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March 2, 2023

Submitted @

https://www.energystar.gov/buildings/building\_recognition/energy\_star\_nextgen\_c ertification\_commercial\_buildings/submit\_comments

Mr. Joseph Goffman Principal Deputy Assistant Administrator Office of Air and Radiation U.S. Environmental Protection Agency 1200 Pennsylvania Ave., NW Washington, DC 20460

Re: ENERGY STAR NextGen™ Proposed Certification for Commercial Buildings

Dear Principal Deputy Assistant Administrator Goffman:

The Real Estate Roundtable (www.rer.org) ("The Roundtable") appreciates this opportunity to comment on the ENERGY STAR program's NextGen™ proposal for voluntary certification of energy-efficient, low-carbon commercial and multifamily buildings (hereafter, "NextGen Proposal" or "Proposal"). The Roundtable brings together the leaders of the nation's top publicly held and privately owned real estate ownership, development, lending, and management firms, together with the leaders of major real estate trade associations, to address jointly national policy issues relating to real estate and the overall economy. The addendum to this letter provides more information on The Roundtable.¹

### **SUMMARY**

- ENERGY STAR has enjoyed three decades of success.<sup>2</sup> The Roundtable is proud of our collaboration with EPA over these years to help produce a critical, non-binding, logical, and broadly adopted building certification program. We have partnered to develop tools that have become real estate industry standards to calculate, report, and show progress on reductions in energy use and GHG emissions. A key reason for ENERGY STAR's success is that many cities and states have adopted EPA's useful, well-constructed federal metrics and resources to measure environmental impacts of buildings.
- EPA's proposed voluntary NextGen certification likewise has great potential for widespread market acceptance particularly as a paradigm to help cities and states develop building performance standards ("BPS"). NextGen can serve as a significant federal policy lever that will provide definition in the current confusing and conflicting local government BPS patchwork that exists across the nation.

<sup>&</sup>lt;sup>1</sup> See https://www.rer.org/about-us/mission.

<sup>&</sup>lt;sup>2</sup> EPA, "ENERGY STAR History and Major Milestones."

- We rely that any voluntary NextGen program will preserve the rigor and integrity of EPA and its ENERGY STAR brand and create measurable and attainable processes and standards to improve sustainability and reduce carbon from the activities of American businesses and families housed by American real estate.
- Before EPA releases a final NextGen program to the marketplace, it should work with Roundtable members, the Public Buildings Service, and other private and government owners to pilot criteria in actual assets. The current performance and capital markets disruption in the real estate industry requires climate policy actions which are implementable with a reasoned investment and return objective.
- The Roundtable appreciates EPA's thoughtful Proposal. We concur with EPA's objective for simple and straightforward NextGen criteria to apply nationwide. Several refinements can make the framework even stronger:
  - ➤ ENERGY STAR certification ("75" score or higher) should not be the sole efficiency criterion. EPA should encourage inefficient performers, who have the greatest opportunity for improvement, to reduce energy consumption and emissions through the NextGen program. The Biden Administration's economy-wide, low-carbon goals will be better achieved if NextGen certification can also be based on documented, significant progress by buildings which are poor performers to lower energy consumption but do not achieve ENERGY STAR certification. As examples, demonstrated reductions in site energy usage intensity ("site EUI") achieved by implementation of a retrofit and/or operations plan certified by a licensed professional, where the plan results in at least median EUI for the building's asset class should be NextGen eligible.
  - As a platform for real estate's role to help progress toward a net-zero emissions economy by 2050 and to encourage private owners' long-term engagement the NextGen label's required level of renewable energy usage should logically be relevant to changes in the grid and reasonable opportunities to improve over time. The Proposal recommends that 30% of a building's total energy use should derive from renewable sources. We agree that the percentage must pertain to *total* energy usage (not just *electricity* usage.) We further recommend that the renewables percentage should start at 20% of total building energy use upon program launch. Thereafter, to reflect the rate of changes regarding the carbon intensity of the relevant property's electric grid, the renewable energy requirement should adjust and "normalize" at a minimum in accord with EPA's latest federal eGRID factor for the region in which a building is located.
  - The Proposal requires that a percentage of the building's total energy use must derive from any combination of onsite renewable electricity, offsite green power procurement, renewable fuels, and/or renewable thermal certificates. We encourage EPA to add onsite storage and renewable ground source heating and cooling as eligible upon NextGen's launch. Future NextGen updates should allow for peak load mitigation and we encourage Portfolio Manager's evolution for a building to track its progress to use less electricity at times of peak demand. In addition, The Roundtable strongly supports the Proposal's allowance for purchase of renewable energy certificates ("RECs"). The NextGen label gives EPA a prime opportunity to develop much-needed standards to further credible corporate claims of offsite clean energy development through RECs.
  - The Roundtable supports EPA's well-reasoned proposed criterion for a "direct" (*i.e.*, onsite) greenhouse gas emissions intensity ("GHGi") target that is "normalized" based on each building's type and weather in terms of heating degree days ("HDD").

➤ EPA should optimize procedural efficiencies. The agency should allow a building to obtain concurrently both ENERGY STAR and NextGen certifications in the same application. We also recommend that NextGen certifications operate on a three-year cycle. Thus, for buildings already ENERGY STAR labeled that want to apply for low-carbon recognition, a "75" score certified within the last three years – from the submittal date of a NextGen application – should be eligible to satisfy the supplemental renewable energy use and GHGi criteria.

\* \* \*

More detailed comments follow. Thank you for this opportunity to present our perspectives. Please contact The Roundtable's Senior Vice President and Counsel, Duane J. Desiderio (ddesiderio@rer.org), for more information.

Sincerely,

Jeffrey D. DeBoer

President and Chief Executive Officer

### **DETAILED COMMENTS**

(1) Voluntary ENERGY STAR NextGen criteria can provide a federal guideline that brings consistency to the confusing patchwork of city and state building performance standards.

Different state, city, and municipal building performance standards ("BPS") across the U.S.<sup>3</sup> impose varying methods, metrics, and measurements for reductions in buildings' energy use and emissions. This hodge-podge obfuscates the public's ability to compare and contrast standards from one jurisdiction to the next, complicates regulators' enforcement, hinders responsible investment strategies, and unduly complicates compliance by owners and managers with nationwide portfolios. EPA, of course, has no authority from Congress to develop BPS *mandates* for non-federal buildings. However, the *voluntary* NextGen Proposal can provide an authoritative, additional ENERGY STAR guideline<sup>4</sup> to leverage consistency in "appropriate metrics and methods to ensure equitable BPS targets."

The Roundtable particularly encourages EPA to educate federal, state, and local stakeholders in the <u>National BPS Coalition</u> on how a national NextGen label can align with the Biden Administration's efforts to support local adoption of building mandates by Earth Day 2024.<sup>6</sup> NextGen has major potential to exemplify federal leadership on sensible and attainable efficiency, emissions, and electrification ordinances.

(2) Voluntary NextGen certification must offer meaningful, attainable, and cost-effective standards that reflect the significant challenges affecting commercial real estate – especially office assets – in the post-pandemic economy.

Compliance with local BPS laws can result in extensive capital expenditure projects that mandate a building to reach generic, legislatively-imposed, one-size-fits-all energy efficiency and/or GHG "targets." These targets typically do not account for key variables that impact a building's operations,<sup>7</sup> or the nature of high-intensity energy uses in a building.<sup>8</sup> Failure to achieve a BPS target generally results in fines on a building owner.

<sup>&</sup>lt;sup>3</sup> Institute for Market Transformation (IMT) *Map:* <u>U.S. City, County, and State Policies for Existing Buildings:</u> <u>Benchmarking, Transparency and Beyond</u> (updated July 2022); <u>Map: National BPS Coalition Participating Jurisdictions.</u>

<sup>&</sup>lt;sup>4</sup> E.g., <u>EPA Recommended Metrics and Normalization Methods for Use in State and Local Building Performance Standards</u> (updated Nov. 2022) (recommending normalized site EUI and reductions in onsite GHG emissions as appropriate metrics for state and local BPS).

<sup>&</sup>lt;sup>5</sup> See <a href="https://www.energystar.gov/buildings/tools-and-resources/epa\_recommended\_metrics\_and\_normalization\_methods\_use\_state\_and\_local\_building.">https://www.energystar.gov/buildings/tools-and-resources/epa\_recommended\_metrics\_and\_normalization\_methods\_use\_state\_and\_local\_building.</a>

<sup>&</sup>lt;sup>6</sup> See <u>https://nationalbpscoalition.org/</u>.

<sup>&</sup>lt;sup>7</sup> Such as its tenant mix, hours of operation, occupancy level, climactic conditions, or ventilation rates to optimize indoor air quality.

<sup>&</sup>lt;sup>8</sup> Such as data centers, trading floors, broadcast studios, showrooms, or lighting/security systems.

The BPS trend occurs at a time when some buildings confront serious economic headwinds to remain productive and generate rental income. Commercial real estate markets are stressed by rising interest rates and rising office vacancy rates as hybrid work practices (accelerated by the COVID-19 pandemic) render some buildings less competitive (particularly assets in urban markets and their central business districts), less capable of paying mortgages and property taxes – and thus less able to contribute the revenue that local governments need for essential community services and infrastructure.<sup>9</sup>

BPS laws must not exacerbate worsening economic trends. Instead, regulators must develop workable, attainable, and cost-efficient environmental standards grounded in the realities of current market conditions. Energy efficiency and renewable energy projects implemented to achieve BPS compliance must be grounded in financial performance that offer building owners reasonable returns on their investments.

Climate and energy programs can drive private sector buildings toward low-carbon goals without excessive government regulations, complex directives, or punitive fines. The NextGen Proposal steps in the right direction because it offers transformative yet straightforward guidelines preferable to many local BPS regimes.

(3) Any NextGen certification should be tested in actual buildings – including federal buildings – before EPA makes the low-carbon label available in the marketplace.

The Roundtable encourages EPA to conduct a pilot phase to refine proposed NextGen criteria in actual buildings before the label is released for market-wide adoption. In this regard, we look forward to continue our track record to help EPA grow and evolve the ENERGY STAR buildings program:

• The Roundtable was the main industry advocate that built bipartisan consensus in Congress for the "Energy Efficiency Improvement Act of 2015," the last piece of legislation to create a new federal building labeling program. That act authorized EPA to create its "ENERGY STAR Tenant Space" recognition program. Post-enactment, The Roundtable and our Sustainability Policy Advisory Committee ("SPAC") coordinated closely with EPA during an inaugural phase for "charter tenants" to test the concept. 12

-2-

<sup>&</sup>lt;sup>9</sup> See, e.g., Peter Grant, "Office Landlord Defaults are Escalating as Lenders Brace for More Distress," Wall Street Journal (Feb. 21, 2023); Carmen Arroyo and Charles E. Williams, "Commercial Property Market Freezes, Sending Bond Volume Plummeting", Bloomberg (Feb. 17, 2023); Peter Grant, "Washington, D.C. Office Market Feeling Ill Effects of Remote Work," Wall Street Journal (Jan. 24, 2023); Eliza Theiss, "U.S. Office Market Closes 2022 with Still-Rising Vacancies and Declining Sales, Yardi CommercialEdge (Jan. 19, 2023). See also "Office Sector Shows Economic Stress," Roundtable Weekly, Feb. 3, 2023 (discussing research by KKR and CBRE and other studies on real estate capital market trends).

<sup>&</sup>lt;sup>10</sup> https://www.congress.gov/bill/114th-congress/senate-bill/535

<sup>11</sup> https://www.energystar.gov/buildings/tenants/about\_tenant\_space.

<sup>12 &</sup>quot;2018 ENERGY STAR Charter Tenants."

- In 2018-2019, SPAC members worked with EPA throughout a "study period" to assess, update, and build the real estate sector's understanding of new ENERGY STAR scoring metrics. <sup>13</sup> The effort involved a technical deep-dive that improved the underlying equations currently used for EPA's 1-100 building ratings. <sup>14</sup>
- In 2021-2022, SPAC members provided technical assistance to help develop the "Building Emissions Calculator" now housed within the Portfolio Manager benchmarking tool. NextGen's proposed enhancement for Portfolio Manager to include renewable energy tracking features has great potential as a commonplace industry standard.
- In 2020-2022, SPAC participants engaged heavily in a working group convened by ENERGY STAR to inform EPA's guidance on state and local BPS metrics. <sup>16</sup>
- In collaboration with the U.S. Department of Energy ("DOE"), The Roundtable encouraged our members to participate in the "Better Buildings Challenge" when it launched in 2011.<sup>17</sup> Last year we allied again with DOE when it unveiled the "Better Climate Challenge," a pledge that highlights voluntary corporate commitments to reduce GHG emissions.<sup>18</sup>

Moreover, the federal government can demonstrate commitment to NextGen and include its own assets in a pilot program. The General Services Administration (GSA) and its Public Buildings Service (PBS) should partner with EPA so that federally-owned real estate participates in a trial. Roundtable members likewise look forward to test driving NextGen's real world application before the label is finalized.

# (4) Specific NextGen Proposed Criteria

### • Energy Efficiency Performance

The Roundtable agrees that the NextGen program must include high energy efficiency performance as a gatekeeping element. We concur with the Proposal that ENERGY STAR certified buildings should be eligible to advance to the next steps and endeavor to satisfy renewable energy and GHGi criteria.

15 "ENERGY Star Portfolio Manager Buildings Emissions Calculator."

<sup>&</sup>lt;sup>13</sup> https://www.energystar.gov/buildings/benchmark/understand\_metrics/score\_updates.

<sup>&</sup>lt;sup>14</sup> "2018 Update to ENERGY STAR Metrics."

<sup>&</sup>lt;sup>16</sup> Normalization Methods for Use in State and Local Building Performance Standards U.S. Environmental Protection Agency (May 2022, updated Sept. 2022).

<sup>17</sup> https://betterbuildingsinitiative.energy.gov/.

<sup>&</sup>lt;sup>18</sup> https://betterbuildingssolutioncenter.energy.gov/climate-challenge. See also "Roundtable Recognized as Energy Department 'Ally' in Better Climate Challenge," *Roundtable Weekly* (March 4, 2022).

However, ENERGY STAR certification should not provide the sole efficiency pathway for low-carbon recognition. EPA should consider an additional, alternate route for an asset to demonstrate high efficiency through significant reductions in energy consumption. Buildings that have the most room to improve performance (but are not yet "top of class") should be afforded NextGen Label opportunities; these are exactly the kinds of real estate assets that need incentives to also increase renewable energy use and lower emissions.

Standards EPA used for the national "Battle of the Buildings" competition<sup>19</sup> – which recognized significant, demonstrated, and quantified reductions in energy usage intensity (EUI) using Portfolio Manager – can be relevant to satisfy NextGen's efficiency component. The Roundtable and EPA share the priority to ensure that the NextGen label preserves the strength and integrity of the ENERGY STAR brand. Accordingly, any efficiency criterion based on demonstrated EUI reductions must include certain safeguards to recognize buildings that commit to a path to achieve a "75" rating (as well as buildings not currently eligible for ENERGY STAR certification). For example:

- Any building that follows an optional EUI reduction path must at least achieve the level of "Median EUI" currently published and periodically revised by EPA for the relevant asset class.<sup>20</sup>
- Existing ENERGY STAR standards may be applied for Licensed Professionals<sup>21</sup> to certify that a retrofit/operations plan has been implemented to achieve significant EUI reductions.
- ➤ EPA should consider reductions in "normalized" *site* EUI as an appropriate metric consistent with recent policy trends. <sup>22</sup>

For NextGen purposes, efficiency performance demonstrated by ENERGY STAR certification *or* significant EUI reductions will encourage as many worthy assets as possible to strive for low-carbon recognition, increase their renewable energy usage, and lower their GHG emissions.

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<sup>&</sup>lt;sup>19</sup> See EPA, Energy-Saving Competitions; EPA, "More than 6,500 Buildings Face Off in EPA's Sixth Annual Energy Star Battle of the Buildings Competition" (July 22, 2015).

https://www.energystar.gov/buildings/save energy commercial buildings/ways save/energy saving competitions.

20 See US Energy Use Intensity by Property Type (energystar.gov).

<sup>&</sup>lt;sup>21</sup> i.e., a Professional Engineer or Registered Architect. See ENERGY STAR Guide for Licensed Professionals.

<sup>&</sup>lt;sup>22</sup> E.g., <u>EPA Recommended Metrics and Normalization Methods for Use in State and Local Building Performance Standards</u> (updated Nov. 2022); <u>26 U.S.C. § 179D(f)</u> (tax deduction allowed by *Inflation Reduction Act* allowed for retrofit projects in a "certified" plan that reduce site EUI by at least 25%).

# • Renewable Energy Use Requirement

The Proposal provides that a building must obtain at least 30% of the total energy it consumes from renewable sources. That percentage can be derived from any combination of onsite renewable electricity, offsite green power procurement, renewable fuels, and/or renewable thermal certificates.

The Roundtable concurs with this criterion to require a percentage of total *energy* use – as opposed to total *electricity* use – from renewable sources. Otherwise, all-electric assets would have a higher bar to receive NextGen recognition. That would run counter to the Administration's goals for cost-efficient and practicable electrification as the White House has articulated in its recent <u>Federal Building Performance Standard</u> for assets owned by the U.S. government.<sup>23</sup>

### ➤ Percentage of Renewable Energy Use and Periodic Adjustments

The Roundtable agrees that, to kick-start a national building recognition program, the NextGen label should establish initially a uniform percentage of renewable energy use. We recommend a 20% requirement upon the program's launch as a reasonable, nationwide baseline to encourage building owners' participation, generate industry-wide interest, and allow room for growth.

The percentage requirement will need to adjust over time as EPA envisions in the Proposal. Such alterations should reflect the grid's changing carbon intensity in the coming years as the *Infrastructure Investment and Jobs Act* and the *Inflation Reduction Act* spur more renewables deployment across the U.S. Of course, the current state of the grid's reliance on clean power and the rate at which it decarbonizes will vary greatly region by region.<sup>24</sup> The Roundtable is mindful that EPA intends to create a nationwide program, and suggests that local "normalization" of NextGen's renewable energy requirement can be achieved by periodic adjustments to the percentage based on the most updated federal standard eGRID factor applicable to the relevant property's location.<sup>25</sup>

# Additional Onsite Measures: Energy Storage, Renewable Thermal Energy, and Peak Demand Mitigation

The Roundtable encourages EPA to include storage in the percent requirement for renewable energy use. For example, if a solar array provides 15% of a building's energy use onsite, but 5% is stored and ultimately sold back to the grid, such a property should be eligible for the low-carbon label (at the 20% level we recommend) upon the program's launch.

<sup>&</sup>lt;sup>23</sup> Federal Building Performance Standard | Office of the Federal Chief Sustainability Officer.

<sup>&</sup>lt;sup>24</sup> EPA, eGRID, Power Profiler, at https://www.epa.gov/egrid/power-profiler#/.

<sup>&</sup>lt;sup>25</sup> eGRID 2021 factors (released January 30, 2023) available at <a href="https://www.epa.gov/egrid/download-data">https://www.epa.gov/egrid/download-data</a>.

We also recommend that the requisite percentage should encompass renewable thermal technologies that harness clean energy sources for heating, cooling, hot water, cooking and other building functions. The NextGen program should incentivize deployment of air-, ground- and water-source heat pumps, hot water heaters, biofuels, and similar renewable thermal technologies deployed in low-carbon assets.

The Roundtable also encourages NextGen to move toward allowance of "peak demand" mitigation measures. Currently, Portfolio Manager allows owners to input items from their monthly utility bills for "Electric Demand" (the rate of using electricity) and "Electric Demand Cost" (the cost charged by a utility for such demand). However, Portfolio Manager currently offers no function to measure or report quantifiable metrics that capture a building owner's progress to use less electricity at times of peak demand. Portfolio Manager should be enhanced to capture peak demand mitigation, and when it does, the NextGen label should accommodate those achievements in the energy use percentage criterion.

### ➤ Offsite Power Procurement: Renewable Energy Certificates (RECs)

Not all buildings can deploy renewable energy measures onsite. Buildings in dense urban locations, for example, are not conducive to extensive installations of solar panels or wind turbines. Accordingly, The Roundtable strongly supports the Proposal insofar as it allows *offsite* green power procurement as a method to satisfy the renewable energy use criterion.

NextGen recognition can provide a significant platform that establishes corporate accounting guidelines for purchasing Renewable Energy Certificates ("RECs") in a field where there is currently minimal regulatory oversight. EPA ENERGY STAR has a prime opportunity here to standardize credible claims of REC ownership through factors already articulated on the agency's "Green Power Markets" website.<sup>27</sup> For purposes of the proposed label, an organization should promote its renewable energy consumption through RECs by showing it:

- ✓ Has exclusive, contractual rights to the environmental attributes of the RECs it purchases;
- ✓ Retains those rights and does not sell them;
- ✓ Limits claims to match the scope of its REC purchases (here, for the tailored purpose of mitigating emissions from electricity consumed by a specific building(s) seeking NextGen recognition);

-6-

<sup>&</sup>lt;sup>26</sup> EPA, ENERGY STAR, Portfolio Manager, "How to Track Electric Demand in Portfolio Manager" (May 2021).

<sup>&</sup>lt;sup>27</sup> EPA, Green Power Markets, "Credible Claims."

- ✓ Retires RECs associated with a green power purchase to prevent "double counting";
- ✓ Certifies and verifies qualifying RECs by an independent third-party; and
- ✓ Maintains the paperwork needed to substantiate its ownership of the energy attributes of verified RECs.

Furthermore, NextGen certification can help clarify market confusion that persists to distinguish between RECs and carbon "offsets." In this regard, RECs support claims of reduced Scope 2 emissions (in terms of Megawatt hours (MWh) from purchased clean electricity) – and EPA does not intend that "offsets" (for metric tons of avoided CO<sub>2</sub>) are eligible to satisfy NextGen's renewable energy component. Similarly, through the low-carbon label, ENERGY STAR can educate stakeholders on why NextGen's awardees should avoid misplaced claims of "additionality" in the context of REC purchases and associated renewable energy development.<sup>29</sup>

Normalized Greenhouse Gas Intensity (GHGi) Target

The Roundtable supports EPA's approach on this element. We commend EPA's method to normalize a GHGi target that correlates to the building's specific asset type and weather conditions based on Heating Degree Days ("HDD"). The Roundtable supported equitable building ratings based on HDD when we collaborated on the 2018 update to ENERGY STAR's scoring equations.<sup>30</sup> We agree that a similar approach resonates in the NextGen context as well.

#### Application Process and Timing

EPA should consider how it can best optimize procedural efficiencies in NextGen applications, as follows:

An owner should not have to file separate applications for ENERGY STAR certifications and NextGen certifications. EPA should establish procedures so that a company may seek both labels for a specific building in a single, concurrent application.

<sup>&</sup>lt;sup>28</sup> EPA, Green Power Partnership, "Offsets and RECs: What's the Difference?" (Feb. 2018).

<sup>&</sup>lt;sup>29</sup> Supra note 27, bullet 9. That bullet on EPA's Green Power Markets website cites a World Resources Institute (WRI) report which states, "the term additionality is best avoided in the context of voluntary purchasing and consumption of renewable electricity" and REC purchasing companies should "instead focus on describing their leadership in using renewable electricity." WRI authors, "<u>Describing Purchaser Impact in U.S. Voluntary Renewable Energy Markets</u>," at 9 (April 2018).

<sup>&</sup>lt;sup>30</sup> Supra note 16 and accompanying text.

A number of companies with nationwide portfolios pursue updates to their multiple assets' ENERGY STAR certifications in cycles; they do not renew ENERGY STAR certifications for all of their buildings every year. With this common industry practice in mind, we recommend a three-year cadence for NextGen certification renewals. This would mean that an ENERGY STAR certification within the previous three years of a NextGen application's submittal should be allowed for that asset's low-carbon recognition.

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For more information on these comments, please contact The Roundtable's Senior Vice President and Counsel, Duane J. Desiderio (ddesiderio@rer.org).



# **ADDENDUM**

### **About The Real Estate Roundtable**

https://www.rer.org/about-us/mission

The Roundtable's membership represents over 3 million people working in real estate; some 12 billion square feet of office, retail, and industrial space; over 4 million apartments; and more than 5 million hotel rooms. It also includes the owners, managers, developers, and financiers of senior, student, and manufactured housing as well as medical offices, life science campuses, data centers, cell towers, and self-storage properties. The collective value of assets held by Roundtable members exceeds \$4 trillion.

# Who We Are

