



The Carbon Reduction Commitment

A CarbonOmics briefing document

June 2009

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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 reduce carbon emissions from CRC participants by 1.2 Mt per year by 2020

When?

From April 2010

Cost

£12 per tonne CO₂ (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 Carbon Reduction Commitment (CRC)?

The Carbon Reduction Commitment (CRC) Regulations 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:

- Purchase Carbon Allowances every year at auction, from April 2010 (initially at £12 per tonne CO₂) to cover their anticipated emissions* for the coming year.
- Report Carbon emissions annually
- Receive recycle payments, 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.

There are therefore considerable cost implications and 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 as a consequence of 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 sources.

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

The differential between those performing well and those badly is initially set at 10% but will rise 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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Example

A company spending approximately £2 million on electricity and £2million on gas will have a CRC carbon allowance cost of approximately £360,000 (double payment required in 2011)



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.

CarbonOmics CRC Services

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

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' and installation of Automatic Meter Reading (AMR) equipment on non-HHM electrical supplies.

What does it mean for your organisation?

Initial costs and cashflow implications

Although the scheme is designed to be revenue neutral, it will affect short term cashflow. Recycle payments will be released on a 6 month returns cycle. Realistic figures suggest that the scheme 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— Consultation on the draft order to implement the Carbon Reduction Commitment, March 2009
- DECC— The Carbon Reduction Commitment User Guide, March 2009
- CEFRAs— Carbon Reduction Commitment – Organisational Structures, March 2008, DEFRA

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