

The Carbon Reduction Commitment Design & Implementation

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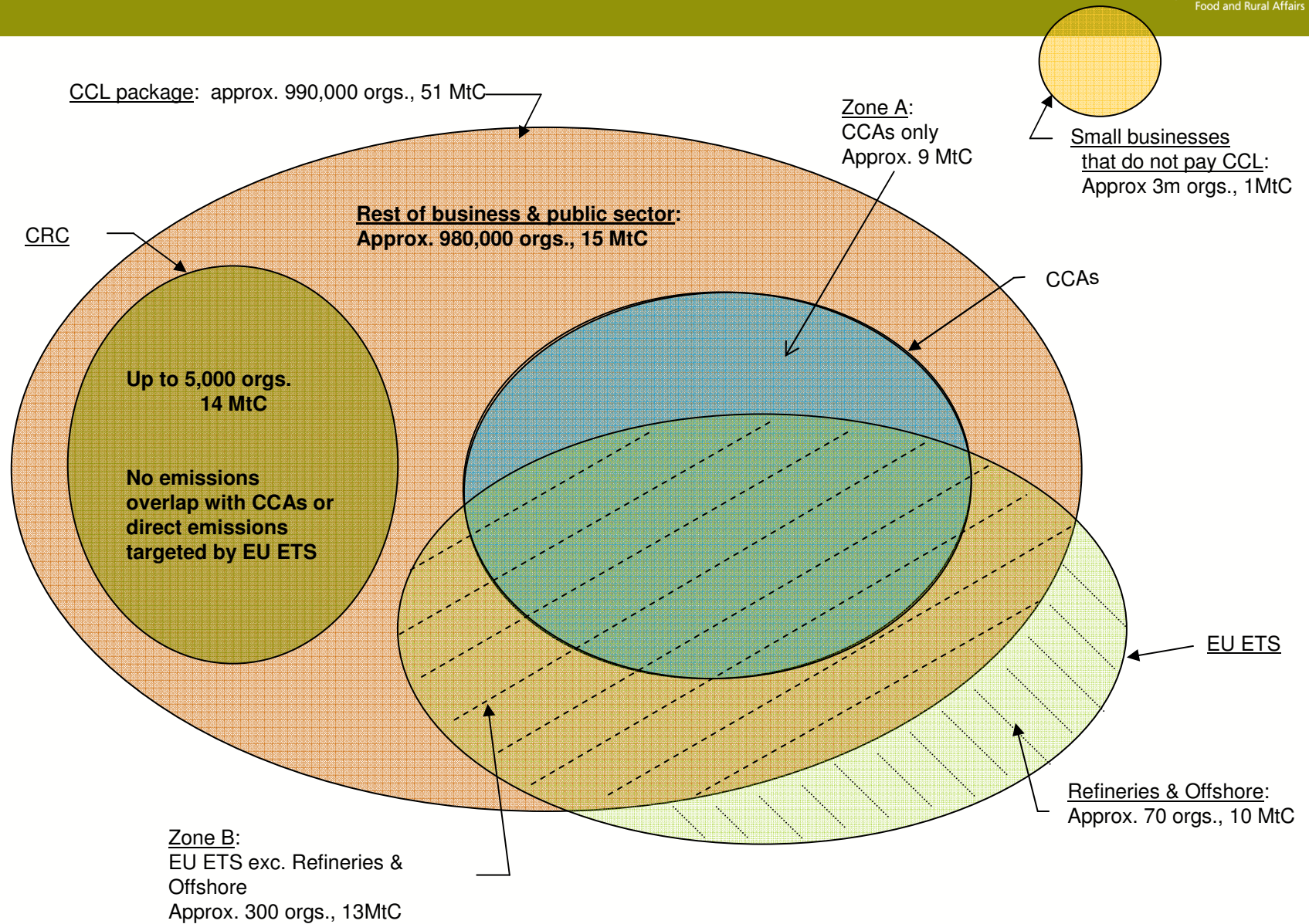
Overview – What is the CRC?

- Mandatory auction based emissions trading scheme
 - targeting energy use emissions outside of CCAs and EU ETS from up to 5,000 large business + public sector organisations
 - HHM electricity use > 6,000 MWhr / year in 2008
- “Cap and trade”
 - Certainty of environmental outcome through the cap – participants decide where reductions take place
- Revenue neutral to the Exchequer
 - Auction revenue recycled to participants
- As **simple** a scheme as possible

The "Policy Gap"



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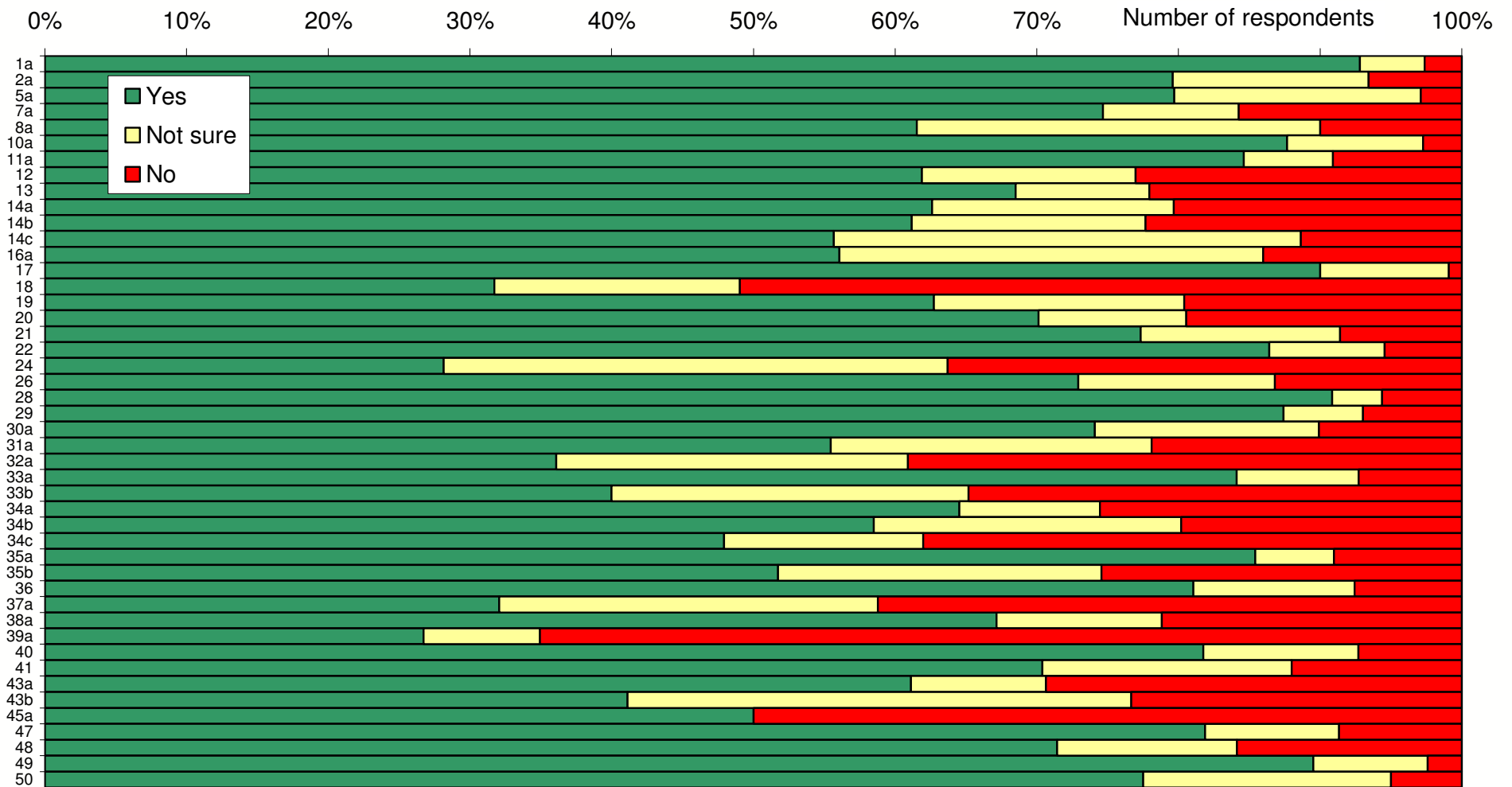
Why CRC?

- Provides mix of incentives and drivers:
 - Financial Incentives
 - Social Responsibility / Reputation
 - Legal Driver
- Provides flexibility for participants
- Provides certainty of environmental outcome
- Exists as part of a broader policy package:
 - Voluntary support: Carbon Trust & Salix Finance
 - Regulatory requirements: Building regulations and EPBD
 - Polluter pays: Energy bill incorporates cost of CCL and EU ETS

CRC consultation responses



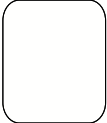
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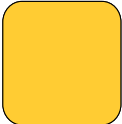
Who does it affect - Coverage

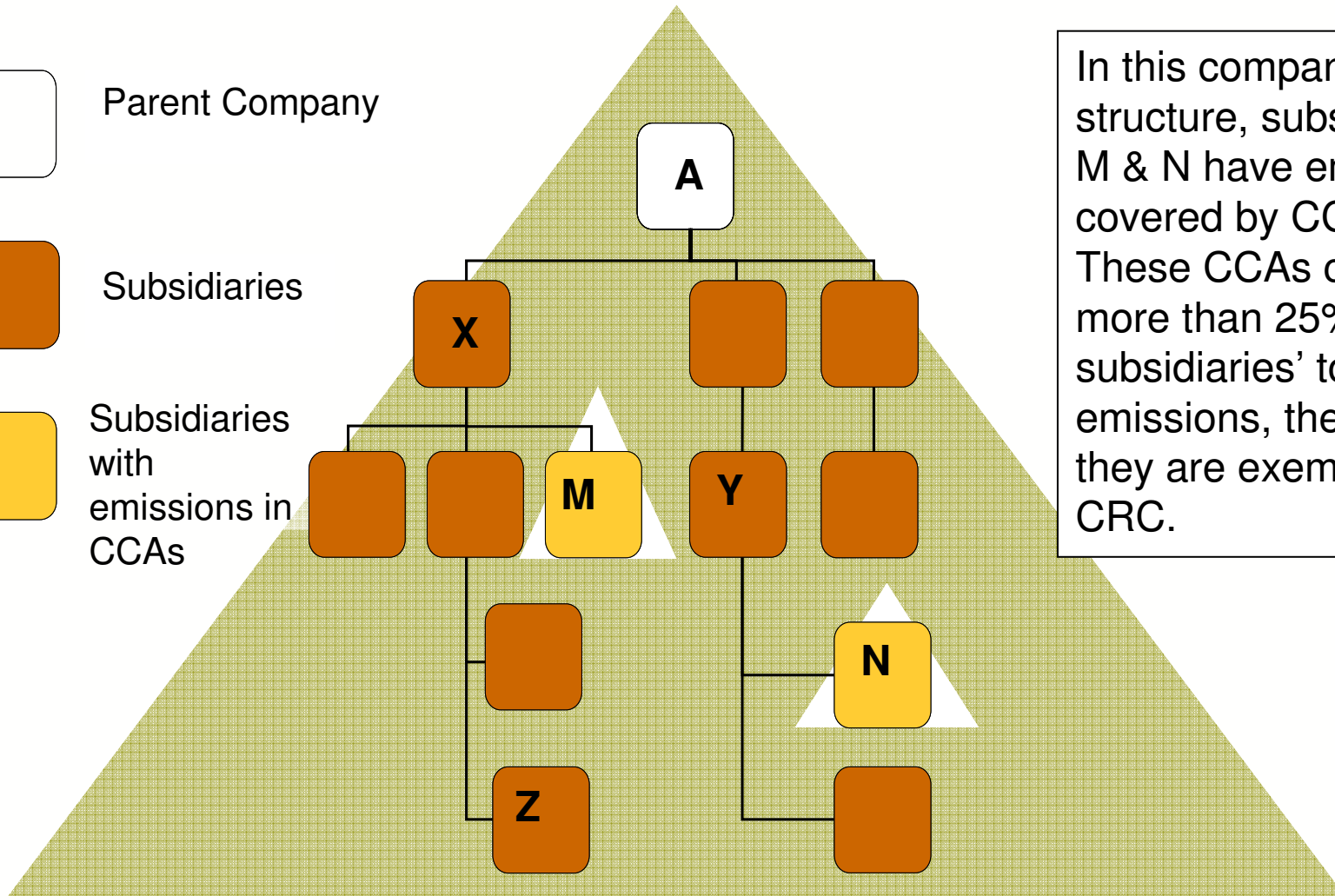
- Annual electricity consumption of 6,000 MWh from half hourly meters in 2008
- Approximately 4,000 – 5,000 organisations
- Simple, clear and minimise admin burden
- Top Down Approach – Companies Act structures
- Emissions responsibility – Counterparty to the energy supply contract

Who does it affect - Coverage

 Parent Company

 Subsidiaries

 Subsidiaries with emissions in CCAs



In this company structure, subsidiaries M & N have emissions covered by CCAs. These CCAs cover more than 25% of the subsidiaries' total emissions, therefore they are exempt from CRC.

Allowance Sales & Revenue Recycling

- 3 year fixed price introductory phase
 - £12/tCO₂
 - Year one 2nd sale
- Capped phases introduce full auctioning
 - Sealed bid uniform price
- Safety Valve – buy only link to EU ETS
- Revenue Recycling
 - Payment proportional to **2009 emissions**
 - bonus/penalty depending on position in a “league table”
 - 2011 - “Double Recycling”

Performance League Table

- Published performance league table at the end of each year
- Bonus or penalty payment based on position in league table
 - Year 1 maximum bonus or penalty of +/-10%
 - Year 2 maximum bonus or penalty of +/-20%
 - Year 5 maximum bonus or penalty of +/-50%
- Update for Changes to Organisation Structure

Performance League Table

- Government proposes 3 metrics:
 1. Compulsory absolute metric (60%)
 - Change in annual emissions relative to preceding 5 year average
 2. Voluntary early action metric (20%)
 - Extent of voluntary AMR in 2010
 - Extent of Energy Efficiency Accreditation Scheme or CT Standard
 - To end after intro phase
 3. Voluntary growth metric (20%)
 - Change in emissions per unit turnover/revenue expenditure
- Inclusion of 3 tick box questions

Monitoring and Reporting

- Self Certification – no 3rd party verification
- Evidence Packs – to record energy use and provide audit trail
- 20% Risk Based Audit
- Emissions Reporting via a Registry

Calculating Emissions

- Emissions factors to convert electricity / fuel used into CO₂ emissions
 - All fixed point energy sources (electricity, gas, other),
 - Does not include transport or household emissions
- All grid-electricity will have the same emissions factor
- On-site renewable sources, not used to generate ROCs will be 'zero-rated'

Participant Actions

- Calculate organisation's CRC emissions
 - All fixed point energy sources (electricity, gas, other), excluding de-minimis and all emissions outside CCAs and EU ETS
 - Not transport emissions
- Actions to take throughout the scheme year
 - Forecast emissions in line with abatement strategy
 - Purchase allowances from Government
 - Monitor and manage emissions throughout the year
 - If required purchase additional allowances or sell excess
 - Report emissions and surrender allowances
 - Receive a recycling payment

Implementation Timetable



Consultation closed – October 2007

Government response – March 2008

Climate Change Bill in Parliament – November 2007

Consultation on Draft CRC Regulations – Autumn 2008

Draft CRC Regulations in force – 2009

CRC qualification year – 2008

Identification of CRC participants – start early 2009

CRC scheme begins – January 2010



Thank you for listening



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