

Business

Sunday focus on local industry and development

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Biz Voice

Save energy, save money

Efficient buildings can yield quick payback.

Do an energy audit first; several strategies to help finance improvements.

By **Roland F. Hall**

Many businesses view making their facilities more energy efficient as creating positive intangible value but yielding limited economic benefits.

Such businesses may be surprised to learn that investing in energy efficiency can actually provide substantial savings with a return on investment in a relatively short payback period.

In fact, a key benefit of energy efficiency initiatives is that they provide an immediate cash flow benefit in the form of lower energy bills. Such initiatives can bring other tangible benefits as well, including increased market value of the facility, lower long-term maintenance costs, and special tax benefits discussed below.

What exactly is an energy efficiency initiative? The primary goal of an energy efficiency initiative is for the facility owner to reduce its electric and gas bills. Most commercial facilities have an energy saving potential from twenty to thirty percent.

Typical energy savings measures include upgrades to lighting, HVAC systems and energy control systems. Lighting, heating and cooling alone account for around 70 percent of the energy used in the typical commercial facility. Initiatives can benefit a wide variety of facilities, including hotels, hospitals,



Energy efficiency initiatives not only benefit the environment, they provide a direct economic benefit a business as well, says attorney Roland F. Hall.

factories, office buildings, retail stores and nursing homes.

The complexity and cost of the initiative depends on the size of the facility and the types of efficiency measures taken. A professional energy audit is usually required to fully analyze potential savings and required equipment and facility improvements. An audit uses information such as the facility's average energy costs, the current state of the facility's equipment and expected savings from upgrades. Based on this analysis, your business can then evaluate the cost of upgrading various equipment or performing other energy conservation measures in light of expected savings.

Once your business judges the efficiency initiative to be worthwhile, how will it pay for the project? Depending on the energy savings and the expected payback period, your business may decide to self-fund certain improvements. Other funding options depend in part on the size of the initiative.

Businesses with small to medium-size facilities should consider a combination of financing and available incentives. Businesses should first look to their utility providers. For example, Georgia Power Co. and some electric cooperatives, such as Sawnee EMC, offer financial incentives for certain equipment upgrades, such as lighting and

HVAC improvements. Your business may also be eligible for Small Business Administration loan programs that offer favorable rates and collateral requirements. Loan proceeds under the Section 7(a) program can range up to \$2 million and can be used for purchasing energy-efficient equipment and making existing commercial facilities more efficient. Eligibility requirements vary by industry.

For large projects involving costs over \$1 million and facilities with energy bills more than \$100,000 per month, businesses might consider working with an energy service company (ESCO). ESCOs typically offer a comprehensive package of services that includes analyzing facilities' energy demand and utility costs, calculating energy savings, designing the efficiency initiative, arranging for retrofitting and equipment installation and monitoring performance.

The ESCO arranges financing for the upgrades and guarantees the business a specific level of energy savings, and the energy savings is used to pay for the upgrades. Upon the expiration of the ESCO's contract with the business, the upgrades are paid for and the business keeps all future cost savings. In essence, a business can obtain private financing for major retrofitting projects through the ESCO and make payments using funds that otherwise would have been used for utility bills.

Businesses should also consider the value of the available tax incentives when analyzing initiative costs. Under a special federal tax deduction, businesses can in effect immediately expense certain qualifying energy efficiency upgrades, includ-

ing lighting, HVAC, hot water systems and building envelope improvements. Without this deduction, businesses would normally have to depreciate such upgrades over up to a 39-year period. Of course restrictions apply, such as a cap on the deduction based on square footage and the amount of certified energy savings. A Georgia tax credit is also available for lighting projects and energy efficiency projects that meet certain standards. Certain caps apply, and credits are available each year on a first-come, first-serve basis from the program's \$2.5 million allocation.

What about future programs? Although direct federal assistance for commercial energy efficiency upgrades is currently limited, that may be changing. President Barack Obama recently announced his Better Buildings Initiative, which has the goal of making commercial buildings 20 percent more energy efficient by 2020. The Initiative would include changing the current tax deduction to a tax credit and improving the SBA program for energy efficiency loans.

In short, energy efficiency initiatives not only benefit the environment and bolster the "green" credentials of your business, they provide a direct economic benefit as well. With careful analysis and the right mix of financing, such an initiative can provide cost savings for your business for years to come.

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