



Real value in a changing world

The CRC Energy **Efficiency** Scheme

A Briefing by Upstream Sustainability Services

February 2010



Legislation Briefing

The CRC Energy Efficiency Scheme ('CRC', formerly known as the Carbon Reduction Commitment) is a mandatory emissions trading scheme for the commercial, service and public sectors. The scheme targets businesses that are not currently affected by the EU Emissions Trading Scheme or Climate Change Agreement, but which consume a relatively large amount of energy.

The start date for the CRC is April 2010 but preparations are required in advance, so organisations that could be affected should ensure they are aware of the potential implications for their businesses now.

The following guide is based on recently published documents from the Department of Energy and Climate Change (DECC), Department of Food and Rural Affairs (Defra) and the Environment Agency (EA). Please note that this guide is specific to the property industry and is based on our best current understanding of the CRC at the time of writing.

- Organisations included in the CRC are those who have at least one meter settled on the half-hourly market and whose annual electricity use in the calendar year 2008 (measured through half-hourly meters 'HHM') exceeded 6,000MWh. This is equivalent to an annual electricity bill that is likely to be over £500,000.
- Organisations that do not meet the criteria for full participation may still be required to register:
 - Companies with consumption of over 3,000MWh of electricity on Half Hourly Meters in the qualification year will have to make an "Information Disclosure" of their emissions annually – but will not have to buy or trade carbon credits.
 - Companies with at least one HHM but less than 3,000MWh of electricity consumption on the Half Hourly Market in the qualification year will still be required to register at the beginning of each phase.

Responsibility for compliance lies with the *highest parent* organisation. In the case of complex ownership structures – i.e. an overseas owner, the responsibility is held by the highest parent UK organisation. Subsidiaries can be designated as Significant Group Undertakings (SGUs) and participate in the scheme separately, as long as they are Companies Act registered organisations that have over 6,000MWh of consumption on fiscal HHMs in the qualifying year.

Consumption responsibility is recognised by the *counterparty to the supply* - whomever has a contract for utilities with the supplier. Note that the supplier is not necessarily the utilities company and could also be a third party such as a facilities management company.

Organisations participating in the CRC can also have their administrative obligations carried out by an assigned "agent". This allows a third party to take administrative control and responsibility for reporting on behalf of the organisation, for example: a Fund Manager can administer the CRC commitments for the funds they manage.

Every year, each participating organisation will have to buy carbon allowances from the government to cover the following year's predicted carbon emissions. If the allowances purchased at the beginning of the year do not cover the actual emissions recorded at the end of the year, then the organisation will have to buy additional allowances from other participants on the open *Secondary Market* – where the price of carbon is not fixed.

In October of each year the government will publish a *League Table* of all participating organisations ranked according to their performance over a 12 month period. The League Table will be determined from a combination of annual performance measures: the *Early Action metric*, *Absolute metric* and *Growth metric*.

The League Table positioning informs the *Recycling Payment* – a structure designed to make the CRC revenue-neutral. In the first year the Recycling Payment returned by the government to participants will be the value of allowances +/- 10% depending on performance in the League Table. The Recycling Payment will change over time up to a +/-50% bonus/penalty on allowances by 2015 to further encourage emissions reductions.

The scheme is made up of five year phases, except for the first *Introductory Phase* of just three years. Companies who qualify will be committed to participate for the duration of the phase – even if the organisation reduces its consumption below the 6,000 MW threshold during that period.

The scheme aims to be as light-touch as possible, but will be regulated with a system of auditing and penalties for non-compliance. The *proposed penalties are severe*, for example: failure to register by the deadline will result in publication of company names as well as an immediate fine of £5000, with subsequent fines of £500 per working day for the following four months until the next reporting deadline, when the set of penalties will re-start.

The scheme regulations are being developed by Defra and DECC. Scheme administration will be carried out by the Environment Agency in England and Wales, the Scottish Environment Protection Agency (SEPA) in Scotland and in Northern Ireland, the Northern Ireland Environment Agency.

Companies with any supplies of electricity through Half Hourly Meters on the Half Hourly Market are advised to take action immediately in preparation for the scheme and be ready for registration in April 2010, even if qualification as a full participant is unlikely.

Key Deadlines and Points to Note

Registration must take place between **1 April and 30 September** this year. However, the lengthy process involved means that participants will need to embark on registration significantly in advance of the September deadline if they wish to avoid the risk of incurring penalties.

- Parent organisations will need to register before any disaggregated SGUs can be registered. Once registration has been completed, SGUs must complete the entire process in their own right. Therefore, it is advisable to complete registration in advance of **30 June 2010** to allow SGUs time to register.
- Participants must appoint a senior officer contact, a primary contact and a secondary contact. Either of the primary or secondary contact can be the same person as the senior officer contact.
- Before registration is possible, the Environment Agency must verify the business addresses of the primary and secondary contacts and the appointment of the senior officer. **This will take at least 2 weeks.**
- Guidance states that participants should allow enough time for **information to be signed off internally and validated by the Environment Agency** prior to the registration deadline.

Participants should be aware that much of the information that is to be submitted during the registration process will need to be verified and validated by the Environment Agency. Depending on the accuracy of the information and the complexity of the organisation structure, this could take some time. Registration will not be deemed complete until this exercise has been undertaken so participants will need to allow sufficient time in their planning.

A Strategy to Succeed

There is no getting away from the fact that the CRC is going to put a heavy administrative burden on participants, particularly in the early years whilst organisations learn how the Scheme works and what approach enable them to maximise the potential benefits to their company.

Upstream Sustainability Services sees the most successful strategy as using the CRC as a stimulus to combat inefficiencies in the business and to fight additional costs from rising energy prices, which far outweigh the cost of carbon credits in the first phase. Organisational buy-in is essential for success, starting at the top and running throughout the business. A successful organisation will see that efficiencies can be found wherever energy is consumed.

Data will be key, both collecting historical energy consumption data and predicting (and taking measures to reduce) future use. In order to be compliant, participants must develop solid energy data gathering and reporting structures and have a metering plan in place. Those wishing to go beyond basic compliance will need to use energy data to forecast future credit purchases and set reduction targets throughout the year. This will not only be useful for accurately purchasing credits at the annual sale or auction, but will also allow the organisation to take advantage of low credit prices on the secondary market.

Most importantly, assets themselves can be improved and made more efficient, which is the government's ultimate goal. The added incentive - at a financial and reputational level - to increase efficiency, will make it all the more worthwhile to invest in energy efficiency improvements.

How we can help

Upstream Sustainability Services ('Upstream'), as part of an integrated Jones Lang LaSalle team, is closely following developments of the CRC as they are released by government and is available to offer advice, guidance and practical support on the scheme to new or existing clients.

Upstream is uniquely placed to understand the challenges and opportunities that this legislation will pose to the property sector, with over ten years experience in collecting, managing, and interpreting environmental performance data with a commercial property focus.

We can assist with compliance as well as going further with a strategic energy reduction programme. Our CRC offering includes:

- Compliance assessment to ensure data and process preparedness and accuracy. Upstream can undertake a review of CRC compliance requirements for any business. This would highlight gaps or weaknesses in data gathering and reporting structures, evidence pack information and other important elements of CRC participation. Upstream can then work with your business to support on achieving compliance if necessary.
- Strategy and communications, how to successfully manage the CRC and drive change within the business. This includes regular briefings and intelligence on the legislation and associated guidance from government, as well as a focus on the landlords / tenant relationship (e.g. green leases, memoranda of understanding).
- Our data gathering package has been enabling property companies to manage performance data for several years now. Not only are we able to collect, collate and manage your data, we also provide analysis and industry benchmarking that can highlight areas for improvement and practical steps toward greater efficiency.
- Forecasting and modelling will prove to be an important part of how organisations understand the current and future risks of the CRC, informing what their strategic response should be. Upstream has the ability to model a range of scenarios based on real data, to provide a framework for calculating when and where to focus resources on CRC compliance and energy reduction programmes.
- Asset level energy efficiency surveys and audits; Upstream can combine desk-based data analysis with a targeted on-site energy efficiency asset survey by JLL's Energy Services team to run a cost benefit analysis and identify a programme of cost efficient opportunities and actions for reducing energy consumption.

If you have any questions about the CRC, or would like to speak to Upstream about our service, please contact Abigail.Dean@eu.jll.com or Sam.Carson@eu.jll.com for more information.

Calendar	Task		Upstream Service
Calendar Year 2008	Qualification Year	You should have: 1. confirmed your organisational structure 2. checked whether your organisation, including any subsidiary, had a Half-Hourly Meter (HHM) settled on the half-hourly market, and 3. determined the electricity used through all HHMs and assess whether your supplies exceeded the threshold of 6,000 MWh over the course of 2008.	CRC Compliance Foundation Service
1st April to 31st September, 2010	Registration	Between April 2010 and the end of September 2010, organisations that meet the qualifying criteria must register for the scheme via the online CRC registry. Those organisations that do not meet the qualifying criteria but do have an HHM settled on the half-hourly market must make an information disclosure via the CRC registry.	CRC Compliance Foundation Service
Tax Year 2010	Start of first Compliance Year and Footprint Year for Introductory Phase	In this year, you should: 1. register for the scheme or make an information disclosure to the administrator	CRC Compliance Foundation Service
		2. monitor energy supply for the year and collect records for their evidence pack.	Data Management
Before March 31 st , 2011	Early Action Metric preparation	There are two components to the Early Action Metric (EAM): Carbon Trust Standard (or equivalent) or the installation of voluntary Automatic Meter Reading (AMR) on sites. The EAM will account for 100% of the first year league table score, 40% in the second year and 20% in the third year.	Strategic Modelling
Ongoing	Monitoring energy supply and collating evidence packs	Every qualifying participant must monitor their full energy supply over the year and keep records for an evidence pack. You must keep the records for 2010/2011 data for the entire length of time you are a participant in the scheme. Subsequent records must be kept for five years after the end of the phase to which they pertain.	Data Management
April 2011	Purchase allowances	In this first sale you must buy allowances to cover your emissions for your projected emissions for the forthcoming year (April 2011-March 2012).	Strategic Modelling or Bespoke Forecasting and Analysis
	Submit a footprint report	Participants must submit a footprint report for the previous year (2010/2011) outlining total energy supply and emissions, and electricity credits.	Data Management
31st July, 2011	Submit an annual report	Participants must submit their annual report detailing their emissions included in the scheme for the previous year, turnover or revenue expenditure, and data on early action. Reporting is done via the CRC registry.	Data Management
	Surrender allowances	Participants must ensure they have surrendered allowances equivalent to the emissions they reported in their annual report.	Data Management

Calendar	Task		Upstream Service
October 2011	Receive a revenue recycling payment	The first league table will be produced. In this instance, it will be based on the early action metric only. Organisations will then receive their recycling payment.	
	League Table published	The League Table is published, along with a list of companies which have been penalised under the scheme.	
Ongoing	Secondary market for allowances	Participants are able to buy and sell allowances through the secondary market.	Data Management, Strategic Modelling & Bespoke Forecasting and Analysis
April 2011	Purchase allowances	You must buy allowances to cover projected emissions for the forthcoming year 2012/2013.	Strategic Modelling or Bespoke Forecasting and Analysis
31st July 2012	Submit an annual report	Participants must submit their annual report detailing their emissions included in the scheme for the previous year, turnover or revenue expenditure, and data on early action. Reporting is done via the CRC registry.	Data Management
	Surrender allowances	Participants must ensure they have surrendered allowances equivalent to the emissions they reported in their annual report.	Data Management
October 2012	Receive a revenue recycling payment	The league table based on 2011/2012 reports will be produced and you will receive your recycling payment.	
	League Table published	The League Table is published, along with a list of companies which have been penalised under the scheme.	



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