

The Carbon Reduction Commitment (CRC)

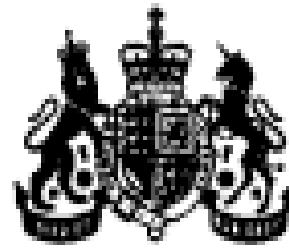
3 September 2009

James Harries

Head of Energy and Environment Section

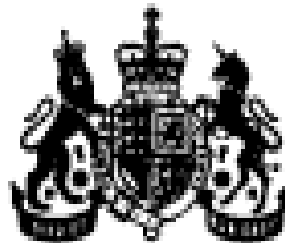
British Embassy Tokyo

Outline of presentation



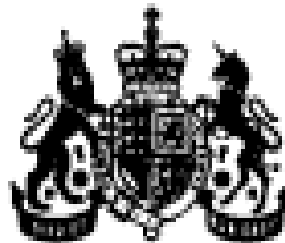
- CRC.....
 - What is it?
 - Why do we need it?
 - How does it fit with other policies?
 - Who is it targeting?
 - What have UK businesses been doing to prepare?

What is it?

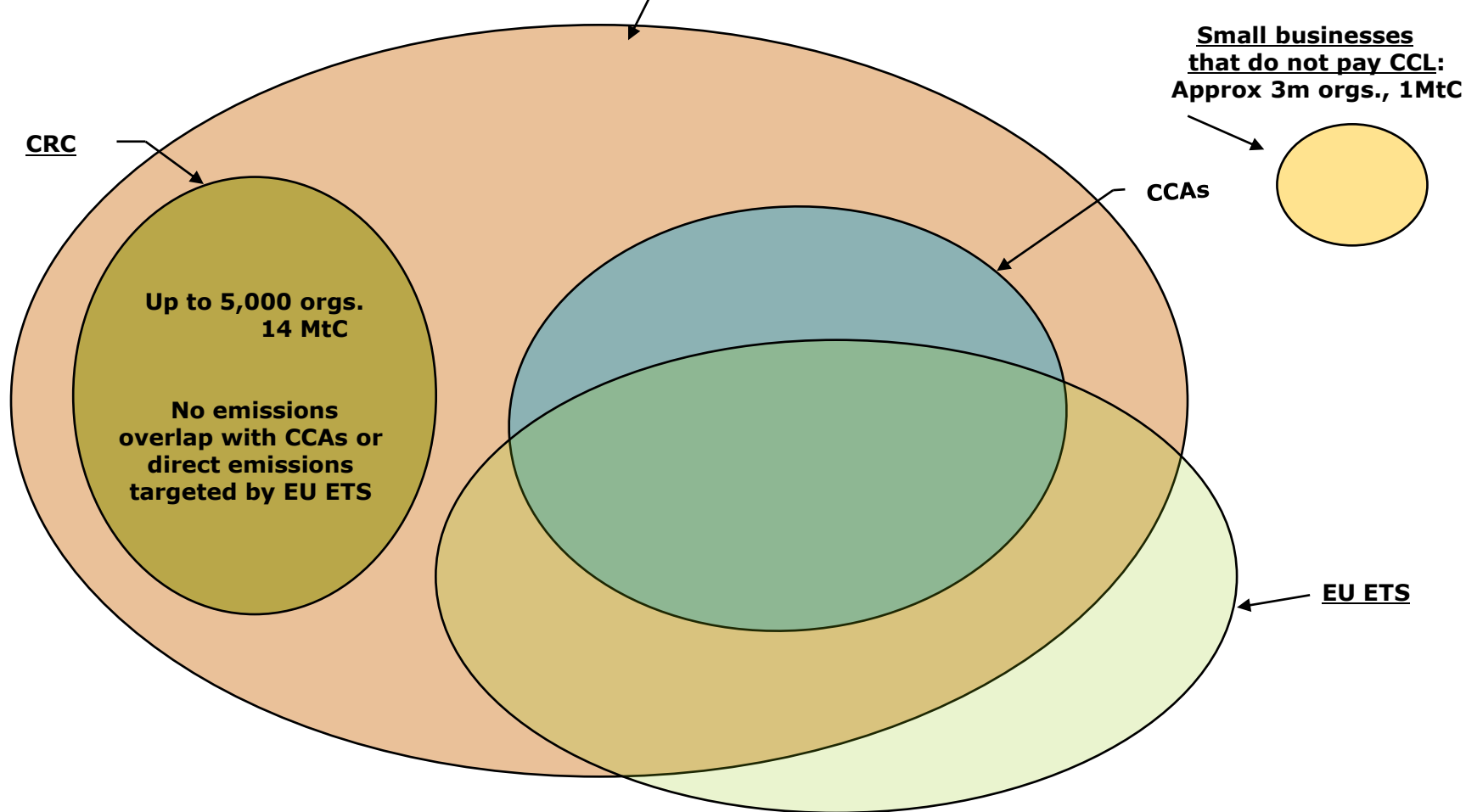


- A mandatory cap-and-trade scheme on energy use emissions
- Covers non-energy intensive business & public sector organisations
- Have to buy allowances to cover their energy use emissions - auction-based, plus can trade
- First 3 years - introductory phase (no cap)
- Revenue neutral - auction proceeds recycled back to participants (in proportion to performance)
- 'Light touch' - excludes some smaller organisations

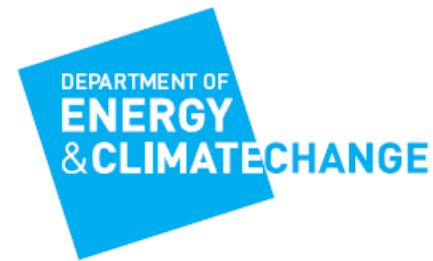
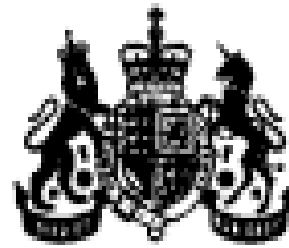
Why do we need it?



CCL package: approx. 990,000 orgs., 51 MtC

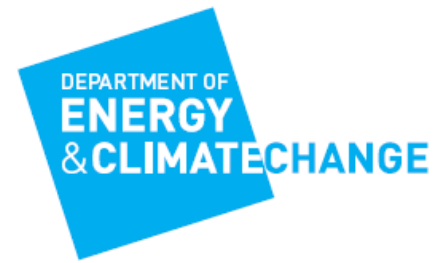
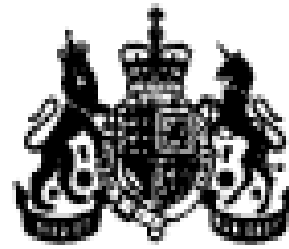


The “gap”



- Business – supermarkets and other retail; banks; landlords; hotel chains; restaurant chains; IT firms; airports; water; light manufacturing
- Public sector – Large local authorities; central government departments; hospitals; universities
- Business leaders called on the UK Government to address the gap in our current policies with “strong new policy instruments” to “focus on the large, non-energy intensive users of energy in the commercial and public sectors”. Some (e.g. Tesco) went further – calling explicitly, in public, for the Government to implement the CRC cap and trade program

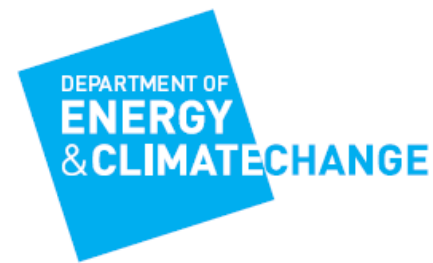
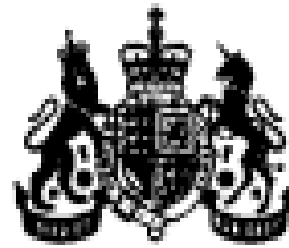
CRC - part of a package



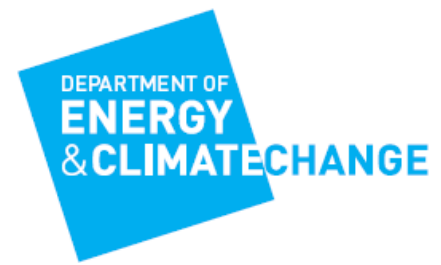
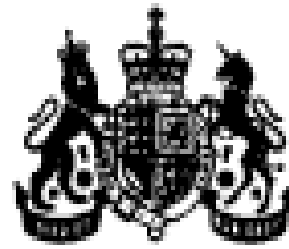
CRC is part of a broader “joined up” policy package:

- Voluntary benchmarking and reporting (e.g. building on CDP)
- Voluntary support: Carbon Trust & Salix Finance
- Regulatory requirements: Building regulations and EPBD
- Polluter pays: Cost of CCL and EU ETS in the energy bill

Why do we need it?



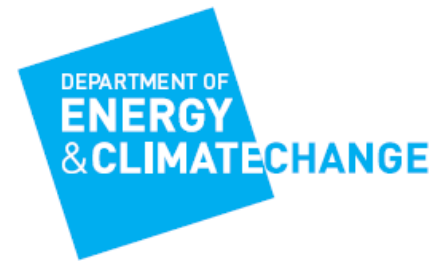
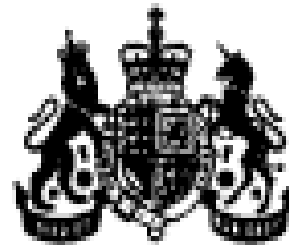
- Generate behaviour and infrastructure change
- Certainty of environmental outcome
 - Govt sets the cap
 - Participants decide where reductions take place
- Trading allows energy efficiency improvements to take place at least cost
- Senior management awareness
- CRC can save participants at least £755m



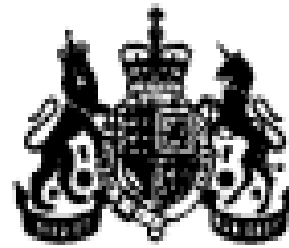
Policy development



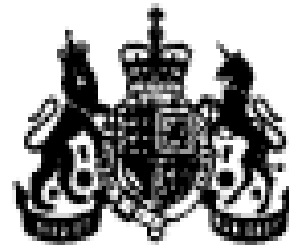
Learning from other programs



- **Have an introductory phase** – just as the EU ETS has benefited from having a 3 year introductory phase, so will the CRC. An introductory phase eases participants into the scheme and helps to ensure an effective carbon market for the next phase
- **Base caps on accurate data** – given the experience with phase I of EU ETS, CRC features an introductory phase where Government will sell allowances at a fixed price (£12/tCO₂). This will enable the CRC cap to be based on more accurate data. Revenue raised from the CRC auction is recycled to participants, to reinforce the incentives
- **Balance giving credit for early action** with having an effective scheme that delivers **additional** carbon savings. The voluntary UK ETS, successful as an innovative pilot scheme, was criticised on this point:
 - “For some UK ETS Direct Participants, emissions reduction targets had been achieved even before the scheme came into operation” NAO



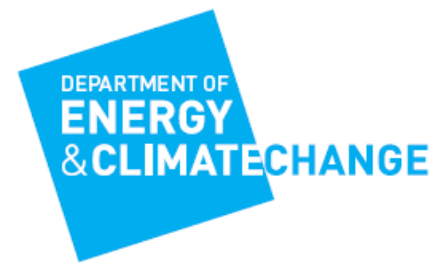
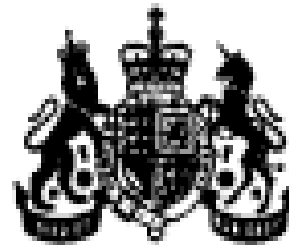
- **Keep it as simple as possible** – CRC is a mandatory cap and trade program, as is the EU ETS
 - Experience from the voluntary UK ETS is that voluntary programs can be highly administratively complex
 - CRC is a simpler approach than the voluntary UK ETS, which featured a complex site based changes of operation regime
- **The EU ETS has been designed for power stations and heavy industry**, with a small number of major sites – so robust site based 3rd party verification is justifiable...
 - a more “light touch” approach is needed for large non-energy intensive organisations, where there are many sites, and each individual site can have a relatively small carbon impact
 - CRC is based on self-certification by organisations, backed up by independent risk based audit
- **Exempt ‘small emitters’** – By focusing CRC on large organisations, we have eliminated around 90% of the regulatory burden, with over 70% of emissions coverage retained. There are proposals to exempt ‘small emitters’ from EU ETS if covered by an equivalent program



Some key practicalities

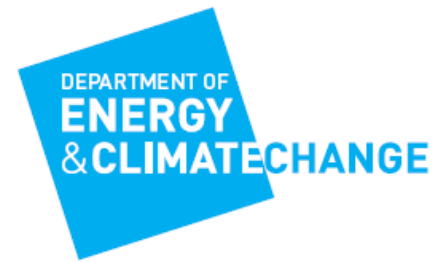
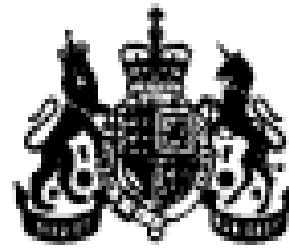


Qualification



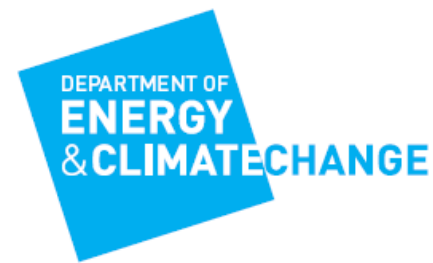
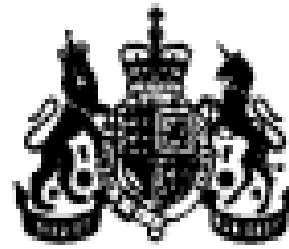
- ❖ Only highest parent organisations can be CRC participants
 - ➔ Overseas company must nominate the UK CRC agent
- ❖ Responsibility for emissions of the entire organisation or group
 - ➔ Particular circumstances may arise where entities otherwise legally separated will be grouped together
- ❖ To identify which emissions
 - ➔ Counterparty to the energy supply contract

Emission Coverage



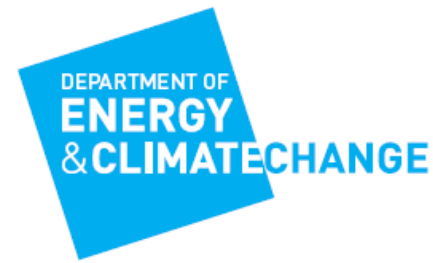
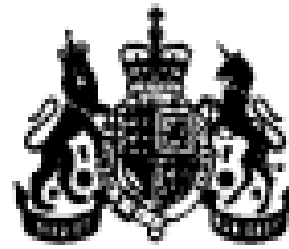
- **All Energy-Use emissions** - not just half-hourly electricity
 - Indirect - Electricity
 - Direct – Gas, Oil, Coal etc
 - Transport is excluded
- Energy use is assigned to the **Counterparty** to the energy supply contract
- **De Minimis**
Possibility to exclude up to 10% of ‘non-core’ energy sources

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**

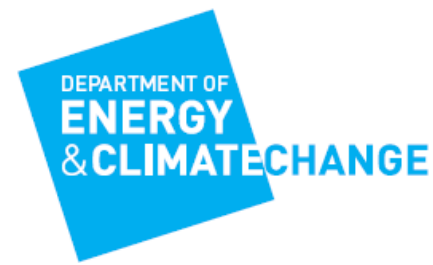
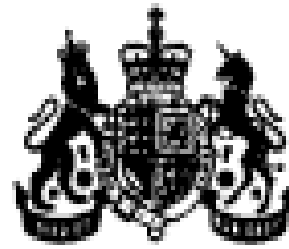
Performance League



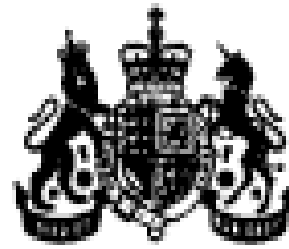
Table

- **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 Automatic Meter Reading (AMR) at end of first year
 - Extent of Energy Efficiency Accreditation Scheme or Carbon Trust Standard
 - To end after intro phase
 - *Voluntary growth metric (20%)*
 - Change in emissions per unit turnover or revenue expenditure

Revenue Recycling



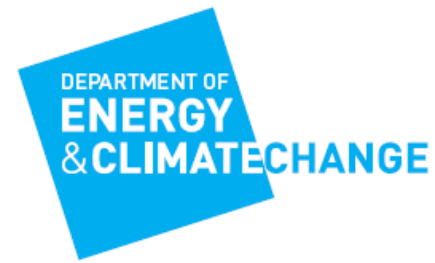
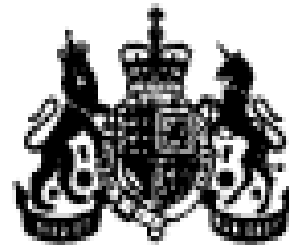
- **Payment proportional to 2010/2011 emissions**
- **Bonus/penalty depending on position in a “league table”**
 - **Year 1 maximum bonus or penalty of +/-10%**
 - **Year 2 maximum bonus or penalty of +/-20%**
 - **Year 5 maximum bonus or penalty of +/-50%**
- **2011 - “Double Recycling”**



What should organisations do to prepare?

- Work out its organisation structure and where it fits into it
- Establish a mechanism for collecting energy information at the highest UK part of the organisation
- Start thinking about its sources to meet the 90% rule and if it wants to go beyond the minimum?
- Decide if it wants to participate in the early action metric
- Collate information on turnover / revenue for the whole organisation
- Familiarise itself with the evidence pack

More information



Email

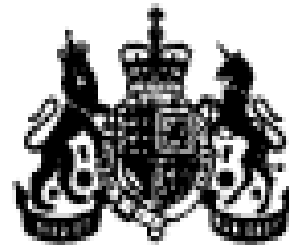
CRCHELP@environment-agency.gov.uk

Policy Website

http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/crc/crc.aspx

Consultation Website

<http://www.decc.gov.uk/en/content/cms/consultations/crc/crc.aspx>



Any questions???