

# FINANCIAL MESSAGING: SELLING ENERGY EFFICIENCY TO C-LEVEL EXECUTIVES

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## **INTRODUCTION**

This paper highlights the best steps an organization can take to initiate a program that focuses on continuous energy performance improvement, to increase internal support and gain recognition internally and externally. It will also highlight how to secure capital funding from C-level executives and share successes with the financial markets in terms of earnings per share and shareholder value.

Providing compelling financial arguments that result in actions from C-level executives can often be a challenge. The C-level decision makers rely on a combination of financial market and industry-specific key indicators to evaluate their financial performance. Quantifying the benefits of energy efficiency investments in terms of these indicators can be an easy and powerful sales technique. This paper will explain the financial value of energy performance improvements and introduce the U.S. Environmental Protection Agency (EPA) ENERGY STAR Guidelines for Energy Management.

Based on the best practices of leading organizations that are ENERGY STAR partners, the Guidelines for Energy Management present a clear path to operational excellence in the field of energy management. The financial value of operational excellence in energy management extends beyond cost-savings. Institutional investor interest in corporate energy management and climate-change activity is at an all-time high. ENERGY STAR is working with institutional investors to change how organizations view and value superior energy performance.

Thousands of facilities have received an energy performance rating from ENERGY STAR's Energy Performance Rating System, and nearly 2,000 buildings have been recognized for superior energy performance with the ENERGY STAR label. Building profiles and case studies illustrate how these businesses have improved their energy management and reaped the benefits of superior energy performance. By leveraging ENERGY STAR, organizations discover new opportunities to improve their business, increase profits, strengthen their brand, and increase overall corporate value.

## **OVERVIEW OF ENERGY STAR**

Building owners and managers, especially those overseeing a portfolio of buildings, are faced with multiple challenges when managing energy use. EPA's ENERGY STAR program has long understood this challenge and has looked for ways to help organizations improve their energy and financial performance and thereby contribute to a healthier environment. By partnering with end-user organizations and leading service and product providers (SPPs), ENERGY STAR has been able to learn about the energy management challenges these end-users and their providers face, and the processes they employ to deal with them.

ENERGY STAR has found that there are three critical elements that contribute to a strong portfolio-wide approach to improving energy performance in buildings. The first is to have a strong, organization-wide commitment combined with a good energy plan. The second is to have an understanding of the value of improved energy performance. The third is the ability to track performance over time. These three elements taken together provide the necessary foundation for success.

In order to make it easier for organizations to achieve success, ENERGY STAR has taken the best plans, practices, and successes of their champion partners and developed the Guidelines for Energy Management. ENERGY STAR also has a suite of tools that help communicate financial value. These include the Financial Value Calculator, QuikScope, and the Cash Flow Opportunity Calculator. Furthermore, ENERGY STAR provides opportunities for increased credibility and visibility through its Web site, annual awards, and marketing support. Regarding tracking over time, energy information providers can help in this effort by offering automated benchmarking of portfolios via ENERGY STAR's Energy Performance Rating System, which provides ratings on a 1-100 scale.

## **UNDERSTANDING THE VALUE OF ENERGY EFFICIENCY IMPROVEMENTS**

A crucial part of taking a portfolio-wide approach to improving energy performance is to understand the financial value of energy efficiency improvements. Businesses today need to be able to compare their achievements to those of their competitors. Doing this can be a difficult task, but it is possible using the right approach.

For example, hotels need to understand the financial impact on their operations (tangible benefits) in terms of the equivalent affect on average room rates. For commercial real estate, the metric is the impact on asset value. For retail firms the equivalent impact on sales and profits per square foot is what matters. And, for all publicly traded organizations, energy savings must be understood for its potential impact on overall profitability and shareholder value. Hence, a grocery chain which describes its energy efficiency strategy as producing an impact of \$2.5 million in net income, increasing earnings per share by 2%, increasing shareholder value by \$2.65 for each dollar invested for an overall shareholder value increase of \$100 million, and that each dollar saved is equal to \$50 in sales, will be more successful at implementing projects than one which states only that their projects earn a rate of return of 21% and a payback of 4 years. Wall Street investment analysts have begun to recognize that corporations with an effective energy efficiency strategy in place are valued 25% to 30% more than those without one. In most cases, core business and stock performance equivalents are more compelling than the conventional metrics used by the energy industry (e.g., payback, NPV, IRR).

Understanding and communicating both the tangible benefits and the intangible benefits (such as customer satisfaction and corporate reputation) are key in this comparison.

ENERGY STAR provides a suite of financial tools that help to quantify the financial benefits of improved energy performance and communicate the tangible benefits of portfolio-wide improvement. All of the tools are easy to use and require only a few key characteristics about a portfolio to obtain compelling metrics. For example, QuikScope is used in the real estate sector to communicate metrics such as increases in net operating income and asset value. The Financial Value Calculator can show an increase in shareholder value and the Cash Flow Opportunity Calculator is used in the public sector to illustrate the ability of energy savings cash flows to finance projects.

ENERGY STAR also has an extensive set of marketing and communications materials that help communicate the intangible benefits. The primary goal of these materials is to enable partners to easily promote their co-brand with ENERGY STAR to the market. Materials include examples from partners as well as customizable templates.

ENERGY STAR has also been working closely with institutional investors to enable companies to understand how their achievements compare to their competitors. ENERGY STAR is working closely with these financial stakeholders to understand corporate environmental performance. Some evidence exists that energy management leaders significantly outperformed their peers on several financial metrics. ENERGY STAR works to share this type of information, as well as the actions of its champion partners, with financial stakeholders.

#### **GUIDELINES FOR ENERGY MANAGEMENT**

ENERGY STAR developed the Guidelines for Energy Management, which is a best practices process that helps customers and providers reach their goals. There are seven steps in this process, outlined below and illustrated in Figure 1.

- Make an organizational commitment by joining ENERGY STAR
- Assess portfolio performance and set goals using the Energy Performance Rating System
- Create and implement an action plan using ENERGY STAR financial tools and strategic guides
- Evaluate progress using the Energy Performance Rating System
- Recognize achievements by applying for the ENERGY STAR Label for Buildings and developing success stories
- Re-Assess opportunities

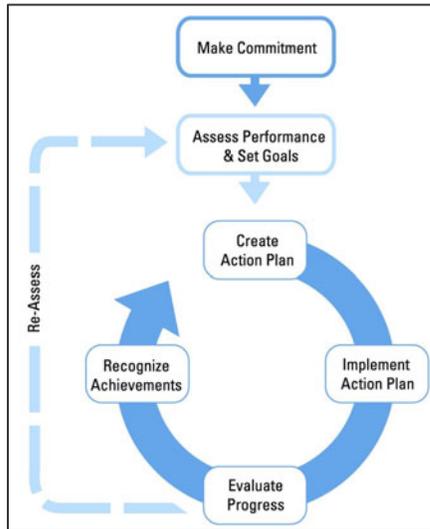


FIGURE 1: Guidelines for Energy Management

### TRACKING PERFORMANCE OVER TIME

The third element in taking a portfolio-wide approach to improving energy performance is to track performance over time. ENERGY STAR has been working with the commercial buildings market to assess building energy performance, to identify high-performing buildings and provide recognition opportunities to the owners and managers of those portfolios or buildings. ENERGY STAR introduced an online energy performance rating system to the market in the late 90s as a way for offices and schools to benchmark their energy performance to similar type facilities across the US. The rating has grown to include several space types and is now available for 50% of the commercial buildings market. Users enter a series of space specific building characteristics to obtain a rating on a 1-100 scale. Buildings that score in the top quartile (75 and above) are eligible to receive the ENERGY STAR label for buildings. With this simple scale, building owners and managers can quickly and easily watch and monitor performance over time.

The likelihood of an organization with a large portfolio to manually key-in building characteristics and monthly energy consumption data is very small and has been a challenge for some organizations.

ENERGY STAR began to look to energy information providers as key players in helping overcome this benchmarking obstacle. ENERGY STAR is working to provide the Energy Performance Rating system through these energy information providers to automate the rating process.

EPA offers companies that provide energy information products and services an opportunity to bring the Energy Performance Rating system directly to their customers through their own tools.

ENERGY STAR's Service and Product Provider Partner of the Year in 2004, ei3 Corporation, was one of the first to participate in EPA's Automated Benchmarking Pilot Initiative. A set of lessons learned have been gathered that can help partners leverage this type of offering. ei3 Corporation has learned the value of automation, flexibility, creativity, and market demand – they have found that value in ENERGY STAR.

### UNDERSTANDING THE SERVICE AND PRODUCT PROVIDER SALES PROCESS

ENERGY STAR provides support not only to end users looking to improve their energy performance, but also to SPPs who are helping end-users achieve success. ENERGY STAR wants to ensure that its tools and resources bring value to SPPs and assist them in achieving their goals in each step of their sales process. The following five stages represent the typical sales process for SPP companies.

- Identify qualified prospects who are ENERGY STAR Partners
- Identify potential projects using the Energy Performance Rating System
- Move proposals to contract using financial tools and messaging
- Implement quality projects using ENERGY STAR strategic guides

- Evaluate progress using the Energy Performance Rating System
- Demonstrate results by leveraging recognition opportunities through ENERGY STAR

### ENERGY STAR OFFERINGS

The following offerings are promoted by ENERGY STAR in the Commercial, Industrial and Institutional sectors. They have been designed to support and facilitate improved energy performance. ENERGY STAR’s offerings directly support the Guidelines for Energy Management and the SPP sales process.

#### Energy Performance Rating Tool

The Energy Performance Rating tool is a powerful online tool that can be used to help evaluate and track the energy performance of buildings over time. When used in conjunction with other resources available through ENERGY STAR, it can provide valuable information upon which to base energy project investment decisions about an organization’s entire portfolio of buildings.

The Energy Performance Rating tool will allow users to:

- Assess the energy performance of building portfolios on an unbiased 1-100 scale
- Prioritize the buildings in the portfolio based on their energy performance (see Figure 2.)
- Provide baselines, targets and goals for improvements
- Measure and verify performance changes in buildings over time

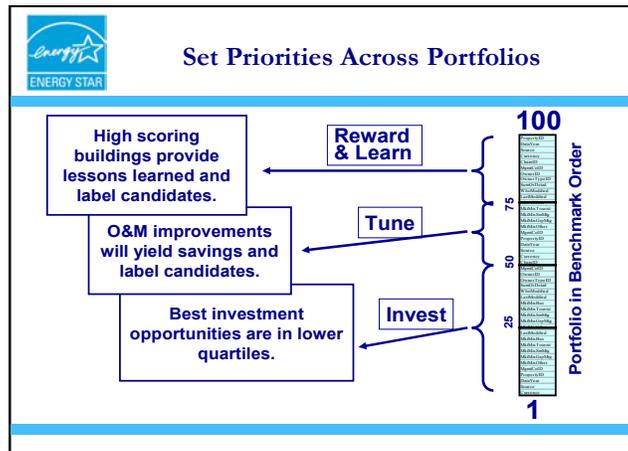


FIGURE 2: Set Priorities Across Portfolios

While ENERGY STAR provides support to nearly all market sectors, currently it is possible to obtain an energy performance rating for the following building types: office buildings, educational facilities (k-12 schools and dormitories), hotels/motels, healthcare facilities (acute care and children’s hospitals), medical offices, post offices, supermarkets and warehouses. ENERGY STAR is in the process of developing tools for other building types as well.

#### Financial Tools and Resources

ENERGY STAR offers financial analysis tools and resources that have been designed to help determine the financial impact of energy-efficiency upgrades in terms that matter to the financial decision makers. These tools and resources are available on the ENERGY STAR Web site and have been designed to help move energy upgrade project proposals to contract faster and to frame portfolio-wide improvements (including low cost improvements) in terms that resonate with all interested parties and stakeholders.

##### Financial Value Calculator

The Financial Value Calculator (FVC) is a tool that will enable the quantification and communication of what improved energy performance is worth to a company. The FVC will help present a compelling financial case in a variety of metrics that are used from facility managers to CFOs to help illustrate what an investment in energy efficiency means in terms of increased shareholder value.

### *QuikScope*

This tool helps property managers allocate the costs and benefits of energy performance improvements among tenants and owners and determines the financial viability of energy investments. It will show how energy savings can translate into higher net operating income (NOI) and incremental increases in asset value. It is a powerful tool to help move projects to closure in what can be a difficult market.

### *Cash Flow Opportunity Calculator*

The Cash Flow Opportunity Calculator helps to estimate how much new equipment can be purchased and financed by the anticipated savings cash flows. Users can also compare the costs and benefits of financing a project now, versus waiting for a lower interest rate, or until cash is available from a future budget.

### *Sector Specific Financial Value Messages*

ENERGY STAR has teams that work closely with and provide support to the various market sectors and have developed specific value messages that use the unique language that is understood by each sector. Facts like these can be used to help present a compelling case to upper management to show what investing in energy efficiency can mean to them using their industry specific metrics. For example:

#### Office Buildings:

*Saving 30% of energy costs in a commercial office building is equivalent to increasing the net operating income by 4%, which would support a 4% increase in asset value.*

#### Hotels:

*A 10% reduction in energy costs is equivalent to increasing the Average Daily Room Rate by \$0.62 for limited service hotels and \$1.35 for full service hotels.*

#### Supermarkets:

*For the average supermarket, reducing energy costs by 10% is equivalent to increasing sales per square foot by nearly \$42.*

#### Hospitals:

*Each dollar saved in energy cost is equivalent to generating new revenues of \$20 for hospitals, or \$10 for medical offices and nursing homes.*

### **Goals and Strategies**

ENERGY STAR has tools and resources available to help develop plans, goals and strategies to increase the energy performance. These include:

#### *Building Manual*

EPA has developed a strategic Web-based guide to help plan and implement profitable energy saving building upgrades.

Topics covered include:

- Business Analysis
- Financing
- Recommissioning
- Lighting
- Load Reductions
- Fan Systems
- Heating and Cooling Systems

#### *Energy Management Planning*

ENERGY STAR has resources available to help generate a strategic energy management plan to assist in implementing comprehensive upgrade projects and setting goals.

#### *Delta Score Estimator*

The Delta Score Estimator is a valuable tool that illustrates the relationship between points moved on the energy performance rating scale and the percent energy saved in a building. Users can determine the percent energy reduction required in a facility to achieve a desired energy performance rating.

### *Target Finder and New Building Design Guidance*

EPA recommends setting a target and monitoring progress throughout the design process. Using the Statement of Design Intent, Target Finder allows users to set an aggressive energy performance target for new design during the proposal stage and monitor it during the design process. By comparing simulated energy performance to the target, it can be determined if design changes are needed to achieve energy performance goals. This can eliminate costly redesigns at the end of the project and help integrate energy performance strategies from the beginning.

ENERGY STAR also has New Building Design Guidance which is a strategic checklist that will help throughout the design process.

### **Online Resources**

ENERGY STAR provides many online resources that provide support to its partnership.

#### *Service and Product Provider Directory*

When building owners and managers are serious about improving their energy performance and are looking for services and/or products to help improve the energy performance of their facility, they are referred to the SPP Directory. The directory is a free resource that lists all of the SPP Partners in ENERGY STAR, their contact information and the services and products they offer. This is a great resource for building owners and managers because they can find SPPs by searching by company name, geographic location, and/or services and products. This is also a great opportunity for an SPP Partner to promote business offerings at no cost.

#### *Professional Engineer Directory*

This is an excellent resource for building owners and managers who are looking for a Professional Engineer (PE) to verify the performance (e.g., indoor air quality, lighting levels, and thermal comfort) of a building that has qualified for the label. The PEs listed in the directory previously performed verification services for buildings that were qualified.

#### *Web Site Activity Listing*

EPA also maintains a list of SPP organizations online that are most actively using ENERGY STAR tools and resources (e.g., benchmarking, performing PE verifications, assisting customers in submitting label applications, improving a customer's energy performance rating by at least 10 points). This list allows end users to easily find those companies that have the most experience helping their customers through ENERGY STAR.

#### *Online Trainings*

ENERGY STAR offers several free online sessions to organizations that are new to the program, and/or that want to educate their staff about ENERGY STAR resources.

### **Recognition**

ENERGY STAR offers many ways to gain recognition for both SPPs and building owners and managers. These opportunities are meant to illustrate the great achievements in environmental, energy, and financial performance.

#### *ENERGY STAR Label for Buildings*

Once a building qualifies for the label by achieving an energy performance rating of 75 or higher and a PE verifies specific characteristics of a facility, the label can be displayed on the building. This sends a positive message and conveys performance excellence to tenants, customers, lenders, appraisers, and other stakeholders. An SPP can also gain recognition for helping customers achieve the label.

#### *ENERGY STAR Annual Awards*

ENERGY STAR has annual awards that are designed to recognize organizations that have shown strong commitment to energy efficiency and have promoted ENERGY STAR. This year, the application deadline is December 15, 2004. The Award winners will be recognized during the annual ceremony on March 15, 2005. Application materials are available on the ENERGY STAR Web site.

#### *Building Profiles/Success stories*

There are opportunities to promote accomplishments by creating building profiles and/or success stories highlighting high performing buildings and portfolio-wide improvements. Featured on the ENERGY STAR Web site, building profiles are

testimonials of the energy management practices within a facility as well as the system upgrades accomplished for buildings that received the ENERGY STAR label.

#### *Leaders*

ENERGY STAR now offers a new form of recognition to organizations that are successful in managing the three critical elements described above, called ENERGY STAR Leaders. ENERGY STAR Leaders are organizations that have baselined the energy performance of their entire benchmarkable portfolio; have shown 10, 20 or 30 point improvements in their portfolio-wide rating; and/or have a portfolio-wide average rating of 75 or higher. Having a strong portfolio-wide approach is key to success in ENERGY STAR Leaders.

In addition to promoting your affiliation with ENERGY STAR, EPA often publicizes the partnership and seeks out leading companies to showcase.

#### *Communicating Partnership*

EPA encourages companies to inform employees, senior level managers, customers, prospects and other stakeholders about their ENERGY STAR partnership and commitment via newsletters, events, conferences, press releases, annual reports, company Web site, and other marketing materials. ENERGY STAR offers marketing support and has developed an online Communications Kit that provides ideas and templates to help draft a communication plan, and communicate an organization's partnership with ENERGY STAR.

Companies can also train their staff through their corporate Intranet, incorporate ENERGY STAR information into company newsletters or brochures, offer training, make ENERGY STAR a part of new employee sales training, and provide them with ENERGY STAR information that will also help them save energy at home.

### **CONCLUSION**

ENERGY STAR has taken the best practices of its leading partners to develop a portfolio-wide approach to energy management in commercial buildings; each step of which has been proven in the market. Committing to improvement and instituting a good process, understanding the value of energy efficiency improvements, and tracking performance over time are the three elements of this approach. The ENERGY STAR program for commercial buildings has successfully built a partnership of businesses that have begun to transform the market for energy efficiency improvements.

ENERGY STAR brings over a decade of experience in public/private partnerships to support end-user and service provider organizations by educating them about the environmental and financial benefits of energy efficiency. Partnering with ENERGY STAR and utilizing ENERGY STAR tools and resources enables an organization to:

- Focus on a whole building approach to measuring and tracking building energy performance and achieve a high level of energy performance portfolio wide
- Develop portfolio-level goals and strategies that can lead to basic understanding and more opportunities for continuous improvements
- Understand how buildings perform on a national comparative basis
- Present the financial value of energy performance improvements in sector specific terms
- Compete with other capital funding requests
- Enhance visibility and credibility
- Bring additional value to the organizations they serve

*For more information about ENERGY STAR or any of the tools and resources, please visit the ENERGY STAR Web site at [www.energystar.gov](http://www.energystar.gov) or call 1-888-STAR-YES.*

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