

Carbon Reduction Commitment Energy Efficiency Scheme

December 2009

The Carbon Reduction Commitment Energy Efficiency Scheme (CRC) is the Government's response to the fact that although energy efficiency has repeatedly been shown to reduce costs and increase profits, organisations have been very slow to move forward on this.

Organisations generally lack information on energy use, the costs of reducing it and the best investment options. They also lack trained personnel. Furthermore, utility companies were historically not sufficiently helping customers to gain this information. Energy price signals are not reaching the right people. It is hard for energy managers to get senior management to pay attention to energy efficiency because energy costs are still, in most cases, a small issue for organisations.

The CRC, which begins in April 2010 has been set up to address these issues.

As a result of the CRC, organisations must get an accurate emissions record for their annual energy use. The first year that accurate emissions record must be submitted for is known as the "footprint year." This has recently changed to 2010/11, (April 2010 – March 2011). There is a fine of £5,000 or £500 a day for not registering online if an organisation that is subject to the CRC fails to do so.

Liability for meeting CRC requirements will fall to the person paying the energy supply contract whether that is a landlord, tenant or owner occupier. Compliance will be the responsibility of the highest parent organisation in the group.

While the Government is aware of the possible difficulties of compiling evidence packs, at least for the first year of the CRC, it is convinced that energy efficiency investment will not happen until there is a clear line of responsibility and flow of information from every individual energy meter to the board of the highest parent organisation paying for the energy.

Organisations that have obligations under the CRC, will be all those using electricity on the half hourly meter. However those using less than 6000MWh will only have limited reporting obligations, to report on the organisation's electricity consumption.

Those using more than 6000MWh of electricity through half hourly meters, (this equates to annual electricity bills above approximately £500,000), will have to produce evidence packs each and every year of the scheme, signed by a board director, on their emissions from all electricity use and their use of natural gas and other fossil fuels.

As well as submitting an evidence pack, each CRC participant will have to buy from the Government an allowance for every tonne of emissions it generates. For the first three years of the CRC, an unlimited volume of allowances will be available at £12 per tonne. Thereafter the number of allowances available each year will be capped and will be auctioned by the Government with the price set by the market.

Organisations that fall under the trading scheme will have to budget now to put cash that equates to their energy use for the "footprint year" to be paid into the scheme in April 2011, (this date has only very recently changed from April 2010).

The revenue from the sales of allowances will go into a central pot that is redistributed back to CRC participants. The payments are based on each participants share of emissions in the first year of the scheme multiplied by a bonus or a penalty based on the participants position on a public league table.

League table positions are based on three things:-

1. A participant's action to reduce emissions before the start of the relevant period. This is termed as the "early action" incentive
2. A participant's success in reducing emissions relative to prior years
3. How well the participant is doing in reducing emissions per unit of turnover

The aim of publishing the league table is to give company directors a further non-financial motive for driving energy efficiency throughout the organisation.

Once there is a cap on the number of allowances placed on the market and the fixed price of allowances is withdrawn, leaving the price of allowances set by the market, it is expected that there will be a major increase in the price of carbon allowances.

Action needs to be taken now to establish whether your organisation will be covered by CRC. You need to begin a process of liability mapping, working out which organisation within your legal structure will be responsible for compliance.

Organisations need to start to build an internal CRC team covering energy, sustainability and the ongoing governance and decision-making processes that will be needed. You should be assessing your operational readiness for submitting the evidence packs.

Clearly organisations need to be analysing the costs and benefits of taking early action that will be used to determine league table positions in the early years of the scheme, particularly the first year of the scheme when

the assessment criteria is based solely on "early action." There will be long-term goals and these will involve board level strategic decisions about emission reduction, driving more efficient processes and addressing landlord/tenant issues.

With the impacts on cash flow, cost base, reputation and the ultimate risk of legal action for non-compliance, it is imperative that organisations affected by the CRC are fully aware of their responsibilities and are fully equipped to deal with this new legislation.

CONTACT US

This briefing note sets out a summary of the law at the time of writing and is for information purposes only. It should not be regarded as legal advice but if you would like further information please contact:

Caroline Drummond, Partner

caroline.drummond@burness.co.uk

+44 (0)131 473 6164