

MINIMISING THE IMPACT OF THE CARBON REDUCTION COMMITMENT AND MAXIMISING ITS BENEFITS



“The Carbon Reduction Commitment will bring an organisation’s carbon emissions to the board table, bringing with it a number of challenges and opportunities. Market-leading organisations will move early to ensure the benefits are maximised.”

Matt Fulford - Head of Sustainability

From April 2010 all organisations which spent over £500,000 on electricity in 2008 should be concerned with carbon as they are likely to be required to be ‘full participants’ of the forthcoming Carbon Reduction Commitment (CRC).

The assessment will occur at ‘higher parent organisation’ level and therefore include all UK subsidiaries, franchises and joint ventures. It will apply if an organisation has used 6000 MWH of electricity through a half hour meter (roughly equating to a spend of over £500,000 per year). It is also aimed at the electricity account holders, which will include landlords where they are holding the primary meter responsibility and then passing on to tenants through service charges.

Circa 5000 organisations are expected to be included, covering all major corporate occupiers, major landlords, universities, local authorities (including their schools), health trusts, hotel and leisure operators, airports, manufacturers and many more.

Drivers

A board director of the higher parent organisation will be required to sign off the CRC return and the organisation will have to make a payment of £12/tonne of all carbon emitted from built assets from April 2011, including electricity, gas and oil. This payment could easily run into hundreds of thousands for the majority of organisations.

The consequences of non-compliance are serious. Failure to submit the report will lead to both fixed and daily fines, whilst incorrect reporting will incur a fine of £40/tonne of carbon. Deliberate false reporting or repeated non-compliance may have criminal implications, with a substantial fine or prison-sentence possible.

As board directors will have to sign off the report on which they could be criminally liable and also write sizeable cheques based on its outcome, it is naturally generating considerable attention. However, liability is not the only driver as the financial imperative to reduce carbon and energy costs exists now with the costs to purchase the electricity to emit a tonne of carbon far exceeding the £12/tonne CRC liability.

Cost of electricity to emit 1 tonne of CO ²	£175
Climate change levy	£10.90
Current cost of 1 tonne CO ²	£185.90

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Opportunities

Opportunities do exist for innovative organisations as the CRC has within it a complex ‘revenue recycling mechanism’ which will mean that organisations can get between 90%-110% back in year one and by year five this widens to 50%-150%.

How much organisations will get back is determined by a publicly published Government league table and rankings will eventually be determined by four factors, although in the first year only the final two will be used:

- The amount of carbon reduced from 2010
- The growth or reduction in the organisation
- How much of your emissions are measured using smart meters by March 2010
- How much of your emissions are covered by the Carbon Trust standard at the end of March each year.

Impact and actions

If an organisation potentially falls under CRC (i.e. if it spent over £500,000 on electricity in 2008) it should first establish its liability. A detailed estate audit of the entire organisation’s electrical consumption should be undertaken to determine if consumption through half hour meters was greater than 6000 MWH. If liability is confirmed there are then a number of actions that should be undertaken to minimise the business impact and maximise opportunities:

- Review organisational structure - boundaries could potentially be altered to avoid reaching the threshold
- Calculate the organisation’s carbon footprint including electricity, gas and oil to estimate the CRC liability and make budgetary allowances for payment in April 2011. Additionally set budgets for CRC administration costs and the carbon reduction fund
- Install automatic (smart) meters across the entire estate managed by one co-ordinated piece of head-end software to reduce administrative costs, ensure accurate reporting and importantly provide an early action league-table advantage. This must be completed by 31st March 2011.

- Develop a site specific carbon reduction plan for all major energy consuming assets
- Roll out carbon improvements starting with no cost items, then items which can be funded through schemes such as SALIX or a Carbon Trust Loan.

Taking early action on CRC will reduce an organisation’s potential liability; reduce costs associated with the administration; and boost green credentials, (which are likely to become public through the publication of league tables).

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