

Tuesday Webcast for Industry

Establishing and Maintaining a Strategic Partnership with the Chief Financial Officer

Webcast Questions and Answers, August 9, 2011

Presenter: Neal Elliot, American Council for an Energy-Efficient Economy

The Industrial Technologies Program (ITP) of the U.S. Department of Energy (DOE) hosts a series of Webcasts on the first Tuesday of every month from 2:00 to 3:00 p.m. Eastern. Their objective is to help industrial personnel learn about ITP's software assessment tools, technologies, partnership opportunities, and a variety of other resources that can be used to find ways to save energy and reduce carbon emissions.

Neal Elliot, Associate Director for Research of the American Council for an Energy-Efficient Economy (ACEEE), was the presenter for the August 2011 seminar, *Establishing and Maintaining a Strategic Partnership with the Chief Financial Officer*. Following are questions asked during the Webcast as well as Neal's responses.

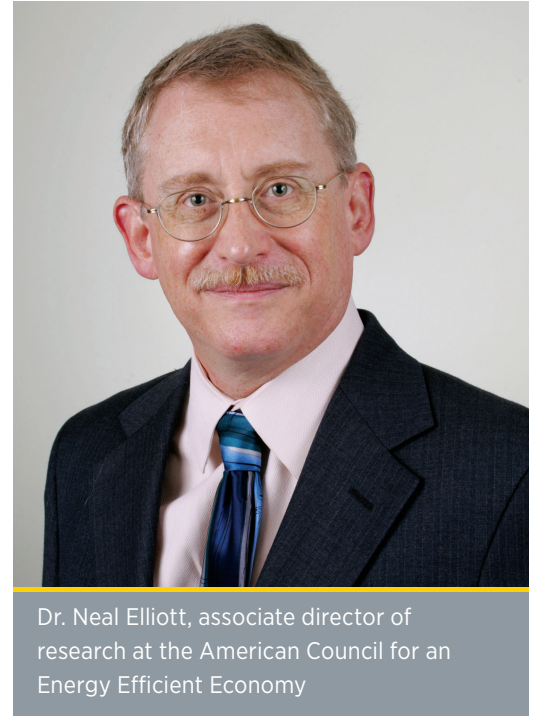


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Working with the Chief Financial Officer (CFO)

What's your take on how a CFO will see on-bill financing?

It will vary company-to-company. It may not be something a company can avail themselves to based upon financial accounting rules. Plants that go through shut downs as a result of economic downturn are a liability to the company. On-bill financing requires minimum costs to be incurred. For small and medium sized companies, it is a very attractive path to accessing financing.

Do you have any advice on how to quantify some of the common non-energy benefits?

It is case-specific. The thing to look at is the financial process. Describe the savings to the C-Suite and ask them how they would quantify it. It may help them avoid insurance or bank penalties. Product quality and productivity reduces rework cost and scrap fees. Always have documentation to back up your arguments.

Should an EE project "package" prepared specifically for the CFO's eyes, be limited to one or two pages? Should the package include a spreadsheet?

The project proposal should certainly include a 1-2 page executive proposal, but what else is required for consideration will vary with the scope of the project (e.g., \$) and your company requirements. Usually a detailed cost estimate, cash flow and schedule for the project will be required. The best way to find out is ask the CFO's office what they are looking for.

Are you aware of any consulting companies staffed by former C-Level suite folks that can assist with the development of a project package specifically designed for a CFO?

I am not aware of such firms but I am sure they exist. This is also a role that accounting firms play.

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Why do corporations not finance 1 year and 3 year simple payback energy projects?

There are many reasons that a firm may choose not to finance a short energy payback project. These could include:

- Uncertainty over the long-term plans to continue owning or operating the facility
- Uncertainty over whether the project will perform as anticipate (i.e., achieve the payback) or absence of compelling non-energy benefits
- Need to fund other priority investments

Don't hesitate to ask why financing of a project was declined. This can provide valuable intelligence on what it takes to get a project approved.

Financing Options**Of the financing options presented, are any options more or less popular.**

No; each company needs to determine which path to pursue. Often, private company information has a lot of impact. Larger companies generally go for private equity financing. Small and medium companies often use banks as their first paths. Public financing programs generally flow through the financial institutions.

Concerning financing projects, aren't there tax credits for energy efficient projects that can improve the attractiveness of a project?

Absolutely. It depends upon the company, but there are a lot of tax credits out there. Many were continued under the American Recovery and Reinvestment Act of 2009 (ARRA). One of the challenges is that you must have offsetting revenues. Internal revenue provisions apply: (1) Maximum Credit Reduction Provision – an entity must not reduce its payable taxes in any given tax year by more than 50%, and (2) Alternative Minimum Tax Provision – similar limitations to individual taxes. There are economic, state, utility, and local incentives – you should be aware of them. They do sometimes have strings attached that may be unacceptable to the company financially or philosophically. Educate your CFO about all available incentives. Use or lose scenarios are often attractive to CFOs.

Are you aware of any PACE approaches for the commercial buildings sector?

Property Accessed Clean Energy (PACE) initiatives places a lien on the property that is paid off going forward. It looks very promising and there is a lot of interest. ACEEE is part of a working group working with States that have PACE legislation, but we do not have a lot of data as of yet. It will have attractive opportunities due to the magnitude of the transaction in the commercial industrial sector. Small scale financing can be expensive; it works better for larger capital projects. The biggest challenge thus far is trying to figure out bridge financing. The loan is traditionally originated and placed into the commercial marketplace. A challenge is putting the portfolio of loans together before securitizing them. Many states are strapped for cash and unwilling to take on the debt.

Risk Mitigation**Can you explain the structure of a risk assessment description on how that would fit into an engineer's report on energy efficiency?**

Engineers look for certainty. In reality, there is a range of uncertainty. Risk assessments need to have a range of variability that is possible. For example, energy prices can change dramatically in a short amount of time. Price projects often come with an error band – calculate the possibility of impact of the price going up or down. Try to quantify uncertainty. If plant production declines due to a softening demand in the economy, risk is quantified on the downside. Increasing production creates an opportunity.

Does ACEEE have any templates in place to assist in creating a risk mitigation strategy?

No one has ever asked for this before, but it is a very good idea. We will take it under consideration. Work with your CFO's office, because they may have a template for this and for risk mitigation.

Would you agree that energy savings projects are less risky than expansions and are a store of value against inflation? Are these points to make during justification?

I would agree that they tend to be very low risk *and* low reward. One of the advantages of an energy efficient project is their low risk; they can receive preferred investment from lenders. There is a big challenge in that the reward in a time of economic uncertainty is likely to be passed upon. You must make a compelling case for why the project makes a strategic case for the company.

Financial Tools

Many CFOs have failed to move forward with any type of financing or leasing options because they don't want the project to show up as additional indebtedness. Are the financial tools available to mitigate this issue?

Unfortunately these are decisions that are made at CFO/comptroller level, so are not amenable to outside influence. Some of the "tools" such as off balance sheet financing have been greatly constrained by regulation and general aversion in the wake of the WorldCom and Enron scandals that made use of this type of financing.

Does ITP have various financial "tools" available for download that can be used (e.g. cash flow analysis tool)?

Not at this time. However, there are plans to potentially create financial tools in the future.

For More Information

To access slides from this Webcast as well as others in the series, please visit the Webcast homepage at http://www1.eere.energy.gov/industry/resources/tuesday_webcasts.html.