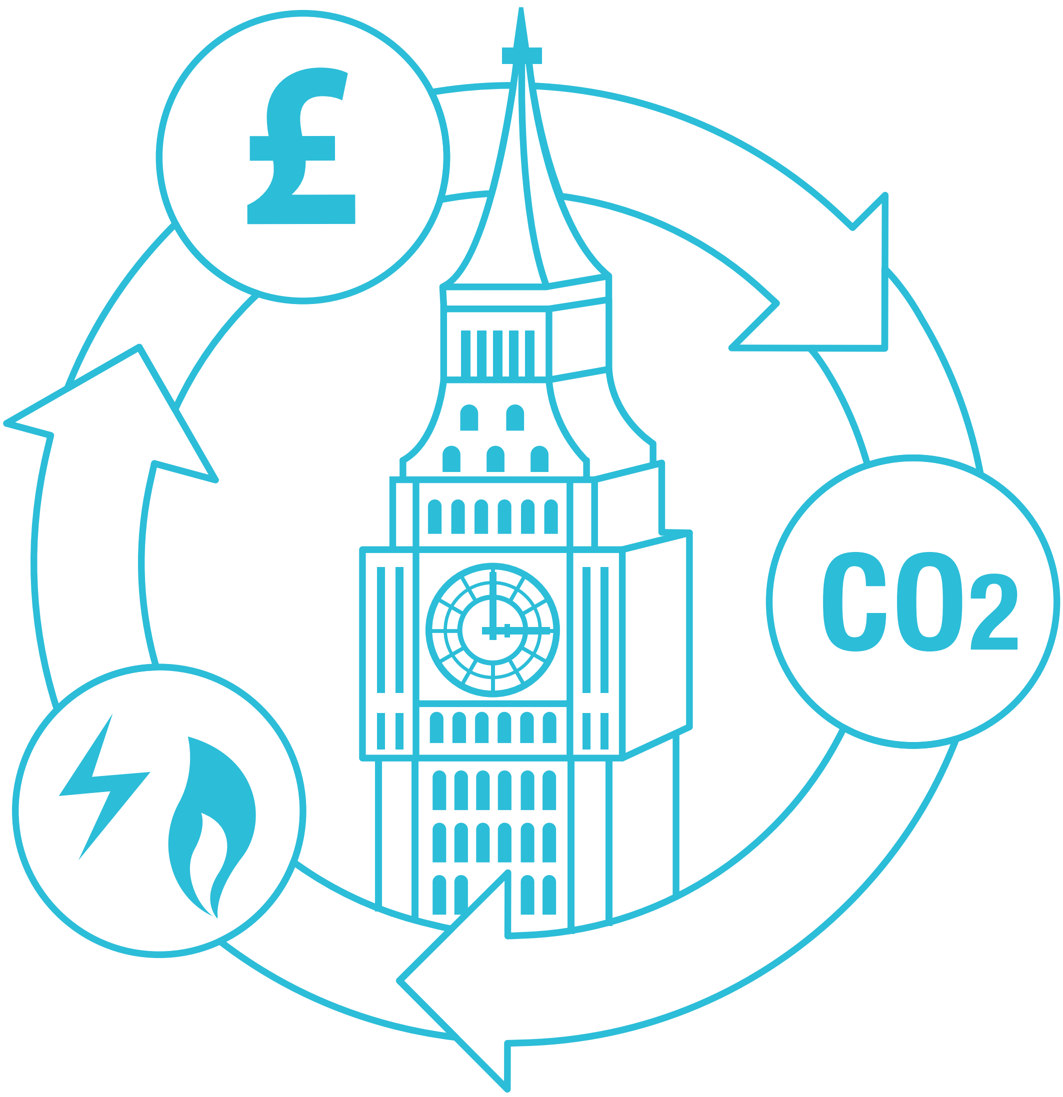
# Energy Strategy 2012:
Policy implications of the corporate energy survey



# Introduction

**Our relationship with energy has determined our economic prosperity for hundreds of years. The discovery of coal underpinned the industrial revolution, whilst the oil-shocks of the 1970's demonstrated the vulnerability of modern economies to energy prices.**

The past decade has seen energy return to the board room in many sectors, driven by price volatility and the carbon agenda. Early movers such as GE, Siemens, Nissan, M&S and Philips have led the way on business model change, and have positioned themselves to outperform in the new era.

Green Monday undertook a survey of the corporate community to capture opinion on energy strategy and energy policy.

**Three themes stand out as being important to those shaping energy strategies:**

1. There is an expectation of **rising prices**, predominantly from increases in wholesale fossil fuel prices rather than green policies. There is a belief that the UK has more challenging circumstances than its competitor economies and a lack of investment in generation capacity threatens to translate into an energy crunch in 2015.

2. **Energy policy** is no longer the main driver for corporate energy decision-making. Companies are comfortable with their response to policy, and see volatile fossil fuel prices as a bigger problem. There is strong agreement that the CRC needs to be reformed and mandatory carbon reporting introduced.

3. Energy in the **supply chain** emerges as the biggest untapped opportunity in energy strategies, with only 4% of companies having made much progress in this area. This is shaping up to be a defining feature of the next generation of energy strategies.

The results imply that corporations are open to having policies 'with teeth'; but there is also more than a suggestion that energy strategies are being increasingly driven by market forces. Policy makers must rise to this challenge by simplifying the regulatory framework, providing more policy certainty and strengthening reputational drivers that spurs a race to the top.

Setting strong signals for investment for energy market reform is a key test and it is vital that demand side resources are empowered to compete as low cost alternatives to supply side investment. In addition, many corporate leaders would like considerably more opportunities to use their extensive and influential purchasing power to drive investment in clean energy.

The good news for policy makers is that the corporate community are calling for a more collaborative approach and an active policy environment. Our Parliamentary debate on the 16th July seeks to respond to this need.

**Jim Woods**
Director of Content, Green Monday

**Andrew Raingold**
Executive Director, Aldersgate Group

# Survey Analysis

The Energy Benchmark survey was completed by 153 people between the 2nd May and the 13th June 2012. Over the following pages, we comment on the results in the following areas:

- Expectations for energy prices
- The evolution of energy strategies
- The role of ESCOs
- Organisational engagement
- Views on policy
- About the respondents

# Survey Participants

A&S Consult - Aberdeen Asset Management - Acre Resources - Accenture - Agfa Graphics – Ahuja - Alliance Boots - Allianz Insurance - API Group - API Laminates - Arla Foods - ASDA - AstraZeneca Aviva - BAE Systems - Barclays - Barts Health NHS Trust - Bloomberg New Energy Finance - BOC - Bradford District Care Trust - British American Tobacco - Britvic Soft Drinks - BrownFlynn - BskyB - BT - Building & Engineering Services Association - Cable & Wireless - Camelot Group - Canon Europe - Centrica - Ceram Research - Cisco Systems - City & Guilds - Coca- Cola Enterprises - Colliers International - Commercial - Crest Nicholson - CSM - De Beers - Deloitte - Deutsche Bank - Dixons - Domino Printing Sciences - Dyson - EDF Energy - E.ON - Enablon - EnergyDeck - Eon Benelux - Ernst & Young - Esprit - Freshfields - General Mills - Hampshire County Council - Hema Otomotiv - Highspeed1 - Hurley Palmer Flatt - IKEA - Imperial College Healthcare NHS Trust - Imperial College London - Imperial Tobacco - Innovations, Competitiveness and Sustainable Development Caucasus Institute - Johnson Matthey - Kelloggs - Kirklees Council - Laing O'Rourke - Langdale Leisure - Linklaters - London Borough of Haringey - London Borough of Lambeth - MacDonald - Manchester Metropolitan University - Marylebone Cricket Club - McDonald's Restaurants - Motability - MWH - Nando's - NATS - Network Rail - Next - NHS SDU - PepsiCo - Philips - Pick Everard - Polymer Technology Group - Prescient Power - PRUPIM - Ricoh Europe - Rochdale MBC - Rolls- Royce - Royal Mail Group - Sainsbury's - Savills Energy - Schenker AG - Skanska - Standard Chartered - Standard Life - Stoke-on-Trent City Council - SuperGroup - Surrey County Council - SWM-Intl - Sybase UK - Tarmac - Taylor Wimpey - Ted Baker - Telefonica O2 - Telefonica UK - The Advisory House - The Crown Estate - Total Holdings UK - Toyota Material Handling Europe - Travis Perkins - United Utilities - University of Greenwich - University of Sheffield - Vesuvius - Willmott Dixon - Wood Mackenzie - WPP - WSP Environment & Energy - Yorkshire Water.

# Expectations for energy prices

Recent research found that the price of energy paid by UK business has increased by 58% since January 2010[2]. The same research asked companies what would happen to their business if energy prices were to rise 25% per annum for the next few years – 8% would expect to close, 31% to transform the way they do business. That is a good backdrop for looking at these survey results.

### An expectation of rising prices

Only 3% of our survey respondents expect the price of energy to fall over the next two years, with the majority expecting prices to rise by at least 5% per annum. This survey was run against the backdrop of the economic uncertainty surrounding the future of the Eurozone, which points to structural rather than cyclical reasons.

### Driven by rising fossil fuel prices

Whilst some newspaper articles suggest that recent increases in energy prices have been driven by carbon policies, Figure 2 shows that corporate energy users see prices being influenced to a greater degree by wholesale fossil fuel prices. The survey respondents expect fossil fuel prices to have a 3 fold greater impact on prices when compared with carbon policies or transmission / distribution costs.

### Higher prices for the UK

Only 5% of the respondents expect the UK's energy prices to be less than its competitor economies in 2015, with 62% expecting them to be higher. Issues such as a lack of investment in new generating capacity to replace decommissioned coal-fired power stations, and the difficulties for the UK in exploiting shale gas, may be contributing factors here.

**Fig 1. How do you expect the price that your organisation pays for energy to change over the next 2 years?**

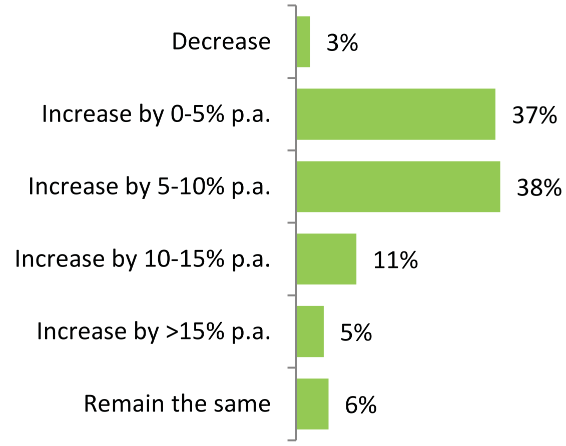



**Fig 2. The % of survey respondents who expect the following to have a "major influence" on energy prices over next 2 years**

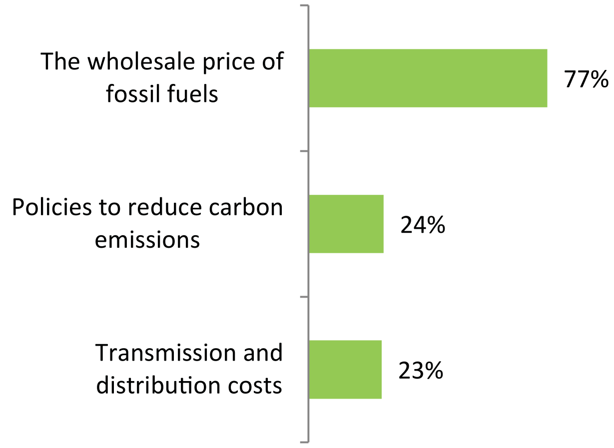
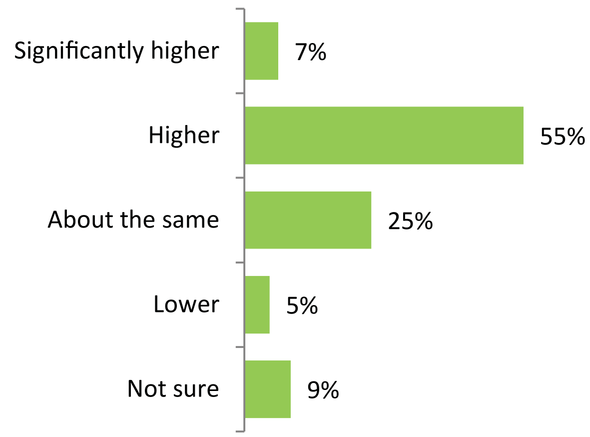



**Fig 3. Taking into account factors such as energy policy and shale gas, how do you expect UK energy costs to compare with competitor economies in 2015?**



# The evolution of energy strategies

Our survey respondents probably represent the more advanced stages of energy strategies, not least because laggards would be less inclined to take part in a survey such as this. 56% of those who completed the survey see their organisation as a "leader", versus the 9% who consider their organisation to be a laggard (see Figure 15).

Below are some points about Figures 4 to 8, relating to the evolution of energy strategies.

- **The process of integrating energy into business models is clearly underway.** Figure 4 shows that this group is well aware of the opportunities in developing energy-related products and services, reducing the in-use energy intensity of existing products and services, and improving the energy efficiency of their supply chain. And Fig 5 shows they are making progress towards realising them.

- **Their responses highlight the surpluses and deficiencies in their strategies.** By looking at Figures 4 and 5 together we can see the progress being made against the opportunity presented - what one might call the "Strategy Deficit". The most negative numbers represent the biggest deficiencies, and therefore the areas where companies could build the greatest competitive advantage.

- **Supply chain efficiencies emerge as the most deficient area of strategy**. Whilst 26% of survey respondents consider energy efficiency in their supply chain to be a "major opportunity", only 4% of respondents see their organisation as having made "much progress" – see Figure 5.

  Siemens illustrates what can be achieved through supply chain energy efficiency. Since 2010, it has offered energy audits and financing for initiatives that pay back within 3 years to its biggest 1,000 suppliers. It recently revealed that it has since removed Eur1bn in energy costs from its supply chain[3].

- **Limited strategic upside left in meeting regulatory requirements.** Whilst policy compliance is often a spur to business action, there appears to be limited value left on the table for this group. It is ranked 9th of the 11 opportunities listed, and 68% of respondents say they have made "much progress" towards realising the opportunity.

- **The future seems to lie in the energy "growth" agenda.** When an issue becomes aligned with growth it tends to rise up the business agenda, and the leaders are increasingly seeing energy as a growth issue. 3 of the top 5 "major opportunities" in Figure 5 are revenue-related or brand-related.

- **Few are investing in renewable energy on an enterprise-wide basis.** Figure 7 shows that whilst 30% of respondent companies expect to invest in solar energy on a multi-site basis in 2012, this figure falls to 5% when looked at on an enterprise-wide basis. This points to few companies seeing renewable energy as part of an enterprise-wide strategy.

- **Other energy initiatives are being invested in on an enterprise-wide basis**. 50% of respondents say their company is investing in employee behaviour change on an enterprise-wide basis, followed by energy management software and smart meters. With these investments having amongst the lowest paybacks, this points to organisations sticking to the most commercially-attractive investments.

- **Demand response is expected to be the least invested initiative in 2012**. But with the draft Energy Bill including plans to establish a capacity market, which would pay companies to curb their energy use at peak times, this is an area that could change quickly.

[2]The Business Energy Barometer by Business Juice, Business Juice
[3]Figures revealed by Barbara Kux at Sustainability 24, 23rd May 2012

**Fig 4. The % who regard the following as being a "major opportunity" for their organisation**

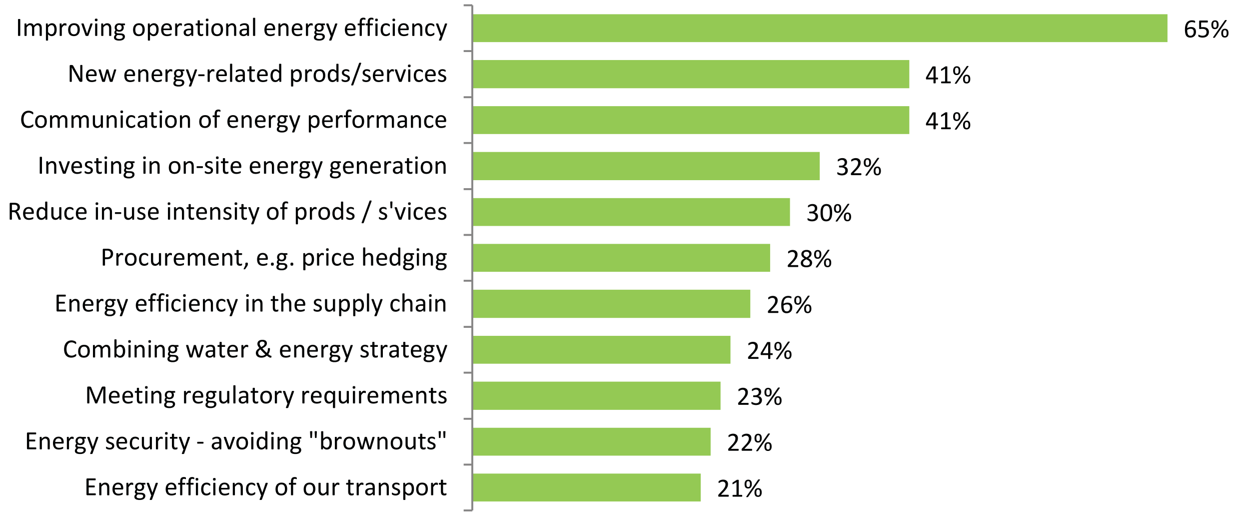



**Fig 5. The % of respondents who say they have made "much progress" against the same initiatives?**

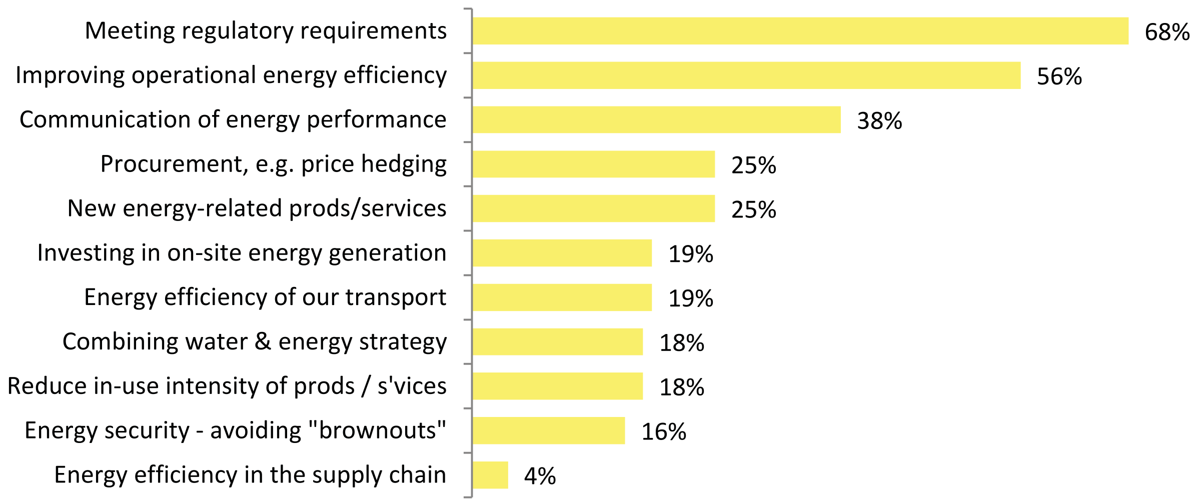



**Fig 6. The "Energy Strategy Deficit " the difference between opportunity and progress**

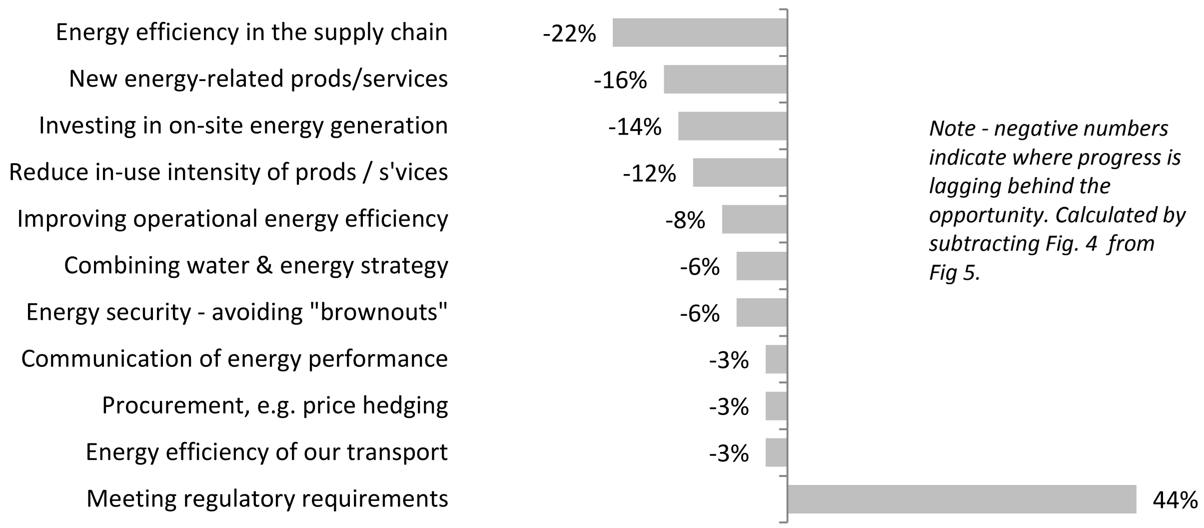


**Fig 7. Which of the following onsite renewable energy initiatives will your organisation invest in during 2012?**

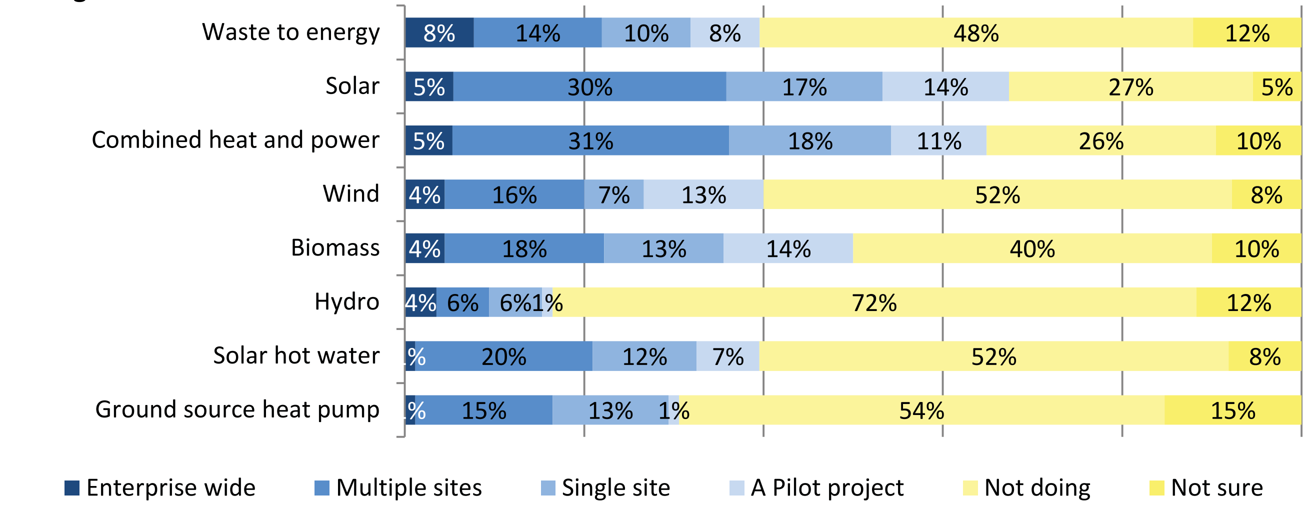
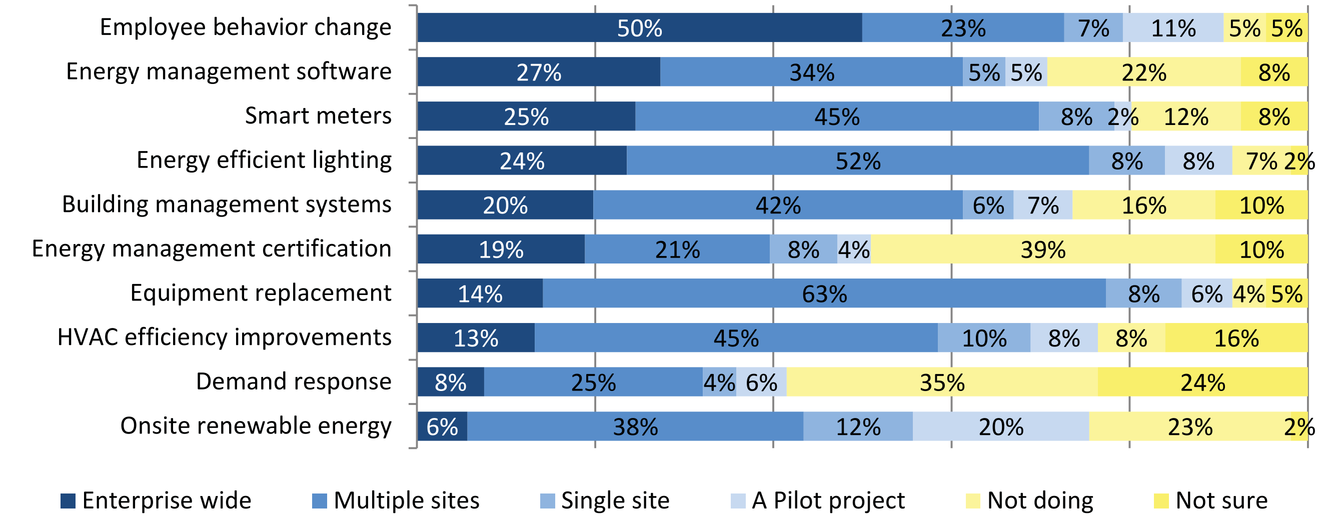



**Fig 8. To what extent is your organisation investing in the following energy management initiatives in 2012?**

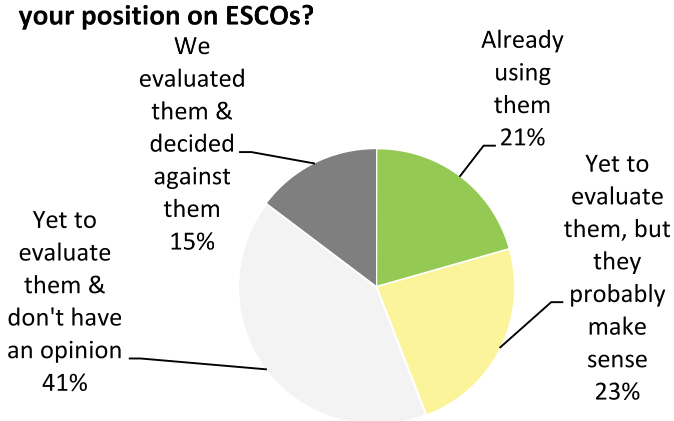



## The role of ESCOs

Whilst Energy Services Companies are still relatively new to the UK, the survey points to significant latent demand. Only 15% have evaluated ESCOs and decided against them, and of the 65% who are yet to evaluate them, 24% said ECSOs “would probably make sense”.

Whilst banks tend to favour ESCOs as an enterprise wide solution, an increasing number of organisations are turning to them as strategies reach more mature phases.

**Fig 9. Which of the following most closely reflects your position on ESCOs?**




*In the question, ESCOs were defined as providers of comprehensive energy solutions, particularly the design and implementation of projects that may or may not include financing.*

# Organisational engagement

As with any issue that requires many functions in an organisation to collaborate, the degree to which key people are engaged in energy will have a bearing on the emerging strength of the strategy.

Over half of strategies are driven by an organisation-wide internal team. Outside of the energy function, the sustainability / CR function is regarded as giving the best consideration to energy issues. With energy reporting into the sustainability function in many companies, this will not come as a surprise.

Consistent with supply chain being the least realised opportunity in energy strategies, only 15% of respondents see energy issues as being well considered in supply chain decisions.

## Rewarding executive management

Whilst there isn't universal agreement that energy and sustainability performance needs to be reflected in management remuneration, the survey shows 37% regard their management as at least partially rewarded for performance against energy management goals. This is likely to be higher than at a typical company.

**Fig 10. "Our energy strategy is driven by an organisation-wide internal team"**

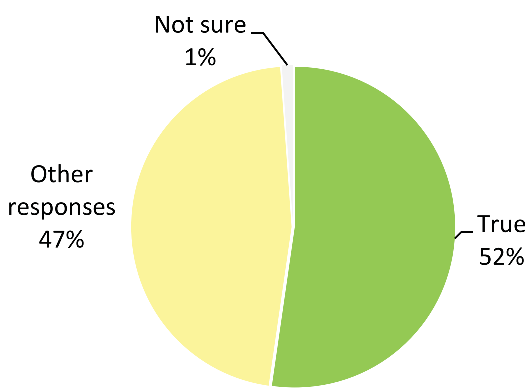



**Fig 11. In which of the following do you consider energy issues to be well considered?**

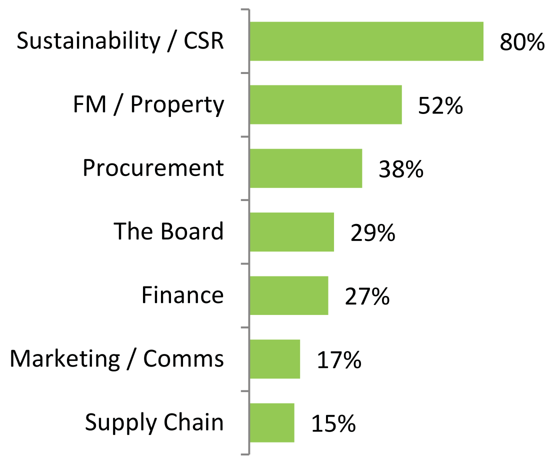



**Fig 12."Our executive management is partially rewarded for meeting energy management goals"**

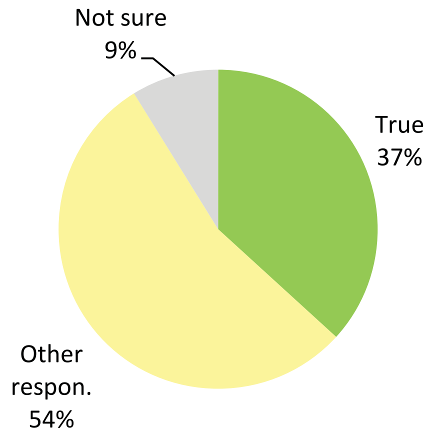
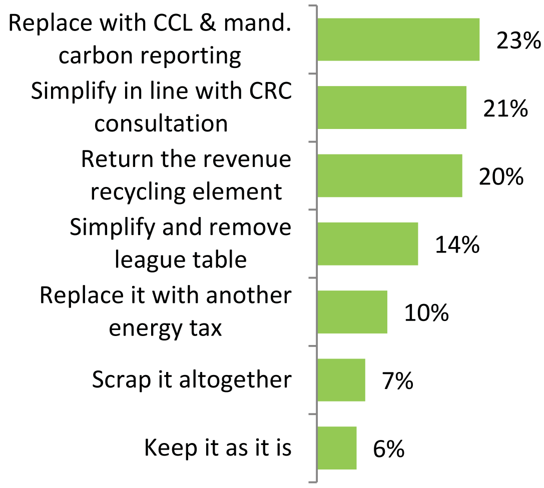



**Fig 13. What do you think should happen to the Carbon Reduction Commitment?**




*Respondents were allowed to choose more than one option.*

# Views on energy policy

The survey responses point to policy makers having a relatively minor influence on business strategy. Figure 2 implies that respondents do not believe that policy is the determining factor in the price that they pay for energy – wholesale fossil fuel prices are expected to have a three fold greater influence than policy.

When it comes to the CRC, the UK's flagship policy for medium and large energy users, the respondents take a constructive position on what has essentially become a tax since the removal of revenue recycling. Only 7% call for it to be scrapped, but with 6% wanting it to remain as it is there is a widespread belief that it is not working in the current format.

There is little ambiguity about the answers on mandatory carbon reporting. 86% believe that it should be introduced, challenging the belief that business will always oppose red tape.

## About the respondents

Typical diffusion of innovaton curves put leaders, followers and laggards at 15%, 70% and 15%, respectively. Thus, the 56% that classify themselves as "leaders" should be seen as high, but as we have already pointed out, this group is likely to be ahead of their sector.

Over half of the respondents come from the corporate responsibility / sustainability / environmental teams, which demonstrates the high sense of ownership that this group feels for energy issues.

That the third and fifth biggest groups among respondents are "executive board" and "strategy", respectively, points to the main-streaming of energy issues.

**Fig 14. Should the UK government introduce mandatory carbon reporting?**

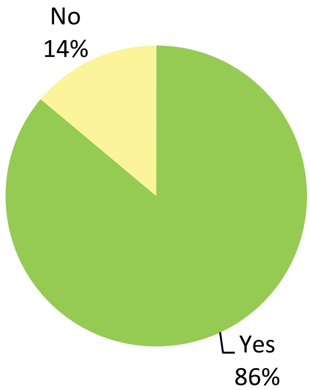



**Fig 15. How would you describe your energy strategy relative to other similar organisations?**

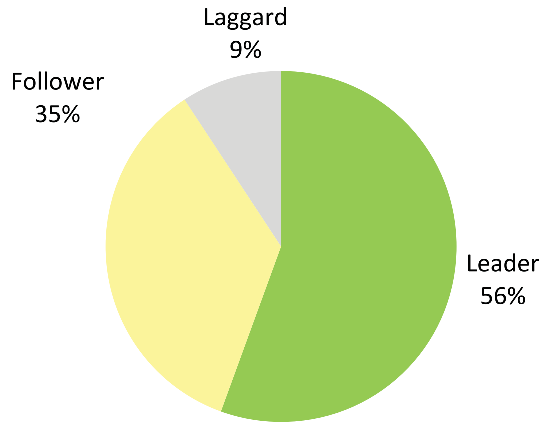
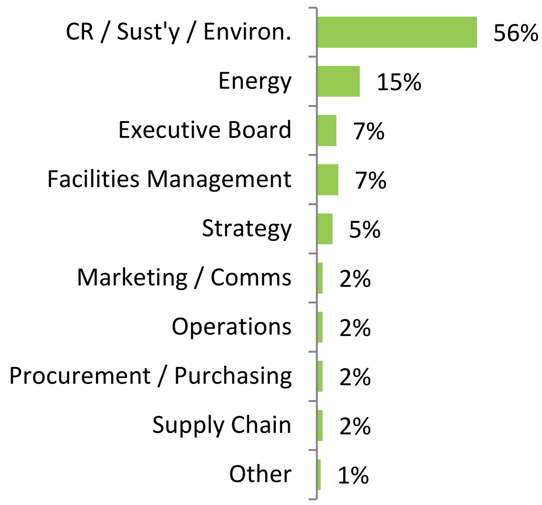



**Fig 16. Where do you sit in your organisational structure?**



## Green Monday is an independent platform that helps management teams to build better businesses as sustainability increasingly impacts the global economy.

We track the disruptive forces of rising resource prices, social pressures, climate change, regulation and shifting demand and we map the strategies that are emerging in response. Through our events programme, case studies, green papers, and surveys, we provide practical solutions to help you build a better business.

Since our launch in 2008, over 8,000 people have attended our events and intelligence programme, which iare summarised opposite.

Ben Patten
Managing Director
Green Monday

### Green Monday Evening Debates:

- 130-200 attendees per month
- Select audience: those that influence corporate strategy
- Monthly events at Bank of America Merrill Lynch, St Paul's
- Broadcast live online www.greenmondays.com

### Green Strategy:

- Annual summit event in November, with 2012 being the 6th year
- 2011: 180 attendees
- 100% satisfaction rating
- Next event: 14th November 2012 www.greenstrategyconference.com

### Green Monday Breakfast Briefings:

- Intimate briefings on specific areas of strategy
- Around 25 people per event

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- Surveys / polls
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# Aldersgate Group

An alliance of leaders from business, politics and society that drives action for a sustainable economy.

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