

Power Points

Managing energy efficiently can save a lot of money these days. Evaluating all options is time well spent, but beware of quick fixes.

Alix Stuart - CFO Magazine
October 1, 2008

Skyrocketing energy costs mean CFOs who haven't evaluated energy efficiency in the past two years are "letting money fly out the door," says Jerry Jackson, energy economist and professor at Texas A&M University. He estimates the right technology can slash the average company's energy bill by 30 percent. But how can you tell what you will truly save?

Not surprisingly, consulting firms stand ready to answer that question. Lincoln Paper and Tissue, for example, recently tapped QualPro to help it tweak manufacturing processes. Using its patented multivariable testing software to evaluate combinations of employee-generated ideas, QualPro quickly discovered \$500,000 in annual energy savings — without making any new investments — simply by adjusting the settings on two machines, says Lincoln CFO John Wissman. That savings just about covers the consulting fee, but Wissman estimates the total payback will be 20 times the QualPro tab.

Other companies outsource energy management entirely. Site Controls and similar firms monitor lighting, heating, and air conditioning to precisely match usage and needs for large-scale operations such as retail stores and restaurants. Companies pay a monthly fee and can rent or buy the necessary equipment, with payback generally occurring within two years (for purchases), according to CEO Dan Sharplin.

Quick fixes are alluring, but Jackson warns CFOs not to fixate on them. His new book, *Energy Budgets at Risk* (John Wiley, April 2008), provides a methodology based on the Monte Carlo method for estimating the internal rate of return and energy cost savings of an investment at several levels of probability. That "allows CFOs to distinguish between an investment in an HVAC system that lasts 20 years and one in a lighting system that may last 2," says Jackson.

And don't forget about nonfinancial factors. Paul White, president (and former CFO) of robotic-microscope maker Ikonyxis, is considering motion-sensitive light timers for his company's offices, but has one hesitation: "Do you really want to be waving your arms around every 10 minutes to turn the lights back on if you work late?"

HIGH ENERGY

Annual % change in standard per-unit prices of five key energy sources

