

## The Carbon Reduction Commitment—Is your organisation affected?

The Government estimates the Carbon Reduction Commitment (full scheme) will directly affect 4,000 to 5,000 organisations in the United Kingdom.

**If your business has just one half hourly metered electricity supply and if you have not already done so, you need to take action now.**

### 1 What is it?

The Carbon Reduction Commitment (CRC)<sup>1</sup> is a compulsory auction-based emissions trading scheme designed to encourage large non-energy intensive business and public sector organisations in the United Kingdom to reduce their CO<sub>2</sub> emissions. Qualifying organisations<sup>2</sup> such as banks, retailers, technology companies, schools and hospitals with an annual electricity consumption of over 6000 megawatts per hour (MWh) will have to participate in the CRC. Qualifying organisations will participate by purchasing and surrendering allowances issued by the Government to cover their annual CO<sub>2</sub> emissions from all energy sources. Non-participation will be a criminal offence.

### 2 How does it work?

The CRC will operate on a “cap and trade” basis. This means that the Government will set a cap at the beginning of each year on allowances to be auctioned to qualifying organisations. Note that there will be no cap for the first phase from 1 January 2010 to 31 December 2012.

Qualifying organisations will have to purchase allowances to cover their emissions. This can be done from the Government auction in January of each year or from the secondary market in allowances. Qualifying organisations will then have to surrender their allowances to show compliance with the CRC. See paragraph 10 below for more information on the process.

The Government intends that the CRC will be a revenue-neutral scheme i.e. no revenue will be gained by the Government. Instead money gained from auctions will be distributed amongst qualifying organisations after allowances have been surrendered.

### 3 Why is the Government imposing the CRC?

The CRC is one of the mechanisms the Government has proposed to help the Government achieve its overall target to reduce carbon emissions by 1.2 million tonnes of carbon (tCO<sub>2</sub>) per year until 2020. The main aim of the CRC is to encourage large non-energy intensive organisations of all kinds to become more energy efficient and so reduce their CO<sub>2</sub> emissions. The more energy efficient an organisation becomes the fewer emissions it will generate and the fewer allowances it will have to buy under the CRC.

### 4 Does it affect your organisation?

If your organisation:

- (a) is located in England and Wales, Scotland or Northern Ireland; and
- (b) has an annual electricity consumption of more than 6,000MWh<sup>3</sup> from mandatory half-hourly meters;

then you may be subject to the CRC.

Under the current proposals, the parent company of an organisation will be responsible for its subsidiaries if the organisation has a combined annual consumption of over 6,000MWh per year from mandatory half-hourly meters. Therefore the organisation as a whole will participate in the CRC through the parent company.

The CRC will impose an obligation on a parent company to gather information on the energy consumption of its subsidiaries. Please see paragraph 8 below on the steps you should be taking now.

### 5 Who will administer the CRC?

The Government has proposed that the Environment Agency will administer the CRC.

6 Will the CRC still apply to my organisation if I participate in the EU Emissions Trading Scheme (EU-ETS) or are party to a Climate Change Agreement?

The CRC will cover direct energy use emissions

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and indirect energy use emissions but the following will be excluded:

- energy use emissions covered by Climate Change Agreements and
- CO<sub>2</sub> emissions generated that are covered by EU-ETS. The CRC will, however, apply to CO<sub>2</sub> emissions generated, which are not covered by the EU-ETS.

A particular group company may be exempt from the CRC if a Climate Change Agreement with a target after 2010 covers 25 percent of that particular group company's CO<sub>2</sub> emissions although this will not exempt the rest of the companies in your organisation.

### 7 What is the legislation governing the CRC and when does it come into effect?

The Climate Change Bill gives the Secretary of State enabling powers to implement the CRC. In Scotland, there will also be a Climate Change Bill with similar enabling powers. It is proposed that the CRC will come into effect from 1 January 2010, but whether an organisation is subject to the CRC will be determined based on its electricity consumption for the year 2008.

The first phase will start on 1 January 2010 for a period of three years and no overall emissions cap will be set. This means that there will be no cap on the allowances an organisation can purchase to cover its emissions. Further phases will be for five years and subject to an emissions cap.

### 8 What should you do now?

If your business pays just one electricity bill which is metered via a half hourly meter and you do not have a plan of action, contact Utility Assist no 0845 094 4325.

### 9 What happens if you do not comply?

Non-participation in the CRC will be a criminal offence. Since the CRC is a "lightly" regulated scheme, the penalties for non-compliance will be strict. Broadly, there will be two types of offences: those for failing to participate and those for failing to register or surrender allowances. These offences will be punishable by a penalty or a fine. For offences relating to failure to register or surrender allowances the Government has proposed fines of £25 per tCO<sub>2</sub> for the first phase rising to £70 per tCO<sub>2</sub> for future phases. If your business uses under

the threshold limit, the fine for failure to register is currently set at a minimum of £1000 and £5000 + £500/day (up to a maximum of £105,000) for participants.

### 10 Performance League Table – Publicity and Transparency

In the summer, following the conclusion of the previous emissions year, the Government will publish a table which ranks qualifying organisations subject to the CRC based on their performance during that year. It is proposed that a bonus or a penalty (based on the recycling payment made in July) will apply to a qualifying organisation depending on its performance. The Government is consulting on the level of the penalty or the bonus that should apply and the metric that will be used to measure performance.

### 11 Gearing up for the CRC

We can help you take the steps that you will need to take to assess if your organisation is a qualifying organisation and, if so, how to fully comply.

### 12 Where can you find more information?

See the Defra website:

<http://www.defra.gov.uk/environment/climatechange/uk/business/crc/index.htm>

Utility Assist are the Midlands' premier specialist energy management firm. Our experience and expertise in advising leading clients in the energy sector, means we are perfectly placed to advise on climate change and the renewables and energy saving measures. We can help you through the energy industry jargon and the new trading mechanisms.

<sup>1</sup> Previously the Energy Performance Commitment. The Government's consultation on the Energy Performance Commitment closed on 31 January 2007.

<sup>2</sup> In these notes the term "organisation" is also used to refer to a company or group of companies.