

What's The Cost Of Not Tracking Energy Spending?

Spending money to improve buildings without analysis, tracking and proof of results is a losing proposition for building managers.

By Priscilla Koeckeritz

Tight economic conditions have driven all businesses to tighten their belts and operate leaner. The one building operations expense that is consistently increasing each year is **energy**. Even though energy rates are increasing, property managers are still expected to somehow maintain or reduce these expenses. This is a losing proposition without the right information and business tools to monitor energy expense and make sound decisions on energy efficiency investment.

Rising energy costs drive operating expenses up.

According to Whitestone Research, the operating cost for energy in commercial buildings is up 7.4% in the past year. Energy rates are rising at such a rate that overall operations expense are up 3.8% nationally – even though most other non-energy operations expenses are either flat or even down year-over-year.

Non-Residential Operation Cost Index				Year Over Year Change:	
	Mar. 2011	Feb. 2010	Percent Change	Mar. 2010	Percent Change
Non-Residential Facility Operations	125.1	123.3	1.5%	120.5	3.8%
Index Components*					
Custodial	111.4	111.6	-0.2%	110.4	0.9%
Energy	141.9	136.3	4.1%	132.1	7.4%
Real Estate Management	106.9	107.2	-0.3%	107.9	-0.9%
Security	108.6	108.6	0.0%	108.4	0.2%
Telecommunications	101.0	100.8	0.2%	100.5	0.5%

*Five heavily weighted index components are shown.

Sources: U.S. Department of Commerce, U.S. Department of Labor, and Whitestone Research.

As Francis Bacon famously quoted, "Knowledge is power." Having the right information to make sound decisions is more important today than ever as we all manage with smaller operating budgets. We have to do more with less, and surprise expenses and unplanned expenses are never welcome. Many property managers and owners have learned the hard way that ignorance is not bliss when it comes to being able to prove and defend your energy efficiency decisions, and your annual energy operating expense.

Whether budgeting for the coming year, defending tenant improvements, or investing for multi-year energy payback, property owners and their teams have a new challenge – cost justification. The questions from management seem endless when you miss your budget number ... and the reasons you consider are numerous:

1. Was it weather-related?
2. Did energy rates go up?
3. Were there more service fees or demand rates?
4. Did we have more tenants, or fewer tenants?
5. Did we change our maintenance schedule?
6. Were our hours of operation different?
7. Did the lighting retrofit pay off?
8. Are your maintenance vendors performing?

The list goes on and on ... and you know you have to answer each one and check it off the list. And when you can no longer make excuses for the energy expense increases, competition for tenant occupancy forces your hand, or you simply decide to do the right thing and set objectives for energy performance – you turn to improvements to drive down the overall cost of energy in your building. But, you cannot manage, what you do not measure, and as Lord Kelvin said long ago, “To measure is to know.” You need information. You need business tools to monitor energy expense.

Knowledge drives sound decision-making for energy improvement.

According to The Energy Savings and Industrial Competitiveness Act of 2011 (Shaheen-Portman), the U.S. buildings sector consumes 72% of electricity, 55% of natural gas and 40% of U.S. primary energy. This national strategy says that, “Investments in building efficiency are among the most cost-effective, energy-saving measures we can make.”

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Statistics supporting the initiative have proven that electricity use alone can be cut by 1/3 through efficiency improvements. Making improvements sounds like the right thing, but where do you start?

- How do you manage through the process of selecting project improvements?
- How do you ensure that the promises of energy savings made by vendors will be kept and proven?
- How will you gain the objective knowledge to make independent decisions and learn best practices?

Let's use an example we all understand ... When you buy a car and the salesperson tells you that it gets 35 mpg, do you automatically believe it, or do you verify it for yourself? Once you buy the car, don't you pay special attention to the gauges for awhile ... watching your fuel use? Every time you stop at the gas station to fill up your tank, you take a few seconds to double check that your car is performing within the acceptable range.

When someone promises you 10%, 20% or even 30% savings if you make a particular investment in your building, what steps do you take to ensure that you get the promised savings and can maintain the new level of efficient performance?

- Do you even know what your current cost per square foot is for energy?
- Do you know if your building performs well, or poorly?
- Should you improve this building, or is there another one in your portfolio that is even worse?

So what happens if you chose not to manage energy cost? What's the prognosis? According to year-over-year studies by Whitestone Research, energy costs have been rising about 6% annually over recent years (that's during a recession). If you hold energy use flat, you need to budget around 6% additional each year to account for increases in energy rates. If you have a poor performing building – one that is experiencing increased energy use or unexpected seasonal fluctuation – you will need to budget even more. The goal is to get ahead of rising energy rates and take action to control what you can – your building's energy consumption.

Make it easier to have energy management accountability.

A challenge we all face when addressing a need to improve performance is “how will we be held accountable?” It's human nature to want to be assessed fairly for our performance – even in our performance of managing buildings. We have a unique leading indicator of building operating performance – energy. We just have to track it and use the information to make better decisions and show our results with pride. To accomplish this property owners and managers need to find business tools that provide visibility and tracking for energy expense and energy use on a consistent basis. If you don't measure, you won't be able to manage. It's not about being the best performing building today – it's about showing progress, and showing that you are doing the best job of managing the building you have with the resources available.

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