



Carbon Advisory Group

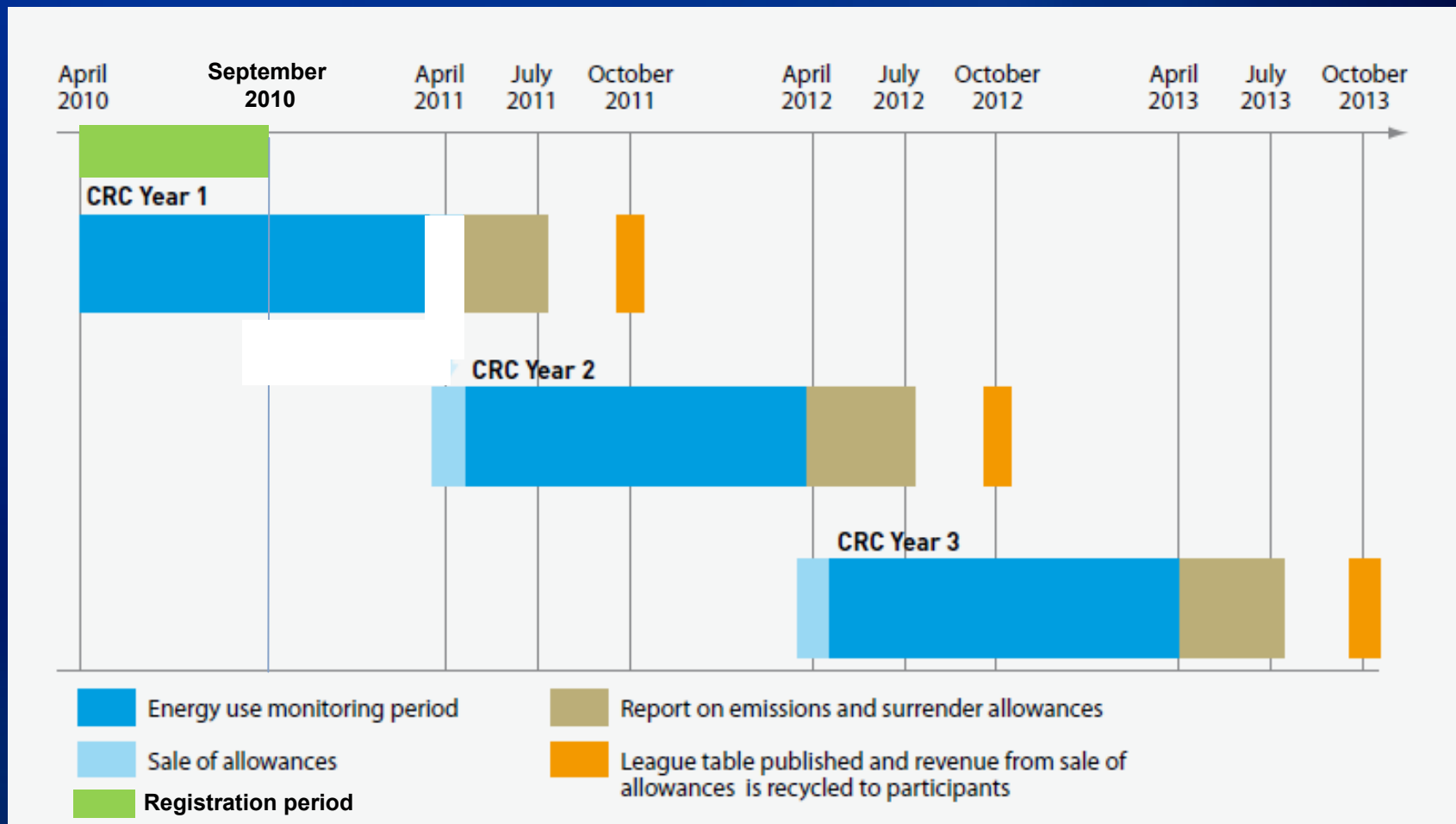
CRC – Profit and reputational benefits

Ben Wielgus - Lead CRC Advisor, Sustainability Advisory Services
20 April 2010

Why is KPMG talking to me about CRC?



CRC: The first 3 years



How much can I make from the CRC?

...not a lot

- **£12 per tonne of carbon**
- **You can lose as much as you can earn**
- **Cash flow cost - Roughly 10% of energy bills**
- **Profit/loss – Roughly 1% of energy bills in the first year, but rising by 1-2% each year**

Saving energy is key to it all

How do I work out CRC cost?

The cost of the CRC to clients is determined by a number of factors:

- Your carbon footprint
- The price of allowances during the auction
 - Fixed for first 2 years from auction but after that it's determined by demand and supply
- Whether you buy allowances from the secondary market
 - Each allowance is still entitled to an equal share of the recycling fund, even if you paid much more/less for it
- Where you come in the league table
 - A bonus / penalty is applied to the refund for those who perform well / poorly
- Any fines you incur e.g. failure to meet deadlines or incorrect reporting
- Your proportion of the total recycling fund in the baseline year

How does the league table work?

- **Early action metrics – CTS and AMR**
- **Absolute improvement in carbon footprint**
- **Growth metric (not significant)**

	Year 1	Year 2	Year 3	Year 4
CTS	50%	20%	10%	0%
AMR	50%	20%	10%	0%
Absolute imprmnt	0%	45%	60%	75%
Growth metric	0%	15%	20%	25%

What difference does league table position make?

£2million pa on electricity and gas = 15k tonnes carbon pa @ £12 each = £180,000

Year	2010	2011	2012	2013	2014	2015
Outlay in April	£0	£180k	£180k	£180k	£180k	£180k
Bonus/ Penalty	± 0%	± 10%	± 20%	± 30%	± 40%	± 50%
Actual impact	NA	± £18k ± 2%	± £36k ± 2%	± £54k ± 3%	± £72k ± 4%	± £90k ± 5%
Possible Fines	Minimum fine at 5% misstatement = £30,000					

Note this simplifies the impact and ignores fees and change in price of utility costs and carbon.



Carbon Advisory Group

Surviving the CRC with Your Sanity Intact

Ben Wielgus - Lead CRC Advisor, Sustainability Advisory Services
20 April 2010

Carbon Reduction Commitment

Why is it a risk?



But can it be an opportunity too?

Who's involved in the CRC?



What do others need from you?

Trust

Reliability

Consistency

Timeliness

Appropriateness

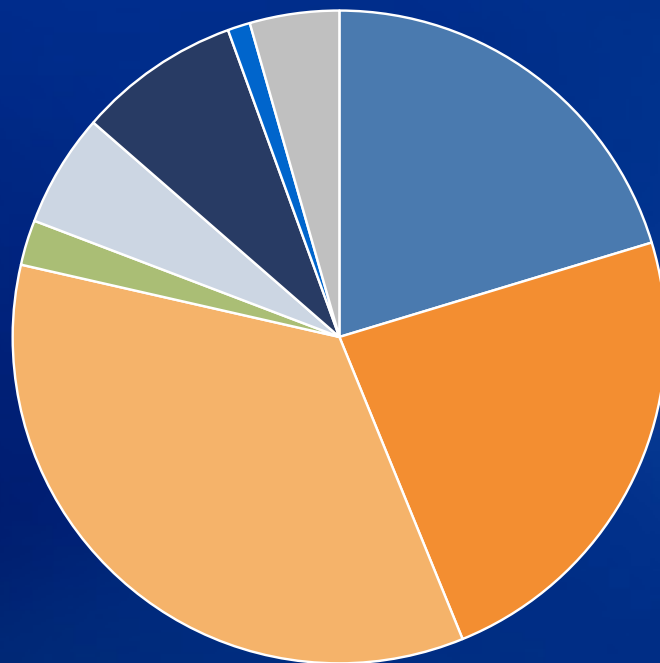
So what are KPMG doing about CRC?

We're preparing ourselves internally

We're helping our clients prepare through education, audit and support

CRC Readiness Reviews – The Results

From a sample of our reviews, the issues can be split as follows:

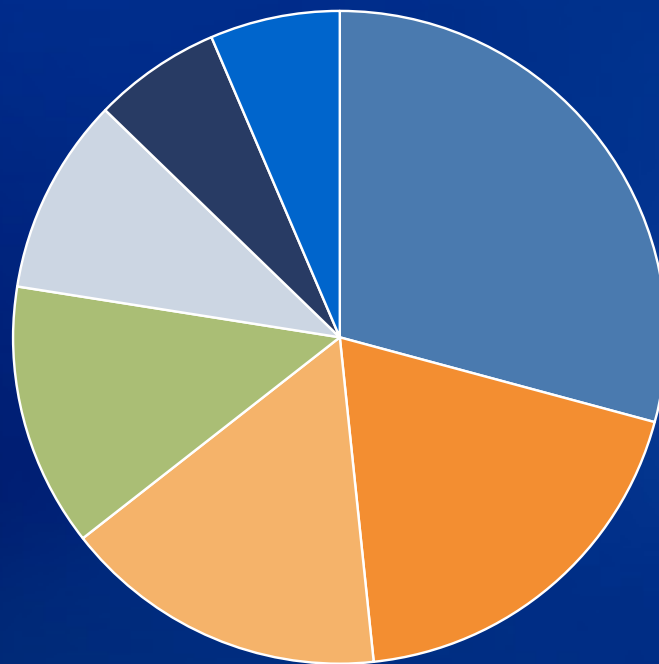


- Strategy/policy/buy-in
- Reporting systems/controls
- Recording/reporting issues
- Early action metrics
- Identifying opps
- Investment/funding
- Trading strategies
- Other

Is there a difference between public and private sector?

CRC Readiness Reviews – Risk of fines

Primarily come from findings relating to recording/reporting issues. These can be broken down by cause:



- Boundaries
- 3rd party data
- Availability
- Conversion factors
- Technology
- Estimates/restatements
- Human error/typos

12 CRC audit survival tips:

1. Never have incomplete data
2. Report all data at least every quarter
3. Report data in a timely manner
4. Have someone check a sample of data regularly
5. Document everything!
6. Check invoices against meter reads
7. Don't forget to ask for your annual statement
8. Have someone senior sign off numbers
9. Be consistent
10. Be sceptical of 3rd parties
11. Explain significant variances
12. Estimates are OK if the cost outweighs the 10% markup

What do I need to do now?

- Engage with the organisation
- Set up a working group... soon!
- Ensure your systems work together
- Be consistent and understandable - speak right language

Your stakeholders all want to know...

What needs to be done to manage these risks and turn them into opportunities for our organisation?



Any questions?



Ben Wielgus, Lead CRC Advisor

ben.wielgus@kpmg.co.uk

+44 7881 917 557

You can read more about KPMG's Carbon Advisory Group, including our guidance on various issues at:

www.kpmgcarbonadvisory.com

You can read more about KPMG's Environmental Tax Group, including our free ETHiC tool at:

www.kpmg.co.uk/services/t/etig/index.cfm