



Understanding the Carbon Reduction Commitment (CRC)



The Carbon Reduction Commitment (CRC)

Introduction

The Carbon Reduction Commitment Energy Efficiency Scheme (CRC) (CRCEES) is a major scheme aimed at reducing carbon emissions (CO₂) and improve energy efficiency. It is targeted at medium and large non-energy intensive organisations, from both the public and private sector. ENGIE recognises that your organisation needs to have information on the possible implications of the CRC. The aim of this guide is to provide you with guidance on whether you qualify for the CRC and if you do, what is expected of your organisation and by when. ENGIE has made every effort to ensure that the information in this guide is correct at the time of publication; however, ENGIE does not guarantee that the information is accurate. Readers are advised to independently verify the information before using it as a basis for decision making. As a result of announcements by the coalition government, the original CRC structure has been modified and is subject to potential future changes following the current consultation led by DECC on initial proposals to simplify CRC.

The Environment Agency is the administrator of the CRC scheme and is the ultimate authority on its operation. For further information, you can browse the CRC section on their website:

www.environment-agency.gov.uk/business/topics/pollution/98263.aspx

What is the CRC?

The CRC is a mandatory UK-wide government scheme that came into force in April 2010 and is designed to incentivise the uptake of cost-effective energy efficiency measures aimed at reducing the carbon emissions of medium to large non energy intensive, public and private sector organisations. The scheme comprises three primary elements:

1

Emissions reporting requirement

Participants in the CRC need to measure and report their electricity and gas related carbon emissions annually, following a specific set of measurement rules. Under the simplification of the CRCEES the fuels that participants are required to report on has been reduced from an original list of 29 fuels to 2, those being electricity and gas.

2

A carbon price

The scheme requires participants to buy allowances for every tonne of carbon they emit (relating to gas and electricity), as reported under the scheme. Participants are required to buy allowances from Government each year to cover their reported emissions. This means that organisations that decrease their emissions can lower costs under the CRC. During Phase 1 of the scheme, only one sale of allowances took place at the beginning of each year, to cover emissions from the previous year.

From Phase 2, which commenced in April 2013, there will be two sales of allowances for each compliance year. The first sale at the start of a compliance year will be based on predicted emissions at a lower price. The second sale will be “buy to comply” at the end of the compliance year. The price of the “buy to comply” sale will be at an expected higher price.

3

Publishing of information

In the first years of the scheme, a CRC performance league table was published, reporting how each participant was performing against other scheme participants. The league table from performance period 2011/2012 can be viewed on the Environment Agency's website.

crc.environment-agency.gov.uk/pplt/web/plt/public/2011-12/CRCPerformanceLeagueTable20112012

As from July 2013, following the results of the CRCEES simplification consultation, the league tables were scrapped and will be replaced by the publication of participants usage and emissions. This will be based on a number of metrics including absolute and growth-adjusted reduction of emissions.

The scheme is administered by the Environment Agency in the UK and also regulates the CRC in England.

Who qualifies?

Any organisation that consumed more than 6,000 MWh of electricity through settled HH meters between 1st April 2012 and 31st March 2013 will qualify for Phase 2. Also, where subsidiaries and parent organisations are concerned, the half hourly consumption for the highest parent organisation, including all its subsidiaries, must be calculated to determine qualification. Further information regarding qualification under the scheme can be found at:

www.gov.uk/crc-energy-efficiency-scheme-qualification-and-registration

How does it work?

Cap and trade system administered by the Environment Agency (EA). Participating organisations are required to monitor their carbon emissions based on their entire energy use, excluding transport. Participants purchase carbon allowances annually to cover emissions. The CRC operates in phases. Phase 1 ran from April 2010 until the end of March 2014. Phase 2 runs from 1st April 2014 to 31st March 2019.

CRC Allowances

One CRC Allowance is equivalent to one tonne of CO₂ (tCO₂). The published allowance prices for 2014-15 are:

£15.60 per tonne for the forecast sale (April 2014 to 2014)

£16.40 per tonne in the buy to comply sale (June/July 2014)

What are the implications?

- Purchase of carbon allowances on a yearly basis.
- Administration cost of establishing which energy sources consumption data needs to be reported. This must be undertaken at the beginning of each phase, but not annually.
- Administration cost of collecting and reporting all necessary consumption data annually.
- Brand Image
- Inclusion

How do I know if my organisation is included?

Qualification criteria

Participation in the CRC is decided wholly on your organisation's half hourly electricity consumption. Your organisation will be included if the following applies:

- You have at least one electricity meter settled on the half hourly market
- Your organisation's total half hourly metered electricity consumption is above 6,000 MWh per annum

Half hourly meters

In order to clarify what constitutes a half hourly meter for CRC purposes, DEFRA has proposed that half hourly meters will be defined as any of the following*:

- Half hourly meters (Code of Practice 5 meters) used for billing purposes
- Voluntary Automatic Meter Reading (AMR) meters that produce half hourly data
- Pseudo half hourly meters (used for measuring consumption of street lights)

ENGIE will be able to inform you which of your organisations meters fall under these guidelines.

(*Taken from DEFRA (August 2008) Carbon reduction commitment: Who's affected? (www.defra.gov.uk))

Responsibilities for parent organisations and subsidiaries

Parent organisations

The responsibility for compliance with the CRC scheme sits with the highest parent organisation. If you are the highest parent organisation you will need to calculate the half hourly electricity consumption for your entire organisation, including all subsidiaries. This whole organisation figure will allow you to determine whether you are included in the CRC. If your organisation is included you will then be required to measure and submit consumption data for all subsidiaries, from all energy use at their site/premises (not just from half hourly meters) but excluding transport.

Subsidiaries

If you are a subsidiary of a larger parent organisation you are not individually liable for inclusion within the CRC. Your parent organisation, however, will need you to provide consumption figures for half hourly electricity consumption to add to its organisation total. If your parent organisation does qualify for CRC you will need to provide it with consumption data for all your energy use at your sites/premises annually, as defined below.

Reporting

What information will your organisation

need to report?

Companies that fall under the CRC will be required to report their entire UK based CO₂ emissions, derived from their annual energy consumption at their sites/ premises, excluding transport. This calculation is separate and different from the CRC inclusion calculation, which only measures half hourly electricity consumption. Once your company has been confirmed to be participating in the scheme, you will need to measure and report energy use from all sources and fuel types every year.

Compliance Year	Annual Reporting Deadline
1 April 2015 to 31 March 2015	Friday 29 July 2016
1 April 2016 to 31 March 2017	Monday 31 July 2017
1 April 2017 to 31 March 2018	Tuesday 31 July 2018
1 April 2018 to 31 March 2019	Wednesday 31 July 2019

How will your organisation be expected to submit its reports?

Submitting statements

Your organisation will be required to submit its emissions data in the form of yearly statements to the Environment Agency via an online registry system. The measurement year will run between 1st April and 31st March. This is different to the measurement year to determine inclusion in the CRC, which ran from 1st January to 31st December 2008 only. These statements will be compulsory for all participants and the information included will be used to calculate CRC league table positions.

It is compulsory for your statements to include the following information:

- Details of organisation (name, contact details etc.)
- Annual CO₂ emissions for entire organisation

We would also advise you to include details of:

- Any early actions your organisation has taken to reduce consumption, such as AMR installation.

Depending on your organisations particular circumstances it may also be beneficial for you to include

- Details of any changes in turnover

Evidence packs

It is advisable for you to produce an evidence pack for your organisation to support the information that you submit in your annual statements. Should your organisation or any of its sites be subject to an audit then your evidence pack will be a ready and prepared source of information that substantiates your annual statements submission. If we are your energy supplier, we will be able to provide you with an annual statement of electricity and/or gas to help you compile your organisations annual statement and evidence pack. You need to request this from us by the 1st February and we will ensure it is available to you by the end of the following May ready for you to submit your data by the annual July deadline.

Registry accounts

Each participating organisation should already have registered to open an online registry account linking it to the Environment Agency, who administers the CRC. The deadline for registration for the scheme and set up of your online account was the end of March 2010. Your account should operate in a similar way to an online bank account and will allow your organisation to undertake the following:

- Keep track of allowances purchased during auction and via the safety valve.
- Monitor any sales or purchases through the secondary market.
- Report and surrender your organisations annual carbon emissions.

Calculation of CRC emissions

CRC emissions are calculated by the CRC Registry from annual report data. CO₂ emissions are based on standard emissions factors for electricity and gas, which will be set every year based on governments standard GHG emission factors (published each summer and available on CRC web pages).

What are the guidelines around estimated bills?

If your organisation is providing consumption data from an estimated bill then you will need to add a 10% uplift to the CO₂ emissions total. If a supply of electricity or gas has had to be estimated* for part of the year, then the whole of that supply for the year will be considered to be an estimated supply. You should enter the whole of the supply in the estimated column in the annual report.

*A supply is considered to be actual if there have been a minimum of two meter readings covering a period greater than six months of any annual reporting year. Otherwise, it is an estimated supply for CRC purposes.

For more information on estimated bills you can visit the Environment agency website:

www.environment-agency.gov.uk/business/topics/pollution/127373.aspx

Simplification of the CRCEES

On 10 December 2012 the UK Government published its consultation response on simplification of the CRC Energy Efficiency Scheme (CRC). Details of this consultation and subsequent changes can be found on the UK Government's website

Calculating greener energy tariffs and on-site generated energy

CCL exempt energy

If your organisation has any of its sites supplied with energy from ENGIE's Renewable Energy tariffs then you are required to report your electricity carbon footprint as equal to the UK grid average for CRC reporting. This is a DEFRA requirement and aligns to their Greenhouse Gas Reporting Guidelines.

On-site generation

If your organisation generates its own energy on site and receives Renewable Obligation Certificates (ROCs) for this then you are required to report your electricity carbon footprint as equal to the UK grid average for CRC reporting. However, if you do not receive ROCs for your organisation's onsite renewable generation then this will be zero rated for carbon under the CRC.

What about carbon offsetting schemes?

The primary aim of the CRC is to improve energy efficiency and reduce emissions across the targeted sector. If your organisation is currently buying or is intending to buy carbon offset allowances then the CRC will not offer any credit for them and therefore no reduction in your CO₂ emissions total.

After your organisation has purchased its emission allowances you will be required to surrender the amount required to cover your emissions. The CRC has a built in a secondary market for the sale and purchase of surplus allowances. The CRC also has a safety valve that links to the EU ETS, allowing organisations with a shortfall in CRC allowances to purchase EU ETS allowances as a last resort. These extra EU ETS allowances will be sold at the EU ETS market price and will cost significantly more than the £12/tCO₂ capped price. To ensure cheaper EU ETS allowances are not available a floor price will be set, which will be higher than the capped CRC allowance price. This will ensure the EU ETS allowances are not trading at a lower price than £12/tCO₂.

Late registration

The deadline for registration for CRC Phase 2 was 31st January 2014. Registering late means you could receive a fine of £5,000 with a further fine of £500 per working day until you complete the registration process. The daily fine can be imposed for up to a maximum of 80 working days, up to £40,000.

- Your organisation will have to purchase carbon allowances to cover your annual emissions in each year of the scheme from 2011 onwards.
- The cost of allowances will be fixed at £12/tCO₂ for the first 3 years. After this it will be at the CRC market price.
- If you have to purchase allowances via the safety valve they will be significantly more expensive than both the £12/tCO₂ introductory phase price and the market price during the capped phase.

Reputational risk

The CRCEES results will be published every year and made available publicly. The reputational implications for your organisation could be significant, as it compares the carbon reduction performance of a huge range of organisations across many sectors. Eventually it is likely that individual sector tables may be created allowing more direct comparison.



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