



NPOWER BUSINESS ENERGY INDEX 2009

INTRODUCTION

Dear Reader

Welcome to the sixth npower Business Energy Index (nBEI6), our annual index analysing and monitoring businesses' perceptions and opinions of energy costs and consumption.



With the economy facing unprecedented challenges, energy has continued to be an important topic as businesses have looked at ways to manage and reduce costs. At the same time, the passing of the Climate Change Act through Parliament and

increasing carbon reduction regulation has served to draw attention to the important relationship between energy efficiency and carbon emissions. Even in the tough economic conditions, these developments have stood as a clear reminder of the Government's commitment to tackle climate change and the role business is expected to play.

During this time many businesses will have also experienced volatility in energy prices as global influences placed pressure on wholesale costs. Our previous nBEIs have identified that a volatile energy market is often a key driver in steps to improve energy efficiency, making nBEI6 particularly timely in understanding how businesses are reacting to market conditions in their energy plans.

As businesses look to find solutions to manage costs and carbon emissions, the three sections of this latest Index look particularly at their attitudes to energy prices, energy management and their opinions on carbon reduction regulation.

With addressing climate change an issue that receives cross-party support in our own country, and from governments around the world, it is perhaps more important than ever that we understand businesses' opinions on this topic. We know from our last report that many felt burdened by climate change policy. It is interesting to note how this has changed as the low carbon economy has continued to mature and the demand for low carbon goods and services shows signs of growth.

We must thank the Major Energy Users' Council and the Federation of Small Businesses for their continued support in this research. The survey was designed and conducted by Moffatt Associates, an independent research consultancy.

With energy use now established as a factor with the potential to influence business reputation as well as finances, the nBEI seeks to stimulate debate and highlight the issues that are crucial to the successful management of energy consumption.

Yours

Julia Lynch Williams

Director of Energy Services, npower

RESEARCH OBJECTIVES

The npower Business Energy Index (nBEI) seeks to identify and monitor trends in, and expectations about, key energy market developments in the UK. The survey is an annual barometer of issues affecting both large and small business energy users.

Specifically, the survey:

- reviews energy costs, their components and the impact on business performance;
- measures and monitors the incidence and efficiency of energy management measures designed to increase energy efficiency and reduce energy consumption;
- explores business attitudes and opinions on current and future public energy policies.

Each survey also canvasses opinion on a special topic and, in this report, the special topic focuses on the current financial climate, CO₂ emissions reduction targets and their impacts on UK businesses.

RESEARCH METHODOLOGY

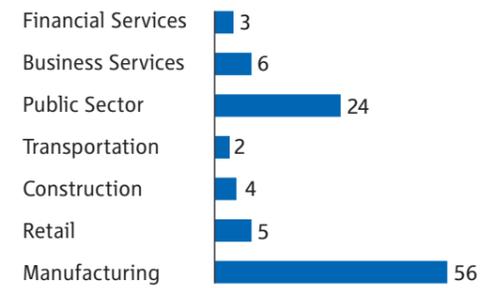
In-depth telephone interviews were conducted between November 2008 and January 2009 with a representative sample of 300 UK businesses, comprising 200 small- to medium-sized enterprises (SMEs) with significant energy usage and 100 major energy users (MEUs) where in most cases annual electricity consumption is in excess of 30 GWh.

This year the sample size of the SME segment of the survey was increased from 100 to 200 participants. This was done to obtain a more robust analysis of possible variations in SME responses by employee size and regional location.

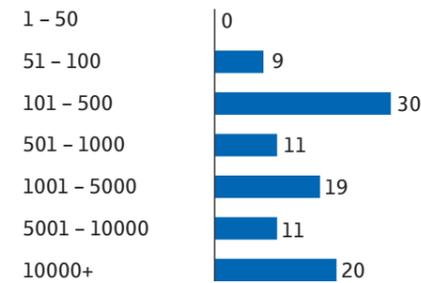
In the majority of cases, the respondent was an energy buyer or a senior figure with responsibility for energy purchasing. The responses to the survey provided both comparable quantitative data and verbatim comments on a range of key energy user issues. Selected quotes from MEUs and SMEs are included within the main sections of the report.

Major energy users' profile:

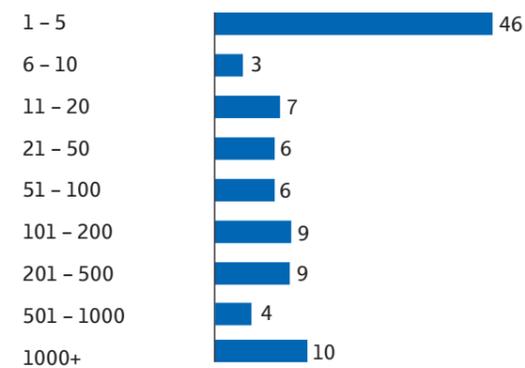
Number of companies by sector



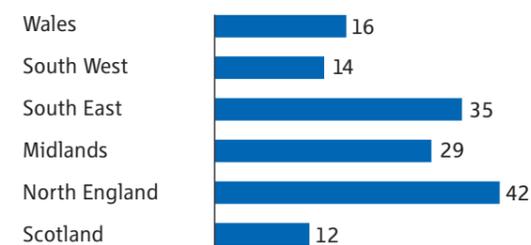
Employees



Sites



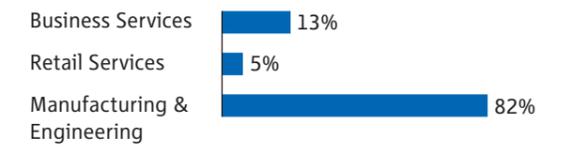
Primary location



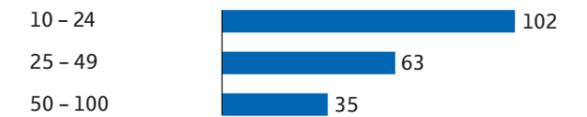
* Some companies gave more than one location as their primary location

Small and medium-sized enterprises' profile:

Number of companies by sector



Employees (number of companies)



Primary location (%)



Average number of employees in each company:

Breakdown by number of employees

Response	All SMEs	10-24 Employees	25-49 Employees	50-100 Employees
Average number of UK employees in each category	30	15	33	67

Average number of employees in each company by region:

Breakdown by region

Response	All SMEs	Midlands	North	Scotland	South East	South West	Wales
Average number of UK employees in each category	30	31	33	29	31	31	27

RESEARCH HIGHLIGHTS

Increasing business impact of energy costs and further cost increases expected in the next three years:

- In the last 12 months there has been a significant rise in business energy costs as a percentage of total operating costs.
- For SMEs the percentage reporting energy costs between 10-20% of total operating cost is up from 6% to 15%.
- The corresponding figure for MEUs is up from 7% to 17%. For 12% of MEUs, energy costs represent between 20% and 50% of total operating costs.
- Taken as a whole, businesses have experienced an increase in energy costs in the last six months.
- Virtually all SMEs (93%) reported that energy costs had increased, with an average reported rise of 48%.
- A smaller majority of MEUs (57%) also report cost increases, and the average reported rise was also lower (32.3%). Also a significant minority of MEUs (43%) reported that costs have fallen in line with recent falls in oil and gas prices.
- Overall UK businesses believe that energy costs will fall over the next six months by 3.2%.
- SMEs were the least optimistic, expecting a fall of 1.5%.
- The majority of MEUs predict price decreases, with 55% expecting a fall. The expected average percentage decrease was 13%, compared with 11% in 2007.
- However, the majority of both SMEs and MEUs predicted cost increases over the next three years. The average predicted cost increase was 9.8%, almost double the expected cost rise in 2007.
- Energy costs as a proportion of operating costs look set to rise over the next three years, with a significant increase in the number of MEUs (41.2%, up from 10% in 2007) indicating that energy costs would be between 5% and 20% of their annual operating costs.

- MEUs believe that the main driver behind rising energy costs is fossil fuel prices (7.75*), with regulatory obligations and government policies closely tied in second and third place.
- SMEs however, place most importance upon power and gas supplier charges (6.41*), this has replaced environmental regulation and obligations, which were considered most significant in 2007.

Continuing focus on reviewing energy costs re-inforced by current economic climate:

- The level of importance attached to energy management and reducing energy consumption increased slightly (7.2*) from the previous survey (7.0*) and is now at its highest point since Summer 2005.
- Almost all MEUs measure energy efficiency, with only 2% now reported as not doing so. The number of SMEs measuring their energy efficiency has also increased, with 60% reporting some kind of measurement of efficiency.
- For MEUs, the most important initiative taken over the last six months was undertaking an energy review and/or action plan (6.4*). Also rated highly were: changing the heating/lighting set-up, introducing monitoring software, and changing processes such as equipment/technology. Few MEUs have taken steps to invest in microgen technology in the last six months.
- For SMEs, the most important step undertaken was to ensure that unused equipment is turned off. Other measures also rated as important were educating staff on efficiency (7.4*) and monitoring consumption regularly (7.1*).
- For SMEs, the tendency to consider energy efficiency increases with employee size. Regionally there was little variation.

* ranked on a scale from 1 – 10

- SMEs have been much less successful in reducing their energy consumption in the last 12 months: with 45% reporting no drop in consumption compared to 27% of MEUs.
- SMEs are still reporting a lack of management time to deal with energy efficiency, but there has been an increase in the number of companies reporting that they have spent time on the issue, rising to 39% from its previous level of 35%.
- Given the current economic climate, the proportion of SMEs that have the cash resources to deal with energy efficiency has fallen from 44% last year to 38%.
- MEUs rate engaging with staff to encourage energy efficiency action as the most feasible measure to reduce energy costs. This was closely followed by undertaking an energy review or action plan.
- The need for major energy users to comply with regulations designed to reduce CO₂ emissions has prompted significant and permanent energy savings and process improvements: 71% of MEUs said that this was the case in 2008 compared with 56% in 2007.
- 56% of MEU manufacturers indicated the impact of the regulations had led to permanent energy savings compared to 35% in the public sector and 62% in the service sector.

While there is support for reducing CO₂ emissions, companies believe Government's target is unrealistic and places undue burden on UK business:

- The majority of MEUs and SMEs believe that the Government's target of an 80% reduction in carbon emissions is unrealistic.
- Last year's optimism, when 47% of MEUs predicted that reducing their carbon footprint could provide their business with new commercial opportunities, has faded. Currently, only 40% now believe this is possible and SMEs have remained pessimistic with only 26% of companies indicating that new business will occur as a result of reducing emissions.

- There was overwhelming agreement that in the current economic climate both MEUs and SMEs have more important areas of concern than reducing carbon emissions. However, 40% of SMEs and 59% of MEUs report that energy efficiency is more important in the current economic climate.
- SMEs and MEUs indicated that they are likely to increase initiatives in both energy efficiency and energy management, but their primary motive is to reduce cost and not CO₂.
- Both MEUs and SMEs reported that the greatest reduction they could achieve in carbon emissions would occur by enforcing energy efficiency measures. Significantly more MEUs (60%) than SMEs (35%) believed energy efficiency could drive carbon savings.
- A small majority (51%) of SMEs does not believe that the current economic climate is interfering with their ability to implement energy efficiency or carbon reduction plans. Of the 45% who did believe the financial climate was interfering with their plans, the problem was greatest for SMEs in the Midlands (63%).
- Of those involved in the Carbon Reduction Commitment (CRC), 75% of MEUs now feel they are ready to participate when the scheme launches.
- Although 75% of MEUs indicate they are ready for the CRC, only 53% felt that the level of guidance and government advice was adequate.
- Most MEUs believe that an independent accreditation agency to monitor schemes in an attempt to encourage people to buy 'green' would not work (74%). Most cited that it was either too expensive, it would not count towards their CRC, it was another layer of unnecessary regulation or that company policy was not to buy 'green' energy.
- A majority of MEUs (51%) have been asked by clients or customers to provide policy statements on corporate social responsibility or the environment. The number of companies indicating that they had been asked for information increased as they became more customer-facing or service orientated.

SECTION ONE COMMENTARY: ENERGY COSTS

After a relatively stable period during 2007, both large and small businesses have seen energy rise as a percentage of total operating costs. In the last twelve months 81% of businesses have seen an increase, with the average increase of 42.7% compared to 18% reported this time last year.

While this represents a sizeable shift year on year, it is lower than the average rise reported in nBEI3 in 2006 (46%), demonstrating the volatility in the energy markets.

Notably, more businesses are also reporting that energy now represents an average of 10-20% of their operating costs, up from 7% to 16% of businesses – the highest for three years. This is a trend that many anticipate will continue in the long-term. Respondents predict energy costs will rise over the next three years by an average of 9.8%.

However, many are optimistic that prices will decrease in the next six months. While some businesses expect energy prices to increase by an average of 18% during this time, the majority expected energy costs to fall by the same figure. The greatest optimism is reported by manufacturing MEUs, with 80% of respondents expecting cost reductions. Indeed, the majority of MEUs (55%) predict price decreases with an estimated fall of 13%, compared to 11% in 2009. Also, a significant minority of MEUs (43%) reported that costs have already fallen in line with recent falls in oil and gas prices.

Anecdotally, other MEUs are also hopeful that the benefit of energy efficiency and waste reduction measures will help to mitigate against future cost increases, adding to the general optimism.

Interestingly, many more businesses are aware of the future impact of energy costs on their operations when compared to previous reports, suggesting a greater insight and attention to energy use. Only 7.4% of businesses could not say what proportion of operating costs would be attributable to energy in three years, a significant change from the 57% of businesses in nBEI5.

Fossil fuel price movement has consistently been reported as the main factor influencing energy prices since the first nBEI in 2004 and respondents rate this as 6.19 out of ten in terms of its influence in this Index. At the same time, businesses seem to be attributing less influence to environmental regulations and obligations, typically seen as the second most important factor during the history of the nBEI. This is now rated third at 5.55, just after supplier charges, which is considered to have a significance of 5.64 out of 10. What is interesting in this Index is that the factors influencing energy costs are now considered more evenly, with ratings now much closer than in previous reports in which a key influencer emerged. This points to greater awareness among businesses of the nature and variety of factors that influence energy costs.

The impact that rising energy costs is having on businesses generates a mixed response. While the majority of MEUs (53%) reports that costs are decreasing profitability, this is the same figure as in the last nBEI when energy costs were largely more stable. It suggests that large businesses, at least, have taken measures to manage rising costs. Indeed, 33% of MEUs say there has been no impact on their profitability and the majority (56%) report no change to their competitiveness.

Cost management is often seen as a driver for efficiency measures so it is interesting to note this time that the number of MEUs reporting changes to production processes has dropped from 52% in the last Index to 28% now. Similarly, changes to equipment/technologies has gone from 62% in nBEI5 to 42% this time, although this is still slightly higher than those who expect to take no action (40%). Again, it is possible that many have already made changes to deliver energy reductions and are now measuring the benefit of these before reinvesting.

The picture is similar for SMEs. Increasing numbers of small businesses say that energy costs have decreased profitability, with 58% saying this, compared to 37% in 2008. Despite the shift, this is still lower than the data in nBEIs four and three, when 76% of SMEs reported lower

profitability. While profitability has been affected for SMEs, the majority (62%) say there has been no change to their competitiveness. Few SMEs expect energy costs to influence changes to their technology or production processes. Less than a third expect to make changes (28%), similar to nBEI5 when it was 29%, and nBEI4 when 25% said they would.

It is difficult to draw definite conclusions from this year's nBEI in comparison to previous reports. While we can say that energy costs have risen for businesses, which is impacting profitability, the cost rises are not affecting competitiveness, nor spurring businesses into widespread action to cut costs as has been seen in previous years. It is possible that this is a result of efficiency measures

being more consistently applied than in past years when often they were only implemented in response to cut costs. A more considered approach to managing energy costs would also be indicated by an awareness at all levels of the varying factors influencing price rises, which historically was the reserve of MEUs.

What is clear from this Index is, as a factor that is impacting the bottom line, energy remains an important issue for most businesses as they look to manage costs in an increasingly challenging economic landscape.

SECTION 1: ENERGY COSTS

In this sixth npower Business Energy Index, respondents were asked a range of questions relating to energy costs and, where possible, these have been benchmarked against results from previous surveys.

Key

SMEs Small- to medium-sized enterprises

MEUs Major energy users

(1) = nBEI Summer 2005

(4) = nBEI Winter 2006

(2) = nBEI Winter 2005

(5) = nBEI Winter 2007-2008

(3) = nBEI Summer 2006

(6) = nBEI 2009

1.1 Energy costs as a proportion of total operating costs:

Response	SMEs (4)	SMEs (5)	SMEs (6)	MEUs (4)	MEUs (5)	MEUs (6)	All (4)	All (5)	All (6)
Less than 5%	43%	53%	49%	30%	61%	34%	37%	57%	44%
Less than 10%	25%	24%	24%	12%	18%	29%	19%	21%	26%
Less than 20%	13%	6%	15%	15%	7%	17%	14%	7%	16%
Less than 50%	10%	5%	4%	19%	11%	12%	15%	8%	7%
50% or above	6%	0%	0%	24%	3%	1%	15%	2%	0%
Don't know	3%	12%	8%	0%	0%	7%	2%	6%	8%

- In the last 12 months there has been a significant rise in business energy costs as a percentage of total operating costs.
- For SMEs the percentage reporting energy costs between 10-20% of total operating cost is up from 6% to 15%.
- The corresponding figure for MEUs is up from 7% to 17%. For 12% of MEUs energy costs represent between 20% and 50% of total operating costs.
- For SMEs there is a strong positive correlation between the significance of energy costs and the number of employees. 13% of SMEs with between 10-24 employees have energy cost ratios between 10-20% compared to 21% of SMEs with employees between 50-100 with the same ratio.
- For MEUs, 44% of manufacturers have energy cost ratios between 10-50%, whereas 58% of MEUs in the public and service sectors have an energy cost ratio of less than 5%.

1.2 Components of company energy costs

Response	SMEs (3)	SMEs (4)	SMEs (5)	SMEs (6)	MEUs (3)	MEUs (4)	MEUs (5)	MEUs (6)
Gas	16.0%	19.2%	22.9%	22.7%	41.2%	36.4%	40.6%	43.2%
Oil	4.9%	4.2%	4.8%	5.1%	2.1%	1.6%	1.8%	1.0%
Coal	0.0%	0.7%	0.0%	0.0%	0.0%	0.5%	0.1%	0.9%
LPG	0.1%	2.1%	0.2%	0.7%	1.9%	1.2%	0.5%	1.3%
Electricity	78.7%	73.8%	72.2%	71.5%	54.7%	60.2%	57.1%	53.5%

- The relative importance of gas and power as components of a company's energy costs have more or less remained unchanged across both MEUs and SMEs.
- MEU reliance on gas (43.2%) and electricity (53.3%) remains high in both cases, whereas SMEs are significantly more reliant on electricity (71.5%) than they are on gas (22.7%).

1.3 Proportion of energy costs related to (a) building services and (b) industrial processes (MEUs only)

(a) MEUs – Building services

Response	All MEUs	Manufacturing	Public sector	Services
Less than 10%	39%	60%	8%	8%
Less than 20%	16%	23%	4%	8%
Less than 30%	7%	9%	0%	15%
Less than 40%	1%	0%	0%	8%
Less than 50%	0%	0%	0%	0%
50% or more	36%	9%	88%	62%

- MEUs operating in the public sector reported that 88% of energy costs were related to building services, this compares to 62% in the service sector and only 9% in manufacturing.

(b) MEUs – Industrial processes

Response	All MEUs	Manufacturing	Public sector	Services
Less than 10%	27%	3%	78%	46%
Less than 20%	1%	0%	4%	0%
Less than 30%	0%	0%	0%	0%
Less than 40%	0%	0%	0%	0%
Less than 50%	2%	2%	4%	0%
50% or more	69%	95%	13%	54%

- 95% of manufacturing MEUs indicated that 50% or more of their energy related costs were attributable to industrial processes, in comparison with 54% in the service sector and 13% in the public sector.

1.4 Estimated increase or decrease in company energy costs over the last six months

Response	SMEs (4)	SMEs (5)	SMEs (6)	MEUs (4)	MEUs (5)	MEUs (6)	All (4)	All (5)	All (6)
Increased	71%	24%	93%	52%	22%	57%	62%	23%	81%
Decreased	4%	14%	7%	14%	45%	43%	9%	30%	19%

Response	SMEs (4)	SMEs (5)	SMEs (6)	MEUs (4)	MEUs (5)	MEUs (6)	All (4)	All (5)	All (6)
Average	9.0%	18%	48.0%	12.8%	19.0%	32.3%	10.9%	18.0%	42.7%

- Taken as a whole, businesses have experienced an increase in energy costs in the last six months.
- A smaller majority of MEUs (57%) also reports cost increases, and the average reported rise was also lower (32.3%). Also, a significant minority of MEUs (43%), reported that costs have fallen in line with recent falls in oil and gas prices.
- Virtually all SMEs (93%) reported that energy costs had increased, with an average reported rise of 48%.
- MEUs in the public sector experienced the largest increases in energy costs (72%).

By how much have your energy costs increased/decreased over the last 6 months?

Selected comments

“We have been buying in advance.”

“Consumption is down due to lower activity - but cost per tonne has gone up. We are still in the last part of a two year contract fixed till September 2009. Just signed new flexible purchase gas contract from October 2008 but have fixed first half of 2009.”

“We buy on flexible purchasing. Contract is split up over the year. January [to] June went up over 100% but has now dropped back. We locked out our requirement in June and are now buying for next year and the year after. “

“Because we buy a lot of gas a day ahead we have seen some reduction, but this does not reflect the fall in oil [prices].”

1.5 Expected average increase in energy costs over:

(a) The next six months

Response	SMEs (4)	SMEs (5)	SMEs (6)	MEUs (4)	MEUs (5)	MEUs (6)	All (4)	All (5)	All (6)
Predicting increase (number of companies)	52	30	57	34	66	19	86	96	76
Average of increases	22%	11%	16%	22%	8%	24%	20%	9%	18%
Predicting decrease (number of companies)	12	10	54	15	22	55	27	32	109
Average of decreases	21%	13%	20%	6%	11%	13%	13%	12%	18%
Overall change predicted	14%	3%	-1.5%	7%	3%	-3.5%	9%	3%	-3.2%

- Overall, UK businesses believe that energy costs will fall over the next six months by 3.2%.
- SMEs were the least optimistic, predicting an expected fall of 1.5%. Those SMEs predicting price rises believed that the average increase would be 16%, while those reporting falls believe a more substantial 20% decrease will occur.
- The majority of MEUs predict price decreases, with 55% expecting a fall. The expected average percentage decrease is to 13%, compared with 11% in 2007.
- 80% of manufacturing MEUs and 73% of service sector MEUs expected energy costs to fall. This compares to only 50% in the service sector.

(b) The next three years

Response	SMEs (4)	SMEs (5)	SMEs (6)	MEUs (4)	MEUs (5)	MEUs (6)	All (4)	All (5)	All (6)
Predicting increase (number of companies)	65	32	96	22	72	37	87	104	133
Average of increases	22%	14%	22%	22%	7%	27%	22%	9%	23%
Predicting decrease (number of companies)	10	8	45	22	12	23	32	20	68
Average of decreases	18%	12%	18%	9%	8%	12%	12%	10%	16%
Overall change predicted	17%	7%	9.2%	3%	4%	12.1%	9%	5%	9.8%

- Over the next three years the majority of both SMEs and MEUs predicted cost increases. The average overall predicted cost increase was 9.8%, almost double the expected cost rise in 2007.
- Smaller SMEs are more sceptical, with 71% (10-24 employees) and 70% (25-49 employees) predicting cost rises, this compares with only 57% of those employing 51-100 workers.
- SMEs report an expected cost increase of 9.2% over the next three years. This compares to a 12.1% rise expected by MEUs.
- 71% of the public sector MEUs, 59% of the manufacturers and 50% of the service sector said they expected cost increases in the next three years.

By how much do you expect your energy costs to increase or decrease over the next six months and three years?

Selected comments

“Incredibly difficult to say. With the downturn in industry there will be lower demand vs. increasing prices over the next three months. Prices should decrease [in the second quarter of 2009]. Long term - don't know but nuclear is a long term investment.”

“We seem to be back to geo-political instability. It is this that will cause any sudden price movements, especially with the limited liquidity in the wholesale markets.”

“Prices will start to pick up by the end of 2009. We are advised to try and fix prices in the first six months of this year, for as long as possible.”

1.6 Proportion of company’s annual operating costs that will be attributable to energy in three years’ time (MEUs only)

Response	All (5)	All (6)
Less than 5%	6.0%	44.3%
Less than 10%	2.0%	25.4%
Less than 20%	8.0%	15.8%
Less than 50%	7.0%	6.6%
50% or above	20.0%	0.4%
Don’t know	57.0%	7.4%

- Energy costs as a proportion of operating costs are set to rise over the next three years, with a significant increase in the number of MEUs (41.2%, up from 10% in 2007) indicating that energy costs would be between 5% and 20% of their annual operating costs.
- Some of this rise can be attributed to businesses being more aware of the significant impact of future energy costs, with those who are reporting a ‘don’t know’ response down from 57% in 2007 to only 7.4%.

In 3 years time, what proportion of your company’s annual operating costs do you expect will be energy costs?

Selected comments

“Less than now as we are introducing saving measures. Our target is a 30% reduction over the next five years.”

“We are looking at some renewables to reduce our exposure, with waste to heat being the leading contender.”

“We do quite a bit on the efficiency front and one of our objectives is to keep costs at current levels, even if we achieve the revenue growth that we are looking for.”

1.7 Perceived impact of recent movements in energy costs

(a) MEUs:

Response	Increase	Decrease	No change
Change in profitability	14%	53%	33%
Change in competitiveness	13%	31%	56%
Change in operations/activities	6%	33%	61%
Change in price of products/services	26%	27%	48%
Change in number of employees	2%	30%	68%

Response	Yes	No	No change
Change in equipment/technologies used	42%	18%	40%
Change in production processes	28%	37%	35%

- The current economic climate may be affecting the ability of companies to pass on energy cost increases, with 48% reporting no change in output prices.
- On production efficiency, it seems that rising energy costs have contributed to companies considering or implementing changes in equipment and technologies used, but overall production processes seem to be unaffected.
- 49% of manufacturing MEUs indicate that technology and equipment used would remain unchanged, whereas MEUs in the service (77%) and public (52%) sectors both reported that significant improvements in technological efficiency had taken place.

(b) SMEs:

Response	Increase	Decrease	No change
Change in profitability	8%	58%	34%
Change in competitiveness	14%	24%	62%
Change in operations/activities	13%	19%	68%
Change in price of products/services	40%	8%	52%
Change in number of employees	7%	27%	66%

Response	Yes	No	No change
Change in equipment/technologies used	28%	27%	46%
Change in production processes	20%	28%	51%

- Unlike MEUs, a large minority of SMEs believe that changes in their technology and production processes will not take place.
- Companies in the Midlands (83%) and Wales (70%) reported greater falls in profitability than other regions (this compares to a rate of around 51% in the other regions).
- The Midlands has a significantly higher number of companies reporting a decrease in competitiveness (57%) compared to a rate of around 18.4% in other regions.
- There was some variation by size of SME with 44% of the 25 – 49 employees range indicating no change in equipment/technology, this compared to only 32% in the 50-100 employee range.

In which of the following ways has your business been affected by recent changes in energy costs?

Selected comments

“We are doing more to investigate alternatives.”

“We are currently installing millions of pounds’ worth of energy efficient equipment across the stores.”

“Over the next three years we will be undertaking major process change to bring our costs down.”

“With some new premises we have introduced state-of-the-art systems for the recovery of heat from waste water.”

1.8 Perceived significance of selected cost drivers in the last six months

Response	SMEs (5)	SMEs (6)	MEUs (5)	MEUs (6)	All (5)	All (6)
Fossil fuel price movements	5.32	5.42	7.78	7.75	6.55	6.19
Power/gas supplier charges	5.89	6.41	4.67	4.13	5.28	5.64
Environmental regulations and obligations	5.97	5.56	6.25	5.54	6.11	5.55
Other government/public policies	5.46	5.5	5.86	5.43	5.66	5.47
Seasonal fluctuations e.g. weather	4.48	4.75	5.27	3.67	4.88	4.39

(On a scale 1-10, where 10 = very important)

- MEUs believe that the main driver behind rising energy costs is fossil fuel prices (7.75), with regulatory obligations and government policies closely tied in second and third place.
- Overall, fossil fuel price movements were reported as the most significant factor driving energy costs, with seasonal fluctuations considered the least important.
- SMEs place most importance upon power and gas supplier charges (6.41), this has replaced environmental regulations and obligations, which were considered most significant in 2007.

When considering the underlying causes of recent changes in your energy costs how significant in your view are each of the following factors? (On a scale 1-10, where 10 = very important)

Selected comments

“It’s a lot calmer out in the markets now with less [speculative] trading, which is good news for actual consumers.”

“The weakening of the trader’s position has come too late for many in manufacturing.”

“Geo-politics will continue to cause uncertainty.”

SECTION TWO COMMENTARY: ENERGY MANAGEMENT

Energy management and measures to reduce energy consumption are considered more important to businesses than at any other time in the last four years. While it has consistently been an important topic, there has been a marked uplift in the significance MEUs and SMEs are attaching to energy management when compared to the last Index.

MEUs now rate energy management as 8.3 out of 10 for its importance and SMEs 6.6, the highest ever individual ratings that have been given since the nBEI was first published in 2005. It reverses the trend last year in which there was a noticeable dip for all sizes of businesses in the importance being attached to energy management compared to historic data.

The results make for welcome reading given Government moves to encourage businesses to operate more efficiently in order to reduce costs and CO₂ emissions. When considered against the energy cost section of this Index, in which 40% of MEUs and 46% of SMEs expected to make no changes to their processes as a result of energy costs, it suggests energy management measures are being made for reasons other than cost savings, a factor that has been highly influential in encouraging action in previous reports.

This is backed up by verbatim comments from the research, in which businesses report energy management as important to meeting their CSR objectives or as part of measures to be an ethical and responsible brand. Also in line with this, for MEUs the positive impact of Climate Change Agreements on energy saving and process improvements has risen sharply from 50% in nBEI4 and 56% in nBEI5 to 71% now.

There are also signs that businesses are improving steps to measure energy efficiency. Even given a very strong performance in nBEI5, slightly more MEUs are measuring efficiency, up from 97% to 98%, the joint highest result in the history of the nBEI. SMEs too have improved their measurement of energy compared to the last Index, with 60% now reporting some form of measurement, although

this is a long way from the peak of nBEI4 when a sizeable 89% of SMEs reported measuring efficiency.

And it seems that businesses are more determined to take control of their energy consumption. For MEUs, the most important action they believe they made was to undertake an energy review and/or develop an action plan detailing efficiency opportunities, which was rated as 6.4 out of 10 in terms of its importance. This replaces introducing monitoring software, which is now the third most important action, rated 6.2.

Smaller businesses attribute most importance to actions that are typically simpler to implement, but important nonetheless. Ensuring that unused equipment is turned off and educating staff [on the importance of energy efficiency] were rated at 7.7 and 7.4 out of 10 respectively. This is in contrast to the last Index in which changing equipment was the most popular action.

The actions made also appear to be delivering benefits, with the numbers of businesses reporting they have achieved reductions in energy consumption rising in some areas. Over a quarter (28%) say they have made reductions of 5% or less and a further 8% have made reductions of 10% or less, both up from the last Index. There is still clearly potential for growth in achieving reductions as over a third (36%) report they have not been able to cut energy use, up from 30% in nBEI5.

A possible barrier to SMEs taking further action to improve energy efficiency is the landlord/tenant relationship. Half of the SME respondents rented their business premises and of these a significant 93% say their landlord has taken no steps to improve the energy efficiency of their building. At the same time, however, comments from SMEs do suggest that while landlords are responsible for the fabric of the building it is their responsibility as tenants to use utilities as efficiently as possible.

Indeed, rising numbers of SMEs report having spent time dealing with energy efficiency in the last twelve months, up to 39% from 35% in the last Index. While

time investment has risen, the effects of the economic downturn are being felt in the financial resources that are dedicated to energy management. The number of SMEs who say they have cash to dedicate to efficiency measures has fallen to 38% now from 44% in nBEI5. In line with this we might expect increasing numbers of SMEs to be needing external advice on energy management, but this too has dropped slightly from 41% wanting advice to 35% this time. Similarly, fewer numbers of small businesses want advice on reducing carbon emissions, with 35% confirming this in comparison to 43% in 2008. The slight drop could be a result of a growing knowledge at this level.

A similar response is seen at MEU level, with the number of businesses saying they need advice on managing energy efficiency and carbon emissions decreasing. This is despite MEUs attaching increasing importance to both energy and emission management, both up slightly compared to last year's report. The drop in those needing advice could be explained by the increasing numbers of MEUs employing full time energy management staff, which has seen a sizeable 19% increase since the last Index. There has also been a marked increase

in large businesses employing building management systems – typically a key component in reducing energy consumption. Now, a sizeable 87% of MEUs have such systems, compared to 73% in nBEI5 and 72% in nBEI4.

In terms of achieving future efficiencies, both MEUs and SMEs appear keen to engage their workforce to enact energy saving measures. For MEUs, encouraging staff to take action was seen as the most important factor in helping to reduce energy costs, with a rating of 5.59 out of 10. For SMEs, staff action was second only to making sure equipment was turned off.

As an overview, there appears to be an increasing willingness from companies of all sizes to improve energy efficiency. While some still report a lack of resources to improve efficiency measures, the polarisation between MEUs and SMEs that has been appearing in previous reports seems to be lessening with an increasing number of SMEs now reporting they are spending time on energy efficiency.

SECTION 2: ENERGY MANAGEMENT

SME and MEU responses

2.1 Significance attached to energy management and reducing energy consumption

Response	nBEI (2)	nBEI (2)	nBEI (3)	nBEI (4)	nBEI (5)	nBEI (6)
Average - SMEs	5.8	5.7	6	6.5	6.1	6.6
Average - MEUs	8	7.8	8.2	8.1	7.8	8.3
Average - All						7.2*

* previous years cannot be compared due to changes sample sizes

(On a scale 1-10, where 10 = very important)

- The level of importance attached to energy management and reductions in energy consumption increased slightly (7.2) from the previous survey (7.0) and is now at its highest point since Summer 2005.
- MEUs attach more significance to the issue than SMEs, with MEUs now rating its significance as 8.3/10.
- For SMEs, the importance of energy efficiency increases with employee size, and regionally, SMEs in Scotland attach more significance to the issue than SMEs in other regions.

2.2 Measurement of energy efficiency

Response	SMEs (5)	SMEs (6)	MEUs (5)	MEUs (6)	All (5)	All (6)
Energy supplier does it	19%	22%	20%	10%	20%	18%
External audits	15%	13%	55%	32%	35%	19%
Internal audits	28%	22%	83%	53%	56%	32%
Other	5%	3%	14%	4%	10%	3%
No measurement	46%	40%	3%	2%	25%	27%

- Almost all MEUs measure energy efficiency, with only 2% now reported as not doing so. The number of SMEs measuring their energy efficiency has also increased, with 60% reporting some kind of measurement of efficiency.
- 53% of MEUs are now using internal audits to measure efficiency, with fewer companies reliant on external audits. SMEs prefer either internal audits (22%) or rely on their energy supplier (also 22%) to carry out an energy efficiency check.
- For SMEs, as the number of employees increases so too does the tendency to undertake energy efficiency checks. Regionally there is little variation with the exception of the South East, where 52% of companies stated they did not formally measure energy efficiency. This compared with an average across the other regions of around 35%.

Does your company measure its energy efficiency using any of the following methods?

Selected comments

"We are changing the way we monitor... heading towards defined procedures."

"We have to report to our parent company for their CSR requirements."

"We monitor our consumption patterns from [our] supplier website."

"The brand seeks a strong message on ethical and responsible trading so we are always happy to have external verification."

2.3 Steps taken to reduce energy consumption and increase energy efficiency in the last six months?

(a) MEUs:

Response	Rating
Undertaken an energy review and/or action plan	6.4
Changed heating/lighting set-up	6.3
Introduced monitoring software	6.2
Changed process equipment/technology	6.2
Engaged with staff to encourage energy efficiency action	5.9
Requested information, e.g. from Carbon Trust	5.2
Invested in microgen technology	4.6

(On a scale 1-10, where 10 = very important)

- For MEUs, the most important initiative taken over the last six months was undertaking an energy review and/or action plan (rating 6.4). Also rated highly were: changing the heating/lighting set-up, introducing monitoring software, and changing processes such as equipment/technology. Few MEUs have taken steps to invest in microgen technology in the last six months.

(b) SMEs

Response	Rating
Ensure unused equipment is turned off	7.7
Monitor consumption regularly	7.1
Educate staff	7.4
Increase heating efficiency - reduce heat loss	6.6
Increased lighting efficiency	6.4
Changed equipment/technology	6.3
Requested information, e.g. from Carbon Trust	5.7
Introduced equipment meters	5.0

- For SMEs, the most important step they have undertaken was to ensure that unused equipment is turned off. Other measures also rated as important were educating staff on efficiency (7.4) and monitoring consumption regularly (7.1).
- For SMEs, the tendency to consider energy efficiency steps increases with employee size. Regionally there was little variation.
- Amongst MEUs, the public sector attaches the most significance (7.3) to requesting information from organisations such as the Carbon Trust, with manufacturers (4.5) and/or service sector (4.5) companies trailing behind. The highest significance rating reported was also from the public sector (8.1) in relation to monitoring software.

What steps has your company taken in the last 6 months to reduce energy consumption and increase energy efficiency? And please rank these in order of importance: (On a scale from 1 = not important up to 10 = extremely important)

Selected comments

“Lighting change is in progress all over the country. All new equipment is energy efficient - this question is top of the list.”

“Lighting - short paybacks and very visible from metering. We are looking at a major CHP scheme for Leicester.”

“We are spending £1.3m this year on energy saving initiatives. We are also looking at microgen.”

“We promoted good practice and altered shift patterns to [secure] better energy use.”

“All sub two year return projects have been completed. All other identified projects are on a 7/8 year payback. We have no money for these.”

“In the current environment we are as efficient as we possibly can be but unfortunately when the plant is not at full capacity efficiencies fall.”

“We’ve done a “train the board” programme. We do a lot of communication: conferences, web applications, articles, training. We have a whole energy programme.”

2.4 By how much have you managed to reduce your energy consumption in the last 12 months?

Response	SMEs (5)	SMEs (6)	MEUs (5)	MEUs (6)	All (5)	All (6)
Nil	45%	41%	15%	27%	30%	36%
Less than 5%	18%	27%	27%	31%	23%	28%
Less than 10%	4%	6%	2%	13%	3%	8%
Less than 20%	7%	2%	6%	1%	7%	2%
Don't know	17%	14%	12%	17%	15%	15%
Exact percentage given by:	9%	10%	38%	11%	24%	10%
Average of exact percentages:	9.9%	14.81%	11.5%	5.31%	11.3%	12%
Weighted average of all companies:	3.2%	3.38%	6.9%	2.99%	5.2%	3.33%
Weighted average of those who have reduced energy consumption	7.1%	6.46%	8.3%	4.44%	8%	5.83%

- SMEs have been less successful than MEUs in reducing their energy consumption in the last 12 months, with 45% reporting no drop in consumption compared to 27% of MEUs.
- Where savings have been possible SMEs have managed to reduce consumption on average by 6.46% compared to 7.1% last year.
- MEUs have not been able to manage the same energy reductions as the previous year with the weighted average of those who have reduced energy consumption falling from 8.3% to 4.44%.
- Regionally there was little variation between SMEs within the less than 5% and less than 10% bands. However, more companies in the Midlands, South West and Wales managed to reduce their energy consumption by between 10-20%.

2.5 Do you need external advice and/or support on the following?

Response	SMEs (4)	SMEs (5)	SMEs (6)	MEUs (4)	MEUs (5)	MEUs (6)	All (4)	All (5)	All (6)
Energy management/efficiency	20%	41%	35%	52%	59%	35%	36%	50%	35%
Energy saving capital allowances	24%	49%	6%	59%	47%	26%	42%	48%	13%
Reducing/managing carbon emissions	17%	43%	35%	55%	69%	42%	36%	56%	37%

(Scale 1-10, where 1 = not important, 10 = extremely important)

Response	SMEs (4)	SMEs (5)	SMEs (6)	MEUs (4)	MEUs (5)	MEUs (6)	All (4)	All (5)	All (6)
Energy management/efficiency	7.06	6.1	3.65	6.04	5.37	5.42	6.19	5.67	4.24
Energy saving capital allowances	7.55	6.24	4.07	5.47	4.72	5.18	5.85	5.5	4.44
Reducing/managing carbon emissions	6.44	6.16	3.73	5.75	5.46	5.63	5.84	5.73	4.36

- Across the board there was a noticeable decrease in the number of companies who felt they needed external advice or support, with MEUs more interested in advice than SMEs.
- Regarding the order of importance, SMEs felt that energy saving capital allowances were most important whereas MEUs believed that it was reducing and managing carbon emissions.
- There is a distinct difference between MEUs and SMEs: where SME ratings have fallen significantly on all of the above issues, MEUs' importance ratings have increased slightly. This would suggest that given the current climate MEUs are attempting to find extra ways of cutting energy costs whilst SMEs are more concerned about other aspect of the business (sales, wages, and rent) with energy no longer high on their list of priorities.
- Regional and employee size breakdowns for SMEs reveals:
 - Energy management/efficiency** – Least support for external advice occurred within the 10-24 employee range (23%) compared to an average of 47% across the other employee bands. Regionally the Midlands were the least receptive to external support with only 20% of SMEs indicating a need for help.
 - Reducing/managing carbon emissions** – Amongst SMEs those with most employees attach greatest importance to managing carbon emissions.

Do you consider that you need external advice and/or support and how important would this advice be?

Selected comments

- "It's hard to get targeted advice that covers our whole complicated process."
- "We know what to do - we don't have the money to do it."
- "All help is extremely important."

2.6 From where would you prefer to receive advice?

Response	SMEs (4)	SMEs (5)	SMEs (6)	MEUs (4)	MEUs (5)	MEUs (6)	All (4)	All (5)	All (6)
Energy consultants and advisors	3.91	4.14	4.12	4.12	4.04	3.51	4.02	4.09	3.91
Energy suppliers	4.53	4.29	4.87	3.61	2.94	4.46	4.06	3.62	4.73
Equipment suppliers	4.31	4.64	4.95	3.98	3.41	4.77	4.14	4.03	4.89
NGOs (e.g. Carbon Trust, Energy Savings Trust)	4.58	5.1	5.29	5.46	5.52	5.79	5.03	5.31	5.45
Other	6.81	5	1.75	2.83	6.31	4.69	5.71	5.71	2.73

(On a scale 1-10, where 10 = very important)

- SMEs still prefer advice from NGOs, such as the Carbon Trust.
- MEUs' preference is also to receive information from NGOs, such as the Carbon Trust, but the subsequent order of preference has changed significantly with equipment suppliers rating second and energy suppliers third. Energy consultants have moved from a significance rating of 4.04 last year to 3.51 this year.
- Amongst MEUs, there is more interest from the public and service sector with regard to outside consultants, suppliers and NGOs.

SME specific questions

2.7 Do you rent or own your premises?

Response	SMEs (6)
Percentage of SMEs renting premises	50%
Percentage of SMEs owning premises	51%
Percentage of tenants whose landlord has improved energy efficiency of the building	7%

- The split between SMEs owning and renting premises is more or less even, with SMEs who rent their premises rising to 50% from 39% in 2007.

2.8 If you are a tenant, has your landlord taken any steps to improve the energy efficiency of your building and help you to reduce your energy costs?

Response	Breakdown by number of employees			Breakdown by region						
	All SMEs	10-24 Employees	25 - 49 Employees	50 - 100 Employees	Midlands	North	Scotland	South East	South West	Wales
Yes	7%	9%	0%	11%	5%	6%	9%	9%	10%	7%
No	93%	91%	100%	89%	95%	94%	91%	91%	90%	93%

- Only 7% of landlords are reported to have taken steps to improve tenants' property with regard to energy efficiency.

2.9 Which of the following "Quick-Win" efficiency measures would give the biggest payback

Response	High	Low	Don't know
Monitoring consumption more regularly	29%	63%	9%
Introducing equipment meters	22%	69%	9%
Lights are not on when not needed	60%	38%	2%
Equipment is off when not needed	68%	31%	2%
Use more efficient equipment	52%	43%	5%
Use more efficient lighting/heating	56%	42%	3%
Heat loss from the building is minimised	60%	39%	2%
Educate staff in energy efficiency	63%	35%	2%

- Turning equipment off when it is not needed (68%) is considered the best type of "quick win" in terms of payback. This was followed by educating staff on energy efficiency (63%), and then jointly by having lights off when they are not needed (60%) and minimising heat loss from the building (60%).

- Regional and employee size breakdowns for SMEs reveal:

Monitoring consumption more regularly – employee size differences do not indicate any significant variations in response as was also the case for all but one of the regions. In the South East 83% of respondents believed that monitoring consumption gave a low payback, this rate was 10% higher than the Midlands and 20% higher than the South West.

Lights are not on when not needed – variations did occur between the regions, with 77% of respondents in the South West claiming a high payback compared to only 40% in the Midlands.

Use more efficient equipment – as employee size increased so too did the number of firms who believed that the payback on more efficient equipment was worthwhile. Regionally, responses regarding a high payback were around 55%, with the exception of the North where only 38% of participants felt this to be the case.

Heat loss from the building is minimised – across employee sizes, results did not vary significantly, regionally results were consistent with the advantages that one would expect given geographical location and temperature differences. The order was as follows: Scotland, North, South West, Wales, Midlands, South East

2.10 Do you have the resources to invest in energy efficiency?

(a) Management time

Response	Breakdown by number of employees				Breakdown by region					
	All SMEs	10-24 Employees	25 - 49 Employees	50 - 100 Employees	Midlands	North	Scotland	South East	South West	Wales
Yes	39%	31%	47%	50%	33%	30%	57%	31%	33%	57%
No	61%	69%	53%	50%	67%	70%	43%	69%	67%	43%

- SMEs are still reporting a lack of management time to deal with energy efficiency, but there has been an increase in the level of companies reporting that they have spent time on the issue, rising to 39% from its previous level of 35%.

(b) Cash resources

Response	Breakdown by number of employees				Breakdown by region					
	All SMEs	10-24 Employees	25 - 49 Employees	50 - 100 Employees	Midlands	North	Scotland	South East	South West	Wales
Yes	38%	32%	45%	45%	31%	43%	55%	26%	41%	38%
No	62%	68%	55%	55%	69%	58%	45%	74%	59%	62%

- Given the current economic climate, the proportion of SMEs that have the cash resources to deal with energy efficiency has fallen from 44% last year to 38%.

2.11 Are you aware that the Carbon Trust has schemes to provide the following?

Response	Yes	No
Provide interest free loans for energy efficiency investment	40%	60%
Provides a free carbon footprint calculator on its website	40%	60%
Provides a free action plan tool which aims to give targeted energy savings advice	34%	66%

- The proportion of SMEs knowing about the Carbon Trust's interest free loan fell to 40% from 53% last year. The responses were similar in connection with the Carbon Trust carbon calculator and action plan tool.
- SMEs with a larger number of employees showed increased awareness of the availability of the above schemes. Regionally, awareness of all three schemes varied, with overall awareness greatest in the Midlands and Scotland.

MEU specific questions

2.12 Approximate level of energy savings technically achievable for MEUs

Response	Percentage
About 5%	12%
About 10%	32%
About 20%	17%
About 30%	3%
Other (specify)	13%
Don't know	22%

(On a scale 1-10, where 10 = very important)

- Most MEUs believe that an efficiency saving of approximately 10% would be possible within their business.

2.13 Are you able to allocate your energy costs by usage?

Response	MEUs (4)	MEUs (5)	MEUs (6)
Yes	71%	76%	84%
No	29%	24%	16%

- A majority of MEUs (84%) can allocate their costs by energy usage, up from 76% in 2007. Amongst MEUs, 93% of manufacturing MEUs could allocate costs compared with 63% of the public sector, and 77% of the service sector.

Are you able to allocate your energy costs by usage? e.g. to space heating, hot water, air conditioning, chilling/refrigeration, process heating, machinery, lighting?

Selected comments

"We can meter individual buildings."

"We look at it on half hourly basis but not to this degree."

"Site by site. On our largest sites (20 sites use about one third of our power) we understand what we use by process."

"Most, but not all over. We are looking at some new metering that will help with this."

2.14 How would you rate the feasibility of the following measures to reduce energy costs?

Response	MEUs (4)	MEUs (5)	MEUs (6)
Reduced lighting	4.55	4.48	4.34
More staff working from home	2.41	2.37	2.48
Major change in manufacturing processes	3.56	3.49	3.65
Relocate activities overseas	3	2.05	3.08
Undertaken an energy review and/or action plan	-	-	5.35
Engaged with staff to encourage energy efficiency action	-	-	5.59
Invested in microgen technology	-	-	3.91

(On a scale from 1-10, where 10 = highly feasible)

- MEUs rate engaging with staff to encourage energy efficiency action as the most feasible measure to reduce energy costs. This was closely followed by undertaking an energy review or action plan.
- Manufacturing MEUs favoured major change in manufacturing processes (4.8) and relocating activities overseas (4.2) as being most feasible.
- Public sector MEUs favoured reduced lighting (7.0) and staff working from home (4.1).
- Service sector MEUs favoured undertaking an energy review and/or action plan (5.9) and engaging with staff to encourage energy efficiency action (6.5).

2.15 Do you consider that the energy efficiency services and/or products of any of the following are helpful to your business?

Response	MEUs (4)	MEUs (5)	MEUs (6)
Energy consultants and advisors	46%	59%	68%
Energy suppliers	32%	38%	29%
Equipment suppliers	51%	54%	87%
NGOs (e.g. Carbon Trust, Energy Savings Trust)	67%	87%	93%

- MEU support for NGOs has continued to rise, with a massive 93% of participants considering the services and advice they provide helpful to their business.
- There was also a significant increase in the rating of services/products by consultants and equipment suppliers.

2.16 Do you employ staff full time for energy management?

Response	MEUs (4)	MEUs (5)	MEUs (6)
Yes	60%	69%	82%
No	40%	31%	18%

- More MEUs now employ full time staff for energy management, with a substantial increase of 19% from 2007.

2.17 Which of the following self generation technologies would you be prepared to invest in?

Response	MEUs (6)
CHP	6.9
Biomass	6.0
Air source heat pumps	5.7
Ground source heat pumps	5.5
Wind turbines	5.2
Solar panels	4.8

(On a scale of 1-10, where 1 – unlikely to invest, 10 very likely to invest)

- CHP remains the most popular self generation technology, with biomass and heat source pumps not far behind in the rankings.
- Solar panels and wind turbines continue to be less popular options.
- Amongst MEUs, there were no significant variations in self generation technologies but the service and public sectors seem more enthusiastic to invest.

2.18 Do you employ building and/or process energy management systems?

Response	MEUs (4)	MEUs (5)	MEUs (6)
Yes	72%	73%	87%
No	28%	27%	13%

- The proportion of MEUs that employ building and energy management systems has risen significantly from 73% in 2007 to 87%.

2.19 Has compliance with climate change agreements (e.g. CCL/ETS) resulted in significant and permanent energy savings or process improvements for your company?

Response	MEUs (4)	MEUs (5)	MEUs (6)
Yes	50%	56%	71%
No	50%	44%	29%

- The positive impact of regulations (CCA and ETS) on energy saving and process improvements has risen sharply from 56% in 2007 to 71%.
- 86% of MEU manufacturers indicated it had led to permanent energy savings compared to 35% in the public sector and 62% in the service sector.

2.20 How beneficial are the following smart meter features/outputs to your business?

Response	MEUs (6)
The ability to gain an accurate bill and eliminate estimated readings	7.1
The ability to use automated meter readings and therefore help eliminate site visits	6.44
The ability to gain access to half hourly data that allows you to:	
Assess your current energy usage	7.08
Understand your consumption patterns	7.43
See any energy reductions from local initiatives	6.85
Manage your data in preparation for the CRC	6.69
The ability to feed half hourly data into an energy management system	6.37

(On a scale of 1-10, where 10 = highly beneficial)

- MEUs reported that the main benefits of smart meters were being able to understand consumption patterns, and the ability to secure an accurate bill and eliminate estimated readings. All of the smart meter functions were rated as potentially very useful.

SECTION THREE COMMENTARY: CARBON REGULATION AND THE CURRENT ECONOMIC CLIMATE

Businesses' reaction to carbon regulation and their opinions on emission reduction in the face of tough economic challenges are explored in the special topic of this latest npower Business Energy Index.

The feedback from respondents in this section reveals the strength of opinion in relation to carbon reduction measures. There is an overwhelming indication that, given the current economic climate, both MEUs and SMEs are focused more on reducing costs than carbon emissions, with 97% of respondents believing this to be the case.

There is also concern regarding the emission reduction goals set down by the Government in the Climate Change Act. A significant majority (83%) believe the target to reduce emissions by 80% by 2050 is unrealistic.

Fewer businesses now feel that a small carbon footprint will provide them with new commercial opportunities, down from 40% in the last Index to 31% now. This is despite the fact that more than half of MEUs (51%) report having been asked by their clients to provide policies on corporate social responsibility and the environment. Moreover, the main influencer placing the pressure on businesses to green their operations was the customer (rated 4.52 out of 10 for importance), further suggesting there is demand within the supply chain for "green" products and services.

The negative feeling toward emission reduction is at odds, however, with businesses' opinion on the UK's role in tackling global CO₂ output. Despite the present financial downturn, 68% of respondents believe the UK should play a leading role in reducing carbon emissions.

A conflicting opinion is also seen in using energy efficiency to reduce costs. More than half of businesses (53%) say that energy efficiency is of no more or less importance as a result of the financial challenges of the recession. Yet, at the same time, 80% confirmed that their

company is likely to increase energy efficiency measures and 83% plan to increase energy management initiatives in order to reduce costs.

An interesting picture also emerges here in relation to energy costs as part of operational costs. In the first section of this Index, the number of MEUs reporting changes to production processes to manage costs had dropped from 52% in the last Index to 28% now. Similarly, changes to equipment/technologies has gone from 62% in nBEI5 to 42% this time. For SMEs, less than a third report a change to their technology or production processes to manage energy costs. Yet, when questioned on efficiency measures in relation to managing the downturn, businesses appear to have a different opinion. It indicates that the recession is necessitating a broader look at all costs and areas to save rather than treating energy costs in isolation.

Further contradiction is seen when businesses' opinions to emissions are looked at in closer detail. Despite energy efficiency being largely viewed as a cost cutting, not emission reduction measure, 49% of SMEs said information on their CO₂ output in their energy bill would make them save energy while only 10% said it would make them less likely to save. However, SMEs were less optimistic about the contribution they could make to reducing emissions overall, rating their role at 5.5 out of 10. By contrast, they rated Government/public sector at 7.72 and large businesses 7.51 in terms of the importance they play in emissions reduction.

In relation to large businesses' plan to manage emissions, 75% report being ready to participate in the Carbon Reduction Commitment (CRC) when it goes live in 2010. This suggests that much of the frustration reported in the last Index (in which 75% of MEUs said the combined emission reduction regulations placed an undue burden on businesses) has largely been managed.

However, there is conflicting opinion among MEUs on the Government's role in supporting businesses to reduce emissions and prepare for the CRC. Only a small majority (53%) say they feel the level of guidance on the CRC so far has been adequate. Yet there was general optimism in relation to new DEFRA guidelines on converting energy usage into CO₂. Two thirds (67%) were aware of the guidelines and 78% agreed that this would help them measure their carbon footprint more accurately. The same positivity was not felt in relation to Ofgem's guidelines on green tariffs – only 26% of MEUs thought it would encourage them to buy more green energy.

It seems clear from this section that there is mixed feeling in relation to emission reduction, particularly in view of the financial pressures businesses are experiencing. Broadly speaking, businesses are supportive of plans to reduce CO₂ and are keen to implement energy efficiency measures, but the priority for most is managing costs to get through the economic downturn.

SECTION 3: CARBON REGULATION AND THE CURRENT ECONOMIC CLIMATE

SME and MEU responses

3.1 Do you believe that the UK Government’s target to reduce carbon emissions by 80% by 2050 is realistic?

Response	SMEs (6)	MEUs (6)	All (6)
Yes	18%	16%	17%
No	82%	84%	83%

- The majority of MEUs and SMEs believe that the Government’s target of an 80% reduction in carbon emissions is unrealistic.

Do you believe that the UK government’s target to reduce carbon emissions by 80% by 2050 is realistic?

If no, why not?

Selected comments

“The British public are not interested in carbon emissions, unless it affects their health or their pockets. They would much rather buy from Third World countries.”

“Small businesses have got to make a living first, before investing in energy efficiency.”

“I think people are set in their ways and it takes them a long time for people to change. Everyone always thinks someone else should do it.”

“Don’t think the way they are reacting to the economic climate is going to help the situation. People are complaining that there are no jobs. So that would be first priority, getting people jobs.”

“I think 80% is far too high for the Government to aim at. A more realistic number would probably be around 50-55%. This is a number that they could phase in better over a number of years. Also finance is another problem. [Not] all grants [are] available [to] every company [and so they have to] finance the Government restrictions, or cuts.”

“I think there is so much old technology around in the systems at the moment it will cost money to be more efficient.”

“I don’t think there is actually enough investment and awareness for companies like ourselves. We should really have some tax benefits for producing high efficiency equipment. Like with the European Union companies for example: Holland, have a tax free relief benefit.”

If yes, how do we achieve this?

Selected comments

“By insulating our buildings, turning off lights, keeping heating to a minimum and making sure all staff are aware to adhere to this.”

“People don’t realise how much energy is wasted until you start monitoring it. If everyone makes a simple step to reduce energy consumption, e.g turn off lights, set heating to a constant temperature, buy energy efficient equipment... This will reduce energy consumption.”

“It’s just continual education and the whole economic climate is going to really make people look [at what they spend and] so it’s kind of a

blessing in disguise, [if] everybody’s going to be focusing on saving money and inevitably that will centre around saving energy so I think it will raise the whole energy efficiency and carbon emission agenda.”

“More investment in energy and energy conservation projects.”

“Only through more renewable, and a relaxation of planning to let that happen.”

3.2 Do you believe that reducing your carbon footprint could provide your business with new commercial opportunities?

Response	MEUs (4)	MEUs (5)	MEUs (6)
Yes	26%	40%	31%
No	74%	60%	69%

- Last year's optimism, when 47% of MEUs predicted that reducing their carbon footprint could provide their business with new commercial opportunities has faded. Currently, only 40% now believe this is possible and SMEs have remained pessimistic, with only 26% of companies indicating that new business will occur as a result of reducing emissions.
- The SMEs in Wales were the most optimistic, with 43% predicting that reducing their carbon emissions could help their business.
- Amongst MEUs, 62% of service sector MEUs believe that reducing their carbon footprint could provide them with new opportunities, compared to 41% in manufacturing and only 21% in the public sector.

Do you believe that reducing your carbon footprint could provide your business with new commercial opportunities? If Yes what are they?

Selected comments

SMEs

"It will probably make us more attractive to certain companies that prefer to buy from what they class as green companies."

"If you're reducing your carbon - it's a knock on effect - you're saving money at the same time."

MEUs

"In a competitive world of recruiting students this helps."

"Setting up partnerships with organisations that deal with renewables."

"Some customers are looking to work with suppliers with a greener footprint."

"We have just achieved the Carbon Trust standard. There's a benefit for early adaptors under CRC, also seeing a lot of our tenants interested in moving into properties with good environmental standards."

"We are a beacon authority for sustainable energy. In Europe we are able to work with other municipalities and raise funding. Raises our profile."

"We employ 40 energy managers whose task is to ensure that we are well placed in the league tables as they are formed."

3.3 Given the current economic climate, do you believe that small businesses/ major energy users will be more concerned about reducing costs rather than carbon emissions?

Response	SMEs (6)	MEUs (6)	All (6)
Yes	96%	98%	97%
No	4%	2%	3%

- There was overwhelming agreement that in the current climate both MEUs or SMEs have more important areas of concern than reducing carbon emissions.

3.4 Is energy efficiency more or less important for your company/organisation given the current economic climate?

Response	SMEs (6)	MEUs (6)	All (6)
More	40%	59%	47%
Less	27%	2%	19%
Same	32%	39%	34%

- 40% of SMEs and 59% of MEUs report that energy efficiency is more important in the current economic climate.
- Given the current economic conditions the primary motive for business in increasing energy efficiency is to reduce costs.
- Amongst MEUs, those in the public sector had the largest percentage of companies indicating that energy efficiency was more important for them given the economic climate.

3.5 Is your company likely to increase or reduce initiatives in the following areas given the current economic climate, and what is your rationale for such initiatives?

(a) Energy Efficiency

Response	SMEs (6)	MEUs (6)	All (6)
Increase	73%	95%	80%
Decrease	27%	5%	20%
Rating	6.04	6.85	6.30

Rating is on a scale of 1 – 10 where 1 = environmental importance, 5 = equal weighting, 10 = cost saving possibilities)

- Over 80% of both MEUs and SMEs said that in the current economic climate they would be more likely to do more to manage their energy consumption more efficiently but it is important to note that their primary motivation for taking such action would be to reduce costs rather than CO₂ emissions.

(b) Energy Management

Response	SMEs (6)	MEUs (6)	All (6)
Increase	77%	95%	83%
Decrease	23%	5%	17%
Rating	5.49	6.32	5.76

- SMEs and MEUs indicated that they are likely to increase initiatives in both energy efficiency and energy management, but their primary motive is to reduce cost and not CO₂.

3.6 Which of the following do you believe would reduce your company's carbon emissions most and could be achieved given the current economic situation?

Response	SMEs (6)	MEUs (6)	All (6)
Energy efficiency	35%	60%	43%
Switching to a green tariff	26%	1%	18%
Staff empowerment	11%	12%	11%
Process changes	19%	27%	22%

- Both MEUs and SMEs, reported that the greatest reduction they could achieve in carbon emissions would occur by enforcing energy efficiency measures. Significantly more MEUs (60%) than SMEs (35%) believed energy efficiency could drive carbon savings.
- When SMEs are analysed by employee size and region the rating for energy efficiency varied little across the 10-24 (34%), and 25-49 (30%) employee bands, whilst the 51-100 band stood at 46%. This reinforces the conclusion that energy efficiency is attainable by all SMEs but only larger firms see significant benefits.
- Smaller SMEs were in favour of switching to a green tariff, with 32% of the 10-24 employee band in favour of this method compared to just 14% at the higher end of 51-100 employees. Regional variations indicate that energy efficiency is believed to have the greatest benefit in Scotland (50%), whilst switching to a green tariff was considered to have the greatest benefit in the Midlands (38%).
- Staff empowerment had a generally low rating but was considered effective by 25% of SMEs in the South East, whilst process changes were most popular in the North.

3.7 Do you think the UK should play a leading role in the reduction of carbon emissions?

Response	SMEs (6)	MEUs (6)	All (6)
Yes	71%	61%	68%
No	29%	39%	32%

- Both MEUs and SMEs were in favour of the UK playing a leading role in the reduction of carbon emissions.
- Amongst MEUs, there was least support from manufacturing (47%) compared with 88% of the public sector and 69% of the service sector.

Do you think the UK should play a leading role in the reduction of carbon emissions? If no why not?

Selected comments

SMEs

"We are a tiny country in a vast world and other countries really need to make changes to make a big difference. It is no good to keep taxing the British over climate if other countries are not playing their part."

"There shouldn't be any leading role. Everyone should participate. It should be a global initiative."

"I think the amount of carbon emission Britain makes (about 2%) is negligible and the Government is forcing companies to pay for reduction and it is making the country uneconomic."

MEUs

"Not a leading role. It should be led by the major out-putters like the US, China, India. It should not put us at a disadvantage."

"Not if it compromises the UK's trading position. Either everyone does it, or not!"

"We are not one of the greatest producers. There is no point bankrupting a business just because it is not green - it is not worth bankrupting the country for the sake of being green."

"Britain is a small island where political aspiration outweighs reality. We are sacrificing our industrial heritage and being crucified on the green altar."

SME specific questions

3.8 Do you know how to convert your energy utilisation into equivalent CO₂ emissions?

Response	Breakdown by number of employees				Breakdown by region					
	All SMEs	10-24 Employees	25 - 49 Employees	50 - 100 Employees	Midlands	North	Scotland	South East	South West	Wales
Yes	14%	11%	16%	16%	17%	10%	17%	10%	3%	27%
No	86%	89%	84%	84%	83%	90%	83%	90%	97%	73%

- Of all 200 SME respondents, only 14% indicated that they know how to convert their energy utilisation into CO₂ emissions.
- Regionally only 3% of SMEs in the South West could convert their energy utilisation into the equivalent CO₂ emissions, this rose to between 10-17% for the other regions with the exception of Wales, where 27% said they were able to perform this conversion.

3.9 Are you aware that DEFRA recently published new guidelines regarding how to convert your energy usage into CO₂ emissions? (for recording purposes)

Response	Breakdown by number of employees				Breakdown by region					
	All SMEs	10-24 Employees	25 - 49 Employees	50 - 100 Employees	Midlands	North	Scotland	South East	South West	Wales
Yes	12%	8%	20%	13%	19%	11%	20%	17%	4%	0%
No	88%	92%	80%	87%	81%	89%	80%	83%	96%	100%

- Only 12% of the SMEs were aware of these DEFRA guidelines.

3.10 Would having information upon the equivalent CO₂ emissions on your bill make you:

Response	More likely to save energy	Less likely to save energy	Wouldn't make any difference
Yes	49%	10%	73%
No	46%	82%	22%
Don't Know	5%	8%	5%

- We asked SMEs if having their CO₂ emissions recorded on their energy bill would encourage them to reduce their energy consumption. Nearly 50% of SMEs said that it would make them consider reducing their energy consumption but in reality the survey revealed that a majority of SMEs would not follow through with specific action. Again this reinforces the general message coming from the SME community that in the current economic climate other issues such as survival are of more importance.

3.11 Do you feel the Government offers useful advice on the issue of carbon reduction and energy efficiency?

Response	Breakdown by number of employees				Breakdown by region					
	All SMEs	10-24 Employees	25 - 49 Employees	50 - 100 Employees	Midlands	North	Scotland	South East	South West	Wales
Yes	40%	40%	39%	42%	27%	40%	43%	50%	40%	37%
No	51%	52%	54%	42%	70%	45%	53%	40%	57%	47%
Don't Know	9%	8%	7%	16%	3%	15%	3%	10%	3%	17%

- A small majority (51%) reported that the Government did not offer useful advice on the issues of carbon reduction and energy efficiency.
- Regionally, businesses in the Midlands (70%) were least impressed with the current usefulness of Government advice, with the other five regions varying between 40% (South East) and 57% (South West).

3.12 Is the current economic climate reducing your ability to implement energy efficiency and carbon footprint reduction plans?

Response	Breakdown by number of employees				Breakdown by region					
	All SME's	10-24 Employees	25 - 49 Employees	50 - 100 Employees	Midlands	North	Scotland	South East	South West	Wales
Yes	45%	40%	54%	45%	63%	35%	43%	50%	37%	43%
No	51%	56%	41%	53%	33%	63%	50%	50%	60%	47%
Don't Know	4%	4%	5%	3%	3%	3%	7%	0%	3%	10%

- A small majority (51%) of SMEs do not believe that the current economic climate is interfering with their ability to implement energy efficiency or carbon reduction plans. Of the 45% who did believe the financial climate was interfering with their plans, the problem was greatest for SMEs in the Midlands (63%).

Is the current economic climate reducing your ability to implement energy efficiency and carbon footprint reduction plans? If yes how?

Selected comments

"Well, it's affecting me because... although the Carbon Trust is very informative on all of the issues. The problem always is implementing their recommendations - it does get expensive and obviously whilst you can be advised on doing things there is a cost to doing these things. It's not always financially viable."

"The Carbon Trust survey that we've done highlighted some areas that we could make improvements to but it would cost £12,000 to install. The result would be long term not short term. So in this current climate it doesn't justify spending that capital."

"100% focused on trying to survive."

"Diverting energies to other things, trying to win work and keep everybody employed. Customers are not willing to spend money on energy efficiency at this moment."

"There's a severe reduction in business and that means that if you reduce your income you're not going to spend money unless you're getting quick returns or huge returns. The other problem is that there's not enough actual cash to implement the changes. I suppose that's where an interest-free loan would help."

3.13 Where do you feel that reasonable reductions in carbon emissions can best be achieved?

Response	Breakdown by number of employees				Breakdown by region					
	All SMEs	10-24 Employees	25 - 49 Employees	50 - 100 Employees	Midlands	North	Scotland	South East	South West	Wales
Households	6.47	6.24	6.38	7.21	6.03	6.53	6.53	7.03	6.30	6.17
Motorists	6.78	6.90	6.49	6.89	5.87	7.13	7.10	6.70	6.37	7.40
Small business	5.50	5.34	5.49	5.92	5.10	5.50	5.90	5.43	5.37	5.70
Large Business	7.51	7.41	7.57	7.68	6.77	7.65	7.73	7.73	7.30	7.77
Government/public sector	7.72	7.68	7.59	8.03	6.87	7.65	8.30	7.90	8.03	7.53

(On a scale of 1-10, where 1 = not important up to 10 = extremely important)

- SMEs believe that reasonable emissions reductions can best be achieved in the government/public sector (7.72), with large business not far behind (7.51).
- Households and motorists were also considered important but within small companies themselves it was felt the potential for savings were not as significant.

MEU specific questions

3.14 Carbon Reduction Commitment (CRC)

(a) Would your business/operation be affected by the new CRC?

Response	Percentage
Yes	73%
No	27%

- 73% of MEUs now indicated that they will be affected by CRC; this has increased from 68% in 2007.

(a) If yes, are you ready to participate in the scheme when it launches in 2010?

Response	Percentage
Yes	75%
No	25%

- Of those involved in the CRC, 75% of MEUs now feel they are ready to participate when the scheme launches.

Are you ready to participate in the new CRC scheme when it launches in 2010. If not, why not?

Selected comments

- | | |
|---|--|
| “[We] haven’t had the chance to finish the work.” | “Too busy trying to survive.” |
| “The legislation isn’t formalised until 12 months from now so we don’t know what to prepare for. What level do we drill down to - is it up to each individual?” | “We still need to calculate our allowances, it is another cost to be managed.” |

3.15 Do you feel that the level of advice/guidance on CRC provided by the Government so far is adequate?

Response	Percentage
Yes	53%
No	47%

- Although 75% of MEUs indicate they are ready for CRC, only 53% felt that the level of guidance and Government advice was adequate.
- The sector that felt most displeased with the level of advice was the service sector, with 62% of participants indicating it was not good enough.

Do you feel that the level of advice/guidance on CRC provided by the government so far is adequate? If not why not?

Selected comments

"We found out about it by accident - we had to find the info ourselves."

"We have been involved with DEFRA in developing the scheme and they do not seem to be taking on board a number of concerns that we have."

"Landlord/tenant relationship is a major problem for us and we have not received clarity on this issue yet. The regulations on the landlord, who charges though service charge, means that any benefits/charges that accrue from CRC have to be re-charged though the service charge. Have to run a scheme within a scheme."

"Diabolical. We are in both CCL and ETS and there is a net off - there are two different types of carbon scheme and this will introduce a third."

"I think that there will still be a lot of companies, especially group companies, who are still unaware of their potential liability."

3.16 Are you aware that DEFRA recently published new guidelines regarding how to convert your energy usage into CO₂ emissions? (For recording purposes)

Response	Percentage
Yes	67%
No	33%

- Two thirds of MEUs were aware of DEFRA's new guidelines, which compares to only 12% of SMEs. Amongst the MEUs, the manufacturers were least aware of the guidelines (59%) with the public (71%) and service (92%) sectors significantly more informed.

3.17 Will the new guidelines help you to measure your carbon footprint more accurately?

Response	Percentage
Yes	78%
No	22%

- The new guidelines released by DEFRA have been received positively by MEUs, with 78% of them indicating that they will help them to measure their carbon footprint more accurately in the future.

Will the new guidelines help you to measure your carbon footprint more accurately? If not why not?

Selected comments

"There is a contradiction between their figures and the building regulations."

"We used to buy renewable energy and now you have to use 'grid average' for everything."

3.18 Ofgem has recently released a new set of guidelines in relation to the transparency and accuracy of the information on “green tariffs”. How do you currently perceive the accuracy and quality of information in this area?

Response	Rating
Perceived level of accuracy of green tariff information	3.54
The current level of information provided	3.53
Overall transparency regarding green tariffs	3.1

Please rate the following:
(1 – poor, 10 – excellent)

- Survey results suggest that the current level of transparency and information on green tariffs is poor. However this result cannot be considered totally accurate given some of the MEUs interviewed said that it was not company policy to buy ‘green’ energy, or company policy was not to buy ‘green’ due to cost (see below).

3.19 Will Ofgem’s proposal for an independent accreditation agency to monitor schemes to ensure they provide environmental benefits above and beyond that of “business as usual” (ie ROCs) encourage you to buy more “green” energy?

Response	Percentage
Yes	26%
No	74%

- Most MEUs believe that an independent accreditation agency to monitor schemes in an attempt to encourage people to buy ‘green’ would not work (74%). Most cited that it was either too expensive, it would not count towards their CRC, it was another layer of unnecessary regulation or that company policy was not to buy ‘green’ energy (see below).
- The fiercest opposition was from MEUs operating in the service sector with only 8% of them indicating it would be effective.

Will Ofgem’s proposal for an independent accreditation agency to monitor schemes to ensure they provide environmental benefits above and beyond that of “business as usual” (ie ROC’s) encourage you to buy more “green” energy? If no why not?

Selected comments

- “We don’t buy green energy and have no plans to do so. It doesn’t count towards the CRC and our regulator won’t fund it.”
- “It is just another layer of regulation.”
- “We don’t buy green energy. Too expensive”
- “What is the point of me buying green if I can’t claim anything back - it is not included in my carbon calculation.”
- “It will be on a cost/benefit basis. We do buy good quality CHP anyway. There is a premium and it may better to spend this premium on other things that have a better green payback.”
- “We have historically purchased green energy - we have now been told there is not enough in the UK to supply us!”
- “Any reasoning for buying green will be to do with our customer ethos.”
- “We will only do it if we are instructed by the Government.”
- “I’d like to say yes but the model has been skewed by CRC.”
- “It comes down to costs. Bottom line every time - having said that we do buy 25% green energy.”
- “We won’t pay a premium for green. There is no evidence that we lost a contract, even to the Government, for not using green power.”

3.20 Please rate the level of pressure exerted on your business from the following, with regard to having “green” credentials.

Response	Rating
Suppliers	1.83
Customers	4.52
Investors	3.32
Media	4.51

(on a scale of 1-10, where 1 = no pressure, 10 = greatest pressure)

- MEUs felt that pressure to have ‘green’ credentials was coming mainly from customers (4.52) and the media (4.51).
- The ratings in each category increased from manufacturers (low ratings) through the public sector and to the service sector (high ratings) with customers driving green credentials in those companies that are more customer orientated (5.9).

3.21 Have you been asked by clients/customers to provide policies on corporate social responsibility and the environment?

Response	Percentage
Yes	51%
No	15%
Don't know	34%

- A majority of MEUs (51%) have been asked by clients or customers to provide policy statements on corporate social responsibility or the environment. The number of companies indicating that they had been asked for information increased as they became more customer-facing or service orientated.

Have you been asked by clients/customers to provide policies on corporate social responsibility and the environment ? If yes, what sort of information was requested

Selected comments

"We circulate with our environmental policies to our main customers (ISO14000 demands this)."

"Where do we source our power, what are the environmental implications."

"We provide people with our statements on corporate governance and our relationship with the environment."

npower CONCLUDING COMMENTARY

Businesses continue to face a number of challenges that impact and influence their operations. In the wake of unprecedented economic turmoil in the UK and across the world, many are grappling with challenging decisions in relation to managing finances. At the same time they are faced with a maturing low carbon economy in the form of carbon reduction regulation and an increasingly discerning customer base that demands environmental as well as financial accountability.

In view of this, it is perhaps understandable that the latest nBEI is clearly one of mixed opinion with businesses on the one hand reporting measures to reduce energy consumption, yet at the same time emphatically saying that managing the economic downturn is their priority.

In this context, we are seeing businesses focusing on energy efficiency as a cost cutting measure, clearly seeing consumption reduction as a means to reduce overheads rather than to deliver CO₂ reduction.

This is a return to a trend that has emerged in our previous Indices and, while measures to improve efficiency must be welcome, the reasons for this must be more closely inspected. The Index reveals that energy is rising as a component of businesses' operational costs and, as such, it represents a potentially higher risk. Investments to reduce consumption can play an important role in managing this risk and reducing costs, but it is important that this is not seen as the only influential factor.

In addition to cost, energy has increasing areas of risk associated to it: emission risks, operational risks and reputational risks. An awareness of and willingness to manage all of these risks must form the basis of an energy management programme alongside cost saving objectives.

In addition to meeting legislative demands, many companies are facing the fact that a more sustainable approach to business is essential in satisfying stakeholders and customers and finding a point of differentiation in the current drive for low cost.

While we are seeing growing legislative demands in the form of the CRC, the Index also reveals that over half of businesses have been asked by their clients to provide policies on CSR and the environment in the last year alone. In the first few months of 2009 both the

Government and the Opposition have published strategies on decarbonising the UK's economy. The Government's strategy said:

"The transition [to a low carbon economy] will transform our whole economy. It will change our industrial landscape...and the way in which we all work and consume."

So, while the focus at the moment is very much on low cost goods and services, for long term success businesses will need to prove they can deliver good value and a small carbon footprint.

With this in mind, the focus must be continuing the positive approach to energy management reported in this Index, focused on the twin goals of reducing cost and emissions, recognising that the two are not mutually exclusive.

It is clear from nBEI6 that businesses are well placed to do this, shown by major energy users' moves to recruit personnel specifically to manage energy. SMEs too have shown a willingness to grasp the nettle, confirming they have spent more time on energy management when compared to our last Index.

Key to managing the challenges of the future will be sustaining this activity and placing energy management as a priority to business operations, with support at the board level. In this way, energy consumption can be viewed and managed in relation to business goals and decisions on investments to deliver ongoing consumption reduction made according to the benefit they will provide. This moves away from a quick win scenario in which energy efficiency measures are only made for financial gain (as is being implemented as a result of the financial downturn), to a sustainable, long-term approach in which all energy risks, not just cost, are managed in line with business objectives.

This takes commitment and will require organisational changes to be made to enact energy saving measures, but with emission reduction and energy efficiency receiving cross-party support and the path to a low carbon economy being laid, some businesses are recognising that the rewards of doing so outweigh the challenges they will face.

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Registered Office:

[RWE Npower plc](#)
Windmill Hill Business Park
Whitehill Way
Swindon SN5 6PB

www.npower.com

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