



The Carbon Reduction Commitment (CRC)

MEUC

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CRC Summary

- ✓ Mandatory auction based emissions trading scheme
 - targeting UK energy use emissions of highest parent organisation, from business + public sector organisations
 - Large organisations: HHM electricity > 6,000 MWhr / year
 - Climate Committee to advise Ministers on CRC caps
- ✓ Revenue neutral to the Exchequer
 - Auction revenue recycled to participants
- ✓ Avoiding overlap
 - Target energy use emissions outside EU ETS and CCAs
 - Organisations with more than 25% of their emissions in CCAs would be completely exempt
- ✓ As **simple** a scheme as possible

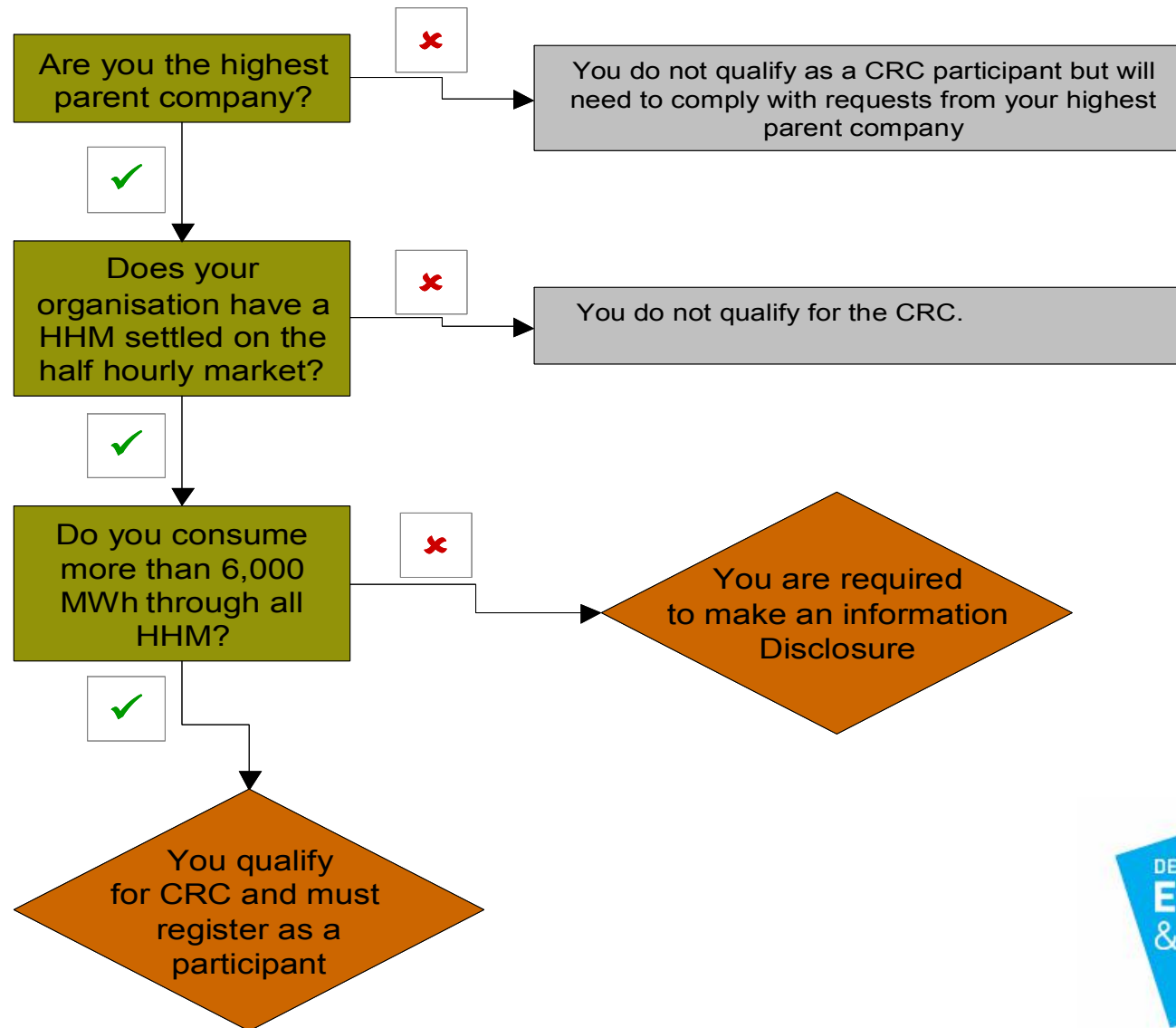


CRC Summary

- ✓ “Cap and trade”: Certainty of environmental outcome through the cap – participants decide where reductions take place

- ✓ Three key actions during the scheme year
 1. Purchase allowances at auction, taking account of energy efficiency effort
 2. Surrender allowances equal to total emissions, buying / selling allowances as appropriate
 3. Receive a recycling payment

Qualification



What emissions does CRC cover?

- All Energy-Use emissions - not just half-hourly electricity
 - Indirect - Electricity
 - Direct – Gas, Oil, Coal etc
- Energy use assigned to the Counterparty to the energy supply contract
- Not Covered
 - EU ETS emissions
 - CCA emissions
 - All emissions from subsidiaries with > 25% covered by a CCA
 - Transport, Households
 - De-minimis



Allowance Sale

- **3 year fixed price introductory phase**
 - 1st sale in **April 2011 to cover 2010 and 2011 emissions**
 - Allowance price = £12/tCO₂
- **Capped phases from Apr 2013 full auctioning**
 - Sealed bid uniform price
- **Where to buy allowances?**
 - Secondary market
 - Safety Valve
- **Unlimited Banking for future years**

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 at end of first year
 - 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 or revenue expenditure



Revenue Recycling

- **Payment proportional to 2010/2011 emissions**
- **Bonus/penalty depending on position in a “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%**
- **2011 - “Double Recycling”**

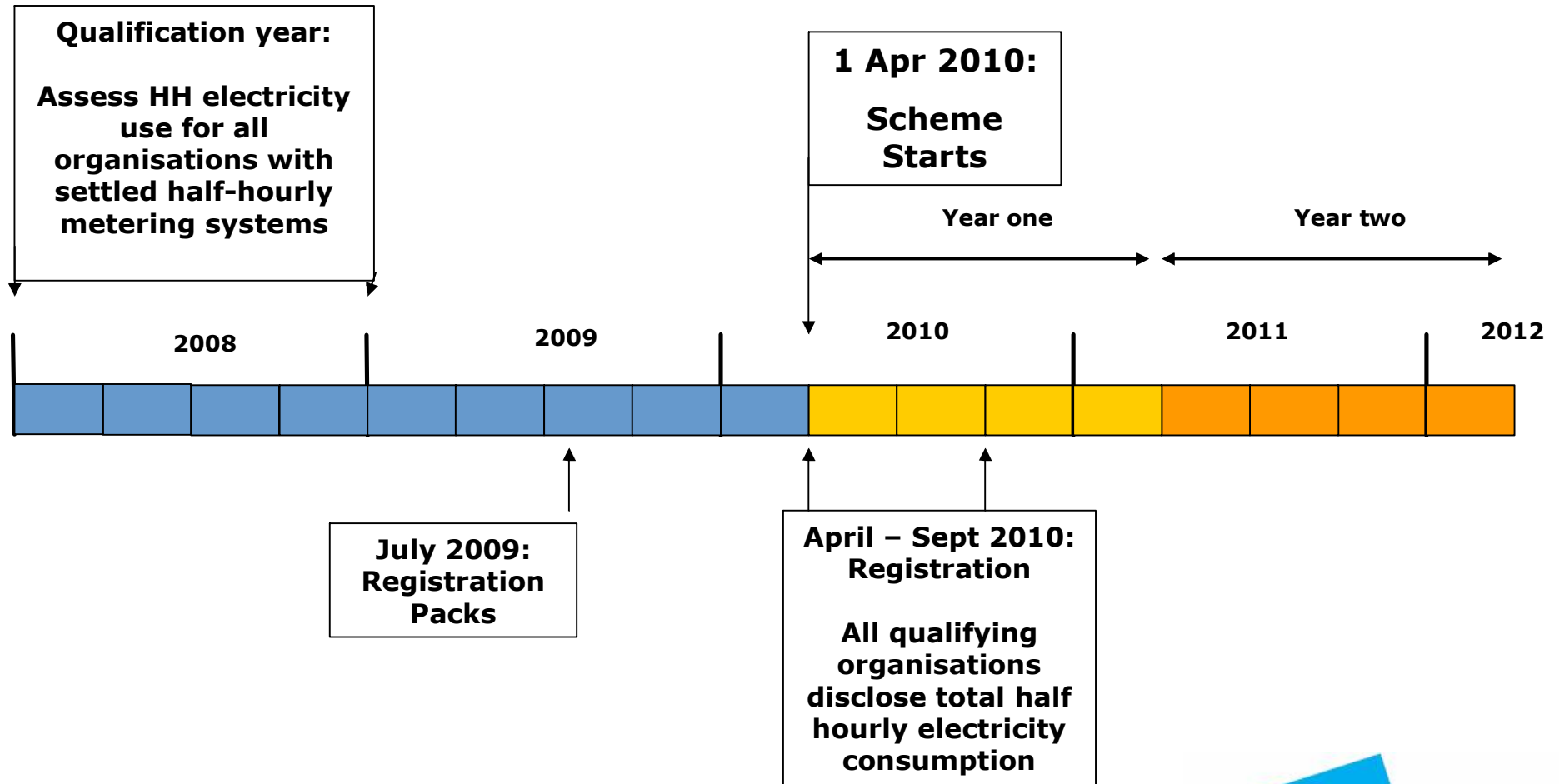


Reporting

- **Self Certification** – no 3rd party verification
- **Evidence Packs** – to record energy use and provide audit trail
- Emissions Reporting via an **online Registry**
- Two types of report:
 1. Once per phase – Preliminary Period Report
 2. Annually – Annual Report



Timetable



From Consultation to Policy

Stakeholder concern	Action considered
Scope for greater emissions savings than 1.2MtC / year by 2020	<ul style="list-style-type: none">• Carbon Committee advising Ministers on the CRC caps
Not too excessive a carbon price for the intro phase	<ul style="list-style-type: none">• Striking a balance on the price, considering £12/tCO₂
CRC revenue recycling undermines rest of scheme, leading to risk of ad-hoc changes / further regulation	<ul style="list-style-type: none">• Payment proportional to 2010 emissions, with a clear trajectory to strengthen the bonus / penalty over time, so that the revenue recycling gives positive incentives
VAT applied to sales of allowances	<ul style="list-style-type: none">• Not applying VAT to fixed price sales of allowances

From Consultation to Policy

Stakeholder concern	→ Action considered
Cash flow – 18 month gap between auction and revenue recycling	<ul style="list-style-type: none">• No sale in 2010• Double recycling payment in first recycling payment• Cash flow impact reduced to 6 months
Avoiding the complexity of four schemes in England, Wales, Scotland, and Northern Ireland	<ul style="list-style-type: none">• A common UK wide approach for business, based essentially on Companies Act 2006• Potentially some differences for public sector
Complexity of a voluntary approach to schools	<ul style="list-style-type: none">• Mandatory inclusion of schools in LA portfolio

More information

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