CRC LEAGUE TABLE STRATEGIES

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

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INTRODUCTION

Organizations across the United Kingdom continue to prepare for their participation in the CRC Energy Efficiency Scheme, formerly known as the Carbon Reduction Commitment (CRC). The legislation is due to be passed into law by early 2010 and will make the UK government the first to instigate a scheme of this nature to address the growing problem of carbon emissions and adverse climate change.

The CRC Energy Efficiency Scheme is not to be taken lightly and be seen as just another government imposition or method of taxation. A good performance within the scheme is nothing less than essential, should the enterprise want to improve its overall position in the market-place with a view to future growth and stability.

LEVERAGING THE LEAGUE TABLE FOR STRATEGIC ADVANTAGE

The CRC Energy Efficiency Scheme is quite complex and is designed to encourage organizations to reduce energy usage and subsequent emissions through a process known as "cap and trade," where each organization will have to compete with others to purchase available credits from the government according to an overall set limit nationwide.

When the CRC Energy Efficiency Scheme gets fully underway, powerful market forces will;

- dictate the value of a tonne of carbon as a new commodity,
- fix the price according to a complex flow of performance and availability, and
- place considerable pressure on the organizations to achieve energy efficiency.

While the trading scheme won't really show any real "teeth" in its early stages, it is nevertheless essential that any company impacted and forced to comply is fully aware of its individual position, the opportunities that it may face if it returns good performance metrics and the ramifications ahead if it either fails to understand, accurately measure and report or perform efficiently as compared to its peers.

CONSIDERATION FOR CARBON ALLOWANCES, CREDITS, AND BUDGETS

The first year of the scheme (April 2010 to March 2011) will be a reporting year only, and so the first allowances will need to be purchased in April 2011 for the coming year. The impact to allowance purchases in April each year, with receipt of recycling payments in October each year, means that allowance costs are to be financed for 6 months on average every year. This could be a substantial financial burden, especially when considering the likely increase in allowance costs when moving into the capped phases from 2013. When factoring in the potential impact of financial penalties for poor performance, the financial implications are further amplified

In addition to the considerable financial pressures represented by the CRC Energy Efficiency Scheme, each company must understand that its performance will be open for all to see. The performance league table proposed by the government is intended to be the primary motivational factor, as if the straight forward financial repercussions of poor performance were not enough.

Once the performance league table is published at the end of each compliance year, consumers and media alike will be able to review the individual performances and see which companies performed the best within their industry categories and classifications. It is important to understand exactly how this works and how it can be leveraged to an organization's advantage.

WHAT IS THE CRC ENERGY EFFICIENCY PERFORMANCE LEAGUE TABLE?

The **Performance League Table** is compiled at the end of each compliance year. Compliance years run from April through the following March. Information is gathered from a report submitted by all participating organizations and this data is then used to determine the organisation's overall ranking in the published league table and resultant revenue recycling payment including applicable penalties or bonuses.

League table ranking will be determined with reference to performance under three separate metrics, the weighting of which will vary over time.

ABSOLUTE METRIC

This is a mandatory metric and reflects the change in actual emissions by comparing the latest year's emissions to the average of the preceding 5 years (or since the scheme started, whichever is the shorter). It is the primary goal of the CRC Energy Efficiency Scheme to encourage participant companies to reduce absolute carbon emissions and thus this metric retains the highest weighting factor in determining league table performance, increases to 60% during the introductory phase and then being set at 75% from 2013 onwards. The Absolute Metric is not relevant in the first year of the scheme, but is included from the second year onwards.

EARLY ACTION METRIC

At the end of the first compliance year in March of 2011, the UK government will only be in possession of information relating to that year and will obviously not be able to assess any performance improvements made, or not. As such during the first year, 100% of the emphasis will be placed on the early action metric to determine the table positions.

Each organization should seriously consider the ways in which it could "score" according to the early action metric, as at the end of the first year the publication of the league table will undoubtedly achieve considerable publicity due to its novelty and poor performance could cause significant reputation damage.

Calculations based on the early action metric will refer to energy-saving measures that the organization puts in place before the start of the CRC scheme. This means that management should be taking steps to ensure that they:

1. Convert all core electricity and gas source meters that are not covered by an existing mandatory automatic metering requirement, to automated meter reading. This voluntary installation of AMR, as it is known, must be in place by 31 March 2011 in order to gain credit under the CRC scheme.

2. Apply for and maximise coverage under the Carbon Trust Standard (CTS), the Energy Efficiency Accreditation Scheme (the predecessor of the CTS), or equivalent certification. The Carbon Trust Standard is an independent assessment of how an organization measures, monitors and reduces its emissions over time as well as the absolute and relative emission reductions achieved. The extent to which CRC emissions are covered by CTS end the end of each scheme year determines the score achieved for this element of the early action metrics.

Each of these two factors will carry equal weight. The administrator will refer to the percentage of metered emissions covered by the AMRs and the percentage of emissions covered by the Carbon Trust Standard. Together these will account for 100% of the league table performance determination for the first year of the scheme. This will be reduced to only 40% in the second year of the scheme, 20% in the third year and then be discontinued from the start of phase II of the scheme in 2013.

GROWTH METRIC

Again, as there will be essentially nothing to gauge gains during the first reporting year, the growth metric will not be relevant until year 2 of the scheme. The growth metric assesses emission per £ of turnover (or expenditure in the case of public sector organisations) versus the average of the preceding 5 years of the scheme (or since the start of the scheme, whichever is shorter). Its weighting grows from 15% in year 2 to 20% in year 3 and then 25% thereafter.

A further change is that early actions (adopting an energy efficiency accreditation scheme and installing AMR, or 'Smart', meters) will now deliver a slightly greater impact on participants' performance

The growth metric attempts to provide some relief to organisations that are experiencing a growth in emissions as a result of revenue growth. If the company is growing, yet its emissions are essentially declining as a percentage of unit turn over, then this achieves a better scoring. If the organization is decreasing in size, its relative emissions should be also decreasing, ideally at a faster overall speed.

Given that the absolute metric has a weighting three times that of the growth metric, it is clear that significantly more importance is placed on absolute emission reduction in determining overall league table performance.

PREPARING NOW FOR CRC REPORTING AFTER YEAR ONE

Once the introductory phase is complete, fully three quarters of the weight applied to a league table position and to financial reimbursements will come from the company's absolute performance in reducing its emissions, while 25% of the weight will refer to its relative performance according to its growth or decline.

While the primary goal of the CRC is still to force a company to improve its efficiency and reduce its carbon emissions, each metric has its own impact and should be clearly understood.

RELATIVE LEAGUE TABLE PERFORMANCE IS IMPORTANT

The Performance League Table has considerable importance. Not only can it affect how a company is viewed by its key stakeholders and consumers, but position within the table affects the company from a financial perspective as well.

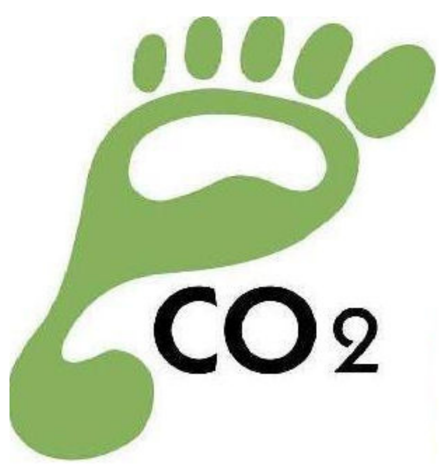
Essentially, funds collected as organizations purchase carbon allowances are recycled back to participants during October of each year. However this figure is adjusted based on a bonus or penalty payment according to the position in the table—the higher the position the better the bonus payment.

To increase the impact of the scheme over the first five years of its implementation, the level of bonus or penalty rate has been gradually increased. For example, in the first year the maximum bonus that an organization can achieve should it be at the top of the table is 10% and a maximum penalty, should the organization be at the bottom of the table, is 10%. During year two, these figures change to +20% and −20% and increase by 10% per year until during year five the figure is 50%.

As metric computation is based on a company's current performance relative to its own past performance, then it follows that the enterprise needs accurate data to assess its carbon baseline and have a thorough understanding of its forecast emissions position before the launch of the scheme.

UNDERSTANDING POSITION AND ASSESSING DATA

A company must strive to achieve a comprehensive view of its baseline, understanding how each asset and individual activity within its operation affects its carbon footprint and its consequent emissions. Quite simply, it will not be possible to identify opportunities and achieve ongoing emission reductions without this comprehensive view.



Verisae is ideally placed to help the organization analyze the performance of individual assets and to combine all this information into a meaningful form. The company's Sustainability Resource Planning (SRP) platform helps an enterprise conduct an energy audit and to determine how its resource usage and power consumption affect carbon baselines.

When an accurate carbon baseline is established, measures can be put in place to achieve greater efficiencies and it stands to reason that with accurate data on hand senior management can take the necessary steps to move forward with confidence.

The total greenhouse gas emissions at the beginning of the CRC must be reported at the end of the first year of the phase, i.e. March 2011. However, this is also the first year of compliance and thus the organization must be fully prepared and ready to "do battle" by April of 2010. All energy consumption during the year 2010 to 2011 will be included in the footprint report, and as the baseline year, it plays an important role in future recycling payment computations.

> If we really do pull off changing the world's energy system, then a whole lot of money is going to be spent on putting the equipment in place to do that.

Even though relative penalties or bonuses are slowly increased over time during the rollout of the scheme, it is nevertheless essential for the organization to hit the ground running and to be fully confident of its measurement capabilities, reporting capabilities and ability to perform during the very first year.

If data is fundamentally inaccurate during the first year, it will essentially be carried forward into the second year as allowances are being purchased in advance based on forecast emissions for the coming year. Inaccurate reporting can also lead to fines being imposed

GATHERING ENTERPRISE SUSTAINABILITY INTELLIGENCE

The individual organization is not operating within a vacuum and as the scheme unfolds it would do well to gather as much information and intelligence as possible. Other organizations of like size within its sphere of operations will be similarly impacted and there will be, in effect, a race to achieve better rankings and performance.

As such, it is not good enough to focus solely on internal operations, methods, procedures and ultimate performance, but insofar as this is possible, data should be compared to ongoing results achieved by others.

Senior management should set up a system to gather this intelligence as methodically as possible. Much of this information is available in the public domain. For example, corporate sustainability reports are becoming increasingly important and are even expected by society these days. These reports contain a wealth of information about the company's past and current situations and future goals.

While the submission of the corporate sustainability report may not be mandatory as yet, the company portrays inaccurate data at its peril. Badly formed reports, incomplete or falsified findings run the risk of causing the company reputational harm and potentially facing accusations of “green washing.”

While it may be in the company’s best interest to keep its environmental performance cards close to its chest, real-world forces are at play to encourage it to release meaningful and believable information and evidence to the market in general. If a company is seen as “doing nothing” it can attract reputational criticism and it is therefore in its best interests to show that tangible work is being done on the sustainability agenda.

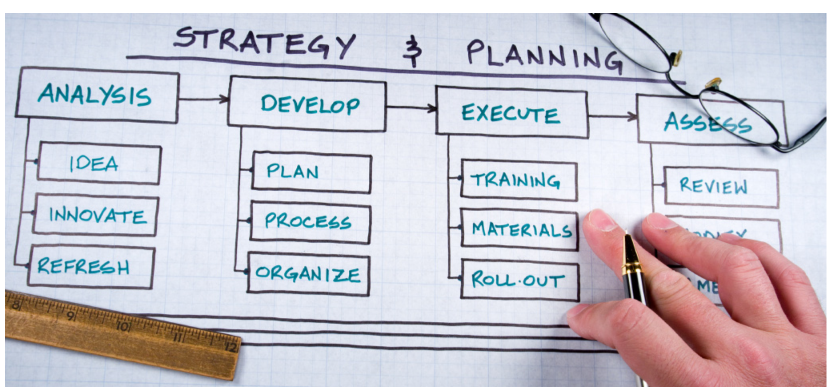
A full understanding of the implications of the CRC Energy Efficiency Scheme is essential. As mentioned earlier, considerable focus is likely to be placed on the performance league table at the end of the first year, despite the direct financial consequences being relatively small. e.

Of supreme importance is the need to compile accurate data during the first year footprint phase. Failure to accurately assess the position here can lead to significant problems when trying to better the position and can also lead to direct fines and penalties if the company is found to have materially misreported its data.

SUMMARY OF CRC LEAGUE TABLE STRATEGIES

To achieve a strategic advantage over other organizations participating in the CRC Energy Efficiency Scheme, organizations must focus on the following principles:

1. Fully understand the real costs associated with doing business;
2. Ensure that a good return on investment is being realized from all of its assets;
3. Optimize the performance level of these assets and ensure that the company is operating from an overall level of high efficiency;
4. Put in place software products and solutions to enable the company to record accurate data and report in an efficient and timely manner;



5. Gather as much intelligence as possible about rival, competing organizations with regard to the overall levels of sustainability, past performance, future goals and their methods of tracking and reporting;
6. Based on all this information, establish emission reduction goals greater than industry average, that are actionable.

When an organization fully understands its' carbon baseline position, and is confident of its ability to record and report, highly aware of its position among its peers and with a plan to reduce emissions, then it will undoubtedly have a strategic advantage over its competitors.

As the entire scheme is based on "going the extra distance" and extending the corporate reach, the "winners" will realize a net financial gain from the emissions trading scheme and through efficiency will reduce operating costs as well as the cost of purchasing energy. Those who fail to realize these positions will suffer all the opposite effects as well as considerable reputational harm.

The CRC Energy Efficiency Scheme is not to be taken lightly and seen as just another government imposition or method of taxation. A good performance within the scheme is nothing less than essential, should the enterprise want to improve its overall position in the marketplace with a view to future growth and stability.

ABOUT VERISAE

Verisae **(www.Verisae.com)** develops, markets, and licenses **Sustainability Resource Planning (SRP) ™,** an enterprise solution that empowers organizations to make "sustainability actionable". Verisae helps measure, manage and monetize energy costs and carbon emissions. SRP covers the core functions of sustainability needs by combining multiple business processes and systems into one database to use across the enterprise. Our platform improve operational efficiency, make sustainability initiatives actionable, and reduce energy costs carbon emissions for distributed enterprises and energy companies.

ENVIRONMENTAL MANAGEMENT

Carbon Emissions Manager
- Scope 1 & 2 Emissions
- Scope 3 Emissions

Sustainability Project Manager

Water Manager

Waste Manager

ENERGY MANAGEMENT

Energy Supply Manager
- Utility Bill Processing
- Active Energy Response
- Utility Contracts Management
- Energy Spend Manager

Energy Demand Manager
- Real-Time Energy Management
- Active EE Dispatch
- Energy Efficiency Projects

ASSET MANAGEMENT

Service Manager
- Service Provider Management
- Financial Management

Asset Manager
- Facilities Management
- Equipment Management
- Asset Monitoring & Alarming
- Parts & Inventory Management

Procurement Manager
- Rebates & Incentives Management
- Total Capital Planning
- Equipment Procurement

Given the heightened priority of corporate sustainability, Verisae is positioned right now to enable organizations to establish a carbon footprint baseline, outline energy management options, and provide a comprehensive corporate sustainability action plans in a manner of months. All of which can be implemented with metrics in place to highlight bottom-line cost savings and return on investment timelines.

Today, Verisae delivers a broad range of sustainability solutions to over **40 global clients** with a service network of **7,500 third party service providers** consisting of **60,000 application users.** Our integrated sustainability platform actively tracks over **2,100,000 million assets** across **20,000 sites.** We help measure, manage and monetize energy costs and carbon emissions. We are uniquely position to help organizations prove return on investment (ROI) for sustainability initiatives.

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