

EPA SOFTWARE CAN HELP ESCOS OVERCOME MARKETING CHALLENGES

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Messrs. Gilligan and Serota are working with EPA on behalf of NAESCO to provide industry input to the development and dissemination of the EPA-created software.

Portfolio Manager is a software system available free of charge from the U.S. Environmental Protection Agency (EPA), that has already been demonstrated to be very useful to ESCOs. Portfolio Manager and its companion products have been well designed to help ESCOs solve common business problems.

ESCO Marketing Challenges

Many ESCOs today face similar problems in their day-to-day business, including:

- **Long Sales Cycle**
One of the first hurdles that most ESCOs face in selling a project is establishing their credibility. Customers often push back, and want objective confirmation of claims of major savings with attractive paybacks and comfort benefits. On a major project, this can be a six-month process, involving significant ESCO costs.
- **Financial Decisions Complex**
Customers who have embraced the technical aspects of a project proposal may balk for months at concluding the financing deal. Few customers can adequately quantify the cost of the project delays.
- **No Recognition**
A third problem that ESCOs typically face is that there isn't a lot of upside in a major project for the facility or financial manager who is the customer's project sponsor. Most private sector managers, and virtually all public sector managers, receive no financial reward for sticking their necks out to sponsor an energy efficiency project. Even when a company or a local government makes a major commitment to energy efficiency in all of its facilities, the CEO, CFO and/or facility managers seldom get any real recognition for their efforts.
- **Can't Move from Projects to Relationship**
Finally, many ESCOs who have successfully completed a project or two for a major customer find it very difficult to move from the role of a project contractor to a long-term relationship with the customer – a trusted energy advisor who provides a full range of energy services on a sole source basis. The ESCO finds that despite its past successes, the customer feels that every project is a new ballgame, and insists on renewed competition for every new piece of business.

ENERGY STAR[®] Offers Help

The U.S. EPA wants to help ESCOs solve these problems, because EPA sees ESCOs as crucial allies in helping the EPA accomplish its goal of substantially reducing energy use in buildings. According to the EPA, the existing commercial building stock accounts for about 16 percent of

the total U.S. energy use and about 18 percent of total U.S. pollution. As ESCOs well know, about 30 percent of the energy used in U.S. buildings is wasted. So the EPA views existing commercial buildings as a primary target for energy savings, and believes that ESCOs can help them hit that target.

ENERGY STAR® for Buildings Program

EPA wants to duplicate in the buildings market the kind of national energy performance standards it has established in consumer markets. EPA car mileage ratings have been widely accepted since the early 1980s. The EPA has also been very successful in establishing the ENERGY STAR appliance labeling program. EPA now wants to do the same thing in buildings – establish an easily understood performance metric for a superior building, and push the whole buildings market to meet ENERGY STAR standards.

Repeat the Success of Green Lights

Most ESCOs participated in an earlier EPA program to push energy efficiency in buildings – the Green Lights program. The ENERGY STAR Buildings program is built on that same model: ESCOs become ENERGY STAR Buildings allies, use specially-designed EPA tools to help sell projects and benefit from the EPA's efforts to push the building market to achieve the ENERGY STAR Buildings performance levels.

The difference between Green Lights and ENERGY STAR Buildings, of course, is that while Green Lights promoted a single technology, ENERGY STAR Buildings promotes whole building energy efficiency improvements integrated into a portfolio approach that encourages customers to aggressively improve the efficiency of their entire stock of buildings.

Customer Acceptance Has Been Demonstrated

Before it approached ESCOs to become ENERGY STAR Partners, EPA demonstrated that the ENERGY STAR for Buildings program is useful in pushing customers to undertake energy efficiency programs. The EPA identified several major types of buildings – K-12 schools, hospitals, hotels, supermarkets, and commercial office buildings – for its initial focus and developed a tool called Portfolio Manager that provides a quick energy performance rating, a score on a scale of 1 to 100, which benchmarks a building in relation to a national sample of the building type. EPA promoted Portfolio Manager directly to customers, who benchmarked their buildings, and then began comprehensive energy efficiency programs.

Sector-Specific Value Statements

Based on user experience, ENERGY STAR has also identified a series of value metrics for its initial target market segments, designed to illustrate in a sentence the value of energy efficiency. Sample value statements are:

Office Buildings: Saving 30 percent of energy costs in a commercial office building is equivalent to increasing the net operating income by four percent, which supports a four percent increase in asset value.

Hotels: A 10 percent reduction in energy costs is equivalent to increasing 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 percent 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.

These value statements led ENERGY STAR to develop a tool called Financial Value Calculator, also available at no cost, which allows an ESCO to construct a similar value statement for any public company, or any private company which will allow the ESCO access to a modest amount of financial performance data.

Taking the Message to Wall Street

The EPA also sponsored a research project which demonstrated that companies in the real estate and buildings management industries that are leaders in energy management are achieving superior stock market and financial performance. The EPA has begun to promote this message to stock analysts and brokers, so that the financial community understands that energy efficient companies are better investments.

ENERGY STAR[®] for Buildings Program Tools

In addition to its efforts to push major segments of customers into comprehensive building energy efficiency programs, the EPA has developed a set of tools which can be very useful in solving some of the common ESCO business problems discussed above.

Shortening the Sales Cycle – Establishing Credibility

The EPA is providing a software tool called Portfolio Manager that can help ESCOs overcome the credibility problem which lengthens many project sales cycles. Portfolio Manager provides a quick and easy way for an ESCO to benchmark the energy use of a customer facility on a national scale, and thus to demonstrate to the customer that the facility is in need of energy efficiency improvements.

Furthermore, the customer can easily confirm the benchmarking by visiting the ENERGY STAR website and spending a few minutes to re-enter a modest amount of facility data. The Portfolio Manager rating can be readily used to confirm the results of the ESCO's Feasibility Study, or can be used by an ESCO to substitute for a Feasibility Study as part of the ESCO's qualification process to determine how serious a potential customer is. A customer whose Portfolio Manager benchmark ratings are low, and who feels no urgency to undertake an energy efficiency project, may not justify much sales effort from an ESCO.

Set Priorities Across Portfolios

Portfolio Manager can also help ESCOs quickly analyze a group of customer facilities, and prioritize the facilities for energy efficiency investments. Portfolio Manager

generates benchmark scores (1 to 100), which are normalized for building type and climate across the country, and can be used to prioritize potential projects. Using Portfolio Manager, an ESCO can target its project development resources at facilities most likely to yield the best initial projects, or can develop the portfolio, as it develops an individual project, by blending short and long-payback projects. Again, one of the benefits of using Portfolio Manager is that its results are transparent to the customer, because the customer can easily confirm the benchmarking scores presented by the ESCO, and thus reinforce the ESCO's credibility.

Promoting Timely Financial Decisions

Many ESCOs are frustrated by the financial decision-making process of their customers. An ESCO typically spends 6-12 months developing the technical aspects of its projects, convincing its customer that the proposed measures will produce substantial savings and an attractive payback. Avoiding months of delay while the customer ruminates on the real and imaginary alternatives has a real monetary benefit.

Cash Flow Opportunity Calculator

Fortunately, the EPA has developed a tool to illustrate the cost of a project delay to the customer. The Cash Flow Opportunity Calculator (CFO) requires a modest amount of project data, and produces a quick review of the project which answers three basic financial questions:

- How much new energy efficient equipment can be purchased from the anticipated savings?
- Should this equipment be purchased now or is it better to wait and use cash from a future budget (avoid paying interest)?
- Is money being lost by waiting for a better interest rate?

The CFO, like Portfolio Manager, is transparent. A customer who is skeptical of the results produced by the ESCO can easily and quickly confirm the results by re-running the CFO model. Using CFO puts the *imprimatur* of the Energy Star on the project financial analysis, which helps to reassure the customer and push him/her toward a timely decision.

National Recognition for Customers and ESCOs

ENERGY STAR offers several types of programs to help ESCOs get their customers and themselves recognized for successful energy efficiency programs.

ENERGY STAR[®] Qualified Building

One level of recognition is an individual building as an ENERGY STAR label, which means that it receives a rating of 75 or higher in Portfolio Manager without sacrificing indoor air quality. The certification process is simple and straightforward. The building is benchmarked, with the rating corroborated by a PE, and the building applies to the EPA for the label. The EPA grants the label, and the building is allowed to display the ENERGY STAR Buildings plaque and use other ENERGY STAR Buildings promotional materials.

National Awards

A second level of recognition is a national award from the EPA. ESCOs can apply for the awards directly, or put their customers forward to receive awards. A full description of the award competition can be found at the EPA website, www.energystar.gov/awards.

Use of EPA Promotional Materials

The EPA also allows customers who achieve the ENERGY STAR label and ESCOs who are active partners in the ENERGY STAR program to use EPA promotional materials, including the ENERGY STAR logo in their own marketing and advertising programs. EPA intends to make the ENERGY STAR for Buildings performance rating system a national standard, so the right to use EPA's promotional materials will become increasingly valuable for ESCOs, and the right to call its buildings ENERGY STAR Buildings will become a mark of quality for building owners.

Projects to Relationship

The EPA can also help ESCOs move from a project-by-project competition to a long-term relationship with their major customers. EPA believes that ESCOs may be able to create customer loyalty to an ESCO by allowing the ESCO to brand the ENERGY STAR tools and combine them with the ESCO's proprietary tools. This approach gives ESCOs the credibility of an EPA-sponsored tool with the customized application of a particular ESCO. By using the ENERGY STAR for Buildings performance rating system (Portfolio Manager) as the backbone of their information offering to customers, ESCOs can create a customer loyalty that often eludes them with hardware retrofit offerings.

Portfolio Manager gives ESCOs a simple tool to move the customer from a project to a portfolio perspective. It takes about an hour to benchmark a building, and the work can be done by a technician. Even less time is involved if the customer can supply utility billing and facility data in electronic form and the ESCO uploads the data in batch mode into Portfolio Manager. Thus, an ESCO could benchmark a customer portfolio of 50-100 buildings with less than a person-week of work, probably a fraction of the investment an ESCO would make to get the customer into the same point with a high-priced team of senior managers, sales people and engineers.

Once an ESCO establishes the basic relationship of helping the customer manage a portfolio of buildings, the ESCO has an opportunity for regular, value-added customer contact to gather periodic utility billing data to update Portfolio Manager and demonstrate the customer's progress toward his/her energy management goals.

Getting Started

Getting started in the ENERGY STAR program is very easy. NAESCO is working with the EPA to promote ENERGY STAR to ESCOs, so you can contact us directly to learn about trying Portfolio Manager on some of your projects. We can arrange a customized training session for your staff, and show you how to upload your project data files into Portfolio Manager. Contact Scott Serota at (781) 784-2943 or serota@comcast.net.