24 May 2017

Dear [policy-maker],

EU Institutional investors view on Energy Efficiency negotiations

IIGCC, with over 135 members from 9 European countries, represents over €18 trillion in assets. Our network benefits from active participation from some of the largest pension funds and asset managers in Europe and is continually growing.

We are long-term investors in the entire investment spectrum: listed and unlisted shares, corporate and government bonds, real estate, infrastructure and more. Our members are invested in virtually every major EU and global listed company. We believe that the mitigation of climate change is essential for the safeguarding of our investments. We also see low carbon technologies, renewable energy and energy efficiency presenting significant investment opportunities which can foster economic growth in Europe and globally; bringing with it the benefits of job creation[1], energy security and citizens' health.

Investors have shown a growing interest in green property and energy efficiency investments and have developed a number of tools to support market transformation and calls for a supportive policy framework[2]. Integrated investments in Energy Efficiency are growing continuously and represented over €195bn in 2016, according to the latest G20 Energy Efficiency Investment Toolkit[3], but fall short of the trillions of potential investment opportunities. However, to date the financial sector has not been able to allocate capital to energy efficiency at scale as policies have not had a sufficiently strong focus on the financial sector's needs and the necessity to address the perceived risk of investable and scalable investment opportunities.

To unlock this investment potential within the EU, it is vital to create an appropriate and enduring policy framework to support low carbon investment today and for the future. This includes setting an adequate price for carbon and implementing appropriate mechanisms and monitoring outcomes that will enable well-informed investment decisions and allocation of capital. While policy-makers may be nervous whether targets are achievable and cost-effective, the IEA points that three quarter of cost effective energy efficiency measures have not yet been implemented due to these barriers. Clear and consistent future regulatory pathways and the smart finance for smart building package, developed with investors' support and pointing to specific policies that encourage energy efficiency at key points in the business investment cycle, are ways to address these.

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[1] Such as such as 900,000 new jobs in energy efficiency by 2030.

[2] In 2016 a third of global investors real estate assets (USD2.8trn) were assessed on sustainability criteria in the Global Real Estate Sustainability Benchmark (GRESB). https://gresb-public.s3.amazonaws.com/2016/content/2016_Global_Snapshot.pdf

[3] http://www.unepfi.org/news/themes/climate-change/g20-energy-efficiency-investment-toolkit-highlights-us-221-billion-investment-opportunities/

EU Institutions and European institutional investors need to work closely together to ensure that the policy signals and incentives are right to attract to the EU a substantial share of the trillions of capital that is required globally to meet the Paris Agreement. Towards this aim, we engaged with DG Energy and other DGs throughout last year on the Energy Union package generally, and in more detail on the Energy Performance of Building (EPBD) and the Energy Efficiency (EED) Directives. See our Policy paper on 'Transforming the sustainability of Europe's building stock' in March 2016.

Although we welcomed the Energy Union Package released in December – in particular the 10 year national energy and action plans under the Governance proposal, and the EPBD long term national renovation strategies – we support greater ambition including a long term decarbonisation objective to 2050 which is aligned with the objectives of the Paris Agreement.

With a view to encouraging positive progress in the on-going negotiations on energy efficiency and with the aim of creating an appropriate regulatory framework, IIGCC members call on EU Member States and the European Parliament to ensure that the Energy Package includes as a minimum the following key elements:

- The Governance proposal for 10-year national energy and climate plans, alongside the EPBD long term national renovation strategies, should be ambitious with a long term decarbonisation objective to 2050 and must contain an investment strategy which includes the role of private finance.

- The 2 years in-depth assessment of progress on national plans must be brought forward before the 2020s to promote early action and send an early signal to investors to ensure action can be taken in time to close any potential gap relative to the target early in the 2020s.

- An at least 30% energy efficiency target which is binding at EU level is essential if EU Member States are to decarbonise swiftly enough to ensure a smooth transition to a low carbon economy.

We are calling for the following practical and technical elements to be included in the EED and EPBD, to ensure investors are enabled to scale up significantly green and energy efficiency investments in their European real estate funds:

- In the EPBD, while we welcome the establishment of an EPC database, we need to go further and ensure the reform of Energy Performance Certificates (EPC) cover design and operational performance. EPCs should be required to evolve to become a common EU electronic dynamic building passport also including an operational 'rate and display' approach that reinforces continuous energy efficiency improvement[4].

- We support zero energy standards for new public buildings from 2018 and new commercial buildings by 2020 and requirements for deeper and stronger building regulations to retrofit existing public and private buildings. We would welcome a focus on base building operational energy performance which forms the base of most member states building codes, and ensure the development of an EU-

[4] "There is little or no correlation between EPC ratings and actual energy performance" A study of 100+ buildings found examples of 'E' rated buildings using less energy per m2 than 'B' rated buildings – the opposite of what is intended (Source: BBP and JLL 2012 www.betterbuildingspartnership.co.uk/tale-two-buildings)

wide base building operational rating scheme (as, successfully implemented in Australia) to verify the performance of larger 'nearly zero energy' new buildings.

- In the EED, we support the extension of energy savings obligations for utility companies post 2020 and increasing the obligations beyond the existing level of 1.5% annual improvements in energy efficiency compared to total energy sales. Energy distributors' incentive programmes should be required to measure the actual performance (drawing on smart meter data where available) of their obligation programmes on a portfolio basis, starting with pilots and full implementation by 2025.

- The "Smart Finance for Smart Buildings" initiative is a good development. Investors are committed, as demonstrated in their engagement through the Energy Efficiency Finance Institutions Group to work with EU institutions to support increased leverage of private capital investment in energy efficient real estate. In particular, we support greater technical assistance resources for project development and aggregation, and de-risking work to clarify energy efficiency investment risks.

- Member States should consider assessing the potential for and subsequent implementation of energy retrofit loan repayment programmes through utility bills or property taxes (as per Property Assessed Clean Energy – PACE – in the US, a positive example which has seen rapid growth and use of green bonds).

- The focus on scaling up the deployment of smart metering and on the development of a smartness indicator for buildings are other useful policy measures, but we call on EU institutions to learn from pilot schemes – i.e. those that used residential "pay for performance" incentives and on-bill repayment schemes – to ensure the final EU energy package implements the range of innovative initiatives that smart buildings offer.

We hope that these comments are helpful and look forward to sharing our expertise with you in the future. We welcome any questions or comments you may have.

On behalf of IIGCC

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