

Why do corporates need an Energy Policy?

To improve energy and carbon efficiency systematically, companies must integrate energy management into their overall strategy, organizational structure, and daily operations. An energy policy document addressed this need. In fact, the corporate energy policy should be part of the organization's sustainability policy or plan to improve environmental performance, which in turn reflects the company's mission statement and core values. An energy policy establishes senior management's direction regarding energy issues in the long term, emphasizes senior management's support for energy management, and contains goals such as reduction of energy usage and implementation of energy management systems[1].

How can a corporate design its Energy Policy?

Large businesses spend millions, if not billions, of dollars annually on energy directly, and millions more on indirect costs such as supply chains, outsourcing, and logistics. However, outside sectors that use the most energy, the majority of businesses view energy as merely an expense that needs to be controlled. This strategy error leaves out huge chances to lower risk, strengthen resilience, and produce new value.

Owing to broad environmental, social, and business trends, such as climate change and global carbon regulation, mounting demands on natural resources, rising standards for corporate environmental performance, innovations in energy technologies and business models, and falling prices for renewable energy, energy is now moving up the corporate agenda. These mega-trends alter the environment in which businesses operate and expose them to new dangers, as well as fresh opportunities for value generation.

According to Porter's traditional theory of strategy, companies gain an edge by either reducing costs or differentiating themselves. The decisions made by an organization regarding the procurement and use of energy can have a significant impact on its cost structure. Additionally, managing the effects of energy use on the environment and climate, particularly carbon emissions, is becoming a crucial differentiation for consumers, investors, and corporate clients.

Leading companies across many industries adopt energy plans, but they do so without a playbook. There are, undoubtedly, some effective frameworks for managing energy, but they are neither expressly tailored to the strategic implications of major global trends nor connected with an overarching strategy. The following steps can be adopted to create a solid energy strategy and systematically apply it to an organization's energy use [2].

- **Start at the top:** It will be difficult to put an energy strategy into practice without the CEO's active involvement and well-defined governance structure. The CEO mandate usually starts with a pledge — first within the company — to make the energy strategy a key part of the firm's purpose and competitiveness. The CEO should emphasize the importance of this commitment by appointing a high-ranking executive as a champion and guide. In companies where operations and energy consumption are of utmost importance, such as industrial and petrochemical manufacturers, the COO may be the best fit for this role. In firms where energy sourcing and financing are the main concerns (in the ICT and retail industries), the CFO may be the ideal choice. This executive brings together a cross-functional team to create the company's energy strategy and to oversee its implementation. The team should comprise executives from operations, facilities, finance, law, procurement, sustainability, and possibly other departments. For instance, Microsoft's team, which comprises members of the environment and sustainability, legal, finance, and data center operations, is answerable to VP for cloud infrastructure and operations and VP for technology and civic engagement. The energy team at the data service firm EMC (now part of Dell) is answerable to the CFO.
- **Integrate Energy into the Company's Vision and Operations:** The team's initial task was to evaluate the company's internal and external energy effects. Questions that should be

addressed include the amount of energy that our company consumes and the cost associated with it. What effect does this expenditure have on key financial metrics such as the cost of goods sold? Are we taking advantage of the opportunities to utilize renewable energy sources? What is our carbon footprint and that of suppliers? How does this match with customer, investor, and employee expectations, and how do we measure up against our rivals?

- **Track Energy at All Levels:** Energy is one of the most expensive areas for businesses, along with personnel, product costs, facilities, and equipment, yet it is the only one that is not closely monitored and managed. In fact, it is usually the most significant part of a company's cost structure and is not adequately monitored. Many companies lack efficient systems to quickly obtain energy data or data that can be used to make decisions. Keeping track of and examining energy consumption can uncover operational problems that impact costs, performance, and quality. For instance, "energy signature" data may indicate that a piece of equipment, such as an HVAC system or an injection-moulding machine, is operating outside its ideal parameters. Blommer Chocolate, a major cocoa-bean processor, employs statistical analysis to forecast the energy required for each pound of the roasted product. If actual consumption differs from the forecast, managers are aware that something is amiss.
- **Shift to renewable energy sources:** The clean energy technology market is rapidly evolving, and businesses must be aware of both technologies and their financing options. Companies that do not actively incorporate renewables and other new energy technologies into their energy plans are missing potential advantages and exposing themselves to a variety of risks. The current energy landscape is characterized by a dramatic surge in supply and a sharp decrease in the cost of a variety of alternative energy technologies, including wind turbines, photovoltaics, biofuels, fuel cells, advanced batteries, LED lighting, and advanced meters. The most recent renewable energy initiatives price energy lower than any other source of power. By 2015, the average cost of electricity from new long-term contract wind power projects in the United States had decreased by five to two cents per kilowatt-hour since 2009. In sunny regions, such as the Middle East and Mexico, the cost of new solar projects is now lower than three cents per kilowatt-hour.
- **Engaging key stakeholders:** Companies may be adept at the practical aspects of energy strategy, such as improving efficiency, diversifying energy sources, and lowering emissions. However, without a well-thought-out plan to engage with stakeholders, these efforts are limited in their effectiveness. Companies must collaborate with governments to shape the energy and environmental regulations that impact their businesses, and they should communicate their energy strategies to customers, communities, investors, and employees, customizing the messages to the specific interests of each.

To sum up

The most significant obstacle is the belief that energy is either an expense to be managed or that strategically managing energy is too costly. It is clear that energy initiatives, like any other business endeavour, require some form of investment — whether in terms of money, time, or organizational attention. Nevertheless, these investments bring considerable advantages to businesses and do so quickly.

- [1] P. Thollander and M. Ottosson, 'An energy efficient Swedish pulp and paper industry - Exploring barriers to and driving forces for cost-effective energy efficiency investments', *Energy Effic.*, vol. 1, pp. 21–34, Jan. 2008, DOI: 10.1007/s12053-007-9001-7.
- [2] A. Winston, 'Energy Strategy for the C-Suite', *Harvard Business Review*, Jan. 01, 2017. Accessed: Jul. 02, 2023. [Online]. Available: <https://hbr.org/2017/01/energy-strategy-for-the-c-suite>