November 08

the inside track #15

Highlighting CSR Issues of the moment

Companies to bear costs of climate change

Readers may be forgiven for forgetting or even ignoring climate change, given the current financial climate. However, be aware of important developments, as the Government seeks to tackle growing levels of CO2. Its latest suggestion is that there should be an 80% reduction target (compared to greenhouse gas emissions at 1990 levels) by 2050 for the UK, compared with its previous comnmitment of 60%.

We already have the EU Emissions Trading Scheme (ETS) for the major CO2 emitters such as energy generators, and major energy using industries. However, with this autumn's assent for the Climate Change Bill, the Carbon Reduction Commitments (CRC) will come into place, covering **all large private and public organisations.**

The CRC is a mandatory 'cap and trade' scheme obliging organisations with annual half-hourly metered electricity use of more than 6,000MWh, to undertake a series of new measures. It will affect about 5,000 UK organisations, typically those with electricity bills of more than £500,000. The intention is that this 'cap and trade' scheme will be revenue neutral to the Government, but poor performing companies will bear a cost for their impacts on climate change.

In addition, to highlight good - and bad - company performance, there will be a public league table providing sector based information about organisations' energy performance.

This scheme will involve an auction, whereby companies bid for permits for their estimated CO2 emissions in the following year. 2008 is the baseline year in which companies should measure their energy use on an accurate and complete basis. 2009 will be a preparatory year when they identify whether they are included and will need to bring systems and processes into line for the scheme launch in 2010.

Monitoring and reporting aspects of the scheme will be 'light-touch' according to Government. This means there will be no need for independent third party verification, but a number, around 20% or about 1,000 organisations, will be selected for audit by the scheme regulator.

The phasing

2008 is the benchmark year.

2010 to 2013 is the phase when emissions' allowances will be auctioned at a fixed price of £12 per tonne of CO2. Companies will be feeling their way, setting themselves targets and identifying scope for emission reductions.

At least 90% of a CRC organisation's emissions must be reported and covered by CRC, EU ETS or Climate Change Agreements (CCAs). Within this 'de minimis' rule there is compulsory coverage of all core property based emissions:

- Electricity from 100kW half hourly meters in Great Britain (and 70KW meters in Northern Ireland)
- All electricity consumed through meter profile classes 5 - 8
- All non-daily metered gas consuming more than 73,200 KWh per annum

However, subsidiaries with over 25% of emissions covered by CCAs and emissions covered by the EU ETS are excluded from CRC reporting.

2013-2016 is the first capped period. In this 'business as usual' period, an overall cap will be imposed on organisations included in the CRC, with the aim of achieving the government's targets. This is likely to be a 'sealed bid, uniform price' auction in April of each year.

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Whilst attention has been focused on financial disasters, the Government continues its drive on climate change, perhaps on the basis that the former come and go, whilst the latter is a threat, both now and for future generations. In continuing this drive, the Government's CRC scheme internalises what were external (and unaccounted for) costs, previously borne in some manner by society.

In our discussions with clients, there is a very limited view of the CRC impact and little consideration of what actions are needed.

So what do you need to do?

Who reports?

The parent entity will be responsible for pulling together data for all its UK subsidiary entities. More importantly it needs to set energy reduction targets based on current consumption.

How should you manage it?

The Carbon Trust belief that "A good carbon management strategy will be key to making the most of the scheme" is a view we fully endorse. We suggest companies adopt a holistic view of energy consumption. For this an executive level stategy is a key component.

We also see a vital role for employee awareness programmes related to energy management. Organisations must move from carbon reporting to carbon management, by capturing the hearts and minds of employees.

What actions and when?

The following offers a timeline of events with key priorities:

2008 - As the benchmark year, companies should ensure accurate and rigorous consumption measurement is in place with complete and accurate recording of carbon emissions across their UK property profile. For some organisations, this is still ad hoc. Yet a more rigorous approach will not only ensure accurate measurement for CRC, but also offer potential savings.

Late 2008/early 2009 - Introduce systems for successful management of the scheme. Budgeting systems should be in place to take CRC costs into account at UK operating entity level, with financial recording systems to build them into monthly management accounts.

Well-informed and realistic target setting should be in place, together with schedules for cost-effective investment in new equipment. Investment implementation should take timing of energy efficiency initiatives into account. This, together with production planning systems, will enable accurate forecasting of energy consumption for CRC forecasting.

Late 2009 - Procurement or finance departments should have completed preparations to manage the carbon allowances trading regime.

Energy efficiency improvement schemes should be in place across all UK operating entities to avoid both costly purchasing of carbon in the auctions and being publicly identified as poor performers.

Organisations should have implemented awareness programmes to ensure employees are aware of CRCs and understand their part in managing energy consumption.

Public Relations planning should be ready to handle appearance in the league table of good (and poor) performers. This is likely to become an important indicator of corporate reputation.

2010 - By the commencement of the CRC scheme, organisations should have programmes that:

- Assess completeness and accuracy of existing energy and emissions measurement systems.
- Provide input to financial and planning departments to enable them to co-ordinate CRC planning and reporting mechanisms.
- Develop employee communications programmes to ensure they understand their role in managing energy consumption.
- Provide input to procurement departments on the best way to manage CRC trading.

The UK's CRC scheme is likely to be the forerunner of similar schemes across the world. After 2012, we will have both Kyoto's replacement, and the 7th EU Environmental Action Plan. Getting CRC right will put you in good stead for what will be an increasingly important part of business management.

If you would like an objective and impartial view on addressing CSR risk management or business review reporting issues,
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