

# Carbon Reduction Commitment: Energy Efficiency Scheme Explained

## 1. INTRODUCTION

**1.1** The following information is taken from the guidelines published by the Government in March 2009 and subsequently amended in October 2009, in relation to the originally entitled Carbon Reduction Commitment. The name of the Carbon Reduction Commitment has been changed to CRC Energy Efficiency Scheme.

**1.2** We are still awaiting the final published guidelines from the Government to include all of the amendments, which they made in October and would draw to your attention that these are still potentially subject to change.

**1.3** The purpose of CRC is to encourage businesses to invest in the reduction of their carbon demand by means of a carrot and stick combination of bonus payments to efficient companies and penalties to inefficient businesses.

**1.4** The Scheme will be administered by the Environment Agency on behalf of the Department of Energy & Climate Change.

## 2. QUALIFICATION FOR CRC

**2.1** The first phase of the introduction to the CRC Energy Efficiency Scheme will affect approximately 5,000 organisations UK wide.

**2.2** If a business uses 6,000MWh, or 6 million units of electricity metered through half hourly metering during 2008 calendar year then it qualifies for CRC.

**2.3** Actual trading in Carbon Allowances, which is to me the means by which participants will receive bonuses or penalties, will commence in April 2011.

**2.4** Qualifying participants must be do two things within the introductory phase:

**2.4.1** they must report their emissions.

**2.4.2** they must purchase carbon allowances.

**2.5** Qualifiers must report at least 90% of all types of energy which they use

**2.6** The definition of whether a business is to participate is made at the highest UK parent company level.

**2.7** Individual subsidiaries may stand alone, if they qualify on their own, providing that which is left still qualifies. If that which is left does not qualify then separation of subsidiaries is not allowed.

### **3. CRC ENERGY EFFICIENCY SCHEME – THE PRINCIPLE**

- 3.1** The principle that underlines the CRC Scheme is that it should be financially neutral.
- 3.2** The idea is that every qualifying company will need to purchase Carbon Allowances, initially in a controlled market and eventually in an open market, to cover the amount of carbon, which they are generating.
- 3.3** A league table will then be published, which will show the relative positions of each participant.
- 3.4** The league table will either create a bonus or a penalty to be applied to each participant depending on its relevant position in the league table.
- 3.5** The allowances, which are purchased, will then be recycled to the participants 6 months after purchase with either the bonus included or with a penalty deducted.
- 3.6** The league table will effectively have a financial impact and it will also have a reputational impact.
- 3.7** The theory behind the scheme is that, by using less energy, and therefore creating less carbon emissions, a participant will benefit in three ways:
- 3.7.1** they will be required to purchase less allowances.
  - 3.7.2** because they are using less energy their relative position in the league table should increase and therefore they should receive a bonus.
  - 3.7.3** the use of less energy is in itself will be a saving.
- 3.8** Those businesses, which are positioned at the top of the league table will in Year 2 receive a maximum bonus of 10% of the recycling payment. Likewise the maximum penalty at the bottom of the table will be 10% penalty payment.
- 3.9** Bonuses and penalties will then increase by a further 10% year on year for the first 5 years of the Scheme, until the variation is +50% and -50%. The higher in the table the participant is placed then the higher the bonus will be.

### **4. INTRODUCTORY PHASE – 3 YEARS COMMENCING 1ST APRIL 2010**

- 4.1** Allowances are purchased on the basis of forecasts made in April of each year.
- 4.2** The year April 2010 is the first year and the registration must be submitted between April and September 2010 covering all energy sources. This is a reporting year only.
- 4.3** The first active year in which a forecast will be required will be for April 2011 to March 2012, with the forecasts being submitted by April 2011 along with the first controlled payment.
- 4.4** The recycling payment will be made to each participant in October 2011 with either the bonus or penalty depending on the league table position.

## 5. THE LEAGUE TABLE

**5.1** In the first phase the “recycling payment” is calculated from two elements:

- 5.1.1** The proportion of total emissions allowances at the start of the Scheme ie 2010/11 which a business requires.
- 5.1.2** an adjustment based on the league table position.

**5.2** The position in the league table in year 1 can only be affected by two Early Action criteria which, can be undertaken by participants:

- 5.2.1** the introduction of Smart Metering on at least 90% of volume.
- 5.2.2** the acquisition of Carbon Trust Standard Certification in relation to energy and carbon management.

## 6. LEAGUE TABLES YEAR 2 AND BEYOND

**6.1** There are three principle means by which performance is going to be assessed within the Scheme:

**6.1.1** The Early Action Metric:

- a) providing the minimum threshold of non mandatory electricity and gas supplies are covered by voluntary AMR metering before 31st March 2011, then a bonus will be applied to the accounts.
- b) providing a minimum threshold of the emission covered by a valid Carbon Trust Standards Certificate as at 31st March of each compliant year has been achieved, then a further bonus will be applied.

The first year’s league table positions will solely be affected by the early action metrics above, however in later phases the following will also affect position.

**6.1.2** Absolute Metric

The % change in the Absolute CRC emissions in the year relative to the previous year will affect position in the league table and this will become increasingly important as the years unwind.

**6.1.3** The Growth Metric

This measures the change in emission intensity as a ratio of emissions per turnover for each participant Company and will, as with the Absolute Metric, increase as the years unwind.

## 7. CRC COSTS

**7.1** Year 1, April 2010 there is no cost as this is a reporting year only. Years 2 and 3 starting April 2011 and April 2012 will be charged at £12 per tonne. There will be no limits at to the quantity of certificates that can be purchased in this phase.

**7.2** At April 2013 a cap will be placed on the volume of carbon allowances, which will be purchasable and these will be auctioned. The price is according to Government likely to be higher then £12 per tonne

## 8. TIMELINE

- 8.1** 31st January – 31st December 2008 - qualifying period for half hourly electricity calculations.
- 8.2** September – December 2009 – period during which packs will be made available to all half hourly users, declaring whether or not they are participants in CRC. These are known as Evidence Packs
- 8.3** April 2010 – CRC begins and the registration period for all users showing their first base year is to be submitted between April and September 2010. The base year being their forecast 2010/2011 volume. The volume is all energy sources not just the Half Hourly electricity.
- 8.4** April 2011 – first sale of allowances is to be made on the basis of forecasts of each participant. The forecast being based on the April 2011 – March 2012 year.
- 8.5** October 2011 – first recycling payment is made, with the first bonuses/penalties applies according to the Early Action Metric with a maximum 10% variation
- 8.6** April 2012 – second sale of allowances under the controlled regime will take place however the band of bonuses and penalties will widen form 10%.
- 8.7** October 2012 – second recycling payments under the controlled mechanism will be made.
- 8.8** April 2013 – third sale of allowances will be made; however there will be a capped volume in the market and the price will become volatile and vary from £12 per tonne.
- 8.9** Thereafter, every April and October charges and recycling payments will be made.

## 9. EARLY ACTIONS

- 9.1** The important early actions to undertake at this stage are:
  - 9.1.1** to calculate the half hourly energy volume consumed between January and December 2008.
  - 9.1.2** to complete Evidence Packs declaring whether or not the enterprise is a CRC participant or not.
  - 9.1.3** if CRC participation is mandatory, then to complete the first annual return with forecasts for April 2010.
  - 9.1.4** to install automatic metering at all sites for non half hourly electricity and gas before April 2011.
  - 9.1.5** to consider and apply for Carbon Trust Standard before April 2011.

## 10. FAILURE TO COMPLY

- 10.1** If there is any failure to comply with the CRC requirements, then depending on the nature of the non compliance there will be fines. For example, incorrect reporting is likely to be charged out at £40 per tonne.

## 11. WORKED EXAMPLE

**11.1** The company has 10,000,000 kWh of Half Hourly electricity for the period 01/01/08 31/12/08 at its highest parent UK level and therefore qualifies as a participant in the CRC.

**11.2** Upon receipt of the DECC documentation the company makes its return declaring that it will be a participant. Documents available autumn 2009.

**11.3** The first annual return for the period 01/04/10 to 31/03/11 is to be made during the period April to September 2010. This will contain all the data concerning energy usage including Non Half Hourly and gas. This return is a reporting year only and shows a Carbon Allowance need of 10,000 tonnes.

**11.4** AMR's are installed throughout the gas and electricity estate prior to April 2011.

**11.5** The second annual return which will give the energy forecast for 01/04/11 to 31/03/12 is made in April 2011 AND Allowances are purchased at the price of £12 per tonne. This return is for 10,500 tonnes and carries a total charge of  $10,500 \times £12 = £126,000$ .

**11.6** In October 2011 the first league table is published showing the company's total carbon allowance requirement, the impact of their Early Action Metrics and subsequently their relative position in the League Table. Our client has acted appropriately and is in the upper section of the league table because they have put in AMR meters but have failed to achieve Carbon Trust Standard Certification.

**11.7** In October 2011 the first recycling payment will be made to the participants providing them with either a bonus or a penalty. The bonus is capped at 10%, but as only the AMR was put in place their bonus is reduced to 5%. They therefore receive a recycling payment of £126,000 PLUS £6,300 bonus.

## 12. FINANCIAL RISK

**12.1** Once the quantum of Carbon is known a risk assessment can be made as to the likely charges which will be levied and recycled under the scheme. The price in the years April 2011 and 2012 is fixed at £12 per tonne.

**12.2** For the year April 2011 cash will need to be spent on the purchase of the Allowances in April 2011 however that money will be recycled in October 2011 +/- 10%.

**12.3** In future years the % will increase by 10% per annum until it reaches a maximum variation of 50%.

### QUESTIONS? CONTACT US TODAY

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