

THE CARBON REDUCTION COMMITMENT (CRC) ENERGY EFFICIENCY SCHEME: IMPLEMENTATION

GUIDANCE NOTE 65

Note: This is the second in a series of guidance notes on the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This article describes the operation of the final scheme.

All the consultations have now been completed and Government has finalised the way in which the CRC Energy Efficiency Scheme, will work. It has handed over the administration of the scheme to the Environment Agency, which has issued a number of guides to the scheme, which goes live on 01 April 2010. Those organisations with over 6,000 MWh of half hourly metered (HHM) electricity consumption (approximately £500,000 by value), will have to participate in the scheme. Those whose consumption is above 3,000 MWh but below the CRC threshold must register but do not need to participate.

Built upon a 'polluter pays' principle, the CRC forces participating organisations to reduce their energy use by placing a cost on CO₂ emissions. Participants are required to purchase allowances to cover their projected emissions from their properties and then surrender those allowances based on their actual energy use. Businesses that are unable to reduce their emissions must purchase additional allowances to cover any shortfall. As the number of allowances available for purchase will be capped from 2013, the system will create winners and losers. Organisations unable to reduce their emissions face paying the ever higher costs of allowances to cover their energy use. Those organisations which create a surplus of allowances through efficiency measures will be able to sell them at a potential profit as well as coming higher in a league table of all participants, thus enhancing their reputation.

There have been other schemes which involve cap and trade systems, such as the EU Energy Trading Scheme (EU ETS). The CRC is the first to involve the smaller energy consuming organisations and will involve initially around 6,000 firms who will be forced to bring energy efficiency high on their company's operational agenda. A senior management representative, expected to be at Board level, has to be nominated as the person responsible for the implementation and operation of the scheme. They are liable for civil and criminal penalties if data is fraudulently used for gain in the scheme. It is really a management 'wake up' call for companies to reduce their emissions.

Background to the CRC

In May 2007, the Government published the Energy White Paper and announced its decision to implement a new emissions trading scheme - the CRC. The scheme introduces mandatory emissions trading to cut CO₂ emissions and requires that organisations purchase allowances - priced commodities (£/tonne) - that are to cover the equivalent amount of CO₂ an organisation produces from its operations in a year. The use of market mechanisms encourages organisations to become leaner in their energy usage, as CO₂ becomes associated with a definable financial reward or cost.

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Businesses and other large bodies will be required to report annually all of their UK-based CO₂ emissions, including energy use for lighting, heating and cooling. Metered energy use is the defining inclusion criteria but participating organisations will have to purchase allowances to cover all CO₂ emissions generated, including fuels burned for heating and unmetered electricity use. However, organisations will not be required to report on, or purchase allowances to cover their transport emissions, or domestic energy use. CRC covers emissions that are not regulated by the EU ETS or Climate Change Agreements, and will affect, mainly but not exclusively, organisations that have not previously been subject to carbon regulations.

How the process works

From April 2010, all firms must keep records of all fuels used for providing energy on their premises. Exceptions are the sources used for domestic properties, transport and any purchased through the EU ETS. It is important that these records are accurate as they form the basis of a 'Footprint' report and the 'Annual' report which are required in April 2011. These reports are used to determine the position of the organisation in a 'League Table' and the amount of their carbon allowance payments that will be returned to them. An annual report has to be produced every year of each phase of the scheme. The footprint report is required once and is used as the benchmark value. All data needs to be kept in an 'Evidence Pack' for future reference.

Carbon allowances need to be purchased at the beginning of each year to cover the organisations emissions. Their quantity is dependent on how it sees its future requirements and should take into account any proposed energy reductions. Initially they are at a fixed price of £12 per tonne. From April 2013 the value is determined in an auction and may be considerably higher than the initial price. The credits can be traded between participants or via secondary traders, licensed through the scheme. Throughout each year, organisations must monitor their activities to reduce the number of allowances they need to purchase and/or surrender. At the end of each year, actual emissions must be reported and sufficient allowances must be surrendered to cover CO₂ output.

From April 2013, in the second phase, allowances will be allocated through auctions with a diminishing number of credits available over time. Establishing a rising price for CO₂ by restricting allowances encourages organisations to reduce energy year on year. Not only will they have to purchase fewer allowances at the start of the year but they will be rewarded over time based on cumulative emissions reductions. Overall performance - based on absolute reductions since the start of the scheme - will be summarised in a public league table which will highlight the best and worst performers. For the first time in such a scheme, reputations are at stake.

The CRC is intended to be revenue neutral for the Government. Revenue raised will be recycled to participants proportional to their 2010 emissions, adjusted by a bonus or penalty related to their performance in a CRC league table. This will continue for each year of the programme, with the bonus given to the best performers increasing every allowance cycle (and the penalty for the worst performers also increasing) to a maximum of +/- 50% by 2015. As such, the revenue recycling will provide further incentives for emissions reductions and energy efficiency improvements.

Participants will be required to submit annual data statements via an online registry to the Environment Agency using their own meter readings, or with supplier's data. In order to ensure full compliance it is intended that 20% of the participants will be audited each year.

Timeline and important dates

The scheme begins in April 2010 with a three-year introductory phase. The first capped phase will begin in April 2013 with auctioned credits. The following table highlights the major phases of the programme.

YEAR	ACTION
2008	This was the benchmark year for inclusion in the CRC. Organisations with half hourly metered electricity consumption of over 6,000 MWh are participants in the CRC. Those whose consumption is above 3,000 MWh but below the CRC threshold must register but do not need to participate. Those with under 3,000 MWh consumption just have to 'tick a box' in the CRC registration process. Any organisation with an electricity bill of over £500k is highly likely to have qualified.
2009	The final consultation took place and DEFRA handed over the administration of the scheme to the Environment Agency.
2010	The CRC scheme starts with a three-year introductory phase on 01 April 2010.
2011	First sale of allowances begins in April. The sale will be for 2011/2012 allowances. Allowances will be sold to participants for a fixed price of £12/tCO ₂ . The allowances will be recycled in October 2011. The amount returned to each participant is dependent on 'Early Action Metrics' such as membership of the Carbon Trust Standard, the number of Automatic Meter Reading (AMR) meters installed and energy efficiency statements.
2012	Second compliance year. The sale of allowances takes place in April 2012 for the year 2012/ 2013. The allowances are recycled in October. The amount returned to each participant is dependent less on the early action metrics but now includes absolute emission reductions.
2013	Auctioning of carbon allowances begins. Price for allowances expected to rise as number of allowances is capped. Each participant will bid for their required allowances. The final strike price will be determined by the bid prices and the number of allowances available. There will obviously be a premium paid for any additional allowances required to cover the participant's emissions.

The bigger picture

The CRC is important because it now forces firms to consider energy efficiency measures and brings this to the attention of the Boardroom. It is essential that organisations understand their energy usage and emissions and develop a strategy to reduce these. It is thought that over time the threshold of participation will be reduced and more organisations will have to participate. However, organisations should not wait for the full scheme to come into effect but start on energy efficiency measures immediately to reduce their costs and put themselves in a good position in the future.

What it means in most direct terms is that there is now a potential additional cost of doing business based on CO₂ output. The scheme will incentivise owners and occupiers to work collaboratively to reduce emissions, in order that both parties maximise the potential financial and reputational benefits of the CRC.

The risks of not performing well are relative as well as absolute. The CRC will quickly establish frontrunners in reducing the impact of climate change in a very understandable and translatable way. Up until this point, there has not been a single measure to rank organisations on their CO₂ emissions and energy use. The CRC will do this.

For more information:

Further work is being undertaken by industry stakeholders to address the implementation of CRC: http://www.bpsc.org.uk/issues_sustainability.asp

Environment Agency (EA) website

<http://www.environmentagency.gov.uk/business/topics/pollution/98263.aspx>

The Carbon Trust www.carbontrust.co.uk/climatechange/policy/CRC.htm

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