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Power rangers

by Mike Scott

Companies with large carbon footprints are to be policed by the Environment Agency from April. Cutting emissions will bring rewards but there are heavy penalties for poor performers. How will directors be affected?

A new regulation aimed at making businesses more energy-efficient comes into force in April. The CRC Energy Efficiency Scheme, formerly known as the Carbon Reduction Commitment, has emerged from the Climate Change Act, which calls on the government to meet strict emissions targets.

The scheme covers any organisation that consumes more than 6,000MWh of electricity a year as measured by half-hourly meters—equivalent to an electricity bill of around £500,000 a year. But once a business has qualified, it will not just be its metered electricity that will be gauged—all of its static emissions sources, including gas and oil, will be taken into account.

By 2020, the CRC is expected to deliver annual cuts of at least 4.4m tonnes of carbon emissions and save those taking part around £1bn a year in fuel costs, claims energy and climate change minister Joan Ruddock. The CRC will cover organisations such as government departments, supermarkets, hotel chains, large local authorities and financial services groups.

It targets UK emissions of "the highest parent organisation", meaning that many businesses, which might expect to be exempt, such as franchises and joint venture companies, will have to comply. Ignoring the law will be costly—failure to register for the scheme



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can lead to a £5,000 fine, with a further £500 penalty for every working day you fail to be listed, up to 80 days.

During the first year, companies will not have to buy allowances to cover carbon emissions, but they will need to monitor their energy consumption. The first CRC league table will give credit to companies that have voluntarily taken early action to cut usage.

Businesses that have achieved the Carbon Trust Standard earn extra points in the league table, explains Harry Morrison, general manager of the Carbon Trust Standard Company. To reach the standard, businesses must show that they have measured, managed and cut emissions over three years.

So far, 170 organisations have attained the standard. Between them, they have saved more than 1.5m tonnes of CO₂ and cut their energy bills by more than £50m a year in total. The other way to gain credit for early action is to install automated meter reading (AMR), which gives more information on energy use and is a good first step to gaining the standard, says Morrison.

From next year, businesses will have to buy allowances based on energy consumption, initially at a fixed price of £12 for each tonne of CO₂. From 2013, fewer allowances will be issued and these will be auctioned, which may push up prices and boost the incentive to make savings.

At the end of each year, the total cost of allowances is shared among those taking part. But you do not simply get your money back—league tables are produced and top performers receive a bonus, while the laggards lose a share of allowance costs. In the first year, this is 10 per cent of the cost of allowances, but every year maximum bonuses and penalties will rise by 10 percentage points, until they reach 50 per cent in year five.

The largest organisations will pay millions of pounds for allowances, so potential costs are significant. "An organisation with a yearly energy bill of £20m would need to purchase approximately £1.2m of allowances every year from 2011," says James Anderson, director of strategic and sustainability services for consultancy Amec's environmental business.



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On top of that, "there are big brand benefits from performing well", says Mark Johnson, CRC knowledge leader at consultancy AEA. Ruddock argues: "In a marketplace conscious of green credentials, this will provide a real incentive to act."

The scheme raises several issues for directors. First, they must find out whether their business is covered and, if so, register with the Environment Agency. Next, companies must measure and monitor energy use, says Lucy Candlin, of Future Perfect, the sustainability consultancy. While many big companies are on top of the issue, she adds, "this will be a challenge for some companies, which have never done this before".

Amec's Anderson explains: "Businesses will need to quickly develop an accurate understanding of not only where they consume energy but also where they could possibly reduce it and save costs." Furthermore, "each CRC participant organisation must nominate one of its directors to take responsibility for the CRC".

Directors need to take a personal interest in how the scheme is being managed because they will have to sign off the figures on energy performance, adds Johnson at AEA. The CRC is expected to have limited impact on businesses that fall below the consumption threshold. But organisations whose usage tops 3,000MWh a year must submit figures to the Environment Agency—this would make it easy for the government to extend the scheme. The CRC is part of a wider trend of greater awareness about energy consumption that is likely to feed down to smaller companies, says Johnson.

"If your customers are in the CRC, they will be looking to manage their energy more strongly because it will save them money. A lot of that broader carbon management will involve procurement processes, so SMEs may face pressure on their own operations," he explains.

The government is keen to spread the costs across the economy, says Candlin, so the drive for carbon efficiency is likely to reach smaller firms, through measures such as compulsory smart metering.

Morrison concludes: "The UK targets for cutting emissions are clear. We may see mandatory reporting across a broader range of companies in future."

10 Carbon Trust tips to save energy

1 Switch off lights in empty rooms. You could cut your lighting costs by as much as 15 per cent, just by making sure you turn off lights in rooms and corridors that aren't being used.

2 Don't turn up the heating unless necessary. Try to keep your thermostat at 19C. Your heating costs go up by eight per cent for every 1C increase.

3 Maintain equipment properly. If you don't regularly check your heating equipment, you could be adding as much as 10 per cent to your heating bill without knowing it.

4 Vending machines or kettles? It is cheaper to provide a kettle for staff working outside normal business hours than to continue to run a drinks vending machine.

5 Turn off computers. A single computer and monitor left on 24 hours a day will cost over £50 a year. Switching them off out of hours and enabling standby features could reduce this to £15 a year and prolong the lifespan of equipment.

6 Lighten up. Replacing high-wattage filament lamps or tungsten halogen lamps with compact fluorescent lamps or metal halide lamps will give energy savings of 65 to 75 per cent.

7 Fix compressed air leaks. Compressed air leaking through a single 3mm hole could cost you almost £700 a year.

8 Take out a Carbon Trust loan. Interest-free loans of up to £500,000 enable businesses to replace old, inefficient equipment, such as lighting, heating and air conditioning, with new energy-saving models. The savings you achieve pay off the loans over one to four years.

9 Monitor your energy. Installing smart meters across your buildings allows managers to see exactly how much power is being used and where savings can be made.

10 Gain the Carbon Trust Standard. The Carbon Trust Standard

is awarded to organisations that measure, manage and reduce their carbon footprint.

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