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

Expectations for energy prices

Recent research found that the price of energy paid by UK business has increased by 58% since January 2010. 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.
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.

- **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.

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3Figures revealed by Barbara Kux at Sustainability 24, 23rd May 2012

The Business Energy Barometer by Business Juice, Business Juice
Fig 4. The % who regard the following as being a "major opportunity" for their organisation

<table>
<thead>
<tr>
<th>Initiative</th>
<th>% Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving operational energy efficiency</td>
<td>65%</td>
</tr>
<tr>
<td>New energy-related prods/services</td>
<td>41%</td>
</tr>
<tr>
<td>Communication of energy performance</td>
<td>41%</td>
</tr>
<tr>
<td>Investing in on-site energy generation</td>
<td>32%</td>
</tr>
<tr>
<td>Reduce in-use intensity of prods / s'vices</td>
<td>30%</td>
</tr>
<tr>
<td>Procurement, e.g. price hedging</td>
<td>28%</td>
</tr>
<tr>
<td>Energy efficiency in the supply chain</td>
<td>26%</td>
</tr>
<tr>
<td>Combining water &amp; energy strategy</td>
<td>24%</td>
</tr>
<tr>
<td>Meeting regulatory requirements</td>
<td>23%</td>
</tr>
<tr>
<td>Energy security - avoiding &quot;brownouts&quot;</td>
<td>22%</td>
</tr>
<tr>
<td>Energy efficiency of our transport</td>
<td>21%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Initiative</th>
<th>% Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting regulatory requirements</td>
<td>68%</td>
</tr>
<tr>
<td>Improving operational energy efficiency</td>
<td>56%</td>
</tr>
<tr>
<td>Communication of energy performance</td>
<td>38%</td>
</tr>
<tr>
<td>Procurement, e.g. price hedging</td>
<td>25%</td>
</tr>
<tr>
<td>New energy-related prods/services</td>
<td>25%</td>
</tr>
<tr>
<td>Investing in on-site energy generation</td>
<td>19%</td>
</tr>
<tr>
<td>Energy efficiency of our transport</td>
<td>19%</td>
</tr>
<tr>
<td>Combining water &amp; energy strategy</td>
<td>18%</td>
</tr>
<tr>
<td>Reduce in-use intensity of prods / s'vices</td>
<td>18%</td>
</tr>
<tr>
<td>Energy security - avoiding &quot;brownouts&quot;</td>
<td>16%</td>
</tr>
<tr>
<td>Energy efficiency in the supply chain</td>
<td>4%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-22%</td>
<td>-16%</td>
<td>-14%</td>
<td>-12%</td>
<td>-8%</td>
<td>-6%</td>
<td>-6%</td>
<td>-3%</td>
<td>-3%</td>
<td>-3%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Note - negative numbers indicate where progress is lagging behind the opportunity. Calculated by subtracting Fig. 4 from Fig 5.
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 7. Which of the following onsite renewable energy initiatives will your organisation invest in during 2012?

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Enterprise wide</th>
<th>Multiple sites</th>
<th>Single site</th>
<th>A Pilot project</th>
<th>Not doing</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste to energy</td>
<td>8%</td>
<td>14%</td>
<td>10%</td>
<td>8%</td>
<td>48%</td>
<td>12%</td>
</tr>
<tr>
<td>Solar</td>
<td>5%</td>
<td>30%</td>
<td>17%</td>
<td>14%</td>
<td>27%</td>
<td>5%</td>
</tr>
<tr>
<td>Combined heat and power</td>
<td>5%</td>
<td>31%</td>
<td>18%</td>
<td>11%</td>
<td>26%</td>
<td>10%</td>
</tr>
<tr>
<td>Wind</td>
<td>4%</td>
<td>16%</td>
<td>7%</td>
<td>13%</td>
<td>52%</td>
<td>8%</td>
</tr>
<tr>
<td>Biomass</td>
<td>4%</td>
<td>18%</td>
<td>13%</td>
<td>14%</td>
<td>40%</td>
<td>10%</td>
</tr>
<tr>
<td>Hydro</td>
<td>4% 6% 6%1%</td>
<td></td>
<td></td>
<td></td>
<td>72%</td>
<td>12%</td>
</tr>
<tr>
<td>Solar hot water</td>
<td>8%</td>
<td>20%</td>
<td>12%</td>
<td>7%</td>
<td>52%</td>
<td>8%</td>
</tr>
<tr>
<td>Ground source heat pump</td>
<td>8%</td>
<td>15%</td>
<td>13%</td>
<td>1%</td>
<td>54%</td>
<td>15%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Enterprise wide</th>
<th>Multiple sites</th>
<th>Single site</th>
<th>A Pilot project</th>
<th>Not doing</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee behavior change</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy management software</td>
<td>27%</td>
<td>34%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smart meters</td>
<td>25%</td>
<td>45%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy efficient lighting</td>
<td>24%</td>
<td>42%</td>
<td>52%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building management systems</td>
<td>20%</td>
<td>42%</td>
<td>48%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy management certification</td>
<td>19%</td>
<td>21%</td>
<td>8% 4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment replacement</td>
<td>14%</td>
<td>21%</td>
<td>83%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HVAC efficiency improvements</td>
<td>13%</td>
<td>45%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand response</td>
<td>8%</td>
<td>25%</td>
<td>4% 6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Onsite renewable energy</td>
<td>6%</td>
<td>38%</td>
<td>12%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.
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.
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 innovation 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 mainstreaming of energy issues.
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 are 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

Green Monday Intelligence:
- Surveys / polls
- Benchmarking
- White Papers
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An alliance of leaders from business, politics and society that drives action for a sustainable economy.

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Former Non-Executive Chairman of Royal Dutch Shell

Lord John Prescott
Former Deputy Prime Minister

Lord Robin Teverson
Liberal Democrat Spokesman for Energy and Climate Change

Lord Larry Whitty
Former General Secretary of the Labour Party

Martin Horwood
MP (Liberal Democrat)

Michael Meacher
MP (Labour), Former Defra Minister

Pamela Castle OBE
Former Chair, Environmental Law Foundation

Peter Aldous
MP (Conservative), Member of Environmental Audit Committee

Peter Jones OBE
Former Director, BIFFA

Professor Paul Ekins
Director, Green Fiscal Commission

Roy Tindle
Chair, London 21 Sustainability Network

Sir John Harman
Former Chair, Environment Agency

Tim Yeo
MP (Conservative), Chairman of the Energy and Climate Change Select Committee

Tom Delay
Chief Executive, Carbon Trust

Wendy Alexander
Former Opposition Leader and Member of Scottish Parliament