EEFIG Plenary Meeting 2022, Day 1 (open access)

Wednesday 4th May 2022

Virtual meeting (Webex)

1. Welcome and introduction by the convenors (Claudia Canevari, European Commission, Eric Usher, UNEP Finance Initiative)

The EEFIG Rapporteur Peter Sweatman briefly welcomed all the EEFIG members and speakers.

Claudia Canevari, DG ENER, welcomed all and referred to the timeliness of the EEFIG meeting in face of the dual energy crisis with high energy prices and the Russian aggregation towards Ukraine affecting energy markets. Against this background energy efficiency has never been more important. On the positive side the business case for energy efficiency is made stronger by the higher energy prices and this is triggering an increased interest in energy efficiency investments.

The EC has been working on many actions linked to EE, including the proposal for a recast EED as part of the Fit for 55-package. Hence a strong regulatory instrument is in place in the current situation. As part of the legislative co-decision procedure with the Parliament and the Council, there is now also a proposal to increase the EE target for 2030 and a request for an Impact Assessment of a higher EE target.

Eric Usher, UNEP FI, welcomed EEFIG participants as co-convener of the group. He noted that the race to rapidly decarbonise the global economy, to reduce reliance on fossil fuels and all GHG emitting activities, will be incredibly challenging and will require the coordinated effort of a wide array of actors across industries.

He noted that the GFANZ umbrella of Alliances have accumulated $130 trillion of commitments from across the finance industry for achieving NZ, which is a start although targets and commitments are a long way from delivery of the actual capex and new business models required. GFANZ today includes 7 alliances of which UNEP FI is convening three, including the Asset Owners Alliance (AOA) which was the first, established in 2019. It's 70 plus asset owners with over $10 trillion in assets have established a clear Target Setting Protocol for setting 2025 reduction targets. Over half of these investors released 2025 targets in the lead-up to Glasgow which mostly were in the 25% to 30% reduction range. AOA includes direct holdings in its target setting protocol and this year UNEP FI are working to add commercial mortgages, residential mortgages and funds. Mortgages are particularly tricky due to data challenges, but we see energy efficiency playing a large role in achieving the targets for buildings. GFANZ use Carbon Risk Real Estate Monitor (CRREM) pathways and in addition to expanding the scope this year we are also deepening it and looking to discuss embodied carbon and work with tenants on their heating and cooling.

As the wider GFANZ was getting underway, we worked to establish the Net Zero Banking Alliance which we now manage. NZBA brings together 108 banks in a Paris-aligned commitment to achieve net-zero in their lending and investing activities. Collectively representing around 40% of global banking assets, this group really is a game-changer. It includes Europe's 10 largest banks, North America's 10 largest banks; 6 of the largest from LAC and strong representation from all regions. Over half of GSIBs from around the world. So, this is truly a global movement now, to match the global urgency. Several NZBA members have issued their first round of targets, for 2030, for priority sectors, and we look forward to more doing so this year. Over time member banks will need to set targets covering 9 high emitting sectors of the economy, including real estate, progressing towards complete coverage of their portfolios and their clients' emissions.

He also mentioned that in March UNEP FI published the report "Managing Transition Risk in Real Estate: Aligning to the Paris Climate Accord" To develop this resource, a dozen real estate investors and banks piloted the Carbon Risk Real Estate Monitor tool as part of UNEP FI's Task Force on Climate-related Financial Disclosures (TCFD) programme. Their findings reveal both the opportunities and the risks for financial institutions investing in real estate assets.

Finally, Eric pointed to that the work of a global net-zero transition is too much for any one group to take on. To successfully create a net-zero future, one must align, collaborate, and coordinate with equally ambitious partners so that together this challenging work can be driven forward. And these commitments must be credible. They must have integrity and not simply be greenwash. It is for this reason that SG Guterres has established in March a HLEG to develop stronger and clearer standards for net-zero emissions pledges and to speed up their implementation. This work is complex and encouraging, but we must not rest on our laurels. We must now turn to the complex tasks ahead as we move from pledge to action and seek to achieve the rapid real economy transformation that is required. In this context it is an inspiration that EEFIG has shown how to move from pledges top real implementation.

2. Keynote Speech - EEFIG in the context of Fit for 55 / EC high level policy framing (Hans van Steen, DG ENER)

Hans van Steen, Principal Adviser at DG ENER, noted that the energy world has been significantly affected by developments over the last 6 months, first by the price chocks driven by supply demand mismatch post covid, then followed by the Russian invasion of Ukraine adding a supply security dimension.

The accelerated ambition reflected in the REPowerEU communication and its emerging action plan includes as a key element the reduction of dependence on Russian gas and other fossil fuels through diversified supplies including biogas, biomethane and hydrogen (once available). Energy efficiency is very important in this context, and may be the cheapest, most secure and maybe even fastest way to reach energy independence. The Fit for 55-package with the revised EED and EPBD are key contributors along with the proposal to extent EU ETS to buildings and road transport.

He also stressed the EE1st principle as a key in the implementation of the challenges. The Commission also revisit the Recovery and Resilience Plans with Member States. 64 bln EUR is foreseen for EE investment and building renovation. However, as some of these plans were submitted before the invasion in Ukraine it is being checked whether plans are still fit for the new situation.

He underlined the need to facilitate investment decisions for EE through TA, PDA, network of aggregators and design of financing schemes.

Finally, he noted that EEFIG has made a fantastic job so far and has a key place in facilitating private sector investment.

3. Keynote Speech – The role of FIs in delivering the EU climate ambitions (Bianca de Bruijn van der Gaag, ING)

Bianca de Bruijn van der Gaag, ING, Mortgages Lead in Germany, outlined ING's overall sustainability commitment and explained the efforts of the German mortgage business to green their mortgage portfolio.

She outlined INGs strategy which tries to steer the whole lending portfolio through the Terra Approach in close dialogue with the clients. One of the challenges in this respect is data access.

In the German market, a significant part of the portfolio has EPC D or worse and ING is now seeking to align the mortgage portfolio with net zero by 2050 or sooner. This has led to intermediate targets for the CO2 intensity of the property portfolio in 2030.

Finally, she noted the additional engagement with existing customers on energy renovation which has been necessary to support the mortgage portfolio decarbonisation along a trajectory which is defined in CO2 intensity, and looks to upgrade all properties to EPC level C.

The EEFIG Rapporteur Peter Sweatman, asked the speakers the following question from the audience; Why is the bank providing free advisory services?

Bianca de Bruijn van der Gaag answered that ING always seeks to support clients and that the existing advice has been extended by 10-15 minutes and that this additional engagement generates value for both the clients and the bank.

4. Results presentations: The Evolution of Financing Practices for EE in Buildings, SMEs and Industry; and Statistical findings on credit risk and energy performance in collateralised loans (Bettina Dorendorf, KfW, Dr. Markus Seifert, d-fine, moderated by Peter Sweatman, EEFIG Rapporteur)

Representatives of EEFIG working groups presented emerging results of their groups.

Bettina Dorendorf, Sustainable Finance, KfW, EEFIG WG on Evolution of Financing Practices, underlined the importance of mobilizing much more private finance for EE if the 2030 and 2050 climate goals are to be met. Energy efficiency investments in the EU have not materially increased from 2016 and most of the recommendations that EEFIG highlight in 2015 remain relevant today. There has been progress including the Eurostat guidance on the public accounting treatment of energy performance contracts; the delivery of DEEP - Europe's largest energy efficiency project database; and developing standards for financial institutions' energy efficiency investment processes.

The EEFIG WG's recommendations to the EU Commission include: Adequate and rapid implementation of the EC proposed policies in recent years related to EE & consider the EEFIG 2015 recommendations; Developing large EE programmes by segment to facilitate the growth of energy performance contracting and ESCOs for public and commercial buildings & energy-intensive SMEs; Involvement of private distribution partner to broaden scope of reach; and Public procurement rules to include the EE first principle.

She noted that EE investments in buildings are significantly below the levels required to deliver the Renovation Wave and that an additional EUR 275 billion per year is necessary over the period 2021-2030 to reach EU energy and climate objectives in 2030. Against this background, the EEFIG WG's recommendations for buildings include: MS to adopt minimum EPCs for existing buildings; Making available public grants, green mortgages, tailored renovation loans and new blended finance facilities combined with TA; and Scaling up EU funding for TA.

EE annual investments in industry have remained constant since 2018, at around EUR 5 billion per annum and EEFIG sees an investment gap in the order of EUR 14 billion per annum to reach the current European climate and energy goals. Against this background, the EEFIG WG's recommendations for industry and SMEs include: monitoring & managing energy consumption using mandatory Energy Management Systems, ISO 50001 standards, energy monitoring systems, mandatory EE targets, energy audits; focussing subsidies on support for SMEs and those outside EU ETS; standardisation of industry-specific packages of EE solutions.

Finally, the EEFIG WG's recommendations for financial institutions include: Working on de-risking tools involving guarantees from Governments; Promoting the development of scalable innovative financial instruments to finance EE investments, including on-bill repayments, on-tax financing, green mortgages and renovation loans; and Standardising investment assessment processes, contract terms and investment structures to support better aggregation of projects.

Dr. Markus Seifert, Partner, d-fine, EEFIG WG on Risk Assessment, presented the results of statistical analysis of mortgages in four European countries that indicated that loans on EE properties are less risky; a result noted in the just published EBA Discussion paper on role of ESG risks in prudential framework.

The key questions addressed by the WG were: To what extent is asset energy performance correlated with credit risk and loan arrears? How does this vary by observed factors such as asset owner income or employment/business status and wider macroeconomic conditions? How does this vary within EU member states? Is there evidence of a causal link between improved asset energy performance and improved default risk?

In relation to impacts on asset values, the Working Group performed a large-scale meta-analysis of existing data, evidence, and publications. The analysis showed that the most efficient properties can attract a market price premium of up to 10% in value, and approx. 5% for rentals, compared to equivalent least efficient or non-rated properties. Several studies also find less liquidity for the lowest rated buildings. Several recent studies confirm the JRC findings of an observed increase of 3-8% in the sale price of residential assets resulting from EE improvements as well as an increase of around 3-5% in residential rents compared to similar properties.

In relation to impacts on risks, the Working Group and its Member Banks performed new data analyses to reveal the impact on credit risk. The analysis showed a clear statistical relationship between energy performance of the collateral and credit risk of the associated loan. Financial institutions should tag loan collateral and underlying assets based on their energy performance and analyse their own portfolios to better manage credit risks and capital allocations. Mortgage lenders running IRB models should consider energy efficiency as a risk factor in them.

He noted that the working group's report substantially informs supervisory authorities across Europe, as the WG uncovered and robustly assessed new evidence from a large sample of mortgages across several countries in Europe to conclude that there is a statistically significant correlation between the energy performance of building collateral and mortgage credit performance. The primary analysis of this WG was conducted using the residential mortgage books of Nationwide Building Society (NBS) in the UK, Allianz in Germany and OP Financial Group in Finland. In total, the analysis was conducted on a sample of almost 800,000 residential mortgages across three countries. A forward-looking analysis was undertaken in each case controlling for different borrower credit scores, incomes, loan terms, loan-to-value ratios, along with a range of variables relating to the building and additional controls capturing municipality-level economic and the broader economic indicators. Energy performance data came from a combination of domestic energy performance certificates (EPCs) registers (where available) and proxy models based on energy demand or characteristics of the building.

The EEFIG Rapporteur Peter Sweatman, asked the speakers the following questions based on input from the audience:

1. What are the key data challenges?

    - Markus: Data availability is a key challenge and accessibility of high-quality comparable data on energy performance of buildings remains an issue to be addressed across the EC. The data scene needs to be made more homogenic.

2. Can you elaborate more on the interpretation of the correlations?

    - Markus: We did a lot of controls for external variables, and the correlation results are strong, but the causality requires further analysis.

3. How can EU guarantees be used by FIs?

    - Bettina: PF4EE is a good example, but should be replicated on larger scale

4. Mortgage portfolio standards appear in EEFIG's recommendations, how can they also support Minimum Energy Performance Standards?

- Bettina: Mentioned that Mortgage Portfolio Standards are a good tool and that anything that can provide benchmarks in sectors was welcome.

5. How can FIs use the results of the Risk WG in business development?

   - Markus: They should design targeted financial instruments for energy renovations.

6. Has the WG looked at replacing EPCs with energy performance per m2?

   - Markus: Moving from energy demand to energy consumption data provides additional information on the behaviour of the current residents, but also needs to be considerate of GDPR issues.

7. How does the KfW look at CO2 emissions in buildings?

   - Bettina: There is a gradual move towards both intensity standards and a lifecycle approach. The KfW approach will be modified in the coming months.

5. Panel I: Financial Institutions (FI) Panel - Applying the energy efficiency first principle in sustainable finance (Jonathan Maxwell, Sustainable Development Capital, Ian Smith, EBRD, Moderated by Peter Sweatman, EEFIG Rapporteur)

Members from financial institutions discussed the role of the Energy Efficiency First Principle in scaling up EE investments to meet the 2030 climate ambitions.

Ian Smith, Head of Green Financial Systems, EBRD, presented the role of EBRD and outlined the application of the Energy Efficiency First principle in EBRD. Energy efficiency is often a moving target. The EBRD aligns with reference methodologies and recognised good practice to track energy efficiency finance with market integrity.

He noted that EBRD’s experience is that application of the TCFD framework - having similar principles embedded into their operations - has been very helpful in putting energy efficiency first. He outlined the methodologies and criteria applied in EBRD for climate finance. Furthermore, he described the green finance project cycle in EBRD where green finance attribution follows the operation project cycle; GET eligibility of the project, its components and impacts are reviewed both at Concept and Final Review stage; During due diligence, the requirements of the Environmental and Social Policy, together with the GET approach principles are applied; and at Final Review stage, the Environment and Sustainability Department confirms the green finance to management.

Jonathan Maxwell, CEO, Sustainable Development Capital, described the energy efficiency investment portfolio of SDC which includes around 50,000 buildings in specialized investment vehicles. The investment vehicles target specific stages in the project lifetime. One example is an exchange listed vehicle focussed on mature stable investments in operational EE assets including onsite generation. This is harder for investments in industrial EE asset that include process retrofit where a private investment vehicle for greenfield investments is applied.

He noted that there is a clear client demand for investment opportunities that deliver results within a short timeframe to meet the need to shift Europe from gas to other sources and reduce demand for energy.

The EEFIG Rapporteur Peter Sweatman, asked the panellists the following questions from the Q&A:

1. Ian, you introduced the EBRD as having operating principles, since its foundation, that are aligned with the thematic areas of the Task Force on Climate-Related Financial Disclosures. Have those principles changed over time and how difficult would it be to for an organisation to introduce these operating principles if they didn't already exist?
    - Ian: Initially operations principles focussed on safeguards and avoiding risks. Introduction of targets for EE financing and ensuring that processes and tools are in place has also developed over time.
2. Ian, you explained the process that the EBRD follows to determine eligibility and to attribute finance to energy efficiency projects. Is the attribution always clear or are there sometimes disagreements?
    - Ian: This is mainly an issue for more innovative technologies and are taken through the committees.
3. Jonathan, within the residential mortgage sector, do you include minimum portfolio intensity targets in KwH/m2 for energy consumption in your buildings investments?
    - Jonathan: In the residential sector this makes sense, but in commercial and industrial buildings work on standards are required.
4. Jonathan, what are the most powerful things FIs can do?
    - Jonathan: They need to see the other side of the coin as a market opportunity. The entire market has been dominated by RE. The benefits of EE and that it can be cheaper needs to be articulated better. The risks in the EE sector can increasingly be mitigated and track records of how this can be done are very useful. Credit risk reduction instruments developed by Multilateral Actors are key here.
5. Ian, does EBRD look for energy intensity metrics in engagement with industry
    - Ian: We Increasingly go beyond energy intensity metrics and look at low carbon pathways and long-term engagements with industry supporting the move towards decarbonisation.

6. Panel II: Panel - Stimulating Demand for Energy Efficiency Investments and Monitoring data on energy efficiency investments & financing (Josephine Maguire, SEAI, Luca Bertalot,

EMF ECBC, DEBORAH REVOLTELLA, EIB, VESNA BUKARICA, CROATIA ENERGY INST., MODERATED BY PETER SWEATMAN, EEFIG RAPPORTEUR)

Members of recently launched EEFIG WGs discuss how barriers related to demand activation and tracking investment & financing levels can be addressed.

Josephine Maguire, National Coordinator - Better Energy, Sustainable Energy Authority of Ireland, outlined the ambitions Irish plans for upgrading building energy efficiency, and presented the Consumer Decision-Making Framework used by SEAI. One of the tools for this is the recently launched One Stop Shop (OSS) Service which includes a complete home energy upgrade solution for homeowners, deeper energy upgrades project are to achieve a minimum B2 BER rating, the OSS offers a wider range of fixed grants of up to 50% of the cost of works, homeowners pay for the works net of the eligible grant, fully quality assured, managed solution from start to finish; homes must be built and occupied before 2011 to be eligible, these can then choose from the list of registered one stop shops on www.seai.ie. The principle is that the one stop shop organises it all, only charging the consumer the net cost of the grant, making it much easier for the consumer.

Luca Bertalot, Secretary General, EMF ECBC, outlined the results of the Energy Efficient Mortgage Initiative. The initiative is now being extended to an ecosystem of market actors which is being piloted in Italy with a supporting simulator that allows the consumers to model the energy saving in their own house.

Deborah Revoltella, EIB, presented their work on gathering data on energy efficiency investments. The data indicated a strong correlation between the undertaking of an energy audit and the likelihood future energy efficiency investments.

Vesna Bukarica, Croatia Energy Inst., discussed the role of grants in reporting of energy efficiency investment data. Stimulation of demand for EE in Croatia is primarily based on grants with high grant rates reflecting typical payback times of 20 years or more. Grant based policies should gradually be moved to market-based policies but this requires better data and very little information is available on market based activities today.

The EEFIG Rapporteur Peter Sweatman, asked the panellists the following questions:

1. Can the Irish OSS cope with the many renovations needed and how are FIs involved? How does the OSS ensure the quality of home upgrades?

    - Josephine: 500,00 homes need to be upgraded and 400,000 heat pumps installed. This requires a quadrupling of current activities including people working in this field. Part of the one stop shop is to help on the contractual side. An increasingly interest is seen from the banks, e.g. in the form of green mortgages, personal green loans for home energy upgrades. Also, further proposals for de-risking mechanisms are being investigated by the Government.

2. Do FIs ask for energy audits when financing SMEs?

- Deborah: Energy audits are key tools for SMEs and we and our partners at EIB use them to identify investment opportunities.

3. Clearly grants can be leaders in getting data from buildings, but there is insufficient grants to renovate all of Croatian buildings - how do you see the FIs moving into that space?

    - Ivana: We do see FIs entering the market, and they do use the data which we can find in grant programmes, and yet more work is needed in the co-development of blended finance.

7. View from the EEFIG SC – How do we deliver on the Renovation Wave (Sasha Njaguli, DWS)

Sasha Njaguli, Global Head of ESG, Real Estate, DWS, noted that a lot of progress has been made by EEFIG, but there is plenty of opportunity for further work and impact. Prior EEFIG recommendations are only partially being implemented and energy efficiency capex is only starting to tick up towards Commission's (2020) estimates of investment needs.

She noted that DWS see key opportunities in the following areas:

- Real economy policies, including: Communicating the need to act with all Europeans; Matching building specific policy metrics with investor metrics such as science based CRREM; Addressing the landlord-tenant energy data challenges, which may require regulatory changes; and Establishing a pay for performance market with revenue for retrofits by connecting energy markets with energy efficiency instead of fossil fuels.

- Financial institution policies, including: Strengthening & expanding leadership of banks in the Energy Efficient Mortgage Initiative; Encouraging 'brown to green' real estate impact strategies such as Sustainable Finance Disclosure Regulation and product labelling; and Developing real estate metrics that support robust, transparent and comparable disclosure for investors to understand both climate and holistic ESG performance.

- In general, financial institutions could play a role in supporting a mass behaviour change communication campaign.

8. Conclusions and closure remarks (Claudia Canevari, DG ENER)

Claudia Canevari, Head of Unit, DG ENER, noted that the renovation of buildings was identified today as one of the most urgent actions for decarbonisation but energy efficiency in industry and SMEs is also urgent in light of the current dual energy crisis.

She briefly recapped the day's presentations and discussions.

Hans van Steen, Principal Adviser at DG ENER, noted the successful history of EEFIG and the importance of the EEFIG members in supporting the Fit for 55 Package. He underlined the accelerated ambition reflected in the REPowerEU communication and its emerging action plan and how FIs can support this in collaboration with the EC.

In her Keynote Speech on the Role of FIs in Delivering the EU Climate Ambitions, Bianca de Bruijn van der Gaag, ING, outlined ING's overall sustainability commitment and explained the efforts of the German mortgage business to green their mortgage portfolio.

After this, the results of two key EEFIG WGs whose reports were published by the EC last week were presented.

Bettina Dorendorf, KfW, EEFIG WG on Evolution of Financing Practices, underlined the importance of mobilizing much more private finance for EE if the 2030 and 2050 climate goals are to be met.

Dr. Markus Seifert, d-fine, EEFIG WG on Risk Assessment, presented the results of statistical analysis in four European countries that indicated that loans on EE properties are less risky.

In the first panel discussion, members from financial institutions discussed the role of the Energy Efficiency First Principle in scaling up EE investments to meet the 2030 climate ambitions. Jonathan Maxwell, Sustainable Development Capital, and Ian Smith, EBRD, discussed the challenges and opportunities of practical application of the EE1st principle in FIs.

In the second panel discussion, members of recently launched EEFIG WGs discuss how barriers related to demand activation and tracking investment & financing levels can be addressed. Josephine Maguire, Sustainable Energy Authority of Ireland, presented the Irish experience with OSS. Luca Bertalot, EMF ECBC, outlined the results of the Energy Efficient Mortgage Initiative. Deborah Revoltella, EIB, presented their work on gathering data on energy efficiency investments. Vesna Bukarica, Croatia Energy Inst., discussed the role of grants in energy efficiency financing in Croatia and the importance of better energy efficiency investment data.

Finally, Sasha Njaguli, DWS, one of Europe's largest asset managers, reflected on how EEFIG and FIs can help deliver on the Renovation Wave.

Before closing the Open Plenary, she thanked all speakers and participants as well as the EEFIG Support Team and the Rapporteur Peter Sweatman for a very interesting event, and looked forward to seeing many EEFIG members again on the second day of the Plenary where there will be more time for in-depth discussions.

Finally, she encouraged all interested, but esp. financial institutions to subscribe to the EEFIG newsletter and join the EEFIG.