

Energy-Savings Insurance

Energy-efficiency investments are constrained by the uncertainty associated with projected energy savings. One means to reduce that risk is through insurance.

Energy-savings insurance, according to a report from Lawrence Berkeley National Laboratory, can “reduce the net cost of energy-saving projects by reducing the interest rates charged by lenders, and by increasing the level of savings through quality control.”

Several insurance companies already offer Energy-Saving Insurance (ESI), which traditionally has been used to guarantee power reductions at retrofitted buildings. State governments have led ESI efforts, with several requiring such insurance from firms that provide energy management services in state-owned facilities. Expanding this approach to the commercial and industrial sectors would vastly enhance energy efficiency and reduce pollution and greenhouse-gas emissions.

In the industrial sector, manufacturers focus on their core activities and turn to third-party providers to recycle their waste energy streams into electricity. A recent study for the U.S. Environmental Protection Agency calculated that capturing industrial waste energy could meet 19 percent of the nation’s electricity needs. Yet these third parties are constrained by the risk of a reduction or elimination in the flow of waste energy from the industrial facility. For the well-established manufacturer, that risk is slim, but from the perspective of the financial community, it is substantial enough to discourage financing for new energy-recycling efforts. Insurance would reduce that risk and lower financing costs for clean energy,

The insurance industry already offers limited forms of ESI and is interested in expanded products that could help reduce the impacts of global climate change, noting that increased floods and hurricanes have a major financial impact on insurers. Insurance companies, in fact, could take a profitable leadership role in reducing greenhouse gas emissions.

In Energy Independence legislation, Congress could enhance efficiency and cut greenhouse-gas emissions by helping to advance the ESI model into the commercial and industrial sectors. Federal options are numerous. One would have the government be the insurer of last resort if commercial insurance is not made available. A second option is to be a reinsurer, providing a secondary level of risk coverage to back-stop the commercial insurance industry. Another approach would be to offer tax deductions for ESI premiums.