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# Is There a Growing Trend of CFOs Prioritizing Energy Reduction Projects?

By Ed Kirk

Yet another tight budget year, but a growing number of CFOs are pushing for more spending on energy reduction projects. What has caused this recent shift by the protectors of fiscal responsibility, to actually prioritize funding for energy reduction initia-



tives? After all, this is not a new concept—progressive facilities operations managers have been suggesting ways to reduce their overall budgets by reducing utility costs for years. However, the current protracted recession has brought those opportunities to the forefront, and they are attracting more attention.

The annual budget challenge has been to cut utility spending without allocating any additional project capital. This forced facilities managers to focus on better ways of buying the utilities, improved participation in utility incentives and rebates, internal changes to normal operating set points, and other no-cost initiatives. Without project funding, these initiatives needed to have substantially less than a two-year payback to be completed with operating funds. Typically, energy reduction projects compete head to head for scarce funding with all the other types of worthy improvement projects.

## WHAT IS CAUSING THE NOTICEABLE SHIFT?

Slowly, over the last half decade, and in the midst of this protracted recession, energy reduction projects have emerged as an important part of the project mix. What is causing this shift?

*Maybe it was due to more utility incentives.*

More local utilities are doling out rate payer funds for customers to use to cut energy use. The strings attached to get the rebates actually add credibility

to the projects. As rate-payers, maybe our institutions just don't want to leave this money on the table. At the same time, the project staff and consultants are getting better at performing the energy and financial analysis for these energy reduction initiatives, which ensures that they qualify for these incentives and rebates.

*Maybe it has been the quickly maturing energy code, ASHRAE 90.1.*

This decade old code has influenced the choice of HVAC and electrical systems in our new construction and large renovation projects to use less energy. It has also directed designers to use better materials to ensure higher thermal envelope performance. As designers get more creative, select better products and materials, simplify systems, use technology in better ways, predict consumption and track results, they are quickly getting much better at specifying what works. The standard line used to be that you would have to pay a premium for these energy consumption reduction projects. It hasn't been nearly as painful or costly as the nay-sayers were predicting.

*Maybe it has been the shift away from using only first cost budgeting for projects impacting energy use, and for performing "value engineering" cost cutting to more financially appropriate tools.*

There is growing emphasis to use metrics that reflect the comparative true

costs of ownership, like Net Present Value and Life-Cycle Cost Analysis. These help decision-makers to compare project options by incorporating estimates for operations and maintenance costs, life expectancy of the equipment and components, the interest rate on borrowed money, energy savings, and any other financial incentives.

***Perhaps it is the growing attention we are giving to our carbon footprint and our greenhouse gas emissions.***

There is a close relationship between the amount and types of energy we use and our carbon footprint. Reducing reliance on grid electricity and fossil fuels and using alternatives with less of a carbon impact is gaining popularity with even the most pragmatic and conservative fiscal planners. Our customers and stakeholders are no longer asking if our institutions are thinking about taking steps to become more sustainable, they are just expecting that we are already doing it.

***Many CFOs have started to realize that utilities don't have to be simply the "cost of doing business."***

They can be reduced, thereby effectively reducing their portion of the institution's overhead. Some senior leadership has also realized that with sustainability and energy reporting, comes peer institutional comparisons. With emerging Energy Star metrics for buildings, it is becoming much easier to see who has the better performing buildings. No institution wants to be compared unfavorably to their peers. Energy Star's Energy Utilization Index, used by the current energy code and the USGBC's LEED Building rating system, is becoming a more common benchmark for building performance and is influencing choices.

***Could it be the new focus on disaster planning or resiliency?***

With the recent uptick in severe weather directly impacting vital services to our institutions, there is a scramble to

ensure there are viable options to prevent losses or interruptions, and keeping operations as normal as possible. That means a closer look at fuel switching options, redundancy to our current supplies and infrastructure, and the acknowledgment that reduced reliance on water and energy can reduce the critical impact of a supply interruption.

***Most realists do not believe low natural gas pricing will last.***

Once exporting begins, they expect to see higher price escalation than we currently see. Reducing the quantity of water and energy you rely on, and creating optional sources and infrastructures, will save money and help your operations become more resilient and sustainable. So the bottom line is that you can formulate your own institutional energy independence and sustainability policy to help ensure reduced future budgets, improved disaster recovery, and energy disruption plans.

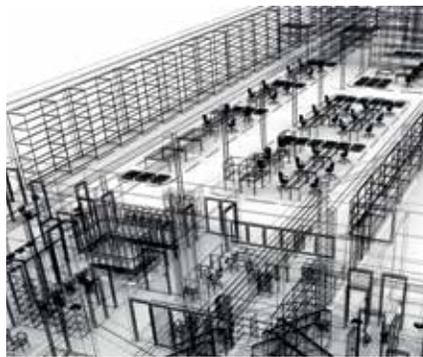
**WHATEVER THE REASON...**

The growing attention CFOs are giving energy reduction projects may just be a combination of a more knowledgeable and willing operations staff and the use of better measurements and comparisons to find our worst performing buildings, equipment or systems. Or it could be that reducing our reliance on energy and fossil fuels will also improve the financial health of our institutions in the future. Maybe the emerging need for financial sustainability of our institutions is helping to shift our focus from protecting the money to reducing our future financial risk. 💰

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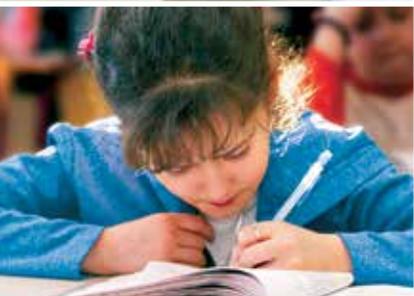
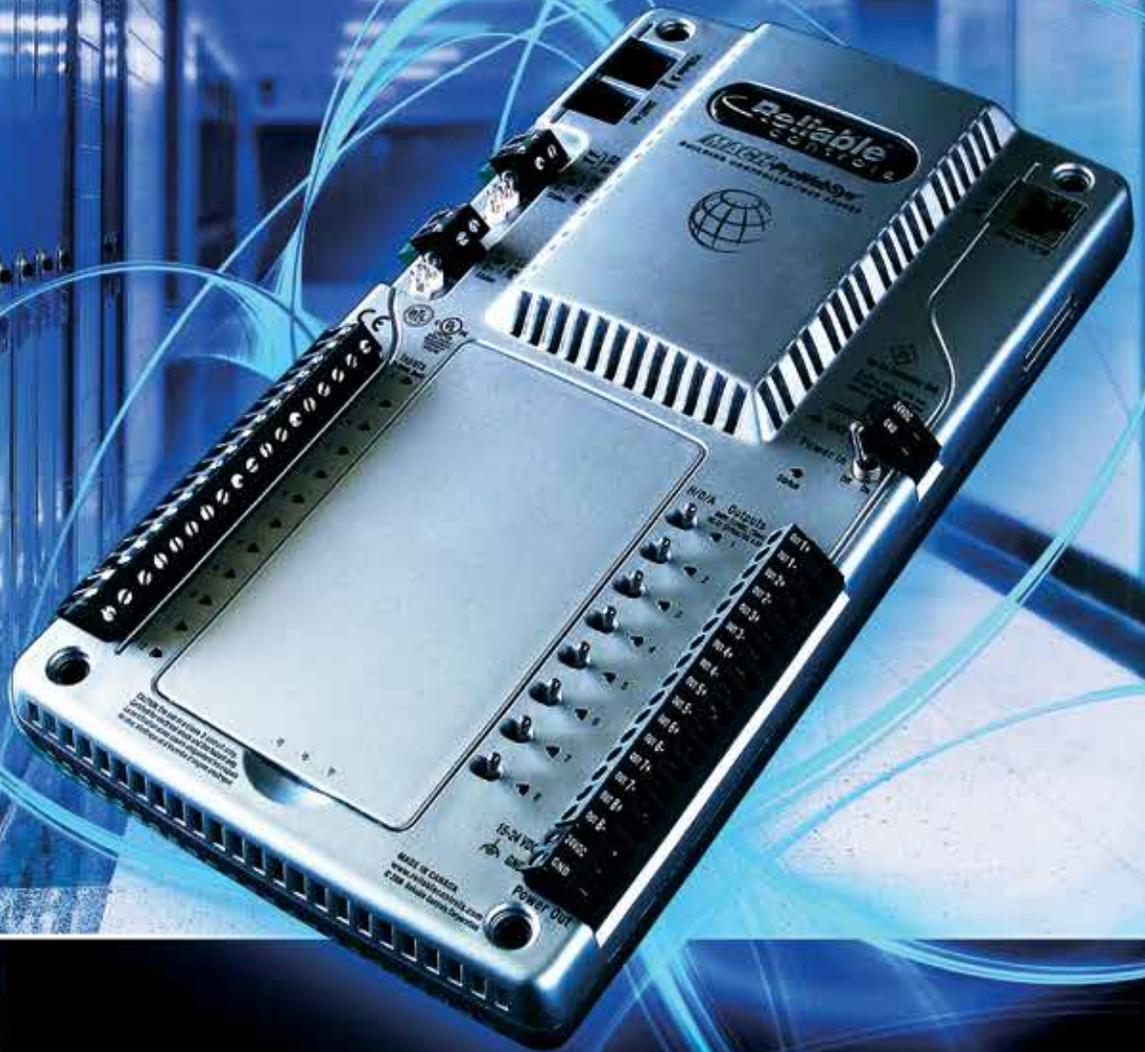
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