

Power points

Carbon reduction A compulsory scheme that aims to promote energy efficiency will come into effect next year. However, *Neil Sagoo* recommends that steps be taken now. Illustrations by *Clare Nicholas*

The carbon reduction commitment (CRC) will come into force in April 2010; those who will be affected by it should already be making preparations.

The CRC will be a compulsory tradeable carbon dioxide-emissions allowance scheme for larger non-energy-intensive commercial and public sector organisations. Its aim is to generate a shift in awareness, behaviour and infrastructure. The cost/benefit to an organisation will be determined by its relative position in a league table of emissions as reported by participants. Organisations at the upper end of the table could profit from the scheme if their "revenue recycling" payments from the government exceed the costs of buying emission allowances.

The first consultation on the CRC was issued in November 2006. The Department for Environment, Food and Rural Affairs (Defra) has published a new consultation document, accompanied by draft regulations, fleshing out the scheme and enabling potential participants to develop their CRC policies.

What preparation is required?

- It is necessary to assess which entities within an organisation will be included in the scheme, based on factors such as which companies use half-hour electricity meters (HHMs), whether any companies are already covered by a climate change agreement and so forth.
- If an organisation uses HHMs that are settled on the half-hour market, the Environment Agency (EA) will send a registration pack to the electricity billing address(es) in September. The organisation must provide its 2008 electricity consumption figures and a list of HHMs. These should by now have been obtained from the electricity supplier.
- Although participation in the scheme is determined solely by electricity use,

the scheme will regulate other energy sources. Organisations therefore have to determine on which sources they will report. These will include core electricity and gas sources and, potentially, renewables and other fossil fuels.

- Someone should have responsibility for the CRC and be tasked to assemble a compliance team, either from internal or external resources.

Main elements of the scheme

Any organisation that uses 6,000MWh or more of electricity on HHMs (equal to a spend of £500,000-plus pa) has to take part in the CRC. If the case is borderline, it might be possible for the organisation to reduce its electricity consumption to below the participation threshold before the scheme is fully implemented (or soon afterwards), although it will still be necessary to disclose information to the EA.

There is little advantage in postponing the introduction of energy-efficiency measures in the hope that a higher baseline will yield future benefits. The scheme will reward pre-CRC initiatives and the cost of participation will rise, so it makes sense to act quickly.

The introductory period will run from April 2010 to April 2013. The initial price of allowances during this period will be fixed at £12 per tonne of CO₂ emitted. On one estimate, the threshold 6,000MWh of electricity would cost around £38,000. In April 2011 (the first allowance sale), two years' allowances will need to be purchased. Although the scheme will be revenue-neutral to the government (that is, participants will receive refunds), organisations that perform less well in the league table will not receive back all their expenditure. Moreover, six months will elapse between allowance purchase and revenue recycling. Organisations will therefore need to prepare and budget for the cash flow effects.

From April 2013, the number of CO₂ allowances will be capped and their allocation will be auctioned. This means that a market will evolve for the trading of allowances between participants; organisations must therefore devise a trading strategy. Additional training, recruitment or the use of external consultants will be necessary.

An estimated 5,000 organisations will participate in the scheme, and 20,000 will be obliged to provide electricity information to the EA. It is possible that although an organisation may not qualify for inclusion in the scheme, its landlord or tenant will qualify. This will affect the way in which service charges and buildings are operated. Layering a landlord-tenant relationship onto the CRC will add complexity. The British Property Federation and others are hoping to provide guidelines showing how the costs and benefits of the CRC can be allocated between landlords and tenants. In the meantime, landlords/tenants should be approached to ascertain whether they will be participating and organisations should clarify how the terms of existing leases will deal with the scheme (see p96).

It is possible that, in future, the 6,000MWh threshold will be lowered so as to catch more organisations. So, even users with a lower electricity consumption should be paying attention to how the scheme is designed and operated.

Shaping policy

Those who will be affected by the scheme should respond to the consultation on the draft regulations and make their views known. The consultation documents can be accessed at www.defra.gov.uk/carbonreduction. The deadline for responses is 4 June.

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