



## EUROPEAN ALLIANCE TO SAVE ENERGY

*Creating an Energy-Efficient Europe*

### “ENERGY EFFICIENCY IS THE NEXT FINANCIAL GOLD MINE”

#### WORKSHOP REPORT: MONEY MATTERS – HOW TO MOBILISE PRIVATE FINANCE FOR ENERGY EFFICIENCY

February 13, 2012 – Brussels

#### EXECUTIVE SUMMARY

Representatives from some of Europe's largest investors and private enterprises joined Europe's leading policy makers and stakeholders at a half-day workshop on February 13, 2012 in Brussels to discuss '*How to mobilise private sector finance for energy efficiency*'. Participants came together to look at the options for energy efficiency financing in the EU and discuss the necessary elements of energy efficiency policy from an investment perspective.

Organized by the European Alliance to Save Energy (EU-ASE) along with the Danish Presidency of the European Council and the Danish Ministry of Climate, Energy and Building, this event marked the first time that the world of finance openly discussed the need for a robust regulatory framework for energy efficiency with some of Europe's key policy makers and campaigners. The focus of the debate was on whether the current proposal for an Energy Efficiency Directive (EED) was the best vehicle to deliver this.

With the European Union well off its 20% target for energy efficiency, EU-ASE is making a push for early and prompt adoption of an ambitious EED. As the financial and social climate continues to wear on the European economic front, finance, both from a public and private perspective, is one area that is currently in the limelight when it comes to the multi-faceted topic of energy efficiency.

*“This Directive has real potential to change business-as-usual by giving the energy efficiency market significantly more regulatory certainty, something it has lacked until now which is largely why Europe is behind on its 20% energy savings targets. However this opportunity is at risk as EU governments continue to water-down the only binding elements of the proposal for fear over the short-term costs of implementing the measures,”* stated **Monica Frassoni**, President of EU-ASE. *“Governments are saying ‘we can’t regulate as we have no money’. Investors are saying ‘we can’t invest because we have no certainty’, yet and these groups are not talking to each other enough. The EU is wasting precious time.”*

#### MONEY MATTERS-CERTAINTY MATTERS

And this is exactly why the worlds of policy and private financing sat down together at the Résidence Palace in the heart of Brussels' European Quarter a day before the EED was first to be discussed by European Ministers at the EU's Energy Council. With over 100 experts from the world of finance, industry and policy, including an address from **Phillip Lowe**, Director General of the DG Energy of the European Commission, the discussion was enlightening, yet overall the message was clear: **money matters and investors are ready to mobilize energy efficiency investments if they have certainty on their return of investment.**

## ENERGY EFFICIENCY: THE NEXT GOLD MINE

Opening the first session, entitled *Energy efficiency - a strategic imperative for investors*, **Nick Robins**, Head of Climate Change Centre, HSBC Bank PLC and Co-Chair of the UNEP FI Climate Change Working Group, stated, *“From our side, we see the energy efficiency agenda as the next big agenda for the world of finance. Energy efficiency is poised for the next big expansion. It is potentially the next gold mine.”*

He underlined that **the low carbon energy market alone has grown from 700 billion USD in 2009 to 2.2 trillion USD by 2020 – a good tripling of the market.**

Even as the energy efficiency market grows, Mr. Robins was quick to point out that both lending and investment were critical success factors and that energy management needs to become mainstream in the energy efficiency conversation to manage the impact of the rising cost of energy. **He called for policy makers to set serious targets that will be met, citing that real implementation and measures -- and not necessarily subsidies -- would be the direction that one of the world's largest bank would prefer seeing put in place by the directive.**

**A call for better technology and energy management**

**Jean-Marc Bally** speaking on behalf of Aster Capital, a venture capital company sponsored by Alstom, SolvayRhodia and Schneider Electric with \$120 million USD invested in the energy and environmental sector, took it a step further, *“Energy will not be cheap in the long term and our energy prices will increase. We need to reduce our dependence on oil and gas,”* stated Mr. Bally. *“We are missing a clear target in the EU to limit our oil and gas dependency.”*

He urged participants to consider creating energy implementation schemes and continuing the drive forward for new energy-efficiency technology, citing the fact that Germany is innovating techniques to store the unused wind energy generated from North Sea wind farms. Currently, most of the unused energy is simply lost.

*“On the European level, we should have more information on the real energy usage of cities and building and so forth... We are using a lot of energy but we don’t really know how much,”* stated Mr. Bally. *“We need strong targets: what is the 2050 target? What is the 2030 target where people, but especially buildings and cities, will have to comply? As soon as you have the measurement capability and you have the target, you will create an energy efficiency industry where new technologies and new companies will be created.”*

## A MORE HOLISTIC APPROACH AND BETTER FINANCIAL VEHICLES FOR SMALLER INVESTORS

With both big banks and cutting-edge venture capitalists calling for real targets and serious takes on energy management as vital pieces of the Energy Efficiency Directive, the panel turned to **Donald MacDonald**, Trustee Director of BT Pension Scheme, one of Europe’s largest pension schemes representing around 7.5 trillion euro, and Chairman of The Institutional Investors Group on Climate Change (IIGCC), to share his big picture view on the topic.

*“In some ways, we should be using the economic problems we have today to step back a little bit and take a real deep think about what is actually happening in the world. The big themes in the world for the next two or three generations: water, energy and food supply. All of these are climate related. All are carbon related and, of course, tackling energy efficiency is absolutely critical in trying to deal with those big strategic issues in a holistic manner.”*

Stepping back from the bigger picture, Mr. MacDonald did have a few specifics on his mind. Retrofitting and new builds were two such items. He was quick to earmark the *“grossly inefficient and ineffective stuff built in the 70s*

*and 80s" and encouraged the audience to push for standard energy and water audits that would benefit property owners and tenants as well.*

***"If you look at what is actually happening, we can use this slowdown in activity to reflect on what we want as a society, what we want as investors, and what our strategic priorities are. The problem for smaller pension funds is that there aren't sufficient investment vehicles in existence yet to provide the information and security that the smaller institutional investors need. I think that is the challenge that we as investors need to face up to...I think that policy makers need to know about this as well."***

Prior to the break, Moderator **Peter Sweatman**, Founder of Climate Strategy, summed it up nicely, *"We need to use the current recession to think about our infrastructure. We need to think seriously about what we are building now and the retrofitting the stuff that will be around the next 40 years. We need the investment community to connect with policy makers and industry. But from what I see today: where there is a will, there is a way."*

#### **DIRECTOR GENERAL ENCOURAGES FINANCIAL COMMUNITY TO "TAKE THE CREATIVE LEAD"**

Following the break, **Phillip Lowe**, Director General, DG Energy, gave an eagerly awaited address on the EED. As a respected European public official, he acknowledged various sides of the energy efficiency debate, but encouraged the European financial community to take the creative lead on the issue and specifically how to finance building renovation without imposing havoc on the financial markets.

Across the economy in regards to energy efficiency, he pointed out that transport plays a big role and that industry as a whole had already made some energy efficiency progress and that this would continue. He also encouraged suppliers to take a role in energy efficiency to keep the European energy markets economically healthy and avoid monopolistic behaviour.

***"We are in the middle of an energy revolution."***

Most importantly, he set the stage in terms of energy efficiency urgency, reminding the audience that if nothing was done, the EU as a whole was creating a bigger problem for itself.

***"There is considerable opposition to binding targets. What we can estimate is that it is unlikely that even half the projected savings will be realized. This isn't a question of households not being able to extract extra savings or businesses becoming more competitive. If you translate the missed 368 million tons of oil equivalent in terms of terawatt hours, you get a lot of power stations. I don't mean just 10s: 100s of 500 megawatt power stations need to be built."*** Mr. Lowe continued, *"We are in the middle of an energy revolution. We must rise to the challenge of energy efficiency that will require a lot less investment. If we don't, we are making a big problem even bigger for ourselves."*

#### **ENERGY EFFICIENCY IS A NO REGRETS OPTION**

*"We don't seem to be investing as much in energy efficiency as we should. And one of frequently quoted challenges is the lack of returns that is acceptable to investors or to the lack of business models that attribute the benefits of the schemes to financial institutions, owners or tenants."* Mr. Lowe was quick to point out that it was critical that policy makers analyse the financial changes to show that well-designed financial schemes can lead to energy savings that provide return on investment.

In his conclusion, he hit the nail on the head by adding, *"The savings involved here are relatively risk-free, but the returns are lower than your average hedge fund manager would like to see in his portfolio."*

And with this comment, it was time for the last session, moderated by **Kirsty Hamilton**, Associate Fellow Chatman House entitled: *How can a EU regulatory framework help remove the barriers to energy efficiency investment?*

### **GETTING ENERGY EFFICIENCY IMPLEMENTATION, FINANCING AND LEGISLATION RIGHT**

The final panel of experts, with experience ranging from property management, retro-fit on the household level, ESCO modelling and commercial banking, each gave specific details as to how they would eliminate public spending from the energy efficiency equation.

### **SOCIAL AND CULTURAL ISSUES**

According to **Ingrid Holmes**, Programme Leader, Low Carbon Finance at 3EG, clean energy investment in 2011 reached a global figure of 260 billion. Less than 7% of this went to energy efficiency, so there clearly is investment potential. *"If energy efficiency is so cost effective and there is such a huge investment potential out there, why aren't we doing more deals? The case for energy efficiency will be won or lost in the economic ministries of Europe and it is important to place it in this framework."*

She was also emphasised the need to bring in the subjective world of human behaviour as being something hard to put into the investment equation, but emphasised that the economic model is going in the right direction with ESCO projects and energy management coming more to the forefront. Government regulation, in the form of targets, would be a sure way to accelerate investment in the field of energy efficiency, especially since retrofitting buildings represents about 99% of the building stock.

### **DELIVERING WHAT THE SECTOR NEEDS THROUGH POLICY**

**Tatiana Bosteels**, Head of Responsible Property at Hermes Fund Managers joined Ms. Holmes in citing social and cultural issues, in this case, stemming from the world of property itself. *"Energy is a very small part of the building project. Energy efficiency seems just not worth the return of investment. We are in the early part of the learning curve for energy efficiency and the market and fund managers don't understand that a standard might add value. There is a cultural block there."*

### **"Uncertainty is the anti-thesis of bankability."**

Bringing a commercial banking perspective to the table was **Paola Rusconi**, Desk Energy Mediocredito Italiano, Gruppo Intesa Sanpaolo. Ms. Rusconi admitted that energy efficiency has potential but joined Mr. MacDonald in pleading for a long-term perspective and scalability in terms of financial vehicles and other industry measurement tools. *"We are looking for long-term value. Environmental and energy policy is taking more and more of a role in commercial banking. Environmental protection is a way to better serve our customers."*

### **OUT IN THE FIELD: PIONEERING ENERGY EFFICIENCY MODELS**

The panel closed with a real hand-ons case: an ESCO case study from Schneider Electric's **Morton Dahl**, Business Manager, Energy Solution Denmark and Norway. Mr. Dahl was quick to point out that Schneider Electric has been in the ESCO market practically before there was a market and that these were early days, but the model is proven to be strong and rather regulation-proof, if done correctly.

*"ESCO delivers a project – solar, insulation, anything you name it. The ESCO brings in a guarantee as well that you will have the return on investment. It provides results in a short time frame. We are in a hurry here with our 2020 timeframe,"* he concluded, *"We're not asking for subsidies or money. I think this model can stand on its own."*

## THE SENSE OF URGENCY OF 148 BUCKS A BARREL

Kirsty Hamilton rounded up the session concisely. *"When oil was 148 bucks a barrel, people were saying that this kind of Directive will provide the ammunition or signal as Nick Robins said that the investment community needs to start developing in the area of energy efficiency. Of course, the devil is in the detail."*

As the directive goes to vote perhaps everyone in the discussion needs to borrow a page from the sense of urgency the global (financial) community felt in 2008 when oil skyrocketed to 148 bucks a barrel...

**Morton Baek, Deputy Permanent Secretary, Danish Ministry for Climate, Energy and Building**, encouraged the audience in this direction during his closing remarks to think of the big picture and grab the opportunity to change. *"It makes sense to bring policy makers, financial experts and industry together. There is a case for energy efficiency and we like the messages we heard today,"* he added. *"Clearly, money matters and money is needed. We need to start using a double-edge sword: we need to speak with each other and not to each other."*

Monica Frassoni concluded by stating, *"The fight around the EED is by no means over. The reality of not having a strong directive is very much there. It is excellent to hear that the financial community is behind all our efforts.* We now need to look at other sides to this issue such as whether or not the EU needs subsidies for energy efficiency and how ensure that the private sector can better leverage public, European funds on energy efficiency".

ENDS

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