

What does the CRC really mean to you?

The CRC is a new cap and trade scheme heading your way. Roger Hawes, technical director at ESD, Camco's advisory division, discusses what challenges and opportunities it will bring.

Those businesses and organisations not yet well acquainted with the size of their carbon footprint should be prepared to address this knowledge gap very soon. The Carbon Reduction Commitment (CRC) will force large non-energy intensive organisations to manage their carbon emissions, with the intention of achieving wholesale reductions. For many this will require a fundamental change to how they operate and how they view CO₂.

While change has a tendency to be regarded as an unsettling and negative experience by some, measures taken to accommodate the CRC's requirements will be worth the trouble and commitment. Those proactive organisations willing to make the earliest start and to go as far as possible to minimise their carbon emissions will ultimately profit from positive public recognition, direct financial rewards and sizeable energy savings.

Cap and trade scheme

At its heart the CRC is a cap and trade scheme. Allowances are purchased annually at auction and can be traded between participants. At the end of each year, organisations will have to surrender enough allowances to cover their carbon footprint. On top of this, annual performance, mainly based on absolute carbon reductions, will be ranked and published within a publicly available league table. This makes an organisation's achieved position particularly important both from a financial and a reputational perspective. Revenue accrued from the annual auction will be recycled

back to participants, based on where they appear in the table. The scheme is designed to deliver bonuses to high performers and penalise those with poor rankings.

Covering emissions from stationary sources such as electricity and gas but not transport, the scheme will take effect from April 2010. The first three years will operate as an introductory phase during which the allowance price will be fixed at £12 per tonne of carbon with no limit on how many allowances can be purchased. For the next phase in 2013, the total number of allowances will be limited relative to actual emissions in 2001/12 and auctioned off by the scheme administrator.

According to Government estimates, 4000 to 5000 organisations will be covered. Eligibility within the CRC scheme is based on having a consumption of more than 6,000 MWh of half hourly metered electricity in 2008. In plain English this means, those organisations with electricity bills totalling above half a million pounds for 2008 should expect to be included.

There are a number of implications that follow inclusion in the scheme. Most notably, there will be an impact on cash flow based on a fixed carbon price in the in the first three years of £12 per tonne. While these costs will be proportionally recycled six months later, organisations will need to prepare for approximately a seven per cent increase in short-term energy expenditure. Furthermore, as the scheme progresses the bonus/penalties on recycling payments increase by ten per cent year on year. By the third year a poor performing

participant could effectively be fined at up to £4 per tonne of carbon.

The published league table will positively or adversely influence the reputation of the scheme's participants depending on the position secured. Investors, journalists, customers and potential employees will all have access to data, leaving individual performance open to public scrutiny and competitive comparison. Additional sub-tables will display information on any major subsidiaries belonging to organisations. These will not be linked to the recycling payments but will allow comparisons of, not only the umbrella organisations, but also particular brands. The prospect of gaining a poor ranking, particularly compared to peers, is likely to be a very unappealing.

Light touch policy

The CRC is intended to be a light touch policy, however compliance is a legal obligation which means members will be audited and could face unwelcome fines if they don't conform. For instance, submitting an annual report more than a month late will forfeit a recycling payment. If more than two months late, the member will have to pay a fine of at least £25 per tonne of carbon, and pay the scheme administrator to surrender the correct number of allowances from the open market.

A company's ability to respond competently to the demands of the CRC, and lever the maximum benefits will depend largely on its state of readiness. This will rely on reviewing, revising and implementing appropriate internal processes, with organisational

integration, responsibility assignment and data management forming the major areas of impact.

Committing resources to review how the necessary data internally can be collected and analysed should be an early priority for action, particularly for parent organisations that will need to collect information on their entire group's activities.

Where there is a lack of integration,

information circulation or clear lines of communication, achieving this goal may be hard. One way to solve this predicament is by setting out a communications strategy and plan to form the foundation for a successful carbon management programme.

Another consideration is where in the business should responsibility lie for managing the organisational

footprint? Reasonably, several different departments could perform the role, such as facilities management, the corporate social responsibility team or even the finance department. At a local level, decisions need to be made to determine whether every site needs an energy manager or can the existing facilities management team absorb these responsibilities.

Specific governance structures can overcome this difficulty. The carbon management programme could be led by a senior steering group, for instance, supported by a team comprised of employees from several different departments. By forming this subgroup, organisations avoid the challenges of attempting to manage the CRC directly from one single department.

Data management system

Data storage is also likely to be a common concern due to the existence of numerous formats and fragmented systems used by organisations. A unified data management system will be crucial when the CRC comes into force to ensure storage compatibility across the group, smooth out the data collection process and improve the credibility of the final values.

Once a quantified footprint has been established, organisations will need to know the cost to reduce it. During the second phase of the CRC, participants will have the opportunity to buy allowances through auction to offset their emissions. However, the decision to bid should only be made once the organisation understands the comparative economics of investing in carbon reduction measures, as it will be an ineffective strategy to opt to buy allowances for emissions that are actually cheaper to reduce.

Certain measures such as boiler replacements or lighting upgrades will be straight-forward to adopt. Others such as the merits of installing combined heat and power plant will require a more detailed evaluation. Well known analysis tools, such as the marginal abatement cost curve (MACC), are indispensable when prioritising measures according to the cost per tonne of CO₂.

During the introductory phase, recognition is given in the performance league table to preparatory action taken, as an organisation's score in the first year will be based only on the measures already implemented. These early measures are accounted for by the "early action" metric and consist of two contributing factors - the percentage of emissions covered by voluntary automatic metering (AMR) and by the "Carbon Trust

Standard" which is administered by the Carbon Trust.

Achieving both makes sense over both the immediate and longer term. Installing AMR provides a greater understanding of where and how a carbon footprint is spread across an organisation's activities. The "Carbon Trust Standard" supports the development of a structured carbon management programme. Both are natural steps to take when looking to perform well in future years.

Energy management is one of the most compelling outcomes of proactively embracing the CRC. With the reality of escalating energy costs, emission reduction projects stand out as good business practice and a demonstration of sound financial judgement. An organisation paying a tariff of seven pence per kWh will currently be spending approximately £130 per tonne of CO₂, compared to £12 per tonne of CO₂ under the CRC, which is proportionally recycled too. Carbon constraints will continue to be a growing and constant feature of the global economy, with businesses being judged more and more on the extent of their carbon management and how their efforts stack up against competitors and the market.

Inaction could prove fruitless

As a policy instrument designed to force reductions in carbon emissions within the business community, it is understandable that the CRC could be viewed as a liability. Yet, delaying until the CRC start date to begin to reduce emissions is unlikely to prove fruitful, in fact inaction could prove quite the reverse.

The earlier a carbon management programme is implemented, the sooner it will deliver significant business efficiencies, such as greater carbon and financial savings, impressive competitive positioning and smoother entry into the scheme. For organisations that want to reap long term rewards and turn their emissions into well managed carbon assets, it is never too soon to respond proactively to the CRC challenge. ■

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