Summary of Carbon Reduction Commitment (CRC)

CRC is a key part of the UK's Climate Change Bill

November 2007

The Carbon Reduction Commitment

A new mandatory emissions trading scheme is expected to begin in January 2010, delivering savings of 1.1 million tonnes of carbon (MtC) per year by 2020. The Carbon Reduction Commitment (CRC) will target energy use emissions from large non-energy intensive business and public sector organisations such as large retail organisations, offices, banks, universities, hospitals, large local authorities and central government departments.

Organisations will qualify for the scheme if their mandatory half hourly metered electricity consumption is greater than 6,000 MWh / year, generally capturing organisations with annual electricity bills above £500,000. This means that CRC targets large organisations where the benefits accrued from energy efficiency measures should outweigh the costs of participating in the scheme. The scheme is expected to cover approximately 4,000 – 5,000 organisations and at present, this sector accounts for 14 MtC; almost 10% of entire UK economy-wide emissions.

The CRC will operate as a cap and trade scheme under which Government will determine the total number of emissions that can be made by the target sector and distribute a corresponding number of allowances to participants (the cap). The cap will be tightened periodically in line with the environmental objective of the scheme.

CRC is designed to drive energy efficiency and deliver carbon savings through introducing new financial and Corporate Social Responsibility (CSR) drivers.

Coverage

The CRC will target the highest UK parent organisation. If the highest UK parent organisation meets or exceeds the 6,000 MWh consumption threshold, this organisation will be responsible for reporting on their total energy use emissions, including for their subsidiaries. If you are a subsidiary of an organisation you will need to pass on information about your energy use to your parent for them to report to Government at the end of each year. If you are a parent organisation, you will need to collate the mandatory half hourly metered electricity consumption data for yourself and your subsidiaries and report on this total.

To minimise policy overlap, the scheme would cover emissions outside of Climate Change Agreements (CCAs) and outside the direct emissions covered by the EU ETS. In addition, firms with more than 25% of their energy use emissions in CCAs would be completely exempt.

Market design

Participants will buy their allowances through an auction. This avoids lengthy negotiations and enables participants to determine their own emissions targets within the overall scheme cap. However, to ease participants into the new regime, the CRC will feature a three year introductory phase with a simple fixed price sale of allowances. This will also allow Government to establish more accurate data on emissions across the sector with which to set the cap.

The scheme is not a tax raising exercise and will be broadly revenue neutral to the Exchequer. All the auction revenue raised will be recycled to participants by means of a simple, annual payment proportional to average annual emissions since the start of the scheme, with a bonus / penalty depending on the organisation's position in a performance league table.

The performance league table is an important element of the scheme and is designed to leverage organisations' reputational drivers, as well as impact on the revenue recycling.

Participants' positions within the league table will be determined by their performance against up to three different metrics. The first of these is the core absolute metric that will measure an organisation's annual emissions relative to its average emissions since the start of the scheme. Additional metrics could be included in the scheme to recognise different factors affecting participants' performance in the core absolute metric, such as business growth and action taken before the start of the scheme. The proposed metrics are an early action metric, measuring the extent of roll out of automatic metering above and beyond the legal minimum; and a 'growth' metric, which would measure the percentage reduction in carbon emissions per unit turnover since the start of the scheme.

Government also proposes a CRC safety valve – a moderated buy-only link to the EU ETS featuring a floor price – to avoid spikes in the price of allowances.

Monitoring, reporting and audit procedures
CRC will allow organisations to self-certify their annual emissions backed by an independent risk-based audit regime of around 20% of organisations. It is proposed that the Environment Agency, the Scottish Environment Protection Agency and the Department for Environment Northern Ireland will regulate and audit the scheme. The monitoring and reporting aspects are designed to be administratively 'lighter touch' than EU ETS without compromising the integrity of the scheme.

Participants will be required to submit annual data statements to the Scheme Administration on a self certified basis using their own meter readings or with reference to annual energy bills. Participants will need to be able to produce for audit the detailed data on which the overall annual figures are based. The Scheme Administrator will carry out risk-based audits to check the accuracy of data being submitted to them. Government suggests in order to meet this requirement, participants should collate and retain an 'evidence pack' to demonstrate their reported energy use across the CRC organisation.

Over the course of the year, an organisation would undertake the following steps:

1. Forecast emissions for the compliance year, taking into account energy efficiency / carbon abatement strategies.

2. At the start of each year, purchase allowances from the auction (or fixed price sale during the introductory phase) according to the organisation's abatement strategy. Important to note that there will not be a legal requirement to take part in the auction (technically, an organisation could choose to only buy allowances on the secondary market or through the safety valve).
3. Monitor, assess and manage emissions throughout the emissions year (January to December).
4. If necessary / desired, an organisation could buy or sell allowances on the secondary market, or buy through the buy-only link to EU ETS (the safety valve).
5. Report emissions and surrender sufficient allowances to cover emissions via an online registry – surrendering allowances will be a legal requirement.
6. Receive recycling repayment proportional to the organisation's annual average emissions reductions since the start of the scheme, with a bonus / penalty based on their position in the league table.

Timescales

Defra launched a consultation on the implementation proposals for the CRC in June which closed on 9 October. Government plans to publish its response to this consultation in January 2008, and to issue a detailed consultation on the CRC regulations over summer 2008. The proposed Climate Change Bill will be the legislative vehicle for CRC. It contains enabling powers to introduce new trading schemes.

It is proposed that the qualification year for assessing entry into the CRC, i.e. the year an organisation must establish if they are over the 6,000 MWh threshold, will be 2008. The first stage of identifying CRC participants will start in 2009 – with detailed information packs being sent out early 2009. The scheme is expected to begin in January 2010.

How do I know if my organisation is obligated?