

CRC Energy Efficiency Scheme: Risks and Rewards

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Are you prepared for the reality of
a low carbon economy?

Act now to embrace new carbon
management obligations and
reduce your costs



How will the CRC scheme affect your business?

Highlights

New carbon trading scheme starts in 2010.

Carbon allowances must be purchased each April in advance to cover the anticipated emissions from all energy consumption.

Calculations are based on 2008 electricity consumption and use of at least one half-hour electricity meter.

The threshold is 6,000MWh; if this is not reached, you are still required to report emissions.

Landlords who are the counter party to a building's electricity bill are considered the participant.

Initially, allowances will be fixed at £12 per tonne of CO₂.

Energy Efficiency Scheme

The Carbon Reduction Commitment (CRC) provides an incentive to those businesses that consume high levels of energy – and are not part of the EU Emissions Trading Scheme, nor have a Climate Change Agreement in place – to save energy and reduce their carbon emissions.

Climate change and the drive towards a low carbon economy is changing the way we think, and the way we run our businesses. The revenue-neutral CRC scheme facilitates this in a very straightforward manner, but robust planning is required to mitigate short-term risks.

Rewarding good performers

The performance league table is an interesting element of the scheme. The recycled carbon allowance fund will be re-distributed based on a participant's position, with good performers having a net gain from the scheme. It will also force some interesting comparisons between organisations.

The league tables are not expected to be split into sectors officially, but comparisons by the media or other interested third parties will ensue. It is expected to reveal the true nature of a company's green performance, and act as a timely test of its sustainability strategy's resilience and effectiveness in practice. Inevitably, there will be an impact on brand credibility.



Key CRC obligations

There are two levels of CRC obligation: information disclosure and full participation. Organisations having at least one half hourly meter settled on the half-hour market will need to make an information disclosure. Full participation is required if half-hour annual electricity consumption is at least 6,000 MWh.

Who is responsible?

Responsibility for compliance with the CRC will usually rest with a corporate group as a single entity, although large subsidiaries that would qualify in their own right can now choose to disaggregate themselves from their group and participate independently (a "Significant Group Undertaking").

Qualification packs are shortly to be issued to addresses with a half hourly meter settled on the half-hourly market. If your organisation is part of a group, you should inform the nominated primary member of your corporate group.

Subsidiary and parent companies - assessed collectively excluding any Significant Group Undertakings, which are individually assessed.

Entities which are not companies - all "business entities" will be grouped in a similar way to companies.

Franchises - franchisors will be responsible for the emissions of their franchisees.

Overseas ownership - if the UK half hourly electricity use of the highest global parent organisation exceeds the CRC threshold, the organisation will be included.

Joint ventures and project finance - where no organisation owns a majority share in a JV/project vehicle, electricity consumption will not be aggregated with the joint owners for the purposes of ascertaining eligibility.

Exceptional cases

Transport or electricity emissions used for the **purposes of generating** other electricity and **domestic housing** are excluded. Emissions already covered by the EU ETS or Climate Change Agreements are also excluded.

Public Sector - all Central Government departments are included in the scheme. Non-departmental public bodies and public corporations will only be included if they meet the threshold.

Landlord and tenant - responsibility for the CRC lies with the organisation that is responsible for the supply, even when a landlord receives the supply which is entirely or partly used by its tenants. In practice, arrangements for paying energy bills can be complex, so responsibility for the CRC may need some analysis.

Schools and Universities - local authorities are the "responsible person" for state funded schools within their geographical area other than PFI schools where the PFI company is responsible for the energy supply.

Halls of residence, barracks and staff accommodation - are included where the housing is provided for the purposes of education, employment, religion, recreation or medical care. Housing associations will need to identify which of their properties may be caught by the CRC.



What actions should you consider?

Introducing a carbon management strategy now will save significant resources in the future. It is prudent for all organisations likely to be affected to embrace these upcoming obligations or risk a high allowance purchase requirement, poor league table positions, brand reputation issues and, ultimately, harsh financial prospects.

We have outlined a four-stage approach to navigating the demands of the CRC scheme. An organisation with a good understanding of its current energy consumption and control of its future needs will be able to better understand the benefits of the CRC scheme. The winners will gain financially, enhance brand image and position themselves well within the new dynamics of the competitive market.

Stage 1: Compliance

If your organisation has a half-hour meter, we recommend that your first action is to appoint a senior designated person at board level, to be responsible for the implementation of the scheme. If you are part of a complex organisation, you also need to identify the primary member of the scheme and confirm the organisational structure. The next action is to collate data on the 2008 half-hour electricity consumption for all parts of your organisation to determine the extent of involvement in the scheme and budget for your April 2011 payment.

Stage 2: Strategy

As carbon emissions are related to energy consumption, reducing emissions will save energy costs, especially given increasing energy prices.

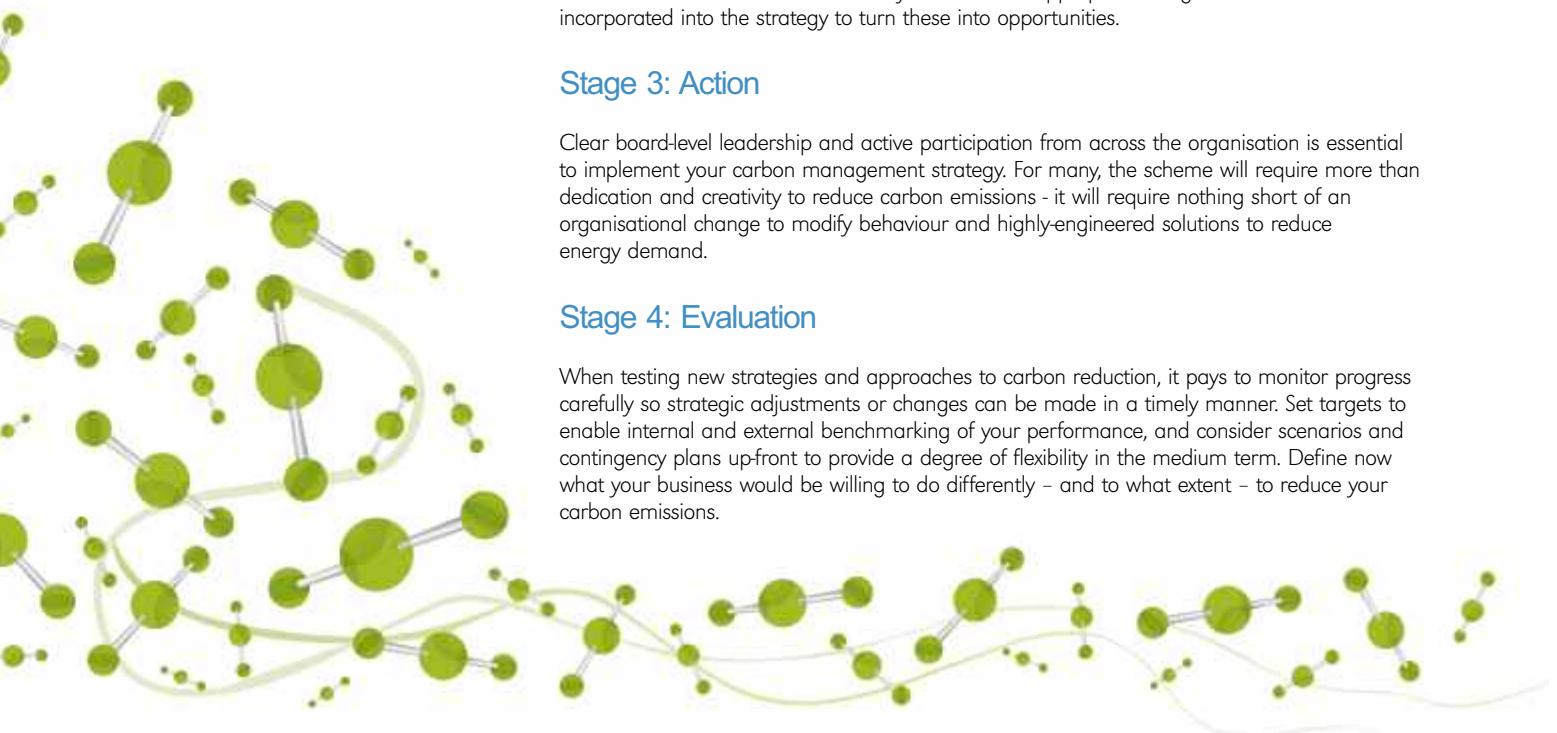
Your carbon management strategy will need to be agreed at board level. It should be based on a robust understanding of your organisation's energy demand. This should include organisational culture, business management processes, building stock, energy load profiles and current and future energy requirements. Options should consider the appropriateness of new technologies (such as renewable energy), behavioural change and the time frame for implementation. Potential threats should also be clearly outlined and appropriate mitigation measures incorporated into the strategy to turn these into opportunities.

Stage 3: Action

Clear board-level leadership and active participation from across the organisation is essential to implement your carbon management strategy. For many, the scheme will require more than dedication and creativity to reduce carbon emissions - it will require nothing short of an organisational change to modify behaviour and highly-engineered solutions to reduce energy demand.

Stage 4: Evaluation

When testing new strategies and approaches to carbon reduction, it pays to monitor progress carefully so strategic adjustments or changes can be made in a timely manner. Set targets to enable internal and external benchmarking of your performance, and consider scenarios and contingency plans up-front to provide a degree of flexibility in the medium term. Define now what your business would be willing to do differently - and to what extent - to reduce your carbon emissions.



Non-compliance will result in fines,
'naming and shaming' and
imprisonment for criminal offences

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Enforcement

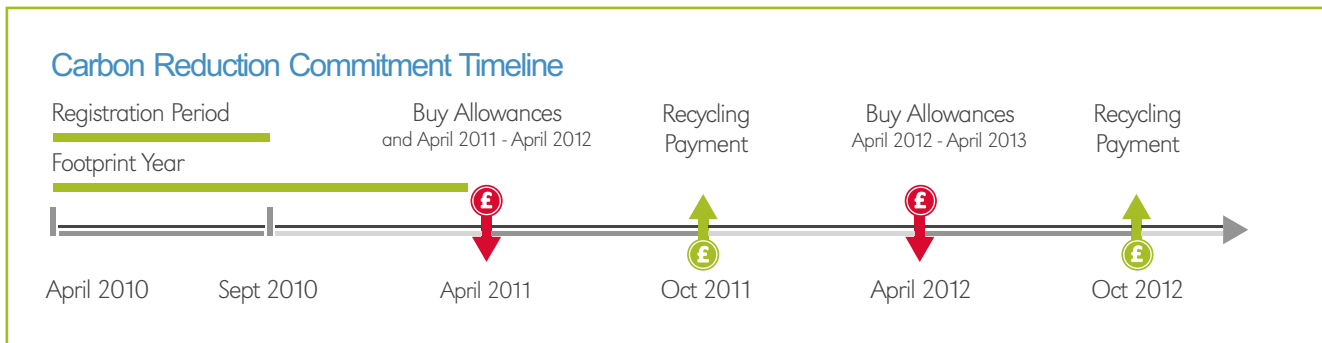
The scheme administrator and regulator for England and Wales is the Environment Agency. Failure to register for full participation in time will result in a £5,000 fine, increasing by £500 for every subsequent working day. Failure to disclose information in time will result in a fixed fine of £500 per settled half-hourly meter. There will be fines for late submission of reports and discrepancies between actual and projected carbon emissions over 5%. Non-compliance will also result in 'naming and shaming' of the relevant organisation.

It will be a criminal offence to make a false statement relating to CRC and to fail to comply with an enforcement notice, which is punishable with up to 2 years' imprisonment and a financial penalty.

As a leading UK law firm, Manches LLP advises businesses across the sustainable sector, including those involved in renewable energy, energy efficiency and carbon reduction.



How can PBA and Manches support you?



Services

- ✓ Legal Advice
- ✓ CRC Compliance Audit
- ✓ CRC Registration Support
- ✓ Energy Strategy
- ✓ Mechanical & Electrical Engineering
- ✓ Behaviour Change
- ✓ Corporate Strategy
- ✓ BSEN16001 Advice and Support
- ✓ CRC Delivery and Performance

www.peterbrett.com
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We believe a resilient carbon management strategy, tailored to your organisation's aspirations, will address the wide range of factors influencing emissions – from energy infrastructure management to enabling staff to reduce your financial risks.

A more detailed newsletter on CRC and further information on other legal issues relevant to the Sustainability agenda can be found on both PBA and Manches websites: www.peterbrett.com and www.manches.com

If you would like to discuss the detail on how CRC is likely to affect you, whether franchisee, commercial landlord, university or JV partner, or to discuss any issue related to CRC compliance, please contact:

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