6 Ways to Fund Energy Efficiency Retrofits

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Energy efficiency is one of the most popular first steps to take when addressing corporate energy footprints, for the simple reason that small investments can produce big results.

Not only does energy efficiency help keep firms in line with their regulatory obligations, but it also engages stakeholders, whether they be shareholders, employees or customers. Energy efficiency helps with the finances, too: Given the price volatility in energy markets, any savings made contribute towards a sense of stability.

Yet despite a clear-cut argument to create and implement energy efficiency programs, extracting funding from already tight budgets is tough. In these post-recession times any investment -- even if it is one that will generate savings in the long term -- struggles to gain approval from cash-strapped CFOs.

Internal barriers are numerous: Energy efficiency retrofits rarely fit into the short-payback mold of other investments; efficiency isn't a core strategy for many firms and lacks priority compared to other projects; and, where the occupier of a building does not own it, a gap between who benefits and who pays between tenants and landlords is also a problem.

Legislation also has a part to play, with proposals such as the International Accounting Standards Board's and the Financial Accounting Standards Board's plans to treat all leases -- including leasing of energy-efficiency equipment -- as on-balance sheet makes this option less attractive.

As for any project, access to capital is key, but our research finds that the majority of businesses prefer to pay their own way when it comes to energy efficiency (with tax incentives one benefit of taking this route). Having spoken to 13 energy management financing experts, Verdantix finds in its recent report, How To Finance Corporate Energy Efficiency, that there are many alternative funding solutions available, although the market is still in its infancy.

Government loans and grants are just one option; we found 221 energy efficiency loan programs offered across 48 U.S. states funded by the Department of Energy, and President Obama's Better Building Initiative also proposes extra financial help for improving energy efficiency in buildings, with additional dollars promised in the 2012 federal budget.

In other jurisdictions, banks -- such as National Australia Bank and the U.K.'s Co-operative Bank -- also offer tailor-made loans for energy efficiency projects.

Other options include funding initiatives through commercial leases; tapping in to capital available through the Property Assessed Clean Energy (PACE) program (71 projects have had a total of $9.7 million of finance approved in the U.S. since 2008); working with third-party funding -- the investor then benefits from returns through shared savings; or finding an energy services firm to manage the project from start to finish. These firms then recuperate their investment by through a service charge levied direct to tenants.

Whatever route energy directors take, Verdantix has six best practice recommendations to make certain their business finds a source of funding that is the best match for its corporate energy efficiency program.

1. Give investors a guarantee. Budget constraints risk strangling many a project before it even begins -- so why not ask for a guaranteed return on investment when it comes to energy efficiency projects? Performance contracts shift risk onto the contractor, encourage better building management and give investors transparency over operational cashflow.

2. Green the lease. Both tenants and landlords benefit from energy-efficiency building retrofits -- the former have lower energy bills and the latter gain by reducing the risk of building obsolescence. Uptake of Green Leases has been slow, but when there is data to support the energy reduction benefits and a transparent financial structure, financial gains from energy efficiency investments can be accumulated on both sides.

3. Multi-site programs generate multiple savings. Energy efficiency has moved beyond tactical site management. Instead, look ahead into the business cycle to create multi-year investment plans that span all sites and operations. CFOs will like the sound of the potential savings.

4. Work with the CFO. Engage the CFO when considering financing options for energy efficiency investments. They know better than anyone if an externally financed or a self-funded solution will work best.

5. Independent verification is key. Customers and investors want crystal clear information about success (or otherwise) in sustainability. Contract an independent firm to verify energy savings generated, using schemes such as the International Performance Measurement and Verification Protocol, to instill confidence.

6. Broaden payback calculations. Go beyond simple payback calculations and incorporate other benefits -- what's the value of risk reduction, or a contribution to carbon reduction targets, for example? -- and that way funding will be assured, even if payback periods are lengthy.

Our research shows that funding doesn't have to be the deal breaker when it comes to investments in energy efficiency retrofits. Working through these six best practice recommendations will help energy directors bring solutions, not problems, to the CFO, ones that will generate savings from their inception.

Verdantix are holding a complimentary webinar on How To Finance Corporate Energy Efficiency Programmes on Thursday, November 3. You can find out more and register your place at www.verdantix.com.

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