Investors Highlight Policies That Could Spur Multi-Billion Dollar Opportunity in Energy Efficiency Investments

BOSTON, May 21 /CSRwire/ - Energy efficiency is estimated to be a multi-hundred-billion dollar investment opportunity in the United States, but better policies are required to unlock broad-based financing from institutional investors, who together manage approximately $70 trillion in assets globally.

That is the key finding of Power Factor: Institutional Investors' Policy Priorities Can Bring Energy Efficiency to Scale, a new report issued today by Ceres and its Investor Network on Climate Risk (INCR). Based on the input of nearly 30 institutional investors and other experts from the energy, policy and financial sectors, Power Factor cites three areas of policy—utility regulation, demand-generating policies and innovative financing policies—that can take energy efficiency financing to a scale sufficient to attract significant institutional investment.

Investment analysts estimate that climate change could contribute ten percent of overall risk within institutional investment portfolios. Furthermore, the International Energy Agency estimates that one third of emissions reductions must come from energy efficiency in order to avoid the worst impacts of climate change. Energy efficiency-related investments thus offer institutional investors an attractive opportunity to manage the risks of climate change while earning returns.

"Energy efficiency offers investors a potent one-two punch: stable returns and an important strategy for mitigating climate-related risks," said Mindy Lubber, president of Ceres and director of INCR. "Policymakers and regulators should work to unlock capital from institutional investors for energy efficiency by promoting the policies identified in this report. Many of these policies do not require public funds, and they can put money back into the pockets of homeowners and business leaders around the country."

Although institutional investors hold shares in energy services companies, have improved energy use in their real estate investments, and have filed dozens of shareholder resolutions encouraging more efficient energy use at corporations within their portfolios, the report argues that the ability drive the financing of energy efficiency projects—financing retrofit loans through a secondary market—is unavailable to them. Secondary markets are routinely used to bundle loans, such as mortgages and car loans, and repackage them as securities or bonds. Investors can then purchase shares of these products, and sell them as they would a share of stock.

"CalSTRS has made a commitment to energy efficiency. In the last year alone, we've engaged nearly 100 of our public equity portfolio companies concerning their energy efficiency efforts. In 2007, 47 percent of buildings in our real estate portfolio received top Energy Star scores; today over 90 percent make that mark," said Jack Ehnes, CEO of the California State Teachers Retirement System (CalSTRS). "However, while many of the largest investors in the country are taking action on energy efficiency, more is needed. Smart policy fixes can help us go further to both realize the massive energy efficiency investment opportunity that exists and help avoid the worst of climate change and the risks it presents to our portfolios."

"Investors are interested in energy efficiency, but we need a strong pipeline of projects and better information to maximize the investment opportunity," said Ken Locklin, managing director, Impax Asset Management LLC. "The changes we are seeing at the local level, including stronger public utilities regulations and disclosure standards for building energy performance are all encouraging factors."

Specifically, investors cited several areas of policy that would help to build up a secondary market for energy efficiency retrofit loans:

•Utility Regulations: Public Utilities Commissions and other regulators can move the utility business model from a 20th century model that rewards increasing energy sales to one that maximizes energy efficiency. At the same time, utilities and their regulators can help make energy-efficiency finance programs investment grade through the same protections provided to electricity sales as well as better data sharing and strong contractor and performance standards.

•Demand-Generating Policies: Investors highlighted efficiency-inducing measures including building codes and standards and appliance and equipment efficiency standards set a baseline of efficiency in the marketplace. Building energy disclosure requirements, such as those adopted by cities like Philadelphia, New York City and most recently, Boston, can provide both an impetus to do energy efficiency retrofits and the transparency to facilitate investments in more efficient buildings.•Innovative Financing Policies: These policies include Property Assessed Clean Energy (PACE) bonds, on-bill repayment, credit enhancement, and extending Master Limited Partnerships to combined heat and power (CHP) projects can overcome the challenge of paying for the upfront costs of energy efficiency retrofits. In addition, these policies help provide vehicles for loans that can be packaged and sold to institutional investors.

"In order for California to realize the full advantages of energy efficiency, we need to focus on policies that encourage institutional investor participation and job creation. We know from our investment colleagues here and around the country that we're facing similar challenges and opportunities," said California State Controller John Chiang. "This is why I am sponsoring legislation in California that will scale-up commercial sector energy efficiency improvements to a level that would be attractive to institutional investors. As this report indicates, the right policies can overcome barriers to low-cost financing for projects that create jobs and use less energy."

A webinar will be held on June 6, 2013, from 3:00-4:00 p.m. ET/12:00-1:00 p.m. PT to provide an overview of the report. To attend, please register at this link.

About Ceres and INCR

Ceres is an advocate for sustainability leadership. Ceres mobilizes a powerful coalition of investors, companies and public interest groups to accelerate and expand the adoption of sustainable business practices and solutions to build a healthy global economy. Ceres also directs the Investor Network on

Climate Risk (INCR), a network of 100 institutional investors with collective assets totaling more than $11 trillion. For more information, visit www.ceres.org.

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21/05/2013