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Jeff Hiatt - Buying Energy

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If you are like many commercial building owners, you may have just accepted the fact that the energy rate your utility company dictates is what it is and it is simply the cost of doing business. As a commercial entity and energy consumer, however, you do have a few options available to you to reduce your energy costs. One of those options is something called a "reverse energy auction".

The "reverse energy auction" typically involves municipalities or large energy users like manufacturers or hospitals. Essentially, these entities aggregate their energy business and allow energy suppliers to bid on the business, with the lowest bid winning.

The entire reverse energy auction is conducted via a proprietary Internet-based system. In addition to conducting the auction, this site tracks utility information and enables clients to manage their account more efficiently.

Commercial property owners can take advantage of reverse energy auctions by pooling with other commercial property owners. Reverse energy auctions occur when there are enough buyers in the pool to interest the deregulated suppliers. This can be for amounts ranging from 10 million kWh to 50 million kWh. This pooling process allows small businesses to achieve pricing usually only available to large users.

By aggregating with other business owners, you can enjoy some fairly significant savings.

Overall, clients report saving eight to 23% through reverse energy auctions.

Each auction has different participants. These can range from municipalities to retail properties, apartments, office buildings and retail. The diversity of the pool enables balancing of usage, which is attractive to the suppliers bidding. Some suppliers bid with a component of "Green Power." This adds another element to the conversation: Saving money while helping reduce your carbon footprint.

Another way commercial property owners can save on their energy usage is by taking advantage of the 179D Energy Efficient Commercial Buildings Deduction.

Although most green deductions are based on the amount spent, this tax deduction is primarily focused on affected square footage. Commercial property owners most likely to qualify for these deep savings will generally have improvements with a square footage of at least 50,000 s/f. Most obvious candidates include manufacturers and regional or national chains with multiple locations.

This legislation offers a tax deduction of up to \$1.80/s/f to those investing in energy efficient improvements placed in service after January 1, 2006. The program has been extended to December 31, 2013.

The true beauty of this deduction is the wide range of improvements you can undertake that qualify. Anything from simple lighting retrofits to full-scale construction projects can qualify for this timely tax break. Eligible improvements must reduce energy use for any of the following categories - a building's envelope, HVAC (Heating, Ventilation, & Air Conditioning), and/or interior lighting systems.

So, how much can a commercial property owner potentially save with this program? Tax savings can be significant. For example, an owner of a 50,000 s/f building could save up to \$15,000 - \$30,000 for improved lighting, \$30,000 for more efficient HVAC and another \$30,000 for tightening up the envelope of the building. That is a total of \$90,000.

The basis for this deduction is a detailed engineering analysis, as prescribed by the IRS. The process for obtaining the 179D deduction does require a detailed analysis that must be certified by a qualified third-party. While some business owners might be unwilling to pay a third-party, it's an investment that's well worth it from a compliance side and the significant tax savings that you can enjoy later on.

It's safe to say that most people and businesses want to operate in a way that's less damaging to the environment. Reverse energy auctions and the 179D deduction are just two more examples of how running a greener operation is also good business.

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