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'Carbon Reduction Commitment'

... 6000 UK organisations will be affected by the new scheme

Defra is in the process of introducing a new legally binding climate change and energy saving scheme called the Carbon Reduction Commitment (CRC) which will have a major impact on around 6000 UK organisations within sectors such as banking, supermarkets, local authorities (including education), property, transport, manufacturing, health and insurance.

Niall Smiddy and James Patterson believe that many organisations may be unaware of the potential impact of this legislation on their business and have prepared a summary of the scheme to answer the key questions and to highlight the opportunities for pro-active organisations to prosper from the new legislation.

Whilst the scheme itself is designed to be 'revenue neutral' to the Exchequer there will be a significant impact upon cash flow for those included in the scheme in addition to the administrative effort and expense that compliance will involve, particularly as this is likely to include the recruitment of external expertise.

However, it is important to note at this point that the scheme also offers potential revenue-generating opportunities.

Who is affected?

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Organisations with a total half-hourly metered electricity use greater than 6,000 megawatt-hours (MWh) between 1 January 2008 and 31 December 2008 will be covered by the scheme. As a guide, Defra has indicated that if an organisation, including any parent company and its subsidiaries, spends more than £500,000/year in the UK on electricity; it is likely to be covered by the new legislation.

Qualification for the scheme is based solely on half-hourly electricity usage. However, once the scheme starts, it will be necessary to monitor and report all energy use emissions from all sources (all electricity, gas and other fuels) except for transport emissions, emissions covered by the EU ETS and emissions covered by Climate Change Agreements.

The definition of the 'organisation' is a complicated issue. In essence unfortunately the DEFRA guidance on what constitutes an organisation is over 200 pages long!

The CRC scheme will target the UK emissions of the highest parent organisation, which will need to consider the electricity use of its subsidiaries and to report on the total energy use emissions, including those of the subsidiaries.

Subsidiaries will need to pass on energy use information to their parent for them to report to Government at the end of each year.

CRC

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The CRC is possibly the last major government instrument designed to force businesses to manage their carbon emissions. It follows hot on the heels of existing instrument such as; EU Emissions Trading Scheme, Climate Change Levy & Climate Change Agreements.

Why is CRC being implemented?

The CRC target sector accounts for around 10% of the UK's emissions which is equivalent to approximately 14 M tonnes of CO₂ per year. The CRC scheme aims to reduce this figure by 1.2 million tonnes of CO₂.

The commitment to implement CRC was announced in the 2007 Energy White Paper, following consultation on measures to secure cost-effective carbon savings from large non-energy intensive business and public sector organisations.

The Government's aim is for 90% of non-domestic energy to be covered by either the EU Emissions Trading Scheme (EU ETS), Climate Change Agreements (CCA) or CRC.

What is the CRC scheme?

It is the Government's intention that the CRC scheme will help the UK to achieve its energy consumption reduction targets by imposing a 'cap and trade' system under which organisations will purchase allowances and then later receive rebates plus either a bonus or a penalty dependent on where they sit in an emissions reduction league table.

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In early 2009, the Environment Agency (EA), who will administer the CRC scheme, will contact all UK billing addresses with half hourly meters providing them with Registration Packs to report their 2008 electricity consumption.

The introductory phase will begin in 2010. However, participants in the scheme will not have to purchase allowances until April 2011. At this time, the price will be fixed at £12/tCO₂. Standard conversion factors for different energy consumption types to CO₂ are available at

www.defra.gov.uk/environment/business/envrp/pdf/conversion-factors.pdf,

however for the purposes of the CRC, organisations will only report energy use; conversion calculations will be carried out through an online registry operated by the Environment Agency.

The first sale will be unique, in that it will be for both 2010/11 allowances (retrospective) and 2011/12 (predictive) allowances. All subsequent sales/auctions will only be for organisations to forecast their emissions and then purchase allowances for the year ahead.

Spot trading will be allowed throughout the year to facilitate top ups or the sale of surpluses and at the end of the year participants will have to purchase or sell allowances to match their actual emissions.

A one-way safety valve will be created to promote price stability by allowing purchases from the EU ETS.

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Revenue generated by the sale of allowances will be recycled to participants 6 months after the end of the audit year (18 months after 2010/2011) plus or minus the bonus or penalty mentioned above.

The CRC league table will not be sector specific and will be based on the core metric of percentage emissions reduction relative to average annual emissions since the start of the scheme. The CRC scheme will include a concession in the introductory phase that encourages early action to reduce emissions. For “Early Action” the fact that an organisation has implemented its own automatic energy monitoring and reporting (AMR systems) and/or has signed up to the Carbon Trust Standard for energy efficiency (formerly the Energy Efficiency Accreditation Scheme) will be considered sufficient to trigger the concession. Further, it is intended that company growth which causes an incremental increase in emissions will not be penalised during the introductory phase.

It is important to note that the league table metric will be based on absolute emissions and not a relative measure such as tCO₂/£turnover or tCO₂/employee for example.

How will energy use be monitored and reported?

Organisations will be required to report their annual energy consumption over a financial year (April to March), using data obtained either from meter readings or supplier bills via an online registry operated by the Environment Agency. Total

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CO₂ emissions from all relevant energy sources will be calculated through the registry. The CRC League Table will be created from this data.

It is important to note that all grid electricity, regardless of source (even if it is 'green'), will have the same emissions factor (currently 0.523 kgCO₂/kWh).

Electricity generated on-site and exported to the grid will be credited at the same rate. Heat generated by CHP and electricity generated from on-site renewable sources not used to generate Renewable Obligation Certificates, will be zero-rated.

No external certification will be applied to participants' data, however, a risk-based audit will be conducted by the Regulator for 20% of organisations included in the scheme.

Fines for non-compliance will be £25/tCO₂ during the introductory phase and £70/tonne thereafter. These fines will be in addition to the requirement to purchase the correct allowances.

What's in it for me?

Those organisations that manage to implement the most significant energy use reductions will enjoy a high position in the published CRC League Table – this will deliver a number of important benefits:

- Bonus on top of the rebate of up to 10% in the first year, rising to 50% in the fifth year
- Energy savings = cost savings

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- Compliance with corporate responsibility objectives
- PR – companies will be able to publicise their position in the league table for the benefit of their brand
- Public demonstration of real initiatives in the fight against climate change
- Stakeholder approval

Timetable for action

2008 – DEFRA will decide who is in the CRC based on information received direct from electricity suppliers.

2009 – This is the baseline year where you CRC baseline will be determined.

2010 to 2012 – Introductory Phase, where allowances will be sold at a fixed price of £12/tonne, with no cap on emissions.

2013 Onwards – Full scheme implementation, with market price for emission allowances, an emission cap introduced.

Summary

As a specialist in the fields of carbon management and energy efficiency, ENVIRON's James Patterson says he is "very concerned that, with the clock ticking towards the start of the scheme, many organisations are still unaware that they are likely to be included in the CRC, and are missing out on the opportunities that exist to protect their position by taking action now. Massive opportunities exist to reduce energy consumption which will improve the bottom line and through the CRC scheme deliver a range of highly attractive benefits."

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Note to Editors: An international consultancy, ENVIRON works with clients to assess and manage potential environmental, sustainability and health issues associated with their activities and products, both locally and globally. The company currently employs over 1,100 individuals across a network of more than 70 offices in North America, Europe, Australia and Asia.

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