



American Council for an Energy-Efficient Economy

# Establishing & Maintaining a Strategic Partnership with the Chief Financial Officer

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# American Council for an Energy-Efficient Economy (ACEEE)

- Nonprofit 501(c)(3) dedicated to advancing energy efficiency through research and dissemination.
- 40 staff in DC, DE, MI, WA, & WI
- Focus on end-use efficiency in industry, buildings, utilities, & transportation
- Other programs in economic analysis, behavior, state & national policy
- Funding:
  - Foundations (34%)
  - Federal & State Grants (7%)
  - Specific Contract work (21%)
  - Conferences and Publications (34%)
  - Contributions and Other (4%)



# Working with the C-Suite

- The CFO & comptroller are not your adversary—they can be an ally if you work with them & their staff
- Everyone is working toward the same end—a competitive & profitable company
- Most C-Suites have training & information on financial systems available for employees—avail yourself of these

# Corporate Decision Making

- Critical to understand how investment decisions are currently being made in your company
- Every firm has different processes & criteria can change over time—important to establish on-going lines of communications to track changes. E.G.:
  - Return on Investment (ROI)
  - Return on Net Assets (RONA)
  - Net Income (NI)
- Decisions made at different levels in different companies—understand whether decision is at the plant, business unit or corporate level
- Understand your *Enterprise Resource Planning* (ERP) system that integrates aspects of operations—use this knowledge to position your project

# Speaking the Language of Finance

- Engineers & CFOs use the same words to mean different things—learn the terms that C-Suite uses & understand what they mean by these terms:

[www.wikipedia.com](http://www.wikipedia.com) & [www.investopedia.com](http://www.investopedia.com)

- Understand investment decision criteria
- Be sensitive to the financial plans of the company or business unit
- Understand how the business unit, plant or product fits into the strategic plans of the company
- Read your company's financial statements & annual reports—great source of intelligence

# Developing Trust with C-Suite

- Many CFOs & comptrollers distrust engineering & operations staff—view engineers as tending to oversell projects & be unduly optimistic, not without cause—document results & report to C-Suite
- Talk the language of finance—even if they have a technical background, CFOs are looking for the financial picture—engineering economics & payback won't cut it
- Present the risk picture—key role of CFO & comptroller is to manage risk & an EE project can help mitigate risk exposure

# Allocating Capital

- C-Suite prioritizes investment in strategic plants & products
- Plants go through capital cycles—investments tend to be made at times of plant update/upgrade
- Investment prioritized for strategic products & facilities
- Cost savings alone is usually not enough
- Understand corporate sustainability plans—EE can be an important element

# How Projects can be Financed

Options vary by company & current financial plans:

- Operating funds
- Fund with company cash
- Conventional bank financing
- Alternative financing:
  - Private equity/venture capital (VC)
  - Lease-purchase agreement
  - Performance contracting (PC or ESPC)

All have different strengths & limitations, which can change over time with the firm, economy & market.



# What is Sarbanes-Oxley, FASB & IASB...and why should you care?

- ***Sarbanes-Oxley Act of 2002*** (SOX) introduced major changes to the regulation of corporate governance & financial practice.
- ***Financial Accounting Standards Board*** (FASB) establishes financial accounting & reporting standards for U.S. entities
- ***International Accounting Standards Board*** (IASB) develop high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs)

*These activities set the rules of the road for corporate accounting & reporting for publicly trade corporations.*

# Uncertainty Discourages Investment

- Economic uncertainty discourages investments—cash is king: reserves allow a firm to weather a downturn
- Regulations that can delay a project:
  - Environmental permitting
  - Utility permits, contracts & tariffs
  - Conditions on government grants & loans (e.g., Davis-Bacon, “Buy America” & EIAs)
- Plans/treats of mergers, acquisitions or divestitures can increase uncertainty

# Making the Value Case for EE

- Make a financial case for EE investments—most projects are not evaluated on technical grounds
- Capture all costs & benefits from the investment—all EE projects have non-energy benefits
- identify available incentives & any costs associated with accepting them
- Present the cash flow & acknowledge all uncertainties
- Put the project in context with the plans for the company or business unit—explain why this is *strategic*
- Energy efficiency can reduce risk exposure to the firm—understand this benefit

# Conclusions

## Keys to success:

- Understand how investments are made
- Understand how project fits into BU or corporate strategic plans
- Present the project in strategic financial terms
- Speak in financial language
- Understand & address any skepticism

You are all in this together. The C-Suite interested in helping operations—make them your best friends.

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