTON — Just briefly, Peter, we had some evidence in Queensland that industry, private enterprise, is very reluctant to take up this type of approach, even though the savings, on the face of it, seem very compelling. Would you agree with that; and if you would agree with that, why do you think that is the case?

Mr SZENTAL — I do not completely agree with it. The industry figures that I pulled up show almost a fifty-fifty split. What you have is that it is not really as well reported. Under ‘health education industrial’, you can see the industrial on there is $100 and something million, and that is in the private sector. What we found, sitting around our AEPCA board, was that we knew about tenders in the government sector, but we did not know the private sector involvement because Honeywell is not going to tell me who their main customers are et cetera. So we did not get the reporting.

There are other issues in the private sector, though. There are other financial instruments that start to get involved — boot schemes — which are similar, so there is a bit of a cross-over. There is no doubt that where we have found governments have been active, industry has followed. In New South Wales, for example, we have now — this is not even shown — what are called investor agreements that are greenhouse guaranteed. They are guaranteeing their tenants 5-star fit-outs, and it is paid for out of savings through the lease and the DCS is.
delivering it for the investor, but that was delivered because a lot of governments are now asking for 5-star accommodation. It drove the market and here you have private enterprise adopting a guaranteed delivery outcome. In fact, Mirvac were about to do the same. It is there: government leadership helps the profile and the policy environment such as government tenancies leading by example.

Mr DRUM — How much work do you guys do and what would be your split between work in Victoria and work interstate?

Mr SZENTAL — On pure EPCs? I should know. We have about 50 per cent of the company now; turnover on EPCs would be out of Queensland, probably about another 20 per cent, 25 per cent in New South Wales; South Australia follows after that and Victoria is very, very low. We have done a few with councils. There is no state government work. I can give you proper figures if you want.

Mr DRUM — You understand that the $400 million that has been put up for the New South Wales program is yet to be expended, so all the tenders are effectively in there but that money has been sitting there — the announcement was some 12 months ago?

Mr SZENTAL — This is the DM funding — the energy savings demand management fund?

Mr DRUM — Yes, and people have been tendering for it but no-one has had the opportunity yet to get their hands on it. They were quite critical of that in the evidence we heard in Sydney. Our recommendations from this report are going to have to go to government, pushing it down one particular path or another. Where would you direct us to go? Should we follow the Queensland model, which means simply we are going to go out as government institutions and save money? Should we follow the New South Wales program which is slightly different?

Mr SZENTAL — They are not mutually exclusive. The New South Wales government has two programs — or a lot more, but there is energy saving demand-management fund, and timing is a separate issue. It is a great idea. It is a really solid program. Implementation of it has been no good because you cannot sit around for three or four months. I guess losing the minister and the director-general has not helped; it is something about the chicken and egg argument.

The turnaround time has to be quick, or you waste the engineering and you actually bring things to a halt because people say, ‘I have a report, I am waiting for the government, you know, and we cannot do anything for six or nine months’. But that is more in private enterprise. The government’s own energy management programs still exist with their $20 million Treasury fund which is used for both EPCs and energy efficiency in government agencies. Those are the two, if you like, key programs that I would recommend — the DM fund and government agencies, the government program, to lead by example.

Mr LISTER — Adding to that as well is something that is pushed I think across the board through the sustainable energies sector, which is really to look at pricing environmental costs wherever possible, so you are starting to reprice greenhouse gases if possible. New South Wales is attempting to do that through its greenhouse gas abatement scheme. That is something that starts to unlock the true benefits of what you are doing through energy efficiency.

The other thing is avoided network augmentation costs. Peter mentioned that big licks of money are spent on networks and that is basically to cope with increased volumes. If we can reduce that increase in volumes, that is another benefit we can represent. In many ways that speaks to the need to look at pricing through electricity and so on. They are broad-based measures we have supported.

Mr SZENTAL — IPART in New South Wales, and now a part of the NEM, had an obligation on retailers and networks to examine DM, demand-side alternatives to network investment. That is yet to be taken up in the new NEM rules. I really support that. State-based emission trading — the states are pushing down that road. Wearing my BCSE hat, we have industries ready today for zero abatement whether it be efficiency or renewable energy. What we do not have is access to the emission trading. If we are going to meet our target, which is getting into politics, we need that access to the price signal, whether it be through state-based recognising Kyoto or whatever; without the price signals we are always going backwards.
Mr BENJAMIN — Are there opportunities for ECS or any other EPC contractors out there to claim abatement with NGACS in New South Wales or the ACT?

Mr SZENTAL — Yes, we are doing it with New South Wales with energy efficiency. It is becoming part of what is making some of the marginal projects more interesting. With an energy audit and low-hanging fruit the danger is you make the bigger projects harder to do — the equipment upgrades. We lump everything together and whether we can get some money for NGACS, whether it is using the lighting upgrade to pay for the boiler upgrade, that is how you get these big, long-term savings put in place.

Mr BENJAMIN — Has that been a complicated process? I have heard the abatement scheme is a very complicated scheme. Could it be simplified?

Mr SZENTAL — Yes, it could be and they have made some recent changes which are helping us.

Mr LISTER — It is worth recognising there has been a certain caution from IPART to make changes or even to administer the scheme because they are doing some groundbreaking work there. It is one of the first carbon trading schemes in place in the world.

Mr SZENTAL — We are big supporters of NGACS. Certainly the issue with energy efficiency is aggregation costs. Small jobs mean higher transaction costs and that is an issue that has to be addressed.

The CHAIR — Peter, if I can just firstly accept your invitation, we are going to try to find a time when we can come down and have a look at your building. I have a question around the building and that is how the Australian building greenhouse rating scheme and the Green Star tools will influence the commercial building market? Do you have a view?

Mr SZENTAL — I have a very strong view. Where I come from I am after performance-based outcomes and that drives a lot of what I do. Because of my EPC experience we have to put our money on the line. We measure performance of an EPC every year for five or seven years. I am used to doing that. The built environment, I learnt yesterday, counts for something like 40 per cent of our national asset. How the existing buildings perform is the driver to me. ABGR is a performance measure for greenhouse and energy. I think it is a good measure; 20 per cent of all buildings have been rated now so we have a good market traction and people understand 5 star. NABERS is the environmental equivalent of that. I know Victoria is involved with New South Wales and starting to roll that out. It benchmarks existing buildings and measures them. I think that is a great idea. Green Star I use as a design tool to help. Certainly it has a lot of advantages in the design process. Its drawback is there is no performance measure and no accountability. If I wanted to, I could have got a set of as-constructed drawings stamped and had them rated, and what I built was my business and nobody would be any the wiser. So there is a big gap between the accountability.

It is possible to meet this because ABGR needs to be made the common ground on energy and similarly on water and so on. The measures are the same as what is modelled. They are measurement tools. That is where they can come together, and I would strongly recommend that that is something government should encourage. I am very pleased Mr Thwaites has called up ABGR next to Green Star. There is a design intent and there is a measurement. If you are going to ensure an outcome, we have to tackle existing buildings and make sure that those being designed actually perform in reality. That is where Green Star falls down. Its existing building office tool is still talking about upgrade potential. By the time the thing is built and used, can we get on and measure it, please?

Mr LISTER — Just to also comment on that, another body that Peter sits on is the Australian Sustainable Built Environment Council which has representatives from industry and government as the vehicle to driving that debate. We would support and recommend that that is the appropriate vehicle to continue supporting the use of ratings and other tools as they apply to sustainable green buildings.

Mr SZENTAL — It is a long and complex debate with a lot of vested interests and established attitudes that you are trying to change. There was a forum last week on this. I actually have some meetings with Green Star on Friday to address exactly these issues — encouragement from government for more standardised rating tools which have to include performance measurement. You have got the MCE process which is energy performance disclosure of buildings, which would help drive all the parties down the right road.
The CHAIR — Thanks very much and thank you for your time.

Witnesses withdrew.