Tuesday Webcast for Industry

Tax Rebates/Credits Available for Energy Efficiency Actions

Webcast Questions and Answers: May 8, 2012

Presenters:
Jeff Harris, Senior Vice President of Programs, Alliance to Save Energy
Tim Konicek, Executive Director, CleanTech Partners

The U.S. Department of Energy's (DOE's) Advanced Manufacturing Office (AMO) hosts a series of webcasts on the first Tuesday of every month from 2:00 p.m. to 3:00 p.m. Eastern Time. The series helps industrial personnel learn about various ways to save energy and reduce carbon emissions.

Jeff Harris, Senior Vice President of the Alliance to Save Energy (ASE), and Tim Konicek, Executive Director of CleanTech Partners on behalf of Focus on Energy, were the presenters for the May 2012 seminar, *Tax Rebates/Credits Available for Energy Efficiency Actions*. The following questions were asked by attendees during the webcast, and are accompanied by the presenters' responses.

Presenter: Jeff Harris, ASE

Are there any ways for non-taxable groups to capture tax incentives?

Section 179, which refers to deductions for commercial or industrial buildings states that a deduction can be assigned to someone other than an owner such as a designer, contractor, or installer.

(***Tim Konicek***) A non-profit would not benefit directly because they do not pay taxes. However, a non-profit or government agency may be able to negotiate a reduced rate into the design contract if the tax benefit is assigned to the contractor.

Can the current 179d tax deduction be used on an industrial facility (compressed air, chilled water, etc.)? Is there an applicable benefit for process-related equipment?

The 179d deduction is for non-residential buildings only; it does not cover process equipment.

Heating, Ventilation, and Air Conditioning (HVAC) systems are such a large part of building energy. Why isn't more done to address energy efficiency related to those systems?

A fair amount of work has been done at the equipment level to address energy efficiency in HVAC systems, but less has been done on building systems or the interaction between mechanical systems and the building envelope.

Are tariff programs (time of use and demand-response) growing on their own, or do they need outside encouragement to really be useful and widespread?

Time-of-use and demand response programs have been growing steadily, but are still more common for large commercial and industrial customers. The main constraint has been the lack of metering infrastructure. Time-of-use and real-time pricing is becoming more widespread as utilities install interval meters for more of their customers, but in most cases it is still only offered as an option.

Continued -> 1

Is a computer required for the commercial energy tax deduction, or is it just the smart choice? Could someone accomplish this with hand calculations?

There are alternatives to whole-building computer energy simulations to demonstrate that energy efficiency improvements have achieved a 50% savings. For more information, please see the Guide to the Energy Efficient Commercial Buildings Deduction or the IRS guidelines. Other useful websites are:

- Building Technologies Program
- Tax Incentives Assistance Project
- Commercial Building Tax Deduction Coalition
- National Electrical Manufacturers Association.

Why aren't more incentive programs geared around operations & maintenance (O&M)?

I suspect it's because hardware measures are easier to prescribe and document than changes in procedures, practices, or personnel skills. We are seeing some utilities offer incentives for facility O&M, tune-ups, retro-commissioning, and operator training, as well as performance-based incentives and all-source bidding that includes reductions in energy use and/or peak demand.

Can you elaborate on the reasons for the depreciation of incentives for combined heat and power (CHP) applications or provide details on those incentives over reciprocating engines or diesels?

I don't know why the tax code includes provisions with different amortization periods for equipment that seems to meet similar purposes, like CHP systems versus back-up generators. You should review the 2007 Oak Ridge National Laboratory report by Marilyn Brown, et al., "Carbon Lock-In: Barriers to Deploying Climate Change Mitigation Technologies."

Presenter: Tim Konicek, CleanTech Partners on Behalf of Focus on Energy

How does Focus on Energy monitor energy savings for loans?

There are a few ways savings can be monitored depending on the specific project. One way is to install real-time monitoring equipment, which is factored in with the cost of the project. Another way is to install metering equipment linked with the company's computer system and then apply algorithms to calculate the savings.

Does Focus on Energy support any incentives for CHP applications?

Focus on Energy has a limited amount of incentives available. Our mission does not allow fuel switching as an efficiency measure. Many CHP projects use natural gas as the primary energy source to create electricity and provide heat to an off-take site, so although an entity may reduce their electricity draw from the grid, they are likely increasing their natural gas consumption.

Why do some companies prefer operating leases?

Industrial customers often install technology that is within or directly associated with their key processes. In our experience, they want to ultimately own these technologies. A capital lease is merely a mechanism to make that happen. Operating leases certainly have a place in the market. Some customers prefer them, especially for equipment that has a shorter life, fewer hours of use, or in a technology area that is changing rapidly.

How is emerging technology transferred or commercialized?

We generally develop a detailed case study that may include third party measurement and verification as part of the Emerging Technologies (ET) program. These case studies are used to sell additional projects to other customers. As a technology gets traction in

Continued -> 2

the Wisconsin market, we will begin to market it through trade associations and publications. Eventually, the ET becomes an "emerging best practice." We encourage all other field personnel in Focus on Energy to promote the technology to their customers. We also present ETs to utilities so they can promote them through their account representative chains.

Does installed cost include financing and transaction fees? What are typical fees?

Financing fees (interest) are built into the payments. Focus on Energy provides the administrative budget for the ET program, so no transaction fees are charged.

Are there similar programs like Focus on Energy in other states (e.g. Minnesota)? Do other states or utilities offer capital leasing?

Many states do have energy efficiency programs like Focus on Energy. I suggest checking with your state energy office or local utility. Some utilities offer financing programs. I am not aware of any that use leasing structures.

These projects often compete with investments in additional or improved product equipment. If payback is much faster and internal rate of return is competitive, why would a company invest in energy projects?

Energy efficiency projects must compete for a company's limited capital resources. Return on investment is one of the most frequently cited factors for selecting among competing projects. A financing model that allows a company to install an energy efficiency project without expending any resources will generally elevate that project above the competition. The project will still need to stand on its own and be financially acceptable, but it won't have to compete with the marketing person's request for more ad dollars.

It is important to fully flesh out the benefits of the energy efficiency project and to emphasize that the dollar savings are an annuity. This can improve return on investment calculations. Also, many energy efficiency projects offer secondary benefits (e.g., sustainability).

Does the Focus on Energy program retain architecture/engineering firms for audits, modeling, or enterprise content management software installation?

Focus on Energy uses a competitive bidding process for all major program components. Any subcontracts are with the companies that are administering those programs.

What is the definition of an approved contractor, regarding the completion of certificates of compliance for 179, in your jurisdiction?

I don't know. Any 179 activity is done by individual customers.

How can an energy efficiency technology provider partner with Focus on Energy? How do you pair technology companies and customers?

I can be contacted directly (tkonicek@cleantechpartners.org) or through this email address—emergingtech@focusonenergy.com for any inquiries or questions about "emerging" technologies. If the technology is a best practice, Focus on Energy evaluates those vendors within the various sector programs. I would be happy to point you in the right direction if needed.

We do not follow a single approach to pair technology with customers. Sometimes a customer contacts us because they have seen a new technology and they want us to provide an objective review and recommendation. We often use our industry experience and contacts to promote a new technology to a customer that we feel will have an application.

For More Information

This webcast, as well as others in the series, are available at:
http://www1.eere.energy.gov/manufacturing/resources/tuesday_webcasts.html.