

# Don't ignore this carbon challenge

EnergyQuote's Gary Worby discusses the challenges companies face in managing their consumption and carbon emissions in the face of the Carbon Reduction Commitment

An energy efficiency and emissions reduction policy should be written into company policy in a way that keeps it in constant focus.

It is important to be systematic in your approach to energy efficiency policies if you want to see the benefits. Introducing clear energy reporting standards will highlight which emissions reduction programmes are successful, as well as meaningfully increasing awareness of climate change within the company walls. Increasingly, we find that investors, clients and other stakeholders are interested in how businesses have assessed energy and climate risks, and how they plan to manage them.

## Deadlines looming

Despite looming deadlines imposed by the Carbon Reduction Commitment (CRC), some firms have yet to prepare for their responsibilities. Given the benefits of proactively managing consumption to bypass the 6,000MWh threshold, or indeed even to meet this, it is important to act now by introducing effective energy management and carbon reduction schemes.

Business experts all agree that what gets measured gets improved. So you should start by monitoring and measuring the parts of your business that entail energy consumption and understand the relationship.

Besides arming you with the expertise you'll need to respond to further legislative changes, acting now to become an energy-aware business gives you a better chance of gaining a competitive edge against those who don't respond to change well. It can also deliver significant cost savings and an improved corporate image. The CRC even offers a bonus for early adoption if you can demonstrate three years of an advanced implementation plan to reduce energy and carbon.

Along with the carrot, the



government has its stick and current studies indicate that as much as 10 per cent of the CRC's audience are not going to comply with registration. The Environmental Agency will impose a fine on companies included in the scheme that do not have a CRC account by the deadline. The fine increases if registration still hasn't happened by the date of the first sale of allowances in April 2011. At this point, the company will be considered to be non-compliant. Then the second stage of penalties kick in and a moderate fine per tonne of carbon will be imposed if the emissions are reported by August 2011.

It can get worse, as missing the August 2011 deadline will mean the loss of a firm's entire revenue recycling payment for non-compliance. If two or three months lapse after that, the offending organisation pays £25/tCO and is forced to buy allowances on the secondary

market to cover emissions.

To avoid that outcome, the best practice option would be to run a compliance process plan alongside the energy management - with the objective target of getting below the CRC threshold to. This covers you for any eventuality and saves money immediately as cuts are made according to plan. It's a win-win approach, and should be easily accepted by all your stakeholders.

## False economy to delay

For those organisations who find themselves included in the CRC, acting early is, without question, the best option. You may ask what if I put off energy efficiency until the scheme starts and why start now if energy has to be reduced later? Well, unfortunately this is a false economy and won't work. Energy efficiency simply doesn't happen overnight and the ability to efficiently and effectively lower energy usage increases if you have a plan in place. And this takes time.

The European Commission's Impact Assessment estimates that carbon prices will rise from €26/tCO<sub>2</sub> in 2013 to €39/tCO<sub>2</sub> by 2020 and some studies have projected even higher prices. The Carbon Trust is urging organisations of all sizes to prepare now for the next phase of the EU ETS. The Trust also predicts that it will have a major impact on the cost of energy and could raise the price of carbon credits in the scheme to a high of €50/tCO<sub>2</sub>.

The demand for credits will depend on the approach each government takes to cut emissions by 20 per cent and generate 20 per cent of energy from renewables. If the focus is on energy efficiency, there will be a higher demand for credits. If the focus is on generating energy from renewables, demand for credits will be lower.

As for Phase III, keep in mind that changes will filter through to organisations not directly involved in the scheme in the form of higher electricity prices. Reports predict increases between 1p and 2p per kWh.

Higher oil and gas prices affect ETS carbon credits by encouraging generators to switch to cheaper but more carbon-intensive coal for fuel and this, in turn, requires the purchase of more carbon allowances. This means that uncertain oil and gas markets need to be watched carefully. The one certainty is that emissions will fall as tighter allowances are introduced to more and more participants.

If the uptake of renewable energy projects is significant, then the price of carbon needs to be in the region of €35-45/t and a recession will weaken the EU's desire to contend with these levels. However, a strong economy, coupled with high energy prices, will set the stage for significant investments in low-carbon technologies. ■

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