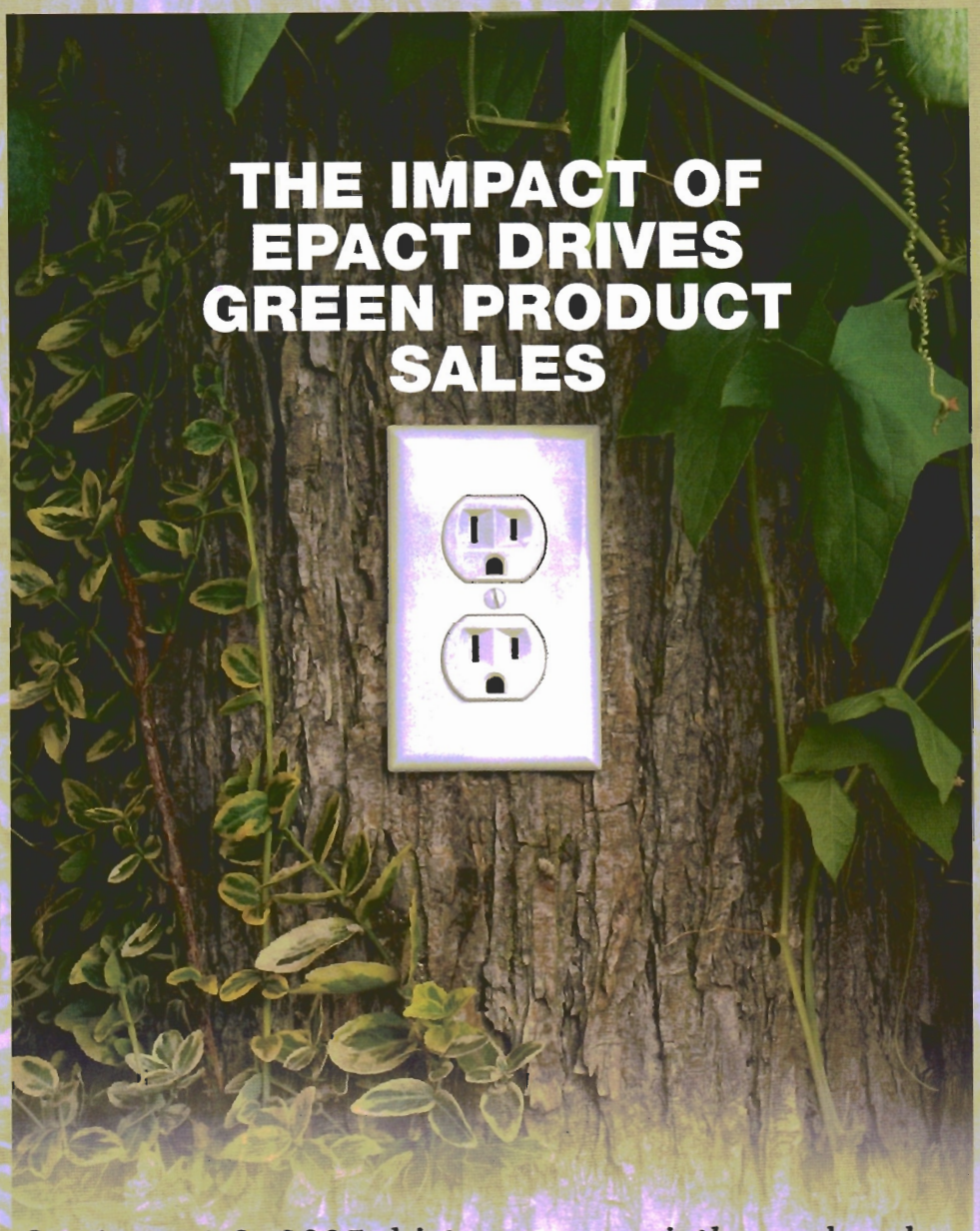
By Christian Horn

THE IMPACT OF EPACT DRIVES GREEN PRODUCT SALES



On August 8, 2005, history was quietly made when President George W. Bush signed the Energy Policy Act of 2005 (EPAct). The landmark legislation set a game-changing precedent by providing a transformational tax incentive for owner investments in new or retrofitted commercial building energy efficiency. In 2008, this immediate tax deduction opportunity was subsequently extended by Congress through 2013.

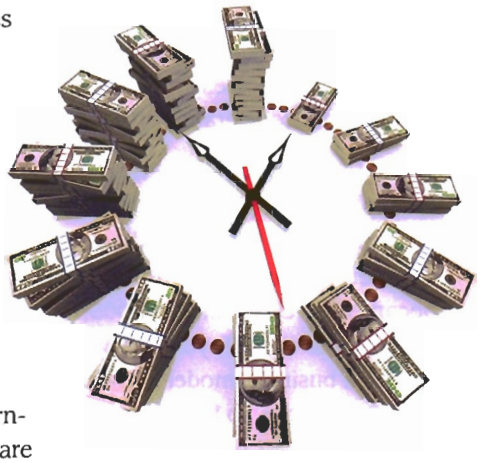
Using ASHRAE 90.1-2001 as a facility energy use baseline, federal tax deductions of up to $1.80 per square are available for beating ASHRAE by 50%, and at the $.60 per square foot level for each of a buildings' three major subsystems—lighting, HVAC and the building envelope. Lighting has an additional tax deduction of $.60 per square foot for 40% wattage reduction and $.30 per square foot for a 25% wattage reduction. Commercial properties and multi-family residential buildings over four stories must be otherwise depreciable property, located in the United States or a territory of the United States and all applicable costs must be borne by the taxpayer seeking the deduction.

In the case of energy efficient systems installed on or in government or public properties which are not taxpayers, such as a municipal building or a public educational facility, tax deductions benefit the entity primarily responsible for the systems' design, typically architectural and engineering firms, lighting designers, design/build contractors or energy service companies (ESCOs).

What's in it for electrical distributors?

Charles Goulding, president of Energy Tax Savers, Syosset, New York encourages electrical distributors and their contractor customers to get up to speed on the EPAct incentives as well as being knowledgeable about utility, state and municipal financial incentives for energy efficiency in their trading area to drive building retrofits and the sale of higher margin energy cost saving products.

"For distributors who have design capability or a direct sales force that has expertise in energy efficiency, the tax incentives are another bullet in the gun," says Goulding, a veteran tax attorney and accountant whose company certifies tax incentive projects for a client's IRS purposes and consults on energy efficient project design to achieve the tax breaks. "If distributors have people who can work a spreadsheet, they can put a proposal together that integrates the tax savings into the energy efficient upgrade sales equation."



"When you go into a large company today, you have multiple stakeholders at the table. There's a facility manager interested in saving on energy costs, an environmental manager interested in emissions reduction, a CFO focused on payback," Goulding observes. "A good proposal ought to be a business solution that touches the interests of all the stakeholders in the decision chain."

The EPAct incentives can play an influential role in accelerating the payback time which drives capital project approval internally and is typically an ironclad payback target of two years or less at many companies. "The beauty of the tax incentives is their ability to take a project from, say, 26 months to 23 months in terms of payback and that's the critical difference between go and no-go," he says. "Many companies, particularly industrial companies, will tell their plant manager or energy manager 'if you have a project with a payback of less than two years, you don't need corporate approval, just do it.'"

Making green building less taxing

According to Goulding, reaching an energy reduction of 50% is challenging and largely limited to projects where a building owner is intent on achieving Leadership in Energy and Environmental Design (LEED) certification for energy efficient, low carbon footprint

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buildings. However, he describes the 40 percent and 25 percent energy reductions as "very achievable if," he emphasizes, "the person doing the design knows what the targets are upfront."

"Tax savings are based on 'as built,' finished," he says. "That's why a building owner needs to bring a partner in at the beginning to look at a project at the design stage and evaluate whether or not the design is going to deliver enough energy savings to qualify for the tax advantage."

"Of the three EPAct tax incentive buckets—lighting, HVAC and the building envelope—the lighting bucket is the most easily achievable," he says. "HVAC, which uses twice the energy of lighting, is achievable utilizing one or more of about 12 very energy efficient HVAC technologies," he explains.

While he notes the building envelope does not use energy per se, it does impact interior energy use, particularly heating and cooling. This impact can be improved by installation of "cool roofs" which reflect, rather than absorb the sun's heat, window and door glazing and, in large retail buildings and warehouses, skylights integrated with automated daylight harvesting controls which continually finesses lighting system energy use to compensate for the presence of natural light.

Layering the cake

How much of an influence do incentives have on the decision to pull the trigger on a project? "We call it layering the cake," says Goulding. "The big money is in energy savings. The second economic driver is the utility rebate, if it's available. Utility rebates can be as high as half the installed cost. Tax savings and maintenance savings are probably third and fourth in importance."

Over the past few years, the energy efficiency industry has been somewhat unique in that sluggish economic conditions have increased demand for energy effficient technologies and services that will reduce operating costs.

Energy Tax Savers is a perfect example of this phenomena, as are ESCOs and the uptrending of green building. "When EPAct became law at the end of 2005, I thought to myself, you know, there's a business model in this," says Goulding, who has 35 years' experience as a tax attorney with industrial companies. His company has successfully qualified over 6,000 new buildings and retrofits of existing facilities for the EPAct tax incentives in the four years since he had that thought.

"When EPAct first came out there was only a little over two years until it was set to expire in 2008. That really wasn't enough time for people to jump in," he observes. "Once it was extended to 2013, that really opened up the market. First of all, it paid for people to understand it because they had five more years to work with it. Second, the products are getting more and more energy efficient, making the energy reduction requirements that much easier to achieve."

Reverse impact

"When the economic downturn came, it had the reverse impact of what might have been anticipated. When we first started doing presentations, half these guys were staring out the window," he recalls. "When the economy took a downturn, I can't tell you how many of these same people said 'when you gave that presentation two years ago, I wasn't paying attention, and I really should have been, because now I need this.'"

EPAct also contains healthy tax incentives for alternative energy sources such as solar, wind and geothermal. "We do a lot of solar work," he says, "particularly in helping clients evaluate solar installation proposals. We want to be certain the vendor is quoting the correct per watt costs. Solar material costs have fallen significantly, so you want to make sure the vendor isn't giving the customer per watt pricing from two years ago."

Wind and solar installations both get straight 30% tax credits with no installation cost caps through EPAct and are also bolstered by the American Reinvestment and Recovery Act. "The credit calculation is very straightforward—you pay a million dollars, you get a $300,000 tax credit. We see so many solar proposals we can tell a client whether the proposal is "all in" from a financial standpoint and total installed cost."

Projected to grow more than three-fold from a $30.7 billion industry in 2009 to a $98.9 billion

in 2019, according Pike Research, solar is clearly taking off, and for more reasons than just EPAct. "For example, solar is huge in New Jersey because they have a very lucrative solar incentive program, the best in the country, as do California and about 20 other states.

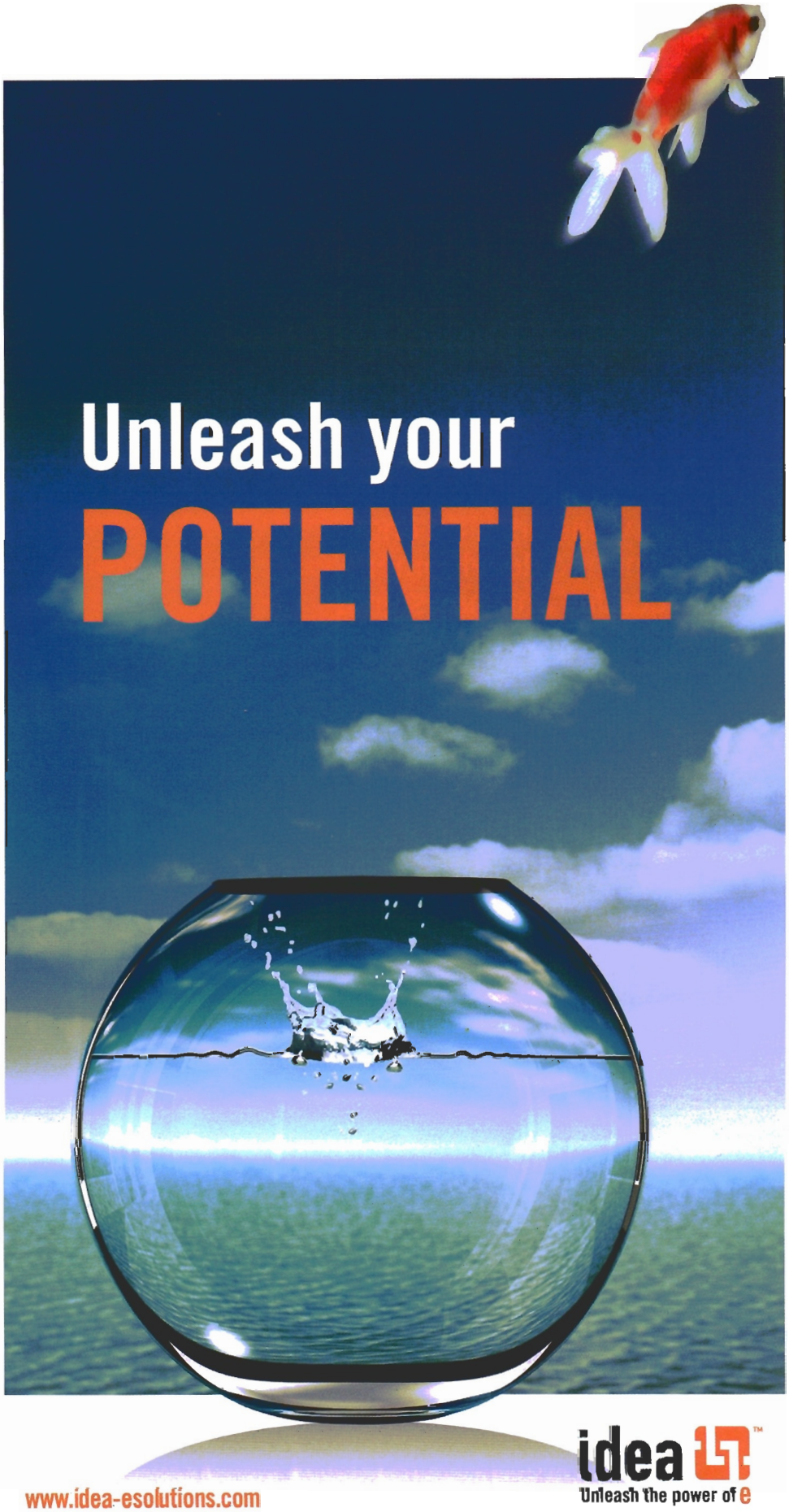
Green at the grass roots level

EPAct's objectives are widely augmented in many areas of the country by utility rebates, state and municipal incentives. Most states offer financial incentives for energy efficient facility upgrades, particularly the in the electric supply constrained markets such as the Northeast and the West Coast. There are 80 utilities nationwide that offer financial perks for solar and/or energy efficient equipment.

Connecticut is offering a 40 percent rebate on installed cost of energy efficient fluorescent lamps and 50 percent of the installed costs of induction lighting and light emitting diodes (LEDs). "Those are huge rebates that are going to motivate behavior. In Georgia there is a state tax credit available up to $100,000 per building for installation of energy efficient equipment. You apply the credit to state income taxes or payroll withholding taxes," Goulding says.

Sometimes the financial incentives are less direct, but still very appealing. "In the current market, Class A office buildings have to become LEED certified to remain Class A and many jurisdictions have policies that expedite the permitting process for LEED buildings which is a very valuable

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financial carrot for property developers." Goulding points out.

A comprehensive listing of state and utility incentives can be found at the Database of State Incentives for Renewables and Efficiency (DSIRE) web site www.dsireusa.org.

Motivating a change in behavior

"Distribution can greatly help their electrical contractors and ESCO clients utilize the tax savings by presenting seminars with actual case study examples explaining how to present EPAct and how to complete the EPAct process and take a vertical focus to show their potential customer how EPAct works for their type of building.

"For distributors or contractors, if you wrap the tax savings, the utility rebate savings and an acceptable payback period around the energy savings associated with a product, then it becomes a solutions sell with a compelling economic justification rather than a product sell," he suggests.

This isn't the first time Congress has wielded the tax code to affect real and positive change on an environmental issue. "We've had three previous short-term wind tax credits in the past decade and every time they expired wind energy production investment plunged. The good news about EPAct is it's an eight year statute that hopefully will be extended past the current December 31, 2013 expiration date."

"The key with energy tax legislation is for the intended beneficiaries to have an enough time to review, understand and utilize a tax benefit before it expires," he says. "In the case of EPAct, the legislation is working and it has definitely caused, and will continue to cause, major behavioral change."

