

Don't forget your CRC commitments

Public sector organisations must not get caught out by the start of the Carbon Reduction Commitment. Tom Fidell discusses the need to start developing a five-year strategic plan as soon as possible

The Carbon Reduction Commitment (CRC) is a new mandatory emission trading scheme that aims to improve energy efficiency and reduce the amount of carbon dioxide (CO₂) emitted in the UK. This is required to achieve the overall target of reducing greenhouse gas emissions by 2050 by at least 80 per cent compared to the 1990 baseline.

CRC will affect large organisations in both the public and private sector. Organisations that consumed more than 6,000MWh of half hour metered electricity in 2008 will be required to participate in the scheme. Participant organisations will have to monitor their emissions and purchase allowances, sold by Government, for each tonne of CO₂ they emit.

Purchase more allowances

The more CO₂ an organisation emits, the more allowances it has to purchase. So there is a direct incentive for these organisations to reduce their emissions. As well as reducing carbon emissions, by increasing energy efficiency, the scheme will help organisations save money by reducing energy bills.

In addition, the better an organisation performs in terms of reducing its emissions, the higher it will appear in the annual performance league table that the Government will publish, showing the comparative performance of all participants. This in turn provides a further benefit: all the revenue raised from selling allowances is 'recycled' back to participants, and the league table position affects how much of the revenue each organisation receives.

In the public sector all central government departments in Great Britain are included in the CRC regardless of whether they meet the qualification threshold or not.

Emissions from state-funded schools in Great Britain are included in the scheme through their local authority, with the local authority



The CRC will affect organisations in the public sector consuming over 6,000MW of electricity

being known as the responsible person. Each school must give its local authority its emissions data and the local authority must then include all schools in its area and participate in the CRC in the same way as an organisation in the private sector.

The scheme starts in April 2010 with a three-year introductory phase where allowances will be sold at a fixed price of £12 per tonne. After the introductory phase the scheme moves into the capped phase where the Government puts a cap on the number of allowances available and then sells these at auction. It is anticipated that this will entail a significant increase in the cost of allowances.

An organisation's performance in reducing CO₂ emissions will determine its place in the league table. The emissions during the year will be compared to a five-year rolling average, with an allowance for a growth metric for organisations which are growing or declining. Until the scheme has been in operation for five years the comparison will be made with the number of years for which data is available. In the early years an early action metric has a small weighting

on the league position, although in the first year with no data to compare with, this metric forms 100 per cent of the league table position.

Position in the league table

The amount of money an organisation gets back is determined by its position in the league table in the form of a bonus or penalty. This starts at a low level of only 10 per cent in the first year but increases in later years reaching 50 per cent in year five.

It can be seen that an organisation's success or failure in the league table is determined by its ability to reduce CO₂ emissions year on year and not necessarily being the most energy efficient operator in the country. An organisation can be one of the most energy-efficient operators in the industry, but end up near the bottom of the league table after three or four years because the energy savings were made before the CRC came into operation.

The league table is a publicly available document and therefore has reputational issues. Customers may not want to work with an organisation which is near the bottom of the league table each year.

The first thing to look at are behavioural changes which include such things as turning off equipment and lighting when it is not required and controlling the temperature to the optimum level. Staff training and motivation to reduce energy would also come under this heading, together with the formation of energy committees and the appointment of energy champions. This work could be done even before the CRC comes into operation as the financial savings in energy will outweigh the savings to be made in the league table.

However, when it comes to savings which require capital expenditure a more strategic approach is required. It may not be the best policy to install all new energy saving plant and equipment in the first couple of years, as this could lead to a low position in the league table in year three and onwards, when the bonus and penalty percentage has increased and the cost for allowances may be much higher after year three.

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