
How to manage carbon reduction, and make it pay

A hands on management briefing on real life ways
big UK companies cut carbon, and their costs

Ethical Corporation Institute

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Foreword

This briefing has been produced for businesses managers and executives who need to understand the new carbon emissions regulations in the UK.

It aims to provide a clear overview of Defra's Carbon Reduction Commitment (CRC), and help companies with a UK presence prepare for the Government-led, mandatory cap-and-trade scheme.

The briefing finds that some of the aspects of CRC are still contested. Many of the roughly 5000 firms that will be implicated by the scheme are not aware of their responsibilities or only in the initial stages of developing a compliance strategy.

Section 1 through 5 walks the reader through the new regulations in a step-by-step fashion. It explains the issues that are critical to business. These sections

include an overview of current debates, a diary of key dates, examples of challenges by specific companies, monitoring and cost estimates. The briefing concludes with five case studies that explore real life ways big companies are preparing for the new regulation and are reducing their carbon emissions.

We hope that the guidelines presented in this report will prepare readers for the new UK emissions regulation and enable them to respond ethically and effectively.

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Overview

In today's business-as-usual environment, offices, retail outlets, supermarkets and restaurants are unwittingly generating over one-third of the UK's total emissions through inefficient energy usage at their premises alone. And according to the Department for Environment, Food and Rural Affairs (Defra), this figure is rising at a disturbing rate – emissions from large non-energy intensive organisations will increase by approximately 11% by 2030 compared to 2010 levels.

Previously, the energy bills of large, non-energy-intensive private and public sector organisations have received scant attention from firms, given that they generally account for as little as 1-3% of overall operating costs.

From 2010, this will no longer be the case. By introducing a mandatory cap-and-trade scheme targeting these sectors, the UK Government will in effect be forcing companies to examine how they can reduce their energy bills – and their emissions.

At present the Government indicates that all firms whose half-hourly metered electricity use exceeds 6,000MWh – which currently translates as an electricity bill in excess of £500,000 – will be required to participate in the Carbon Reduction Commitment (CRC) scheme.

This year (2008) is the qualification period for the first phase of the scheme, which will begin in 2010. Roughly 5,000 firms in the UK will be involved – and many are either unaware of this, or are at no later than the embryonic stage of developing a compliance strategy (Defra 2008a).

While the scheme has been designed to be as light touch as possible, with minimal compliance costs and potential kickbacks for strong performers, non-compliance will result in tough penalties. The Government expects to set penalties that are comparable to EU ETS penalties. For example, if an organisation has under-reported or has not provided data two months after the deadline, then they would be liable to pay a substantial fine. This fine may be set at a rate of £25/tonne of CO₂. This fee rate would rise to £70/tonne of CO₂ after the introductory phase.

Issues relating to CRC responsibility continue to be contested by a handful of industry sectors, including the UK franchisor and renewable energy sectors.

Meanwhile, proposals such as supplier information mandates for CRC quantification purposes and the nature and extent of the inclusion of the National Health Service has yet to be agreed upon. This will be discussed during the forthcoming autumn 2008 consultation.

Box 1: CRC objectives

“The CRC is designed to be simplistic, with minimal administrative burden; revenue neutral (in that firms recoup the upfront costs via the revenue recycling scheme); and to overcome behavioural barriers with regard to energy efficiency.

“Essentially the CRC aims to make firms examine their electricity bills a couple of times a year and identify where they can lower their costs and cut their emissions.”

Jonathon Farr, Spokesman, Defra

Box 2: List of Acronyms

AMR – automatic meter reading
 BSC – balancing and settlement code
 CCA – climate change agreement
 CHP – combined heat and power
 CSR – corporate social responsibility
 DA – devolved administration
 EEAS – energy efficiency accreditation scheme
 EU ETS – european union emissions trading scheme
 HHM – half hourly meter
 kVA – kilovolt ampere
 kW – kilowatt
 MAC – marginal abatement curve
 MWh – megawatt hour
 NPV – net present value
 PFI – public finance initiative
 PPP – polluter pays principle
 PPP – public private partnership
 RO – renewables obligation
 ROC – renewables obligation certificate
 SME – small-medium enterprise