

Article # 9

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Energy Manager / Energy Auditor Tandem Team: A Dream Team or Forced Marriage?

By now everybody should know that the Energy Conservation Act is not a law to bother firms, but a "Profit Enforcement Act" because only the best firms in a sector seem to voluntarily reduce energy consumption in a very cost effective way. These firms do not need an Act and Government intervention anyway. Before you try to go through the provisions of the Act to find out what the Act tries to achieve or requires from designated consumers of the industrial sector and commerce, take the following clue:

"Any designated consumer is supposed to employ a BEE certified energy manager who has passed a BEE exam. This energy manager together with the help of a BEE certified energy auditor should prepare an energy audit report with recommendations on how to reduce in a **cost effective way** energy costs. Preferably this energy audit report should not be shelved, but result in a business plan on how to actually reduce energy costs. Furthermore it is the responsibility of an energy manager to convince management to provide a budget for implementation and inform the Government what measures were implemented".

So far so good. The approach makes sense and should in theory improve profits for a firm and expand the consultancy market for service providers. Let us perform a simplistic market potential calculation.

There may be perhaps 5000 firms who see this law and provisions as an opportunity to improve their balance sheet. Based on previous surveys, the average investments will be Rs. 1 Crore and consequently Rs. 5000 Crore of investment per year may be triggered, perhaps less!

Investment in energy efficiency and energy conservation measures are not only investments in hardware. Equally important are investments in professional fees to hire an energy auditor and investments in human resource development. A healthy ratio at a Rs. 1 Crore investment level would be 80% hardware, 10% professional fees, and 10% human resource development.

Considering this, about 50 certified energy auditors would share a market of Rs. 5000 x 10 Lakhs = Rs. 500 Crore revenues. This simplistic calculation already shows that 50 certified energy auditing firms are already too many based on professional fee income. A few of them must venture out into performance contracting or ESCO strategies in order to increase annual revenues.

In case you wonder what an ESCO is. Here is my simple definition.

"A consultancy group that finances, installs, owns, operates and maintains equipment in a clients firm, or her command and control area to deliver one or more of the following energy services: electricity, mechanical power, process steam, compressed air, hot water, lighting, etc at costs which are lower than the present cost to the client".

A "pseudo" ESCO is one that follows the complex approach below:

"A consultancy group that goes through a complete project cycle of (i) conducting an energy audit in a firm, (ii) preparing a complete detailed project report about the possible energy conservation potential of the client, (iii) preparing a detailed engineering analysis about the financially attractive energy cost reduction potential, (iv) investing in implementation of mutually agreed recommendations, (v) delivery of turn key improvements, (vi) taking part in the repair and maintenance during an agreed project cycle, (vii) being reimbursed by client from verified savings based on a verification and monitoring protocol, (viii) exiting the project and commitments after recovery of their investment plus profit".

An energy auditor is a firm or an individual roaming around in a firm for 2 days to 20 days, finally submitting a report how to reduce energy costs in the firm in a cost effective and perhaps not so cost effective way. He gets paid by preparing the report. After submitting and discussing his findings, his job is over.

Pick your choice and assess your risk.