

CEM7 Roundtable Topic

Innovative Mechanisms for Energy Efficiency Finance

OVERVIEW

The cleanest and cheapest kilowatt is the one avoided. Enhancing global energy efficiency is critical to addressing our energy and climate challenges and to enhancing economic growth. Investment in efficiency is on the rise – approximately \$209.5 billion were spent globally in 2014, representing 12% growth over 2013.¹ Yet, we are only beginning to tap the massive potential for energy savings. This roundtable will focus on innovative finance mechanisms to scale up investment in and deployment of energy efficiency.

According to some analyses, global energy savings could grow as large as 270 EJ per annum by 2050 – equivalent to half of the world energy use today.² Capturing this potential would lower costs for fuel and new energy infrastructure, improve reliability in meeting energy demand, reduce greenhouse gas emissions, and contribute to economic growth and job creation. However, these benefits will only be achieved with significant increases in financial flows to the sector.

Today, there are a number of barriers and challenges that limit investment in energy efficiency: government funds have not yet effectively leveraged the kind of private investment required to scale energy efficiency deployment; decision-makers sometimes lack relevant and credible data on potential and realized energy and cost savings; and investment processes lack standardization that could lower financing and transaction costs. Additionally, standardization is a pathway to tapping the capital markets and engaging a broader range of investors at potentially lower interest rates than in debt markets. The volume of assets available for securitization is also an important step to accessing the capital markets; energy efficiency has not yet achieved the kind of market size that would attract institutional investors.

A number of innovative and effective mechanisms have emerged to finance energy efficiency and scale up capital flows and investments: green banks provide low-interest, long-term financing loans for efficiency upgrades; green bonds provide access to capital for large energy efficiency improvements; energy savings performance contracts help overcome upfront costs; and energy savings insurance safeguards cash flows for energy efficiency projects where the savings do not meet projected levels.

This roundtable will explore some of the promising finance mechanisms that would benefit from international collaboration and governmental support, and that could be used

¹ Advanced Energy Now: 2015 Market Report, *Advanced Energy Economy Institute*, March 2015, p. 29.

² International Energy Agency, 2015: *Energy Technology Perspectives*

to effectively leverage private investment. Drawing on existing work—for example through the G20 and IPEEC—the roundtable will seek to develop recommendations for further collaborative work and action by CEM members.

POTENTIAL DISCUSSION QUESTIONS

- How can governments most effectively leverage public money to unleash private capital for energy efficiency? Which governmental policy and finance mechanisms do you see as having an important role?
- How are your governments encouraging energy efficiency right now, using public financing and stimulating private investment?
- Which finance mechanisms have high-impact potential and are deserving of further attention and collaboration among CEM members?
- Do you see a growing role for government-administered green banks as part of the efficiency solutions of the future?
- How can we increase demand for energy efficiency, and send a signal to private investors that efficiency is a worthwhile asset class to consider?
- The “Voluntary Energy Efficiency Investment Principles for G20 Participating Countries” includes systematically considering efficiency alongside supply side investments for new sources of energy. What are the most critical reforms or policies that you recommend relating to decision-making, planning, pricing or regulation?
- How can the Clean Energy Ministerial as a forum advance energy efficiency financing? How can the recently-launched Energy Finance Solutions Center provide support?

POTENTIAL PARTICIPANTS

- Banks and investors, such as the European Bank for Reconstruction and Development, Inter-American Development Bank, Bank of China, Bank of America and other large commercial banks, Hannon Armstrong
- Energy experts from organizations and institutions, such as BNEF, Copenhagen Centre on Energy Efficiency, Stanford, Lawrence Berkeley National Laboratory, Environmental Defense Fund
- CEOs from companies with major energy initiatives, such as Apple, Statoil, Google, Tata Power, Bloomberg, Microsoft
- Foundations involved in energy finance, such as Clinton Climate Initiative/C40 Cities, Tata Trust, Gates Foundation, SE4All, Hewlett Foundation
- Organizations and states/provinces with strategic energy efficiency finance programs, such as UNEP-FI, IPEEC, Renew Financial, Green Building Council LEED international program, California Energy Commission
- Energy efficiency project developers, such as AECOM, Johnson Controls, Rocky Mountain Institute, NAESCO, Schneider Electric