



**SUSTAINABLE  
MELBOURNE  
FUND**

# Financing Energy Efficiency Projects – Overcoming barriers to reducing energy costs

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# A BIT ABOUT THIS PROJECT



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**Australian Government**  
**Department of Industry**

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# SUSTAINABLE MELBOURNE FUND SERVICES



Work with customers to identify the commercial opportunities in 'sustainability' through EUAs and direct investments



An investor in innovative approaches to achieve 'sustainability' outcomes since 2002



Third party administrator – To enable Councils to offer cost effective programs for EUAs

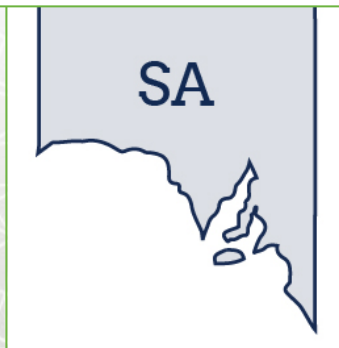
# ENVIRONMENTAL UPGRADE AGREEMENTS (EUAs)



- Pioneer - Victoria legislated 2010
- First program open – Melbourne 2011
- Legislation updated in 2011



- Pioneer - Victoria legislated 2010
- NSW 2011
- First program open – Melbourne 2011
- 5 Councils
- Legislation updated in 2011
- Expansion review underway
- Current amendment to expand
- SMF will be working with local councils to open programs in their areas



- Legislation just introduced in the State Parliament
- A more 'inclusive' program
- Program to open 2015
- State-wide

# SUSTAINABLE BUILDINGS ARE GOOD FOR BUSINESS



REDUCED OPERATING COSTS



REDUCED MAINTENANCE COSTS FOR EFFICIENT EQUIPMENT



STAFF PRODUCTIVITY IMPROVEMENTS FROM BETTER LIGHTING AND AIR QUALITY



REDUCED STAFF ATTRACTION AND RETENTION COSTS

UP TO

**23%**

PRODUCTIVITY IMPROVEMENTS FROM BETTER LIGHTING ALONE

UP TO

**12%**

PRICE PREMIUM FOR 'GREEN' OFFICES

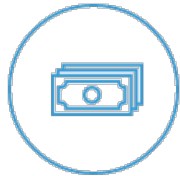


# What's the best way to pay for projects like this?

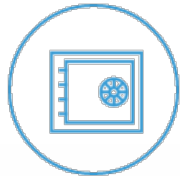
- Cash?
  - Capital Budgets allocated each year, savings lost while waiting for budget increases overall projects costs and reduces actual project performance
  - Split incentives
  - Opportunity Costs
- Loans?
  - Balance Sheet implications
  - Leverage ratios
  - Collateral / security
  - Opportunity costs
  - Split incentives
  - Vacancy issues
- Alternative finance – PPAs, Operating leases?
  - Split incentives
  - Exit clauses
  - Term
  - Take or pay
  - On / off balance sheet
  - Access requirements
  - Vacancy issues
  - Sale of property and discharge of finance

## Environmental Upgrade Agreements (EUA's)

# For building owners, EUAs can enable a building upgrade, or a more significant upgrade, than otherwise possible



**1. No requirement for additional upfront capital or security to be provided to the financier**



**2. Reduced re-financing risk**

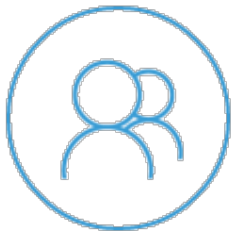


**3. More significant upgrades can be achieved with no or minimal cash flow implications**



**4. Sharing of upgrade costs with tenants**

# For existing tenants, EUAs can help them influence their landlord to upgrade, without increased rents



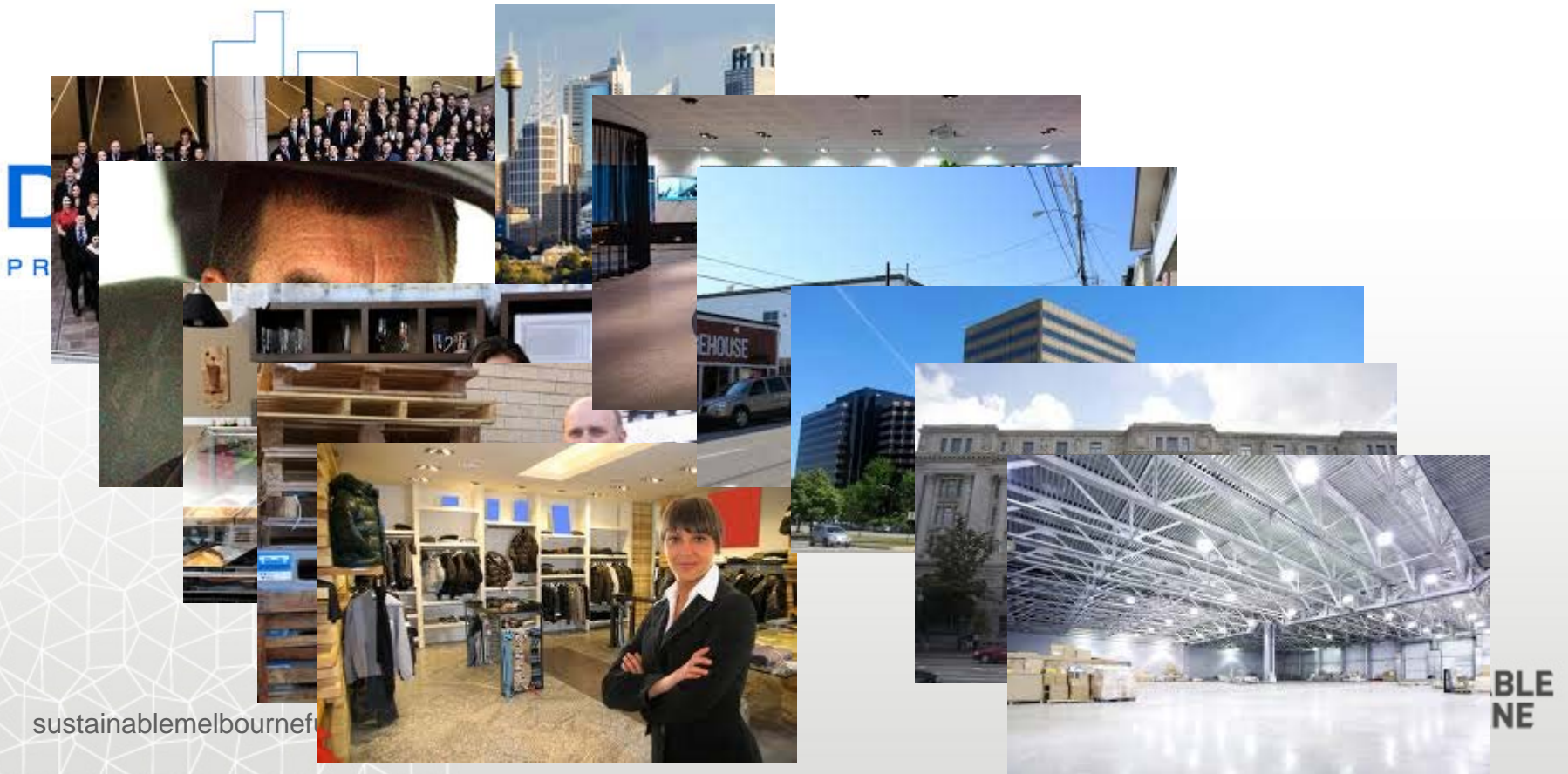
**1. Enables tenants to pro-actively influence their landlord to agree to an upgrade, particularly upgrades to tenancy spaces, which may otherwise not have been possible without rental increases**



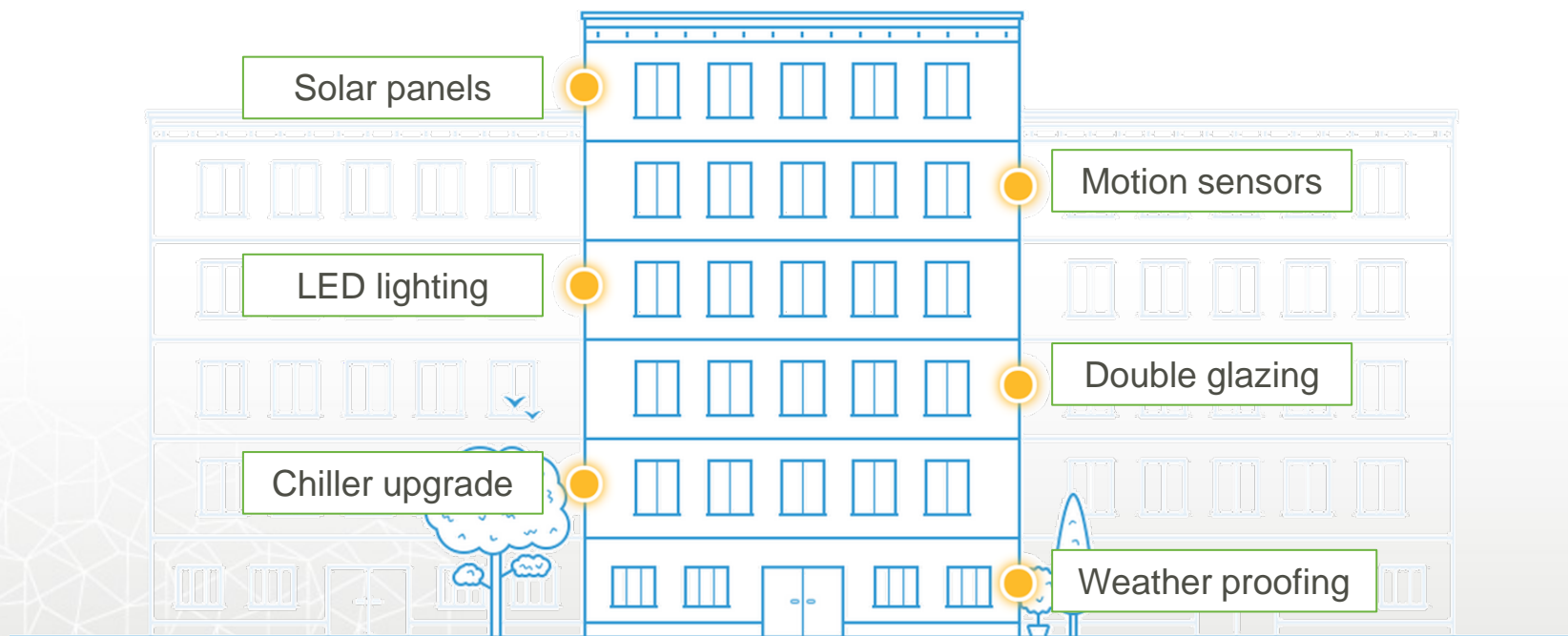
**2. Enables tenants to pursue a mid-lease upgrade, and therefore realise the benefits of a building upgrade sooner than would otherwise have been possible.**



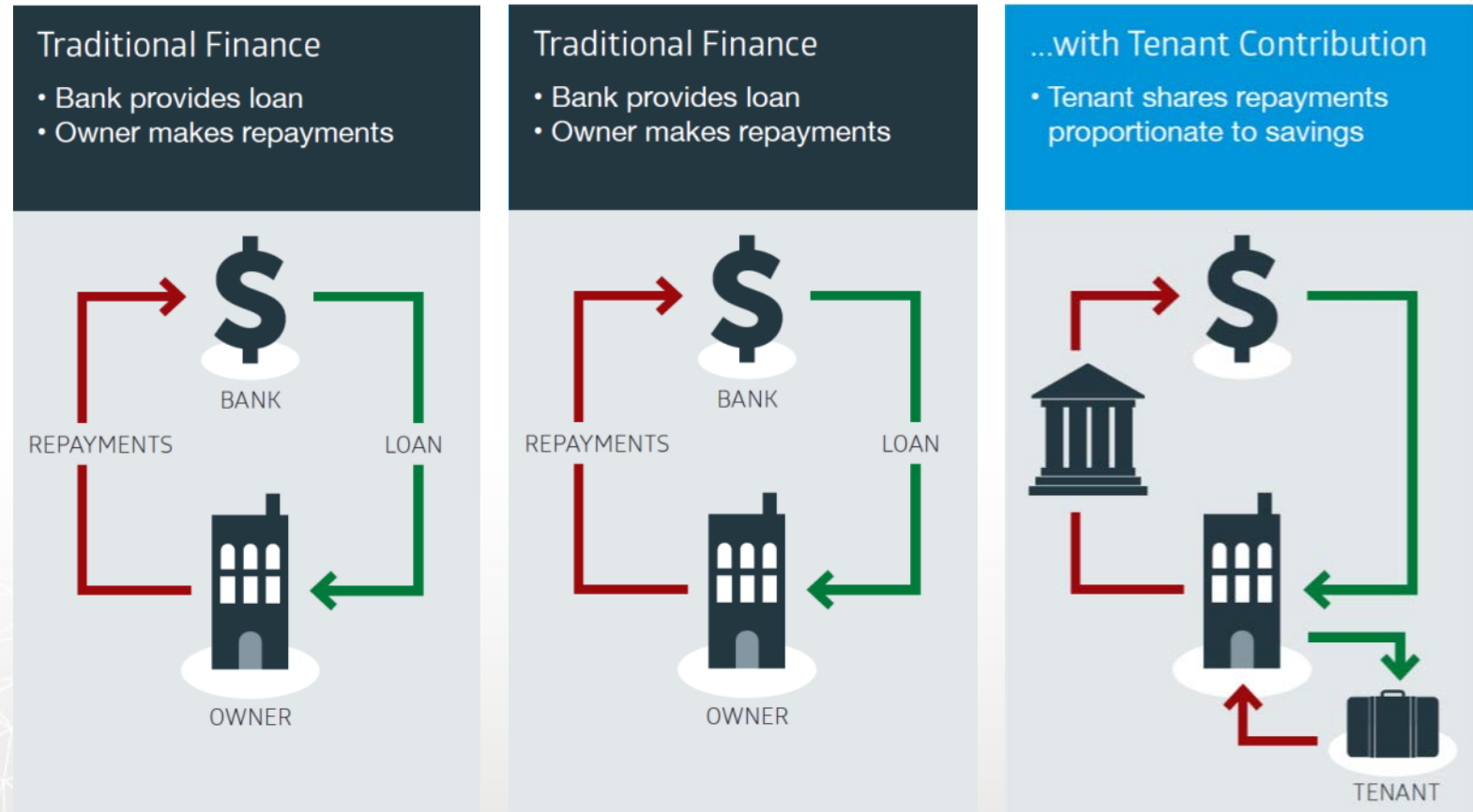
# Property ownership and tenancy is diverse, and a tailored business case is required in each case



# EUAs can pay for any upgrades that improve energy, water or waste efficiency, or increase renewable energy



# How does an EUA work?

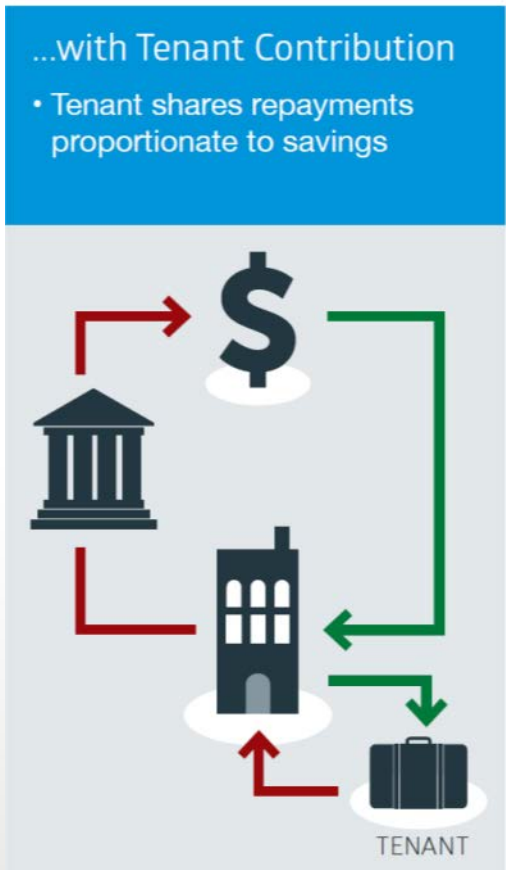


# Project Opportunity

	<b>Non EUA</b> (inc. PPA, Lease etc)
Loan Amount	\$41,500
Interest rate	8%
Years of loan	5
Payments per year	12
Annual Payment (P&I)	<b>-\$11,078</b>
Annual Savings	\$0
Project Simple Payback	N/A
Net annual Cost	<b>-\$11,078</b>
Cash-flow benefit	<b>-\$11,078</b>
<b>NPV (pre Tax)</b>	<b>-\$50,032</b>



# Project Opportunity



# Project Opportunity Split incentive

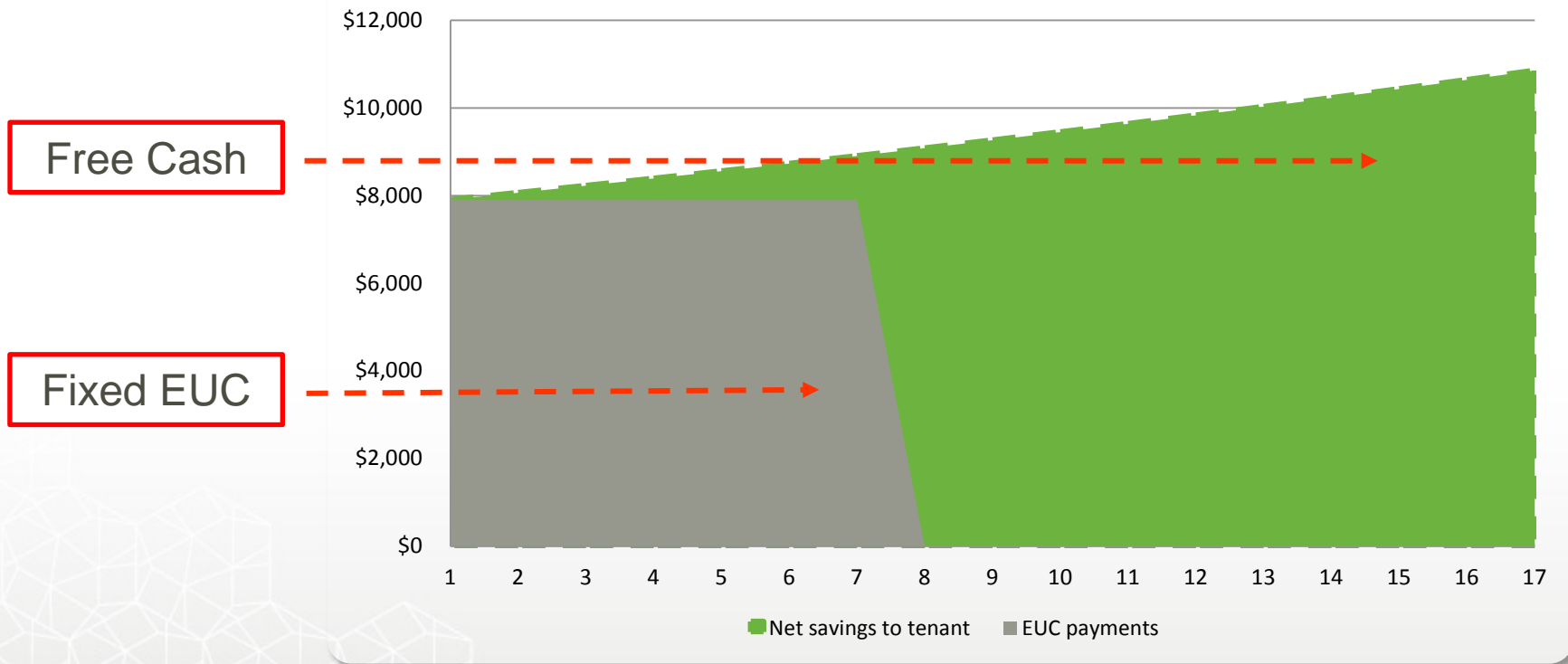
	Non EUA (inc. PPA, Lease etc)	EUA
Loan Amount	\$41,500	\$41,500
Interest rate	8%	7.1%
Years of loan	5	5
Payments per year	12	4
Annual Payment (P&I)	-\$11,078	-\$7,907
Annual Savings	\$0	\$7,907
Project Simple Payback	N/A	5.25
Net annual Cost	-\$11,078	\$0
Cash-flow benefit	-\$11,078	+\$11,410
<b>NPV (pre Tax)</b>	<b>-\$50,032</b>	<b>+\$1,729</b>

Tenant Receipts =  
100% of savings



# Project Opportunity Split incentive – Tenant perspective

Tenant benefit - 2% growth in electricity prices



*Tenant NPV: +\$40,744*

# Case Study

## 47 Boundary Road – Cooking Space



- Commercial Kitchen with large cool rooms
- 30kW Solar array
- 100% tenant pass through
- \$9,000 decrease in electricity bills
- SMF managed all stages – including finance – of this project
- Multiple tenants
- Constant load

# BetterBuildingFinance.com.au is a simple, user-friendly website designed to help the sector better understand and communicate the potential benefits of EUAs

- Simple, business-friendly explanation of EUF
- Case studies of successful EUF projects
- Illustrative business cases for potential projects
- EUA v traditional finance comparison calculator, to see how EUA stacks up





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