

THE CARBON REDUCTION COMMITMENT

The Carbon Reduction Commitment (CRC) is a mandatory cap and trade emissions scheme that will launch in April 2010, for which organisations need to be preparing now.

The scheme will target up to 5,000 large organisations (supermarket chains, hotel chains, office-based corporations, government departments and large local authorities) whose emissions are currently not included in the EU ETS or Climate Change Agreements.

Key Features

Your organisation will be included in the CRC if it has at least one meter settled on the half-hourly market— and the organisation's total half-hourly metered electricity use is greater than 6,000 megawatt-hours (MWh) **between 1 January 2008 and 31 December 2008** (equivalent to electricity spend of approximately £500,000).

Under the scheme, organisations will be mandated to calculate and report their carbon emissions annually. From April 2011 participants will be mandated to buy CRC allowances to cover their anticipated emissions for each year (emissions will be based on electricity, gas, fuel oil, LPG, solid fuel). Initially the scheme will be uncapped and it is expected that the allowances will be £12 per tonne of CO₂.

The scheme will be revenue neutral to the Exchequer. Monies will be recycled back to organisations based upon their position in the league table. Poor performers will receive only a portion of their monies back.

Financial Cost

Defra estimates that, as a percentage of an organisation's current energy spend, costs will be as follows:

- Allowances - 6%
- Administration costs – 5%.

Working example: A business consuming 50,000 MWh of electricity and 13,500 MWh of gas will need to spend £350,000 on allowances and £290,000 on compliance-related admin costs.

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Reputational Cost - The League Table – Naming and Shaming Poor Performers

In addition to the financial costs associated with compliance matters and permit costs, organisations will need to assess their approach to the legislation. The CRC presents risks and opportunities beyond just compliance.

The league table will highlight relative performance with those at the top receiving both a financial and reputational benefit. In turn, poor performers will be named and shamed. Taking action now in determining a strategy, building a cross functional CRC team and creating systems to collect quality energy data will payback by avoiding any unforeseen brand and financial costs.

What You Need To Do Now

Amongst the many actions you need to consider now, the following are key:

- Check your electricity data for 2008 to assess your participation in the scheme
- Determine your strategic approach and align your organisation accordingly
- Calculate your likely CRC emissions footprint in order to **calculate the allowances** you will need to purchase (and the likely impact on your cash flow). Failure to purchase the correct level of permits may incur higher charges, penalties and further impact cash flow
- Review implementation of the 2 Early Action Measures which will **drive your CRC league table position in the first phase (2010-2013)**.

TO FIND OUT MORE AND START IMPLEMENTING YOUR CRC STRATEGY TO REDUCE RISK AND COSTS PLEASE CONTACT US NOW ON 01225 753755 OR E-MAIL info@bennettassociates.co.uk



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