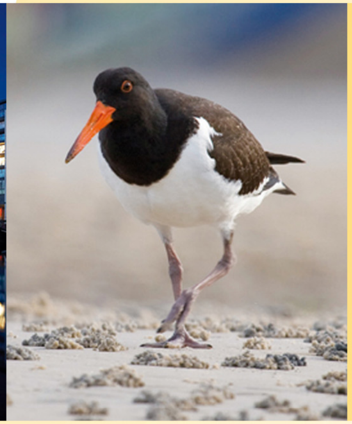

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CRC Energy Efficiency Scheme

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What is the CRC Energy Efficiency Scheme?

The CRC Energy Efficiency Scheme, formally known as the Carbon Reduction Commitment (and hereafter referred to as 'CRC'), is a mandatory carbon emissions reduction and energy saving scheme which commenced in April 2010 and registration closed on 30 September 2010.

Why was the CRC developed?

Following the Stern Report (2006), 'manmade' climate change is high on the agenda of legislators. The Climate Change Act was introduced in November 2008 and set legally binding emission reduction targets for 2020 (reduction of 34% in greenhouse gas emissions based on 1990 levels) and for 2050 (reduction of at least 80% in greenhouse gas emissions based on 1990 levels), and introduced five-yearly carbon budgets to help ensure those targets are met. Following consultation, the CRC was finalised in October 2009 and introduced on 1 April 2010. The scheme is designed to tackle CO_2 emissions not already covered by Climate Change Agreements (CCA) and the EU Emissions Trading Scheme (EU ETS).

What is the aim of the CRC?

It is the Government's intention that overall, CRC will deliver reductions of at least 4.4 million tonnes of UK CO_2 emissions per year by 2020 (this reduction may be significantly higher).

Who is affected by the CRC?

Qualification depends on electricity consumption through settled half hourly electricity meters (HHMs) (which measures and reports electricity consumption directly to electricity suppliers on at least a half hourly basis) during the base/qualification year (2008). If an organisation had no settled HHMs 2008, then the CRC does not apply, unless they are a mandatory participant – see below. Qualification for the CRC is based on electricity supply across organisations and groups of undertakings, rather than at an individual site basis. It is also determined by looking at the organisation structure as it was on the last day of the qualification year (31 December 2008 for the introductory phase).

For the purposes of CRC, organisations are responsible for electricity supplied that they receive directly (i.e. for landlords that receive an electricity supply and provide some or all of this to a tenant, the landlords are still responsible for that supply).

The basic criterion is if an organisation has any electricity supplied through a HHM and there are 3 levels of qualification:

1. <3,000 MWh of electricity consumed through settled HHMs in 2008 – organisations must register and declare which half-hourly meters they were responsible for in 2008.
2. >3,000 MWh but < 6,000 MWh of electricity consumed through settled HHMs in 2008 – organisations are required to make an Information Disclosure, i.e. they must provide the Environment Agency with a list of all of the organisation's HHMs settled on the half hourly market, and calculate how much electricity they consumed through all HHMs. They must also disclose their total annual consumption of half hourly electricity during the period.
3. > 6,000 MWh of electricity consumed through settled half hourly electricity meters in 2008 – organisations are required to be a full participant of the CRC. In practice, this will include many organisations with annual electricity bills of around £500,000 and over.

Mandated participants of the CRC
These are organisations to whom the qualification criteria do not apply, or apply differently. They are required to register as participants and include:

- All UK Government Departments.
- Local Government organisations mandated by the Secretary of State.

Exempt organisations to the CRC:

- Individuals including sole traders.
- The House of Commons and the House of Lords.
- Special Forces and units assisting the Government Communications Headquarters.
- Persons nominating special constables.
- International Organisations classified as having an exemption or relief from taxes under the provisions of the International Organisations Act 1968.

There are specific rules for group companies, franchises, joint ventures etc, please refer to the Environment Agency website for further information.

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Requirements of the CRC

What will affected organisations have to do?

The CRC will operate in Phases:

- Qualification period - *completed*
- Registration period – *completed in September 2010*
- Series of compliance years – 7 years

Registration for the CRC was between April to September 2010, there is no requirement to buy allowances for the first year of the scheme (April 2010-March 2011), this will be a reporting period only. The first Government sale was due in April 2011 but this has now been postponed until 2012, see 'Recent Changes'.

Organisations that are affected by the CRC will have to put together an annual report detailing the exact carbon emissions of the organisation.

When registration closed, it appeared that some 200 full participants and more than 2,500 information declarers with lower energy usage had failed to meet the deadline. However, there was uncertainty over the accuracy of initial estimates of the numbers of organisations that would fall under the CRC. Since registration closed, the Environment Agency has been conducting an audit and it now estimates that some 300 organisations failed to meet the deadline. Most are thought to be information declarers.

Fees associated with the CRC

The fees notified to date are:

- Registration - £950
- Annual fee - £1,290
- Fixed price sale fee - £10
- Safety valve charge - £300
- Non-participant registration - £390
- ID check charge - £70

What energy uses are excluded from the CRC?

- Supply for the purposes of domestic accommodation
- Supply for the purposes of transport
- Energy that is supplied to your organisation but is not all consumed all for its own use. **Exception** – landlord organisations that are supplied with energy which is partly or entirely consumed by its tenants: the landlord is still responsible.
- Electricity used for the purposes of supply, distribution, generation or transmission by an organisation that has a license for such activities under the Electricity Act 1989.
- Street lighting in Northern Ireland.
- Energy use outside the UK (however, organisations can still be responsible for this supply if based outside UK).

Recent changes

On 20 October 2010 the Chancellor, George Osborne announced in the Spending Review that;

- There will be a one year delay in the allowance sales from 2011 to 2012; and
- Revenue raised from the CRC will be used to support the public finances (including spending on the environment), rather than recycled to participants.

Essentially the CRC scheme has been converted into a carbon tax (similar to the EU ETS where large emitters of carbon dioxide within the EU must monitor and annually report their CO_2 emissions, and they are obliged every year to return an amount of emission allowances to the government that is equivalent to their CO_2 emissions in that year).

Prior to the change, the CRC was designed to be revenue neutral of the exchequer, with the money recycled back to the participants based on their relative emissions reduction efforts. In the first year, organisations at the top of the Performance League Table (PLT) (it was expected that the Environment Agency would publicly publish on an annual basis a table that would rate the energy performance of participating organisations, the more successful an organisation has been in reducing its emissions, the higher it will appear in the table), who would have done the most to reduce their emissions, would have received a bonus of up to 10% of their base recycling payment. Organisations at the bottom of the PLT would have been penalised by up to 10% of their base recycling payment. In addition, it was considered that the CRC would make use of a 'cap and trade' mechanism whereby organisations buy allowances equal to their annual emissions. The overall emissions reduction target is achieved by placing a 'cap' on the total allowances available to each group of CRC participants. Furthermore, organisations were due to buy carbon allowances in advance of each year and could demonstrate compliance by surrendering allowances i.e. the underlying principle of a 'cap and trade' scheme is that for every tonne of CO_2 emitted by a participant during a year, one allowance must be surrendered.

Following the changes announced in October, the CRC has been simplified and while the government could have achieved this without making the scheme revenue-raising, removing the obligation to trade permits should make compliance much easier. This element of the scheme was proving to be a major headache for financial directors as it required accurate emissions forecasting, development of permit trading strategies and complex monitoring of emissions and market prices. Furthermore, predicting growth or contraction can be especially difficult during periods of dramatic economic change, so allowing retrospective accounting is a sensible step. The downside is that compliance will be much more expensive. Using the Spending Review's prediction of £1bn in tax revenues in 2014-15, the price of carbon appears to rise from £12/tonne in 2011/12 to £16/tonne in Phase 2 of the scheme (from 2013). This means some organisations will now be facing tax bills of millions of pounds.

Following this change in the CRC, the Government aims to begin shortly a public dialogue with participants on proposals to simplify the scheme.

Why the change?

The changes come after recommendations made in September 2010 by the Committee on Climate Change. The Committee suggested ways to simplify the scheme which had been criticised as being highly bureaucratic and complicated. The key proposals put forward were:

- Dropping the concept of revenues recycling;
- Setting minimum prices for the auction of allowances;
- Abandoning the cap and auction concept so that unlimited allowances would be available at a fixed price; and
- Reducing the threshold for CRC participation.

It is not certain yet to what extent the Government will implement the Committee's other proposals. It is also not clear what the overall impact of the Spending Review announcement will have on the future shape of the CRC.

Business implications

The fact that payments will not be recycled back to participants' means occupiers and landlords may want to re-evaluate any CRC lease scheme, particularly if they thought they were going to get some money back. Companies may also wish to consider what legal action they can take in response to this turnaround.

There is also the issue of punishing preparedness. Many organisations have invested in activities such as the Carbon Trust Standard certification and other Early Action Measures (see below), the benefits of which will be severely diluted by this revision of the CRC.

Will the results of CRC participants be publicly available?

Prior to 20 October 2010, it was understood that a PLT that would rate the energy performance of participating organisations. While the reputational value of performing well in the PLT remains unchanged, the fact that this has been decoupled from a financial gain has completely altered the investment equation. In addition, past investment now has a delayed pay-back period, and in some cases none at all.

How is performance assessed?

The position in the PLT (if published) will depend on the performance against three different metrics. These are:

1. The Early Action Metric (EAM) - a measure of an organisation's carbon reduction efforts carried out before the start of the scheme, comprising:
    - The percentage of non-mandatory half-hourly metered electricity and gas emissions which are covered by voluntarily installed automatic metering by 31st March 2011 (i.e. only valid in year 1).

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- The percentage of your organisation's emissions covered by a valid Carbon Trust Standard certificate, or equivalent (i.e. BS EN 16001:2009 Energy Management Systems), on 31st March of each compliance year.

2. The Absolute Metric
   This is a measure of the percentage change in the absolute CRC emissions in the year relative to previous years (i.e. only valid from year 2 onwards).

3. The Relative/Growth Metric
   This is a measure of the organisation's change in emissions intensity, i.e. the change in the ratio of emissions to turnover versus previous years. This will benefit organisations that are expanding in an energy efficient way (i.e. only valid from year 2 onwards).

   The weighting of these three metrics will change over time. In the first year, early action will count for 100% of an organisation's PLT score. Over the first few years of the scheme, the early action metric will gradually fade in importance until the absolute and growth metrics receive 75% and 25% weightings respectively in 2014/15 and thereafter.

Utilising energy generated from renewable sources

Will incentives be provided for utilising energy generated from renewable sources?

The CRC will not provide additional incentives for renewable generation. Where renewable sources of electricity give rise to Renewables Obligation Certificates and the electricity is exported onto the grid, it is treated as having the average carbon intensity of grid electricity. The Government will publish data about energy from onsite renewable sources on the PLT, if published, but this will not influence position on the table.

Non-compliance with the CRC

Will be there fines for non-compliance?

The CRC regulations envisage a system of multiple penalties – financial, reputational and criminal. Participants will need to submit a self-certificated evidence pack to support the league table and provide evidence of compliance. Failure to comply will result in fines, depending on the nature of non-compliance.

For the 300 participants who have to date failed to register for the CRC in time, they could be fined £5,000 with a further £500 per day until their registration is completed. It is understood that the names of organisations that fail to register will be published. Information declarers face a £500 fine for each half-hourly electricity meter they fail to register.

Timeframe for the CRC

1st April 2010 - The first 'compliance year' began. Organisations were required to register by 30th September 2010. Registration packs were sent out by Environment Agency to relevant organisations in October 2009.

November 2010 – Government began a public dialogue with participants on proposals to simplify the scheme.

2012 (exact date to be confirmed) - Organisations will need to purchase carbon allowances based on carbon emissions for the previous year (2011-12).

What's next?

- Will the CRC be extended to organisations that have disclosed their energy use but which are not currently full participants in the scheme? This would be an obvious step for the government to take to achieve further reductions to the UK's emissions while also providing a much needed source of additional revenue to the Treasury.

- Will the Government decide to merge the three carbon taxes i.e. CCL, CRC and EU ETS?

Willmott Dixon and the CRC

Under the provisions of the CRC, Willmott Dixon Group was obliged to register as we had 16 half-hourly meters supplying electricity in 2008 (1 in our office and 15 on sites) but this amounted to less than 3,000 MWh of electricity. As such, we fell under the first level of application (as described on page 2) and hence had to declare which meters we were responsible for.

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A copy of our registration document can be found by clicking here.

During 2009, Re-Thinking undertook sustainability audits of all Willmott Dixon offices to evaluate sustainability levels and identify opportunities for improvement. In early 2010, more detailed studies of selected offices were carried out to assess improvement options such as introducing an energy policy, feasible fabric, heating system and lighting upgrades, voltage optimisation and ways to reduce small power consumption. The studies will highlight measures that can be implemented across the majority of Willmott Dixon offices.

We are also currently installing automated metering (for gas, electricity and water, where possible), in all major Willmott Dixon offices as we believe this is a key component to achieve a reduction in carbon emissions from our offices. This will allow these offices to be monitored centrally by Willmott Dixon Support Services making it easier to calculate their carbon footprint, spot anomalies in energy consumption and benchmark our offices to gauge improvement.

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