

THE CARBON REDUCTION COMMITMENT:

QUALIFICATION CRITERIA AMENDED



A further amendment to the forthcoming Carbon Reduction Commitment has been announced by the Department of Energy and Climate Change (DECC). For the purpose of determining scheme qualification, half-hourly metering is no longer defined as 'voluntary half-hourly metering', but as 'all remotely read Automatic Meter Reading (AMR) meters that produce half-hourly data, irrespective of whether the half-hourly metered electricity is settled on the half-hourly or non half-hourly market'. Whilst the original definition appeared somewhat ambiguous regarding the inclusion of smart meters installed on non half-hourly sites, the new classification clearly incorporates such meters.

So what does this alteration to the CRC qualification criteria mean? Certainly, more organisations will now be captured by the scheme. Although the change in definition does mean that those organisations which have already invested in smart metering may now be captured by the CRC, their positioning in the annual league tables will be enhanced by early adoption of smart metering. As the primary CRC 'capture year' was 2008, pursuing a smart metering strategy now will not affect an organisation's inclusion in the first phase of the scheme, but will still provide the information essential to cutting energy costs and facilitate more effective energy management.

The legally-binding CRC – which forms part of a wider European initiative to cut carbon emissions – was introduced in the 2007 Energy White Paper. The first phase of the scheme will apply to all organisations using half-hourly meters, whose total electricity consumption was greater than 6,000MWh between 1st January and 31st December 2008. The CRC aims to reduce carbon emissions in large non energy-intensive organisations by 1.2 million tonnes of carbon by 2020.

Further information regarding the Carbon Reduction Commitment can be found at www.defra.gov.uk and www.decc.gov.uk. UPL is currently working with several of the UK's larger corporations which already know they are going to be captured by the CRC. Please contact us on **02920 739518** or email UPL's Energy and Environmental Services Manager Mark Henley at mark.henley@up-ltd.co.uk to find out what you can do to ensure straightforward entry onto the scheme.

ADVANCE ENERGY PURCHASING: FIXED VS FLEXI CONTRACTS

In an uncertain economic climate, controlling the exposure and minimising the risks associated with advance energy purchasing is fundamental to establishing an effective energy management programme. A number of different approaches for advance purchasing can be pursued, which often require a level of expertise that is only readily available from specialist consultancies, utility management companies and energy traders.

There are two main strategies available to customers for the purchase of their energy requirements: traditional fixed term contracts, and the relatively more recent flexible contracts. Fixed term contracts are the conventional means through which energy has been bought in the industrial, commercial and public sectors. Using this strategy, the entire energy requirement for a pre-determined period is bought in advance. Once a contract is agreed the rates are fixed for its entire duration. The clear advantage of this approach is that procurement activity is condensed into a short period of time. This allows for the lowest possible management costs, both at the decision-making stage and as an ongoing requirement. At times when energy prices are close or even lower than the long-term average,

this option offers clear appeal. However, as this strategy requires customers to hedge their entire requirements in a single spot decision, the risk this poses is to lock customers out of potential price falls further down the line.

In more recent times a range of so-called flexible contracts have been made available by suppliers to customers who look for more sophisticated ways to manage their exposure to market volatility. With this approach, the forecasted requirement is parcelled in smaller units, which can be bought at different times throughout the duration of the contract, as agreed between the parties. This provides the customer with the ability to track the market and take advantage of any price reductions as and when they materialise. There is, however,

a significantly higher cost associated with the ongoing management of such contracts. Furthermore, the inherent volatility of the energy markets makes this approach risky – especially at a time when reliable long-range forecasts can prove difficult. However, the prospect of managing the exposure to market volatility can prove extremely appealing, particularly to high-energy users.

If you would like to discuss any of the issues raised in this article or would like to know more about all of the options available for energy contract renewal, please don't hesitate to contact us on **02920 739518** or email UPL's Energy Procurement Manager Gianluigi Corbani at gianluigi.corbani@up-ltd.co.uk.

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