

The Carbon Economy – *The CRC Factor*

Legislation and policy are rapidly moving the UK to a 'carbon economy' – an economy operating off substantially less fossil fuel – to reduce Green House Gas (GHG) emissions and minimise energy poverty and insecurity in the UK. This has and is creating new cost, reputational, contractual and compliance issues for businesses in the UK. It also creates new opportunities.

The **Carbon Reduction Commitment ("CRC")** is one of the UK's mechanisms to create a behaviour and infrastructure change in UK business, by use of financial and PR pressures, to reduce fossil fuel consumption. This note provides a brief overview of some of CRC's key elements to indicate some of the immediate and medium term actions and strategies which are necessary/expedient.

This is a new and complex area which we would like to discuss with you in more detail to assist with its complexities and investigate CRC's effects on your business along with other existing and imminent measures that will affect you (such as carbon reporting in accounts).

Why care?

There are already critical decisions and actions for organisations to implement such as analysing the group's companies and contractual arrangements to identify the organisation for CRC, data collection, budgeting, emissions reduction planning and preparing for trading of allowances.

CRC is targeted to commence *April 2010*. Compliance requirements alone will, during 2010, require organisations to register (between April and September) and commence measuring and reporting emissions.

In *2011*, participants will have to start trading emissions allowances.

To give CRC teeth, there will be a range of civil (fines and naming of the offending participant) and criminal penalties (fines and/or imprisonment).

CRC will lead into consideration of how business partners, suppliers and customers operate and perceive your own operation, how this will impact on profits and reputation and what strategies need to be adopted. Even if you or customers/suppliers are not CRC participants, contractual relations (eg leases, services agreements), interaction/association with CRC participants will raise similar issues.

What is CRC?

CRC will be a mandatory, auction based, emissions trading scheme for the UK covering emissions from non-transport energy used by large non-energy intensive public and private sectors organisations (does not apply to emissions covered by Climate Change Agreements and the EU Emissions Trading System).

It will be a "cap and trade" scheme - financial and reputational incentives will encourage

organisations to develop energy management strategies and an awareness of their carbon emissions at a senior level:

Financial incentives – each CRC year, participants must buy allowances to cover the emissions that they will make over the year. Revenue from Government allowance sales will be recycled to participants at the end of a CRC year with bonus payments for the better performers and penalties for the poorer ones. During the Introductory Phase allowances will cost £12 per tonne of CO₂. From April 2013 allowances will be sold by auction and the number available will be capped at an ever reducing amount. Participants will be able to buy/sell allowances on a secondary market and stockpile them (though Introductory Phase allowances will be unusable in subsequent phases).

Reputational incentives – **(a key factor for branded business)** at the end of each CRC year participants will be ranked in a public league table according to their performance.

For more detail go to:

www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/crc/crc.aspx

Do I have to participate?

For the first Phase of CRC (2010-2013) an organisation will be required to participate in CRC if for the 2008 calendar year (the Qualification Period) it had: (i) at least one half hourly electricity meter (“HHM”) settled on the half hourly market; and (ii) total half hourly electricity consumption over 6,000 megawatt hours (MWh) (ie it was the customer on an overall electricity bill around £1m). Organisations that only meet the first limb of qualification may still need to register and submit information.

Groups of companies (defined by the Companies Act 2006) will be aggregated for CRC. A "primary member" - usually the highest parent organisation in the UK - must be nominated to take responsibility for the group's CRC participation. If any subsidiaries would qualify for CRC on their own account (a "principal subsidiary") then details on these companies must be provided separately as part of the group's CRC reporting obligations.

Organisations will have to take account of franchises - franchisors will be assessed on the aggregate of all its franchisees.

So, the organisation and its contractual arrangements need to be analysed just so as to be able to meet compliance requirements.

What next?

CRC, whilst expected to come into force in April 2010, presents a need for extensive administrative, pragmatic and strategic decisions and changes within businesses.

Contact

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