

# The key implications of the Carbon Reduction Commitment

*Some frequently asked questions*

# Introduction

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Principle Consultant



# The objective of CRC

**Generate behavior and  
infrastructure **change** to improve  
**energy efficiency****

# 20 Minute Agenda

- The “organisational” structure specific
  - Buying and selling subsidiaries and sites
  - Landlord and tenant responsibilities
  - Private Finance Initiatives
  - Education
- Administrative and allowance management
- Forecasting payments and recycling
- Creating the evidence packs and sign off
- Addressing the myth of early action
- Key actions and priorities
- Questions

# Organisational Structure

RECAP

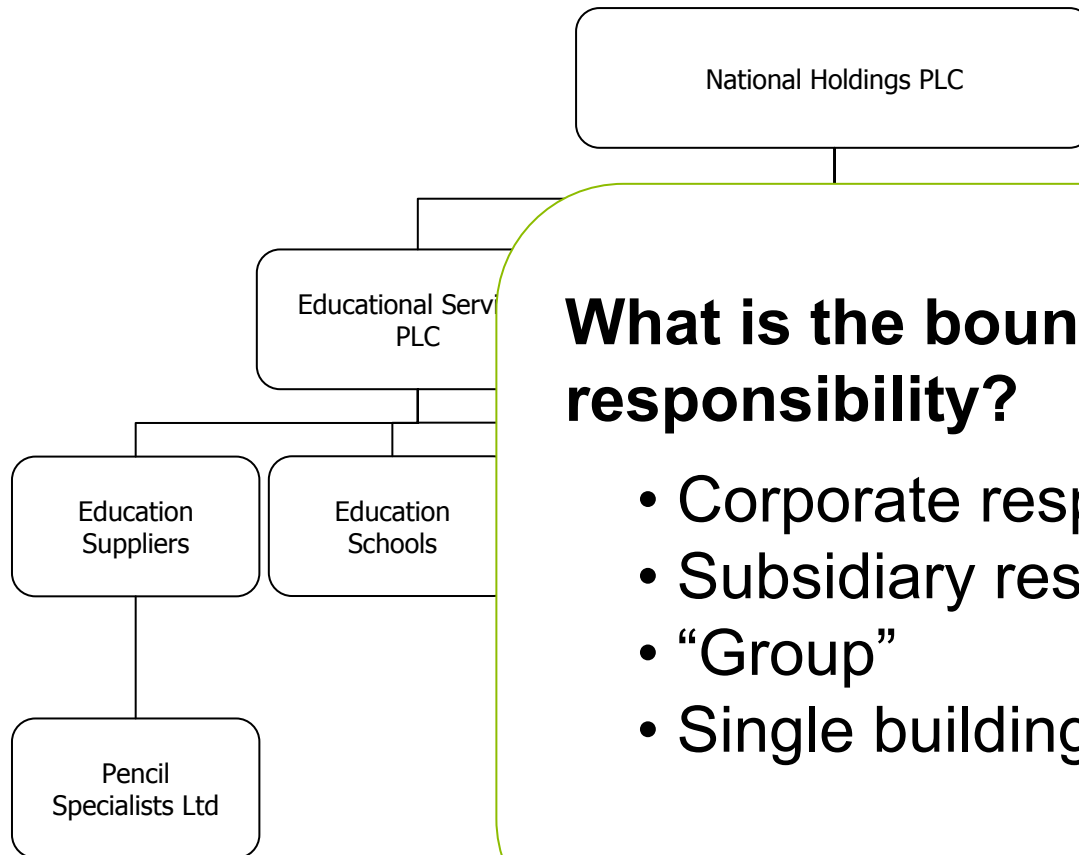
The single entity organisation will be responsible for determining qualification (primary member)

Organisations that are part of a larger organisational group must act together

Organisations with at least 1 HHM settled on half hour market will be included:

- > 6,000 MWh full participation
- < 6000 MWh information disclosure

# Organisational Structure



## What is the boundary on individual responsibility?

- Corporate responsibility
- Subsidiary responsibility
- “Group”
- Single building

# Organisational Structure

Organisational groups participate as single entity even if individual subsidiaries qualify standalone

Parent company acts as primary scheme member. **If** parent is outside UK then UK parts grouped to form single CRC participant with highest member **responsible**.

Qualification based upon emissions from organisational structure as of 31 December 2008

# Organisational Structure

For large (or principle) subsidiaries separate emissions report required if emissions are significant enough to qualify for CRC alone.

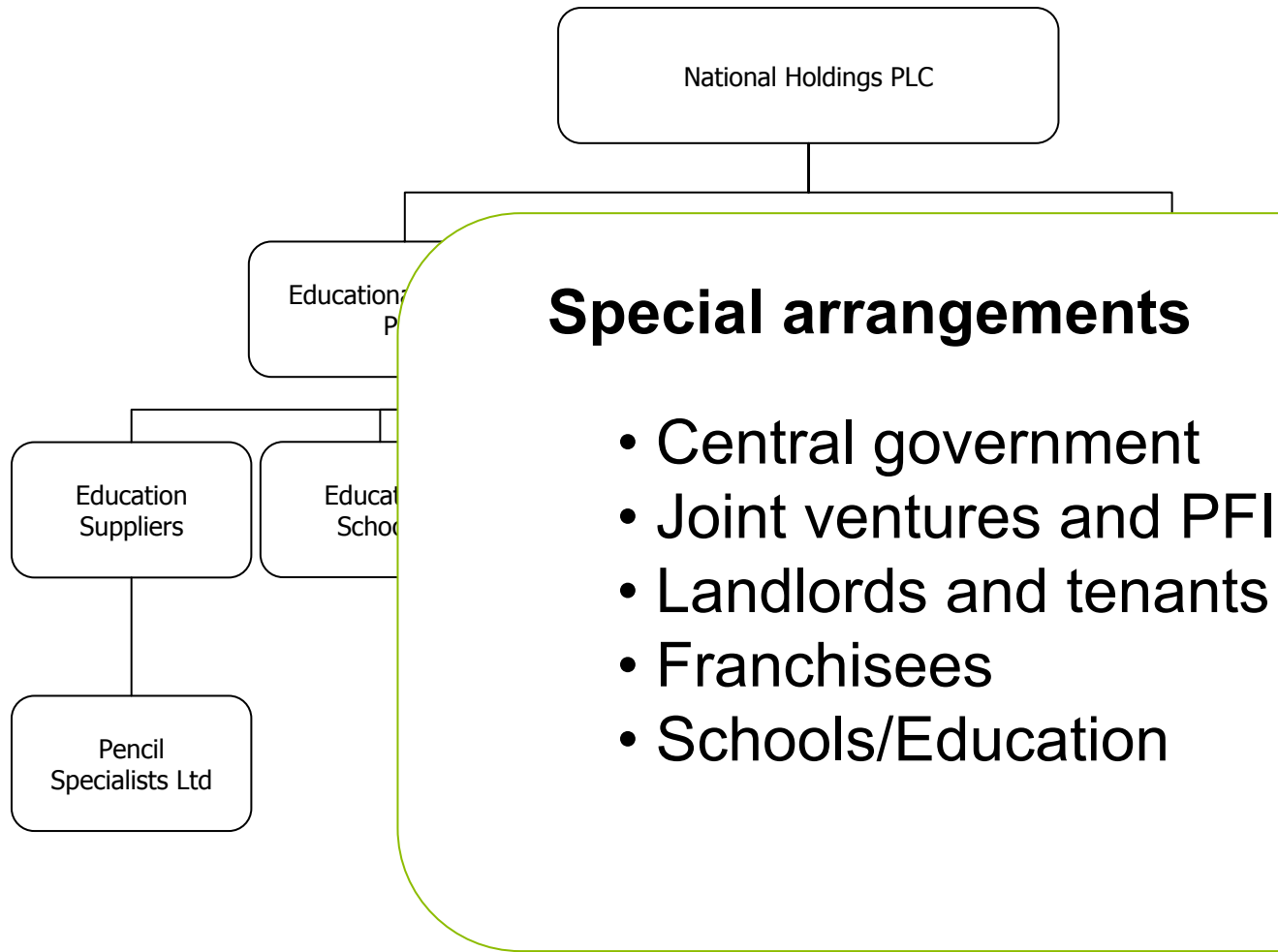
Reporting of absolute emissions only not growth or early action.

Requirement is to enable historic transfer of emissions in event of acquisition or disposal of assets for **reduction of loss** coverage and to ensure **fairness** of scheme

# Organisational Structure

Where smaller sites or subsidiaries are acquired or disposed contribution would be picked up by aggregate emissions and growth metric.

# Organisational Structure



# Organisational Structure

RECAP

The counterparty to the energy supply contract is generally the responsible party

# Landlords and Tenants

Landlord / Tenant – energy used in leased buildings is the responsibility of the person who has the contract with the energy supplier

# Landlords and Tenants

Type of building	Description of energy provision arrangements	Landlord responsibilities under CRC	Tenant responsibilities under CRC
Whole building let to tenant	Whole building is fully let to tenant and therefore tenant is likely to hold responsibility for purchasing the energy it consumes, rather than landlord being counterparty to the energy bills.	<u>If the landlord supplies the energy to the tenant's premises, and recovers the cost from the tenant, then the landlord (or the highest parent organisation of the landlord) will be responsible under the CRC. In most cases, the tenant will be the CRC participant (if it meets the qualification criteria).</u>	Tenant usually has responsibility for buying the energy it consumes. Responsibility for compliance with CRC will rest with the tenant (or highest parent organisation of tenant).
Multi let type 1	Landlord provides energy used for the common parts but tenants have their own energy supplies for the demised areas.	Landlord responsible for energy used in common parts.	Tenants responsible for energy use in their premises. It must be added to their other energy uses for purposes of gauging inclusion, and for calculating their total footprint.

Source: The carbon reduction commitment a guide for landlords and tenants ([www.bpf.co.uk](http://www.bpf.co.uk))

# Landlords and Tenants

Type of building	Description of energy provision arrangements	Landlord responsibilities under CRC	Tenant responsibilities under CRC
Multi let type 2	<p>Landlord provides the energy used for common parts and also supplies the energy to the tenant's premises.</p> <p>With no sub-metering, the landlord would normally bill the tenant for a proportion of floor area.</p>	Responsibility for compliance with CRC falls entirely on the landlord.	None
Multi let type 3	<p>Landlord provides all the energy used for the common parts, and also supplies the energy to tenant's premises – but with such energy sub-metered.</p> <p>Sub-metering enables landlord to bill tenants for their actual energy use.</p>	Responsibility for compliance with CRC falls entirely on the landlord.	None

Source: The carbon reduction commitment a guide for landlords and tenants ([www.bpf.co.uk](http://www.bpf.co.uk))

# Franchise organisations

The franchisor is responsible for the energy of franchisee and is the responsible person.

**unless**

the landlord is the counterparty to the energy supply contract

# Private Finance

PFI, JV, PPP, BDFO

Majority stake > 50% then energy use is aggregated with majority owner organisation

No majority stake > 50% then considered as a separate organisation

# Education

PFI School – where PFI is counterpart to energy supply contract, energy use will be attributed to PFI company

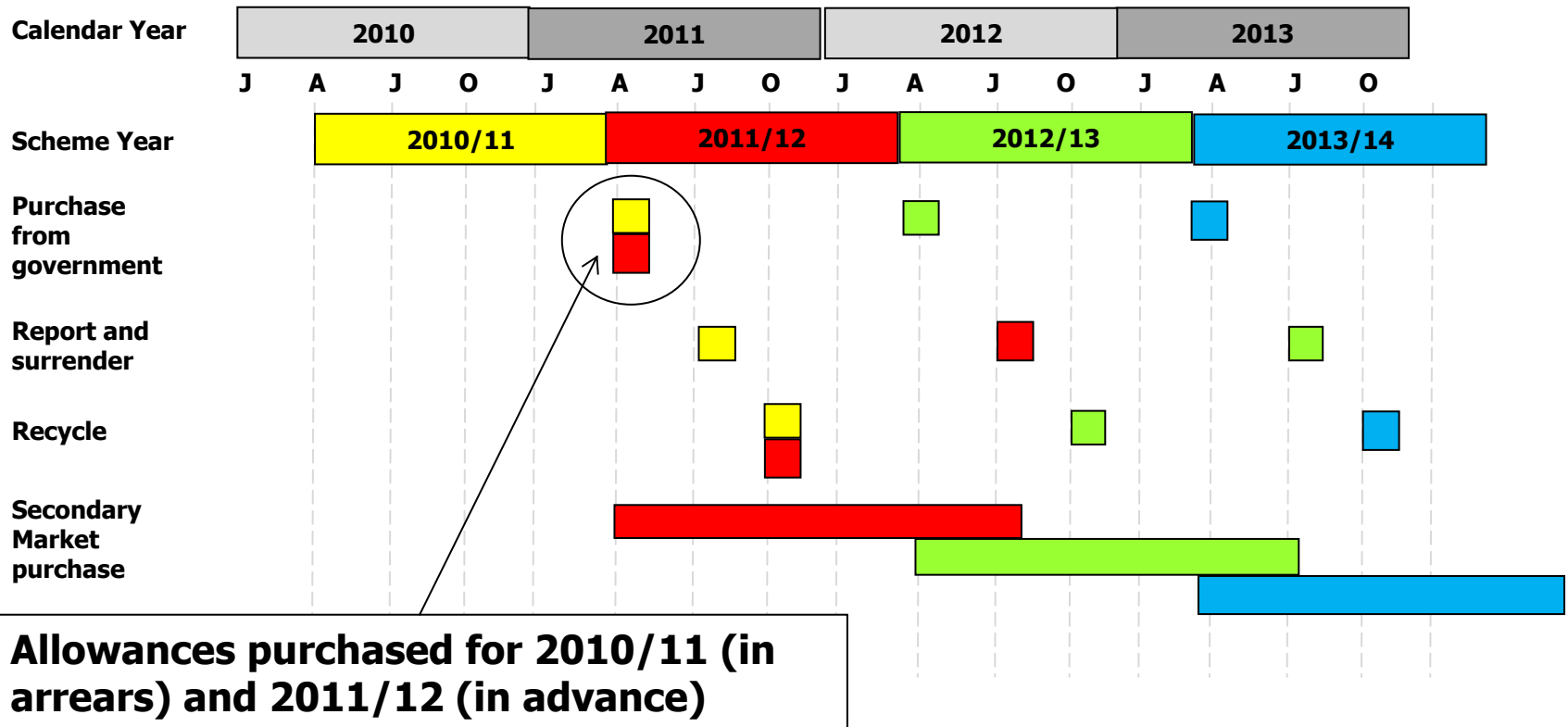
University – Participate as separate organisations, for collegiate universities the individual colleges are grouped under their respective university

State funded schools the **Local Authority** is the responsible person with each school being the associated person. This includes Foundation, Voluntary Aided, Academy etc

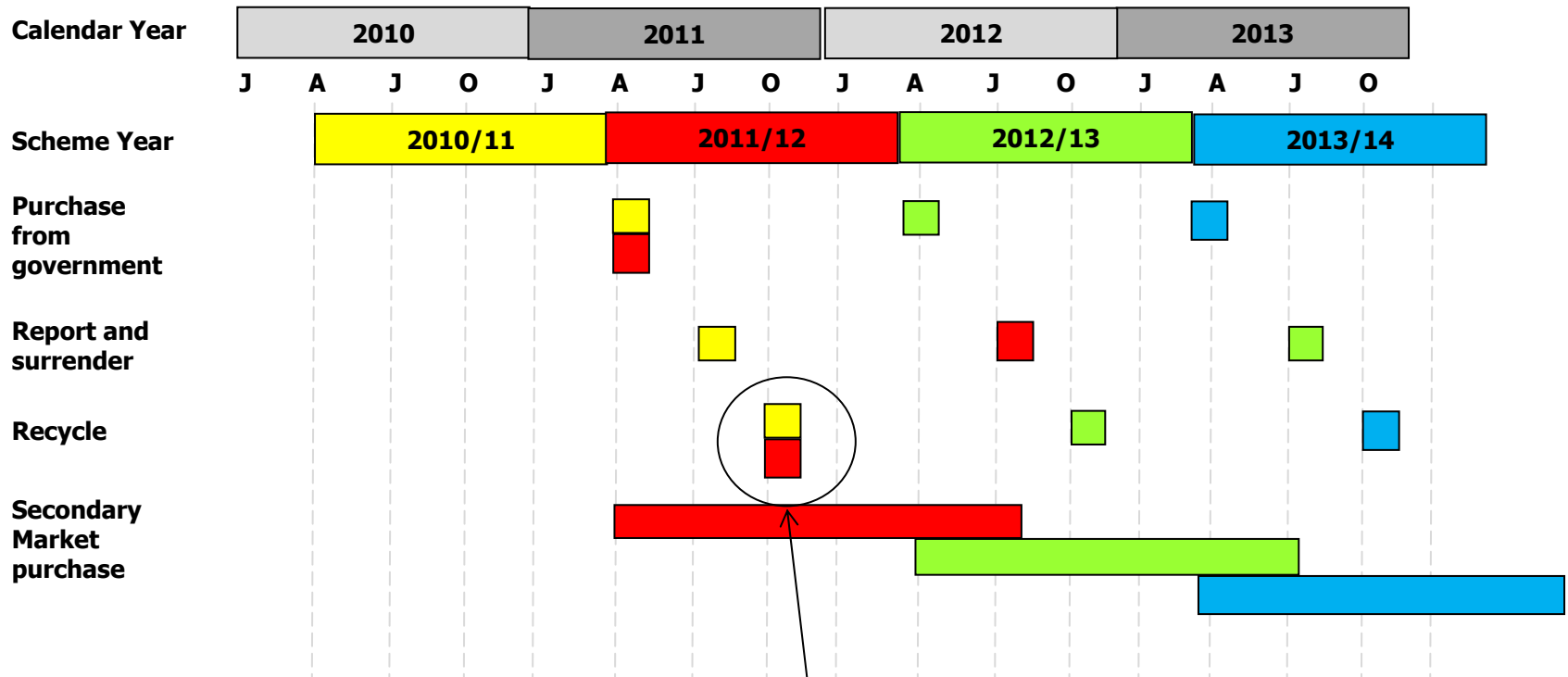
# The Associated person

“an **associated person** (school) must provide the responsible person (local authority) with all such assistance, including the provision of information or records, as is necessary to enable the responsible person to identify fully, and discharge, the requirement imposed on the combined participants”

# Administrative and allowance management

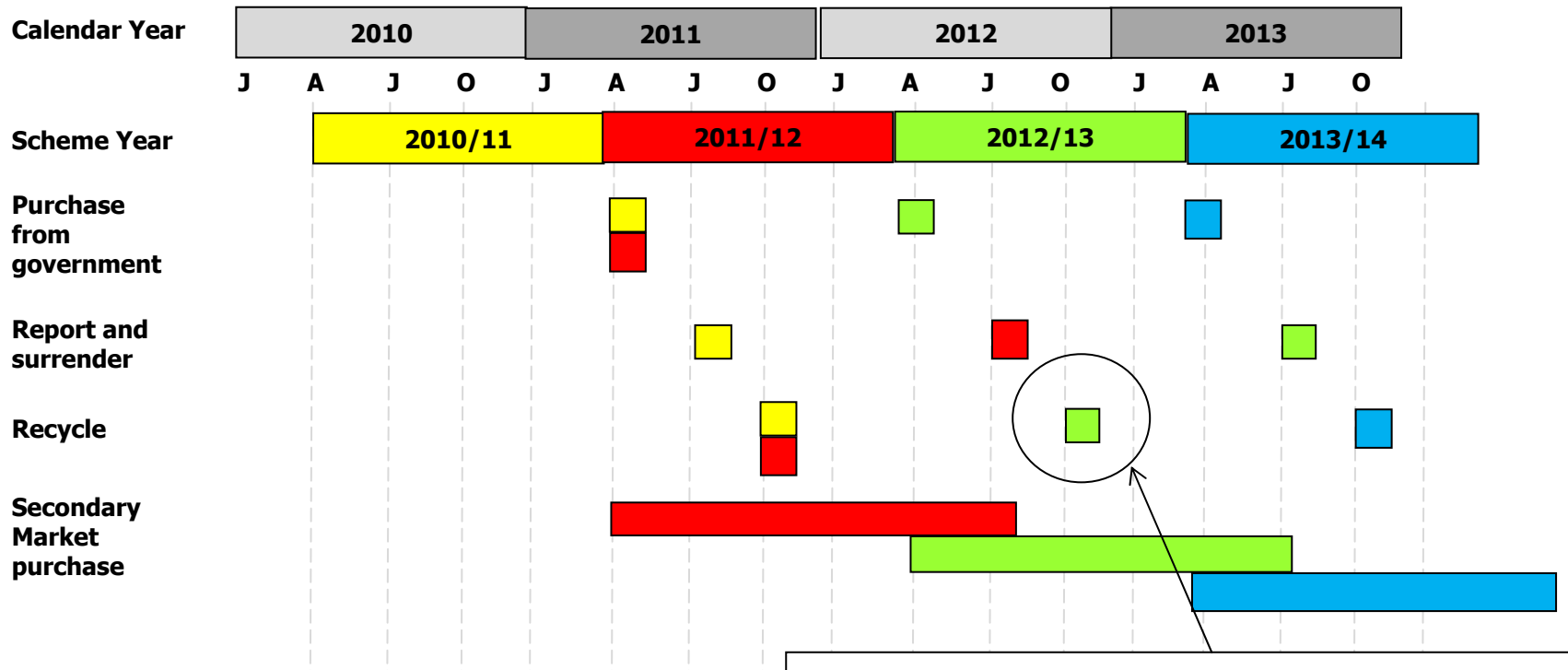


# Administrative and allowance management



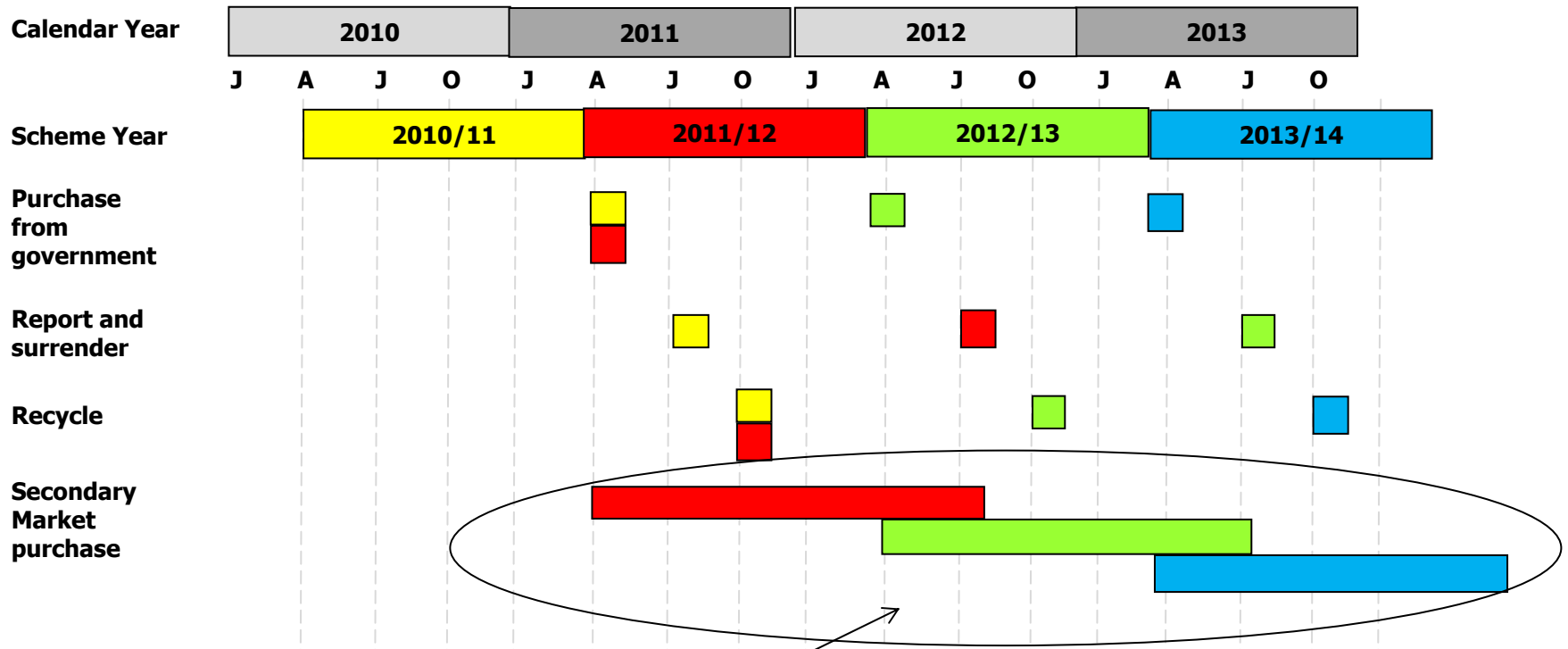
**Recycling allowances purchased April 2011 relating to activity prior to 31<sup>st</sup> March 2011 (early action)**

# Administrative and allowance management



**Recycling allowances purchased April 2012 relating to performance 2011/12**

# Administrative and allowance management



**Secondary market 'open' from purchase to report of 'scheme year'**

# Administrative and allowance management

Factor	Phase I	Phase II
	<b>Goal:</b> Learn, master systems	<b>Goal:</b> Forecast, reduce, track, optimize
Emissions Liability	<ul style="list-style-type: none"> <li>Qualifying year – 2008</li> <li>Baseline year – 2010-2011</li> <li>Year 2 – 2011-2012</li> <li>Deductions for CCA &amp; EU-ETS</li> <li>Sets stage for year 2 Targets</li> </ul>	<ul style="list-style-type: none"> <li>Starts April 2013</li> <li>New Qualifying Period</li> <li>New Baseline Year</li> <li>All Participants must reassess</li> <li>No early action deductions</li> </ul>
Allowance Trading Value & Strategy	<ul style="list-style-type: none"> <li>Unlimited Allowances</li> <li>Fixed Price - £12/Tonne</li> <li>Year 2 double sale – April 2011</li> <li>No third-party purchases at sale</li> <li>Secondary trading thereafter</li> <li>Safety valve tracks to EU-ETS</li> </ul>	<ul style="list-style-type: none"> <li>Caped allowances - no Safety valve</li> <li>Price set by auction</li> <li>Allowances must be from prior year</li> <li>Limit on % single party can purchase</li> <li>Secondary trading thereafter</li> <li>Banking but P1 allowances cancelled</li> </ul>
Revenue Recycling & Auction Strategy	<ul style="list-style-type: none"> <li>Performance league rank                             <ul style="list-style-type: none"> <li>- Absolute metric (relative)</li> <li>- early action</li> <li>- growth</li> </ul> </li> <li>Yr1 = +/- 10%, YR2 = +/- 20%</li> </ul>	<ul style="list-style-type: none"> <li>Performance league rank                             <ul style="list-style-type: none"> <li>- Absolute metric (relative)</li> <li>- no early action</li> <li>- growth</li> </ul> </li> <li>Yr3 – Yr5, +/- 30 – +/- 50%</li> <li>Auction bids require careful planning</li> </ul>

# Phase I – Safety Valve

Concept is to protect against unit price becoming excessive

- participant pays deposit price
- scheme purchase from EU ETS
- scheme calculates actual price and requests additional funds or provides re-fund
- corresponding available credits in EU ETS are cancelled
- scheme will never sell for less than £12

Revenue from 'safety valve' sales **not** included in recycling pot

# Administrative and allowance management

Factor	Phase I	Phase II
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# Costs and Cash flow

## Phase One

CRC Footprint (tCO <sub>2</sub> )	5,000	50,000	100,000
Approximate energy bill:	~ 750k	~ £7.5m	~ £15m
Annual allowance cost	£60k	£600k	£1.2m
Double allowance purchase cost in 2011	£120k	£1.2m	£2.4m

*£12p/tCO<sub>2</sub>*

## Phase Two

Annual allowance cost	£60k	£600k	£1.2m
Annual allowance cost	£60k	£2.5m	£5m

*£12p/tCO<sub>2</sub>*

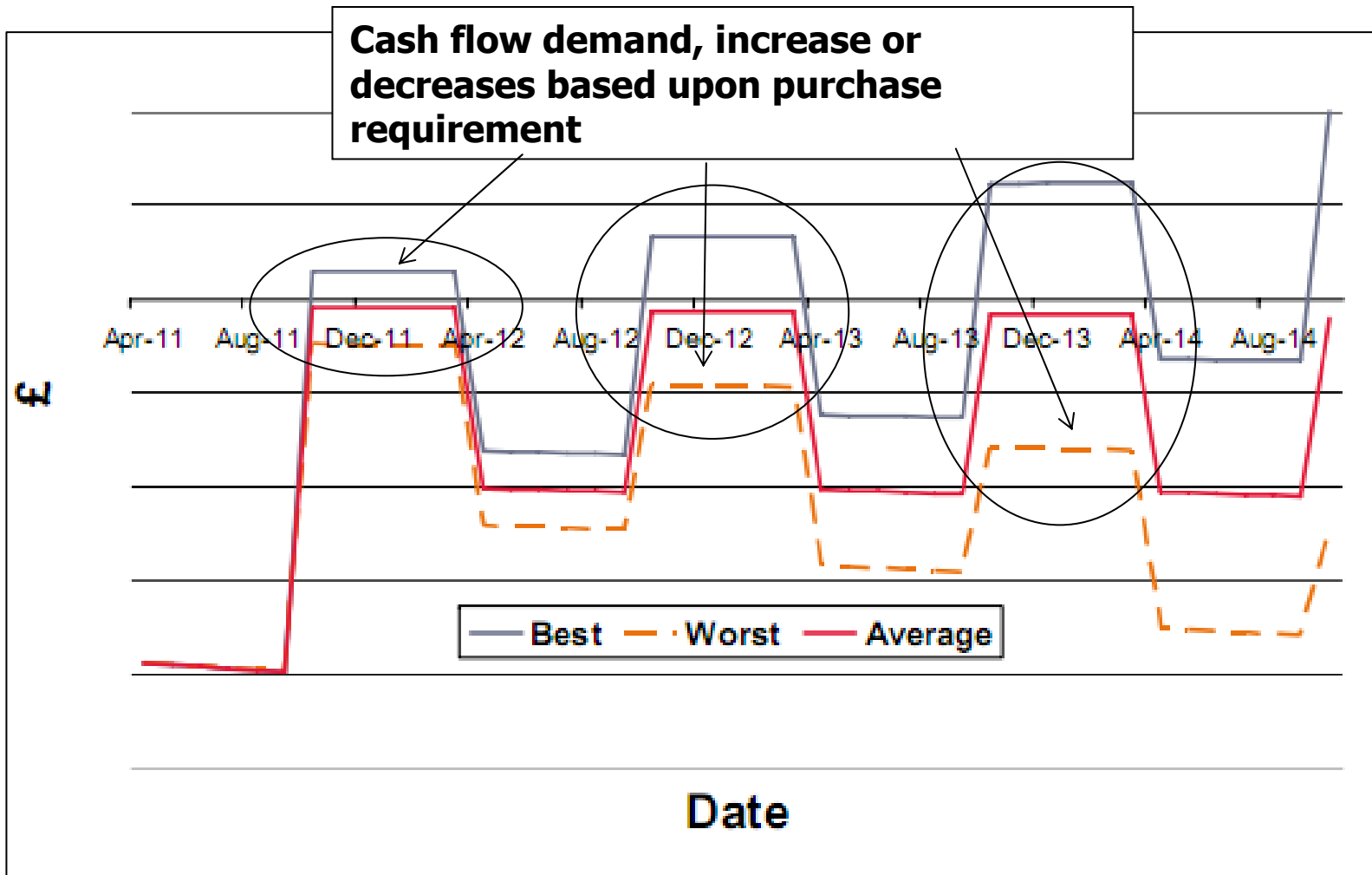
*£50p/tCO<sub>2</sub>*

↑ £250k

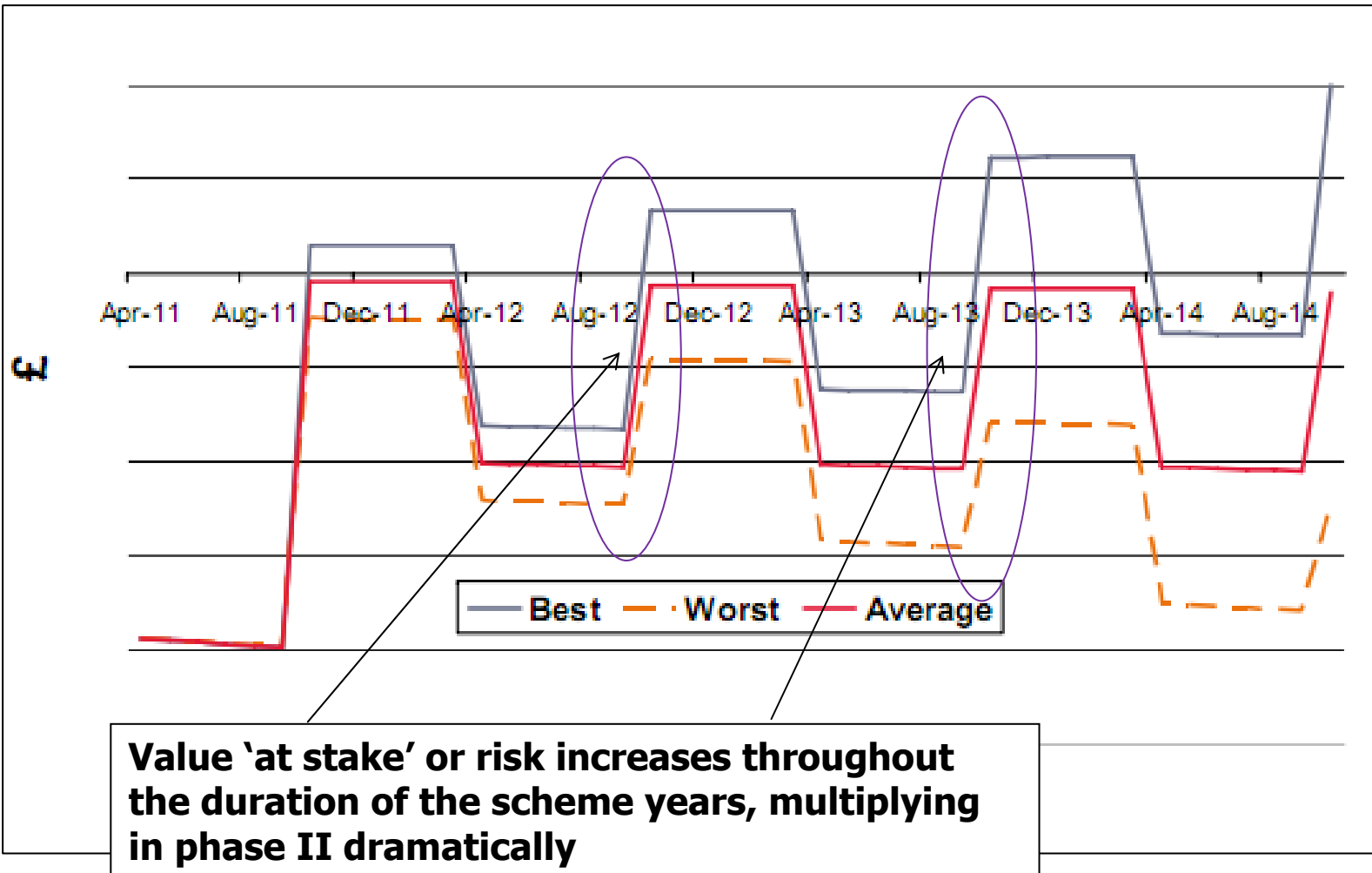
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# Forecasting



# Forecasting



# Impact of Metrics on League Table

<i>Metric</i>	<i>Year 1</i>	<i>Year 2/3</i>	<i>Year 4/5</i>
Absolute	0%	60%	75%
Early Action	100%	20%	0%
Growth	0%	20%	25%

# Reporting and Surrendering Allowances

- Self certification scheme
- **Evidence packs** to record verification
- 'Lodged' via online registry
- Administer by Environment Agency

## Two reports

- Footprint report
- Annual report

# Reporting and Surrendering Allowances

**Please enter your company details** *Fields marked \* are mandatory* **Error message text area**

Please enter your Companies House company number\* 1324325345

Registered name Big Fumes Output Ltd

Registered address Factory Unit 1

County where UK registered office is based\* England

Trading name Green Energy

DIC code\* 999

Is your Parent based overseas?  Yes  No

Are you the nominated Subsidiary acting as UK Parent?  Yes  No

**Online System**

**1** PLP/DC: You must choose the country where the registered office of the parent organisation (or nominated UK subsidiary) is based.

**2** PLP/DC: Your trading name is the same as the company's registered name. If different from the name registered with Companies House.

**3** PLP/DC: Your SIC is a code for the primary business activity when SIC/DC is used for notification to the company for the purposes of their annual returns to Companies House.

**4** PLP/DC: Please indicate if you are a subsidiary of a parent based overseas.

**5** PLP/DC: If you are a subsidiary of a parent based overseas, please confirm that you are acting as UK parent.

**Navigation:** Capture Parent Details, Primary Contact Details, Secondary Contact Details, Director Contact Details, Half Hourly Meters, Electricity Consumption, Participation Declaration, Invoice Contact, Qualifying Subsidiaries, OCA Exemption, Summary of details, Terms and Conditions, Payment, Confirmation of completion

# Reporting and Surrendering Allowances

The evidence pack must contain:

- structural records
- data records
- record of special events
- data for early action and growth metrics
- support for exemptions and credits

2010/11 Evidence must be kept for duration of scheme, other years for 5 years from end of phase

20% Audited per year.. 100% Audit in duration

# Director Level Sign Off

- Company Director (or equivalent) of the participant must sign annually
- Records must demonstrated information is “true, accurate and complete”
- Potential for Directors to be criminally liable for false or misleading statements

# Penalties - Criminal

Offence	Penalty
<p>Falsification</p> <ul style="list-style-type: none"><li>▪ Knowingly or recklessly make false or misleading statement</li><li>▪ Falsification of evidence</li><li>▪ Attempt to deceive or mislead the administrator.</li></ul>	<p>Summarily</p> <ul style="list-style-type: none"><li>▪ Imprisonment up to three years</li><li>▪ Fine up to £50,000.</li></ul> <p>Indictment</p> <ul style="list-style-type: none"><li>▪ Imprisonment up to two years</li><li>▪ Fine (undetermined).</li></ul>
<p>Non-compliance with enforcement</p> <ul style="list-style-type: none"><li>▪ Failure to comply with an enforcement notice</li><li>▪ Intentionally obstruct the administrator</li><li>▪ Failure to provide assistance, facilities and information or to permit any inspection</li><li>▪ Failure to appear, or prevent any other person from appearing, before the administrator as part of an inspection.</li></ul>	

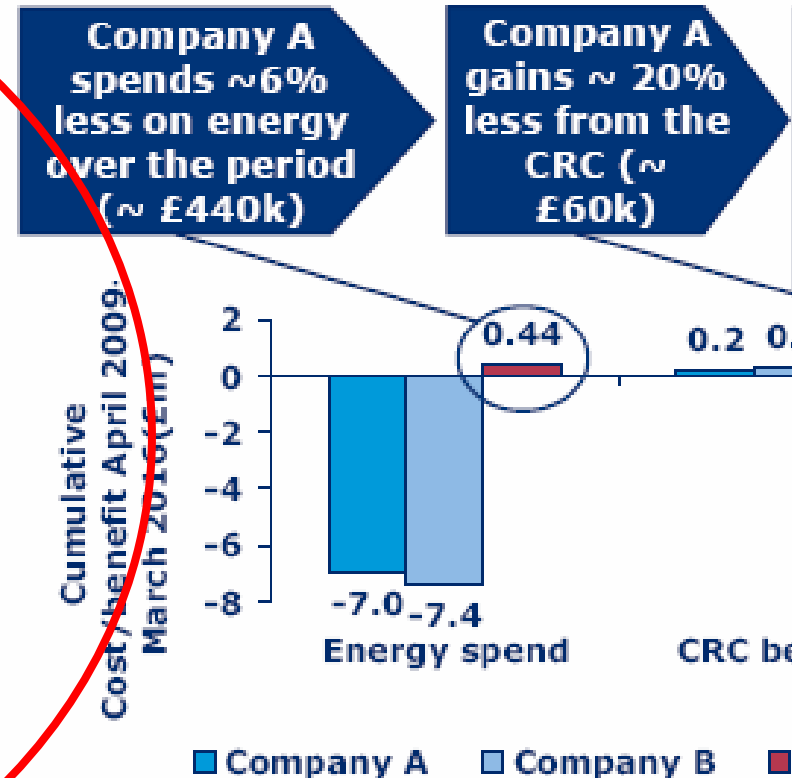
# Penalties - Civil

Non-compliance	Penalties
Failure to register	<ul style="list-style-type: none"><li>■ Immediate fine of £5,000 imposed for failure to register by the deadline</li><li>■ Further fine of £500 per working day for each subsequent working day of delay until last working day of July (the next reporting deadline)</li><li>■ Publication of non-compliance.</li></ul>
Failure to disclose information	<ul style="list-style-type: none"><li>■ Where an organisation with a Half Hourly Meter (HHM) that does not meet the qualifying threshold fails to make an information disclosure, a one-off fine of £1,000.</li></ul>
Failure to provide a footprint report	<ul style="list-style-type: none"><li>■ Immediate fine of £5,000 for failure to provide a footprint report by the reporting deadline</li><li>■ Further fine of £0.05 per tonne of carbon dioxide (tCO<sub>2</sub>) per working day for each subsequent day of delay up to a maximum of 40 working days. This part of the fine is doubled after 40 working days</li><li>■ Publication of non-compliance.</li></ul>
Failure to keep adequate records	<ul style="list-style-type: none"><li>■ Fine of £5 per tCO<sub>2</sub> of total emissions reported in the most recent annual report</li><li>■ Publication of non-compliance.</li></ul>

# Early Action – Why?

## WORKED EXAMPLE:

	Company A "Early mover"	Company B "Wait until 2011"
Current annual emissions	10,000 tCO <sub>2</sub> (~ £1.3 m energy spend)	
Emissions reduction target	35% reduction vs current emissions by 2015/16	
Carbon emissions reduction strategy	Steady 500 tCO <sub>2</sub> reduction each year from 2009/10 to reach 6,500 tCO <sub>2</sub> by 2015/16	Steady 700 tCO <sub>2</sub> reduction each year from 2011/12 to reach 6,500 tCO <sub>2</sub> by 2015/16



## Early Action – Why?

- Energy Cost savings easily outweigh any additional recycling benefits
- Cash-flow ‘ease’ with need to purchase fewer emissions
- Opportunity to gain Carbon Trust Standard, leading to higher recycling bonus
- Potential damage to CSR reputation through lack of action

# Key Client Issues

- Determine approach to compliance
  - Identify organisation
  - Manage uncontrolled exposure
  - Early action metrics
- Make sure systems are in place to gather and manage data **and** forecast emissions
- Engage **experts**, don't be misled
- Implement energy savings – be proactive
- Further information ....

The screenshot shows the CIBSE Training & Events website. The header features the CIBSE logo and the text 'CIBSE Training & Events'. A search bar is located in the top right corner. Below the header is a navigation menu with links for HOME, BIO-CAREER COLLEGE, ENERGY ASSESSOR TRAINING, ONLINE LEARNING, CONFERENCES, and ENCS.

**NEW COURSE - A415 The Carbon Reduction Commitment (CRC) - London**

**Start Date:** 27-Oct-2009  
**End Date:** 27-Oct-2009

**Where:**  
CIBSE  
222 Balfour High Road  
London  
SW12 9HQ

**Rates:**

- CIBSE member rate  
£ 289.00 (£ 254.30 ex VAT)
- Non-member rate  
£ 309.00 (£ 268.79 ex VAT)

**Event Content Page # Content & Subcontracted to:**

The carbon reduction commitment (CRC) is set to have a wide reaching impact on all stakeholders involved in the energy and environmental market, from end users to consultants and other service providers.

CRC is a mandatory emissions trading scheme that will deliver energy and carbon reductions in large, not energy intensive organisations. Organisations with total electricity consumption through Half Hourly Meters greater than 5,000,000kwh in 2009 will be affected.

The course aims to provide a detailed overview to the legislative requirement in addition to covering the practicalities of reporting, giving examples of how energy issues will affect end users and the way service providers operate.

This course includes the detailed practicalities of carbon footprinting and extending this to create a wider strategy.

**Trainer:** Richard Nigles / Adrian Sweetman

**Course Agenda**

Registration: £ 30

Building Industry  
Measurement  
Management Control

# ESTA

Light at the end of the tunnel

Light at the end of the tunnel

ESTA

GREEN SPONSORS

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water energy & environment ENERGY

CPD

Event qualifies for a hours Continuing Professional Development for CIBSE members.  
Attendance certificates available for members of other professional bodies

ALL Exhibitors

FIND THE LIGHT

moving to a low carbon economy places responsibility for low carbon achievement with those responsible for energy use - energy, facility, maintenance managers, plant and equipment. This includes full operational awareness of all equipment and its operation in order to reduce and control energy use.

10000 | 100%

The screenshot shows the homepage of the Carbon Trust Standard website. At the top left is the Carbon Trust Standard logo, which includes the text "CARBON TRUST STANDARD" and "ESTABLISHED IN 2006". To the right of the logo is the main heading "The Carbon Trust Standard". Further right is a search bar with a "Search" button. Below the search bar is a navigation menu with links for "Home", "About us", "Get certified", "Using the Standard", "Latest news", and "Information centre".

The main content area features a large graphic with two blue arrows pointing towards each other. The text in the center reads "The higher your rating" and "The less it costs to comply". To the right of the arrows, it says "Raise your position on the CRC league table" and includes a button that says "Apply for the Carbon Trust Standard now".

Below this graphic are two columns of content. The left column is titled "Welcome to the Carbon Trust Standard" and contains a paragraph: "The Carbon Trust Standard is awarded to organisations that measure, manage and reduce their carbon footprint. Organisations that achieve the Standard are taking real action to reduce their direct impact on climate change." Below this is a link to a "New Carbon Reduction Commitment Guide for FDs".

The right column is titled "Recent achievers" and displays logos for RICOH, ulster, Thames Water, and another company. Below this is a section titled "2009 Standard Bearers Showcase" with a paragraph: "Welcome to the first edition of Standard Bearers. Senior decision makers from 35 of our achieving organisations have answered questions covering why they applied for the Standard, how they've reduced their carbon..."

At the bottom of the page, there is a footer with the text "Done" on the left and "Internet | Protected Mode On" and "100%" on the right.

The image shows a screenshot of the i-prophets website. A large white overlay with a green and red border is positioned diagonally across the center. The overlay contains the following text:

- Prize draw**
- Every entrant will receive a **Free CRC Risk Assessment**
- The Winner will also receive **ONE** of the following :
- Building Display Energy Certificate**
- Air-Conditioning Pre-evaluation Survey**
- 12 Month Subscription to digitalenergy**

The background website screenshot shows the i-prophets logo at the top left, a navigation menu, and several content blocks including a 'Your compliance accredited centre' section and a 'digitalenergy' logo at the bottom right. The browser's address bar shows 'www.i-prophets.com' and the page title is 'Energy through greater intelligence'.