"Show Me The Money"

(Confessions of an Energy Manager for Real Estate Properties)

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ABSTRACT

I suppose my altruism is suspect, because when it comes to energy conservation I have to confess that I am not motivated by concern for the environment. Not that I am some rapacious strip-miner, just that after almost thirty years in the industry I've never seen a client spend hundreds of thousands of dollars on a system upgrade solely to help prevent global warming.

And lately I've noticed things have evolved even beyond that point, and come more directly to what I call bottom-line motivation.

CASH

You may say this is no revelation, but in fact it is, and the evolving energy retrofit industry is beginning to reflect this change in understanding. But let me first take things even a step further. **I don't really care about saving energy either.**

Heresy, I know, but think about it. If I want to get a project approved I need to be worried about one thing—money. That's what sells the project, that's what gets things approved. The environment and benefit to the energy industry are just part of the bonus package.

And I mean to sell an energy project to a client if I'm a consultant or contractor. Sell a project to my boss if I'm a real estate manager. Sell a project to the execs if we own and occupy the building. Sell a project to the board if we hold investment property. All the same—**money makes the decision.**

PROOF: REBATE PROGRAMS

Obviously I am not alone in this thinking, and for evidence of this simply look at energy efficiency rebate programs. They all offer money. They don't offer a means to sidestep the building permit process, and they don't offer you an environmental credit so you can pour more waste into the neighborhood stream in exchange for using T-8 lighting (although Seattle does have a fascinating environmental credit program worth looking at). **The rebate comes right at the bottom line and they send you a check.**

And yet even here with rebates we often have a tough time selling the job, so what's wrong with the formula? Something else is playing other than simply money.

Somewhere along the line we need to redefine "cash." **Cash is not a discount. Cash is not a credit. Cash is not an on-going savings.**

Cash is CASH, good old green stuff you can spend anywhere, and this is essentially how things are changing.

Most efficiency upgrade projects offer the property something other than real money. And because of these rebate or performance structures, the offer is often declined, as it in fact will not benefit the building owner. This is key—**it does not benefit the person writing the check.**

"CASH IN THE BANK?"

Countless times I have listened to proposals detailing energy savings and performance, described as "cash in the bank." No—it isn't. "Good as cash." No—it isn't. "It's just like cash in your pocket!" No—it is not just like that. Otherwise, these projects would sell themselves.

For some rebate programs you first spend a lot of money doing engineering to design a project. There is no guarantee you will recover any of this money. Then you spend money doing the actual work, based on the promise that, if it performs, you will get some funding over a period of time. Then you spend money demonstrating the performance, and over a period of perhaps a few years you will receive a portion of the capital cost of the project.

BUT...

But that money may not reach your pocket. The property may have changed hands. The lease language may dictate that any such rebate go to the tenants, rather than to the landlord who performed the upgrade. Or the funding may come in the form of an on-going utility credit that would also benefit the tenants. Either way, the money comes back in a form that does not directly benefit whoever laid out the cash to begin with. And this also counts in owner-occupied structures.

And consider personal motivation. People change jobs, they change roles within a company, they move around. A project that may produce a rebate check in a few years isn't going to make you look good right now, but it may make the person who follows you look good when the money does arrive. Given your choice of projects to pursue, will you elect to focus on something with an immediate return, or an "iffy" future?

Sure, there are direct rebate programs where you get $15 for every occupancy sensor you install, right up front when you show the receipt. **No proof of energy savings is required, and often not even any proof that you actually installed the devices.**

These are always the first energy conservation rebates to be approached each year, and then the funds are depleted, for just the reasons I have already stated. And these programs don't cover the type of big-ticket projects we all want to be involved with, such as new chiller plants.

Then comes the argument of doing upgrades for the sake of on-going energy/cost savings. We all know the pitch: If you use these light bulbs in place of your old ones, they will save you the cost of the project in two years, and provide a pure profit forever after. In fact this is true enough, but not many people care, again for some of the same reasons as above.

LIKE HOLLYWOOD...

Kind of like life in Hollywood—what have you done for me today (not tomorrow?) Additionally comes the problem that you can't consider your load as a fixed constant, but rather as a dynamic that will change due to any number of influences.

So you effect changes that will reduce your load, and the company puts in a new telecom call center and the usage for the property goes up. Even though people know intuitively that what you did is a good thing, they don't see the savings and it gets tough to keep going back to the same cash well for future projects.

Again, given how fickle this is, where you would you focus your future attention? **Cash**. Not savings, not performance, not credit—cash. And **now**, not in the future.

This struck me recently because I have a large client who is doing energy retrofits across the country, on a $15 billion portfolio. This client keeps bringing me hardware ideas from various vendors for consideration, and many of them are either snake oil or simply not a good application—at least in terms of savings. But I don't care.

I keep telling my client, "Let me tell them what kind of contract I want, and then who cares how the product performs!"

The New Bottom Line

And this is the new bottom line—*show me the money*. Don't tell me it will save me money; show me the money—**NOW**. Many vendors will guarantee a savings of 100 percent of 80 percent, and in fact they get this performance underwritten by a third party insurer. So if a measure will save (in theory) 1000 kilowatts by design, they will guarantee that you will receive 80 percent of that in practice.

But here again we come to the demon of measurement and validation, and the long return on the investment. Somebody has to baby-sit this operation and determine in this minefield of variables that indeed you are realizing the savings. And then if it is agreed that you are not gaining the stated advantage, you'll be paid the difference. But by now you are a year or more down the road and maybe you don't even own the property any longer.

Contractors are getting wise to this sales hurdle and are now finding ways, with much urging, to show the money up front where it counts.

Today in a performance contract I will look for the estimated savings derived by design, and will discuss with the vendor a guarantee period for performance; let's say five years. Then we will look for agreement on a cost of energy across that period, allowing for increases in utility costs. This savings in energy, times period of performance, times the agreed cost of energy will give us a return value for the project in dollars. Now all we have to do is negotiate how much of that I can have up front.

Of course it won't be the 80 percent normally promised, and of course nobody gives away money. But it does pay for the project, and it does look good to the accountants.

WHAT ABOUT THE VENDOR?

So what does the vendor get for being out of pocket? A maintenance contract for the term of the performance guarantee. This is almost certainly a contract that would have been in place anyway, such as a service contract on air-conditioning equipment. And the argument goes that in order to assure performance, the contractor needs to have control of the maintenance of the system to assure it is operating at peak efficiency. And indeed, if they do perform this way, you will receive both the up-front money and a reduced cost of energy through lower consumption.

The only thing to watch out for is making sure you are not paying an unreasonable premium on the maintenance contract.

There is another approach far easier and far faster, and this involves rebate funds. If a contractor states that their product is approved for any type of rebate funding, let them front the money. The best way to do this is establish the fixed price for the project, and then have them reduce the cost by the amount of the rebate. Then it is their responsibility (and problem) to acquire the rebate, which naturally they get to keep.

THE MONEY—UP FRONT

This is very attractive because it removes you from the hot seat of processing a lot of paperwork, managing a verification program, working with the utility, and possibly having the rug pulled out if funding does not come through. And—it shows you the money right up front where it counts, and where it is noticed.

I recently had a lighting contractor do this exact thing. They determined a retrofit to their lighting technology would be worth several thousands of dollars in rebates, and they removed this amount from the cost of the project, and took upon themselves the burden of acquiring the rebate.

It was wonderful! There was no smoke and mirrors, the numbers all played out, and the deal was real. Better yet—funding for the rebate program had not yet been approved by the utility/ government and so there was some risk my client found unattractive. Now there was no risk at all—just pure up-front money.

Now when someone tells me they think this piece of equipment may not work, I ask, 'So what?" The paperwork behind it is what counts. The deal I can cut with the vendor is what counts. We may not save the environment, and we may not realize a savings every month, but we have cash in our pocket and an improved property—let someone else worry if the product really saves energy. At least now I can get the projects approved, and the environment and ongoing savings are just part of the bonus program.

So don't come to me with all manner of glorious claims about how wonderful your product is and how much it will save me, all with no risk because it's such a great technology. Nope—show me the money. If you are that sure, then you take the risk and show me the benefit up front.

CASH.

ABOUT THE AUTHOR

Kevin D. Fraser is president and CEO of Fraser Limited. He has 30 years of real estate experience in facilities management, construction, design (mechanical /electrical/ plumbing) and consulting. A recognized

expert in building systems and energy management, Mr. Fraser has specialized in multi-site facility operations and review, with a focus on energy acquisition and energy project design.

Prior to joining PG&E Energy Services as a national director Mr. Fraser served as an international corporate real estate consultant for Ernst & Young Kenneth Leventhal. He has held facilities and administration management responsibilities for David Rockefeller, Prudential Insurance, John Portman & Associates, Pacific Park Plaza and Wind River Systems.

Mr. Fraser is credited with writing and releasing the nation's first true open market RFP for deregulated electricity. He has led or participated in energy commodity and related services totaling billions of dollars, including the largest single energy services agreement in history. His experience includes representing the end user, intermediary, independent third-party and supplier.

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