



# The Carbon Reduction Commitment

A CarbonOmics briefing document

September 2010

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## CRC

### The concept

To extend the Carbon Market to a range of large energy users within the UK in order to reduce emissions

### New goal

To improve energy efficiency within participating organisations

### When?

From April 2010

### Cost

£12 per tonne CO<sub>2</sub> (initially)

### Benefits

Significant driver for carbon management

Can be revenue positive

Cost and emission savings

### Who in your organisation needs to understand the implications?

Finance Directors & Managers

Managing Directors

Environment Managers

Facility Managers

Energy Managers

### Are you ready?



## What is the CRC Energy Efficiency Scheme (CRC)?

The Carbon Reduction Commitment Energy Efficiency Scheme (CRC) will introduce the UK's first mandatory carbon 'Cap and Trade' scheme for large non-energy intensive **Public and Private sector** organisations. Those required to participate will:

- Annually report on Carbon emissions\* from the consumption of energy starting from April 2010
- Purchase Carbon Allowances every year at auction, from April 2011 (initially at £12 per tonne CO<sub>2</sub>) to cover their anticipated emissions\* for the coming year.
- Receive recycle payments (6 months after annual auctions), the level of which will be determined by the organisation's carbon reduction performance over the previous year. Those who perform well and make reductions will receive more money back than they initially put in, those who perform poorly will receive less money back.
- Considerable penalties and fines will be incurred for qualifying organisations who fail to register with the scheme or adequately report their emissions (up to £40/ tonne could be charged).

Therefore, there are considerable cost implications. Participating organisations should be considering these as soon as possible. However, those who engage in strategic carbon management could potentially generate revenue, positive marketing and significant cost savings from energy efficiency, with optimum benefits as a result of early action by the organisation.

\* Emissions cover those based on electricity use but also all 'core' non-transport carbon emissions from the use of gas, coal, oil and any other non-Half Hourly Metered electrical and other fuel sources.

At the end of the year sufficient allowances must be surrendered to cover the actual emissions generated.

The uplift in recycle payment for good performance is initially 10% but will rise to potentially 50% by 2015. The converse is the case for those performing badly, i.e. they will lose initially 10% of their recycle payment and up to 50% by 2015.

### Who is included?

#### Full participation in the Scheme is compulsory for\*\*:

Those organisations whose aggregated Half Hourly Metered (HHM) electrical consumption exceeded 6,000 MWH, in the calendar year 2008.

#### Report and Registration only

Those organisations whose aggregated HHM electrical consumption exceeds 3,000 MWH are required to report their annual HHM energy consumption.

#### Registration only

All organisations with HHM electrical supply must register on the Scheme.

\*\*Over 5000 organisations will be required to fully participate. Emissions from all subsidiaries of parent organisations must be included (in the case of Foreign owned subsidiaries a nominated UK subsidiary is responsible for participation).

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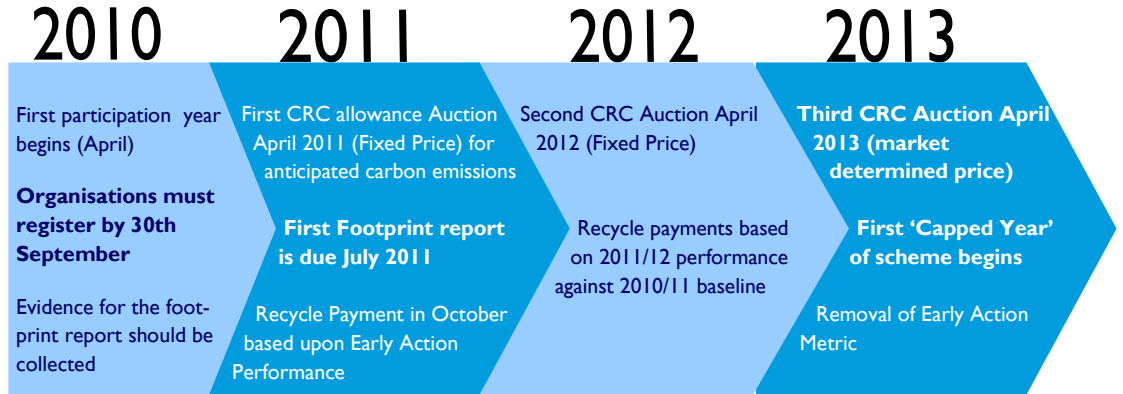
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## Example

A company spending approximately £500,000 on electricity will have a CRC carbon allowance cost of approximately £39,000 and could potentially lose up to 10% of that amount in the first year

## CarbonOmics CRC Services

- Eligibility assessment
- Training
  - CRC
  - Carbon Management
- Financial analysis
- Early Action Metrics
  - Carbon Trust Standard
  - AMR
- Energy Reviews
- Carbon Management
  - Strategy
  - Implementation
- 3<sup>rd</sup> party verification



For the first three years an introductory phase will be in place whereby the number of allowances available will not be capped. After April 2013 the scheme will be capped for the first time, limiting the number of allowances available and increasing the market price of allowances at auction.

## CRC League Table

An organisation's progress towards emissions reduction will be compared to others within the CRC league table. Their position in the league table will reflect their emissions performance for the year; their carbon emissions in relation to growth in turnover, and; for the first three years, their 'Early Action\*' towards commitment to the scheme. The league table will be published each year and will therefore provide a direct reference for customers, the public and competitors of the organisation's Carbon performance. It therefore has the capacity to be a powerful marketing tool for those companies performing well and could potentially prove to be a liability for poorly performing companies.

\* Early Action is defined as the take up of the 'Carbon Trust Standard' or equivalent Carbon reduction schemes and/or installation of Automatic Meter Reading (AMR) equipment on non-HHM electrical supplies.

## What does CRC mean for your organisation?

### Initial costs and cash flow implications

Although the scheme is designed to be revenue neutral, it will affect short term cash- low. Recycle payments will be released on a 6 month returns cycle. Realistic figures suggest that the scheme's cash flow costs will run at approximately 5-10% of an organisation's energy bill.

### Added benefit derived from Carbon management

The Scheme provides a significant driver for organisations to reduce their Carbon emissions and developing a Carbon management strategy is essential if they are to achieve long term savings. The costs of compliance (both in terms of the allowances and potential fines for non-compliance) would be significantly outweighed by these savings.

### References

- DECC— Response to Consultation on the draft order to implement the Carbon Reduction Commitment, October 2009
- DECC— The Carbon Reduction Commitment User Guide, March 2009
- DEFRA— Carbon Reduction Commitment – Organisational Structures, March 2008, DEFRA

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