



# I've got the power! So Watt?



## CRC – What's that then?

CRC is the Carbon Reduction Commitment Energy Efficiency Scheme ("the Scheme") which comes into force of 1 April 2010. It is the UK's **mandatory** climate change and energy saving scheme which has been implemented by the UK Government department of Energy and Climate Change (DECC).

WOW – that is not an acronym – it is probably the exclamation you have just made having read the paragraph above!



## So why should you be interested in CRC?

The aim of CRC is to make organisations more energy efficient. The regulations target a number of entities that between them are responsible for around 10% of the UK's current total carbon dioxide (CO<sub>2</sub>) emissions, and as such is a key

component of UK Government's strategy to meet its legally binding commitment to reduce carbon omissions. The Scheme is intended to change organisational behaviour regarding energy usage by forcing entities to calculate their carbon footprint and introduce ways of improving their energy efficiency. In doing so it is expected to deliver annual cuts of at least 4.4m tonnes of CO<sub>2</sub> whilst simultaneously leading to **"savings of over £1bn per annum in the energy and fuel costs of participating organisations by 2020"** (Joan Ruddock, Climate Change Minister). However, the challenges of basic compliance should not be underestimated.

## Are you affected by the CRC Scheme?

Any organisation that consumed more than 6,000MWh of electricity, measured via half-hourly meters (HHMs), or had energy spend exceeding circa £500,000 during the 2008 calendar year will be required to comply with the CRC. You will most likely have received a notification regarding the Scheme from your regulator who is your regional Environmental Agency (EA). Some 20,000 organisations including, but

not limited to, government departments, supermarkets, hotel chains, large local authorities and financial services groups are expected to be affected. Of these, some 5,000 will be required to purchase annual allowances for their carbon emissions.

## What is the Allowance System?

The electricity that you used in 2008 will determine whether you are in or out of the CRC Scheme. If you are in the Scheme the energy usage is to be measured and monitored; but energy is not just restricted to electricity, it also includes other fuels such as oil and gas. The carbon footprint of all these emissions must be calculated to determine the amount of allowances that must be purchased.



**The first footprint year starts on 1 April 2010 and runs to 31 March 2011.** The calculation itself is

relatively simple, but defining the group structure and obtaining all of the energy data may be problematic. From 2011, and based on this first footprint calculation, businesses will be required to purchase carbon allowances, initially at the rate of £12 per tonne of CO<sub>2</sub> emitted.



### What are the main commercial risks and opportunities of the CRC?

The CRC will financially reward good performers but will penalise the poor ones. Funds raised from the sale of carbon allowances will be recycled to scheme participants based on a published CRC performance “league table” developed by the regulator, the EA.

Good performers will receive a premium on their carbon allowance payments, making their participation in the CRC a profitable experience. Poor performers will be subject to a punitive penalty and may also be publically “named and shamed”.

The Environment Agency also has the power to fine organisations for late registration and reporting errors. They have indicated that they intend to audit 20% of CRC participants on an annual basis, so there is a good probability that mistakes or omissions

**“A good reputation is more valuable than money.”**

Publilius Syrus  
(~100 BC)

will be detected. Risks of financial penalty and reputational damage can be significantly reduced by

implementing a proactive CRC compliance strategy.

### The CRC Timeline

The Scheme has a very tight implementation timeframe with clearly defined deadlines:

- CRC Qualification Period – calendar year 2008.
- CRC Starts – **1 April 2010.**
- Disaggregation of Significant Group Undertakings (see below) – **1 July to 30 September 2010.**
- CRC Registration – must be completed by **30 September 2010.**
- First Footprint Year – **1 April 2010 to 31 March 2011.**
- First Sale of Carbon Allowances – **1 April 2011.**
- Submission of First Footprint Report – **31 July 2011.**
- First Recycling Payment – **1 October 2011.**

### What can you do to ensure you are CRC compliant?

In order to ensure baseline compliance by September 2010 we recommend that organisations review the following 10 key areas:

#### 1. Determine Your CRC Group Structure

CRC consolidation rules are simple to apply to organisations that are single entities – the rules relate directly to that entity. However, CRC rules relating to groups may present problems for many businesses. The CRC adopts the top-down approach of “parent”, “subsidiary” and “group” as defined in the Companies Act 2006, and compliance rests with the highest UK parent company (the “primary member”). As a result, a business that owns more than 50% of a CRC-affected business has the legal responsibility for CRC reporting and managing the full energy usage of that business.

However large subsidiaries (classified as “Significant Group Undertakings” or “SGUs”), would qualify for CRC in their own right. SGUs have the option to participate separately from the

remainder of the group. The definition of CRC Group structure and any decision to disaggregate a SGU needs to be considered extremely carefully and as a matter of urgency (see Point 4).

#### 2. Review your 2008 electricity usage in relation to your CRC Group structure and determine whether you are in or out as a full or disclosing participant.

Once the CRC Group structure has been defined, an accurate assessment of 2008 electricity usage must be completed to enable you to determine whether you qualify for full CRC participation (over 6,000 MWh of electricity usage) or the less onerous disclosure of energy usage (over 3,000 MWh, but under 6,000 MWh).

It will be essential to build and retain a full emissions record (including location of all HHMs) as a comprehensive set of records will be required to satisfy the audit requirements of the Environment Agency and the internal and external auditors.

#### 3. Understand and calculate your likely exposure in terms of carbon emissions and carbon allowance cost.

Determining baseline costs is critical to deciding the CRC compliance strategies that you will need to put in place i.e. £12/tonne CO<sub>2</sub>, or at higher levels with a varying rebate level. If your commercial exposure is high, this step will alert you to the potential benefits of early action and the need to improve energy efficiency. This in turn should aid reduction of your carbon footprint, your energy bill and associated ongoing CRC compliance costs.

#### 4. Review your CRC structure and decide whether you want to disaggregate one or more SGUs.

Deciding whether to disaggregate one or more SGUs is extremely important as it can make a material difference to the complexity of your organisation’s CRC participation.

Disaggregation could offer significant advantages. However, to ensure that you are able to fully utilise this option you will need to analyse your CRC group structure and complete your primary registration by **30 June 2010**. This will give you a further 3 months to separately register any disaggregated SGU(s) with the Environment Agency. All registrations, i.e. the CRC Group and any disaggregated SGUs, must be completed by **30 September 2010**.

#### **5. Assign board responsibility for CRC.**

CRC requires that a board director is assigned with the responsibility of CRC compliance. This individual will be responsible for ensuring accurate submission of the footprint calculation, supporting evidence packs and ongoing CRC compliance, including allowance purchasing and implementation of energy efficiency measures.

Fines and penalties will be applied in the case of late registration or inaccurate submissions and the Environment Agency has indicated that these will be published. In the case of fraudulent submissions the EA may invoke criminal proceedings.

It is vitally important that the appointed director fully understands the implications of failing to comply with the regulations.

#### **6. Form a CRC team and develop a proactive CRC action plan.**

A successful CRC implementation will require a co-ordinated multi-disciplinary approach. It is likely that the CRC team will need to include representation from Legal (group structure), Facilities (energy usage), Finance (investment, accounting and auditing), Procurement (purchasing), Communications (to support behavioural changes) and those responsible for Corporate Social Responsibility (CSR).

The CRC team will need to have clearly defined responsibilities and be empowered to implement changes to ensure regulatory compliance. They

will need to fully understand the corporate and cultural changes required to successfully implement CRC and bring about the energy and carbon savings required by the legislation.

#### **7. Review your systems.**

Ongoing CRC compliance will require modification to internal systems to improve energy monitoring and accurately record energy usage. This will need to be put in place at the CRC group level and recognise the rules of CRC group consolidation. Without accurate and reliable energy usage data, your CRC footprint calculation will be incorrect. This could lead to incorrect footprint reporting to the Environment Agency and, more worryingly, an incorrect carbon allowance purchase in April 2011. A review of internal systems to determine what enhancements will be required should be conducted as quickly as possible.

#### **8. Take action early.**



The first two years of CRC have been set up to reward participant organisations for taking action early.

There are two ways in which businesses can benefit and ensure a high league table ranking during the introduction phase. These are by:

- a) Installing voluntary automatic meter reading (AMR) on your HHMs. This will enable you to monitor and improve energy usage.
- b) Obtaining the Carbon Trust Standard (or similar approved award). The Carbon Trust Standard is an accreditation that is awarded to organisations which measure, manage and reduce their carbon footprint. However, it should be noted that the energy and footprint coverage of the

Carbon Trust Standard is wider than that of CRC.

#### **9. Make sure you complete your registration by 30 September 2010.**

Whilst preliminary registration is required by 30 June 2010 registration must be completed by 30 September 2010 to avoid being fined.

To ensure that mistakes are not made and the right group structure is registered careful planning should be taking place **now**.

#### **10. Communicate the importance of CRC to your entire organisation.**

It should be remembered that CRC has been designed as an incentive to change organisational behaviour. Consequently, it is essential that the CRC objectives of improved energy efficiency and reduction of carbon emissions are communicated clearly, concisely and consistently to all staff to ensure that they have a full understanding of their CRC obligation.

Some key elements of energy efficiency will ultimately fall on individual members of staff e.g. powering down unused equipment, ensuring general thermostat control.

The 10 key areas identified will need to be addressed immediately to ensure compliance with the 30th September 2010 deadline.

#### **Beyond basic compliance – a proactive CRC action plan**

CRC is here to stay and will impose significant challenges on businesses as the rules are implemented. As such, basic compliance may not be good enough, particularly if your competitors adopt a more ambitious strategy and benefit financially.

The rules of business are changing. Energy efficiency, the business cost of carbon, the impact of climate change and the wider issues of sustainability and corporate social responsibility are forcing change at a faster rate than ever before.

The CRC reflects the Government's desire to see the UK at the forefront of a new green economy. It also provides significant opportunities for forward thinking businesses to profit from the Scheme as they adapt to, and embrace the opportunities presented by CRC.

By developing a proactive CRC action plan, businesses can gain substantial cost savings and secure competitive advantage.

Kingston Smith Consulting has experienced staff and is able to provide you with cost-effective assistance. We have a comprehensive understanding of CRC implementation requirements and with our supporting methodology we can provide a quick "sanity check" to ensure that your organisation is on the right CRC track.

We can help you to design and develop a proactive action plan which will enable you to secure baseline compliance as quickly as possible.

But more importantly, gain the maximum long term benefit from your CRC participation by ensuring that the optimal organisational structure is included within the Scheme and your energy footprint implications are clearly understood, thus enabling you to develop a robust carbon reduction strategy to help you truly benefit from the CRC Scheme.

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### **About GreenSpur Consulting**

GreenSpur Consulting is dedicated to helping businesses embrace the challenges of the Green economy in ways that are adaptable, cost-effective, profitable and sustainable by developing creative and cost-effective carbon management and energy efficiency strategies while ensuring successful compliance with new regulations.

### **GreenSpur Consulting Limited**

Token House, 11-12 Token House Yard, London, EC2R 7AS, UK Telephone +44 (0)844 571 7499

enquiries@greenspur.co.uk

Registered in England and Wales as a Limited Company No. 03711292 Registered Office GreenSpur Consulting Limited, 64 Park Drive, Winchmore Hill, London, N21 2LS.

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### **About Kingston Smith Consulting LLP**

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Kingston Smith was originally formed in 1923 and the firm has grown to its current position through organic growth and mergers. Kingston Smith is a member of KS International which is an association of independent accounting firms in 49 countries around the world.

### **Kingston Smith Consulting LLP**

Devonshire House, 60 Goswell Road, London EC1M 7AD, UK Telephone +44 (0)20 7566 4000 Fax +44 (0)20 7566 4010

info@kscllp.co.uk www.kscllp.co.uk

A list of partners is available for inspection at the above address.

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