
Mandating Energy Efficiency Rating of Commercial Buildings

The Institute for Market Transformation provides technical and policy research and consulting to federal, state and local policymakers to facilitate EPA ENERGY STAR rating and disclosure mandates for commercial buildings. “Benchmarking” means to compare the energy efficiency performance of buildings on an apples-to-apples uniform rating scale (e.g. a scale from 1 to 100.) Voluntary ENERGY STAR benchmarking of commercial buildings is a widely adopted best-practice that helps building owners:

- Set efficiency goals;
- Track incremental gains in the efficiency of individual buildings and building portfolios;
- Identify and replicate best practices in building operations; and
- Prioritize investments in energy audits, retrocommissioning and retrofits.

As Peter Drucker famously said, “You can’t manage what you don’t measure.” Billions of square feet of U.S. nonresidential floor space has been benchmarked, yet that accounts for just a fraction of the total building stock. Most building owners still don’t benchmark their buildings and even among those who do, few publicly reveal their benchmark ratings or other performance data. The failure to publicize this data deprives the marketplace of data points for efficiency comparison, including for use in goal setting and valuing buildings. As a result, efficient buildings are undervalued and the availability of financing for investment in energy-efficient buildings and retrofits is restricted.

Mandating building energy benchmarking and public disclosure directly and effectively addresses these market failures. Internationally, these policies are becoming popular. All European Union member states are required to devise and implement mandatory systems for building energy efficiency rating and public disclosure, and for several years the Australian government has required public benchmarking for office buildings seeking government tenants.

Progress has been slower in the United States, yet recent developments are encouraging. In 2007, the state of California adopted a law requiring ENERGY STAR rating and disclosure for commercial buildings prior to a real estate transaction. The provision requires utilities to support the mandate by uploading energy data to ENERGY STAR upon customer request. The District of Columbia enacted a law in 2008 that requires annual ENERGY STAR rating and the disclosure of ratings to a public, online database. In 2009, the state of Washington and New York City passed rating and disclosure legislation based on the California and District of Columbia models. New mandates are pending in the cities of Seattle and San Francisco. IMT helped design the legislation in the District of Columbia and New York City.

In Australia, benchmarking and public disclosure mandates have already sparked a virtuous cycle of fierce competition among buildings to be the most efficient. Analyses and modeling in New York City, Washington, DC, and Seattle predict significant greenhouse gas reductions, job growth and energy cost savings from rating and disclosure policies. Additionally, efficient buildings cost less to operate and are more competitive in the real estate marketplace.