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ENERGY ALCHEMY: TURNING BUILDING ENERGY USE INTO A PROFIT CENTER

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Most developers, landlords and building operators view electricity and other utility services simply as elements of the cost of doing business. This doesn't have to be the case. In fact, there's been no better time than the present to use energy management and energy-oriented strategies as opportunities – not only to reduce operating costs, but potentially to make a profit on energy. Discussed below are four major opportunities to turn energy into gold: energy efficiency, energy choice, demand management, and on-site renewable energy production.

Energy Efficiency

Energy efficient construction or building upgrades, combined with demand management (see below), are the most cost-effective ways to reduce energy bills and get a better return on investment from your property. Several studies have identified those systems whose upgrade is typically the most cost-effective in terms of return on investment from multi-family and commercial projects.

According to a detailed study by the American Council for an Energy Efficient Economy, multi-family properties potentially can save ten percent or more of electricity costs through well chosen upgrades to lighting, heating/ventilation/air conditioning (HVAC) and water heating systems. Additional savings in natural gas are also available – up to 46 percent savings in a reference case. The primary areas of cost-effective savings of natural gas are through insulation and high efficiency heaters and boilers.

Commercial buildings can see a similar savings profile. The most energy savings in commercial buildings come from cost effective HVAC systems, energy efficient lighting and building shell changes – potentially resulting in up to a 21 percent energy cost saving in certain buildings.

Now is an ideal time to invest in energy efficient construction or building upgrades, because the financial incentives available for energy efficient systems, as well as other factors, have never been more advantageous:

- The federal government provides a tax deduction of $.30-$1.20 per square foot for energy efficient building systems, as well as accelerated depreciation for the systems.
- Most states, and many utilities, have programs to incentivize energy efficient construction and building upgrades. In addition, incentives received from state and utility programs are exempted from federal taxes.
- Labor costs in the construction industry are at an all time low. This can cut the cost of projects significantly.

Utility programs in particular are often overlooked, and they can be quite generous. A quick review of your utility's website should provide an overview of the available incentives in your area. These incentives can include building energy audits, discounts on energy efficient systems, rebates, loan programs and many more.

If you are evaluating the acquisition of a property, consider obtaining energy and systems information as part of your due diligence, and benchmark the building. You can use this information as a negotiating tool to bring down the price in order to compensate for energy efficient upgrades.

* In addition to being an attorney, Ms. Shapiro is a LEED Accredited Professional. She maintains a blog on green building legal issues at www.greenbuildinglawblog.com.

Energy Choice

In most states, energy is deregulated – there are competitive markets both within the various kinds of energy sources, such as electricity and natural gas, and across the energy sources. You should shop around for your energy. Many retail energy providers offer better prices and discounts than the default provider, and sometimes the most cost efficient choice is to convert your property from one energy source to another.

Demand Management

Energy demand management, also known as demand side management (DSM), calls for reducing a building's energy consumption during times of peak demand, when energy-supply systems are constrained, then increasing the consumption of energy during other, less expensive times. There are several different demand management strategies, some requiring the use of technology to monitor usage and some incorporating renewable energy production (see below) for use during peak demand hours. Not only will these strategies reduce energy usage, you can potentially make a profit on your energy by selling some of it back to the utility grid. Many companies specialize in demand management, and offer suites of services to capture this often overlooked value.

Renewable Energy

Finally, in many areas of the country, on-site renewable energy is a profitable enterprise, particularly in states with valuable renewable energy credit programs. With on-site renewables, like solar, not only do you get the benefit of generating your own electricity, but 30 percent of the upfront costs are reimbursed by the federal government in cash (as long as the system is placed in service in 2011), and you can sell renewable energy credits (known as SRECs) on the spot or contract market if your state has a program. In addition, to the extent that your renewable energy system produces more electricity than you actually use, some utilities will pay you for providing electricity back to the grid.

Building owners and operators should stop looking at energy solely as a cost of doing business, but rather as a potential revenue generating opportunity. There is no better time to invest in energy management for your building to pay dividends today and return investment over the life of the building.

The attorneys in Cozen O'Connor's real estate and energy, environment and utilities practice groups regularly advise clients concerning the financial opportunities and legal issues associated with energy efficiency and renewable energy projects. Please contact us for further information.

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