

The Carbon Reduction Commitment

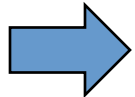
An Overview

May 2009

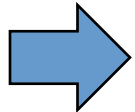
- **Mandatory carbon reduction and energy efficiency scheme to change behaviour and infrastructure**
- **Auction based emissions trading mechanism**
 - targeting UK energy use emissions from business + public sector organisations
 - Large organisations: HHM electricity > 6,000 MWh in 2008
- **Revenue neutral to the Exchequer**
 - Auction revenue recycled to participants
- **Avoiding overlap**
 - Target energy use emissions outside EU ETS and CCAs

- “Cap and trade”: Certainty of environmental outcome through the cap – participants decide where reductions take place
- Four key actions during the scheme year
 1. Purchase allowances at auction, taking account of energy efficiency effort
 2. Monitor emissions and complete annual report
 3. Surrender allowances equal to total emissions, buying / selling allowances as appropriate
 4. Receive a recycling payment

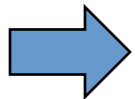
1. Organisation has at least one Half-Hourly (HH) Meter settled on the HH Market



Assessment across the entire organisation



Need to assess HH electricity consumption over the course of 2008



Legally required to communicate with the scheme Administrator

2. Organisation HH electricity consumption exceeds 6,000 MWh over the course of 2008

- HH electricity use must include:
 - Mandatory HH meters
 - Voluntary HH meters
 - Remotely read AMR
 - Pseudo HH metering readings

Registration : April – September 2010

HH electricity consumption is above 6,000 MWh per year

Legally required to register

- Web based tool
- disclose identification information
- submit list of HH meters settled
- disclose total HH electricity consumption

HH electricity consumption is less than 6,000 MWh per year

Legally required to submit an information disclosure

- Access the same Web based tool
- Follow guidance and complete information disclosure

Organisational Structure

- **Grouped together under highest parent organisation**
 - Companies Act tests
- **Public sector**
 - Distinct legal entity
- **Principal Subsidiaries & Designated Changes**
 - Legally defined subsidiaries that would qualify in their own right
 - Maintains scheme coverage
 - Increases fairness

Organisational Structure

KEY



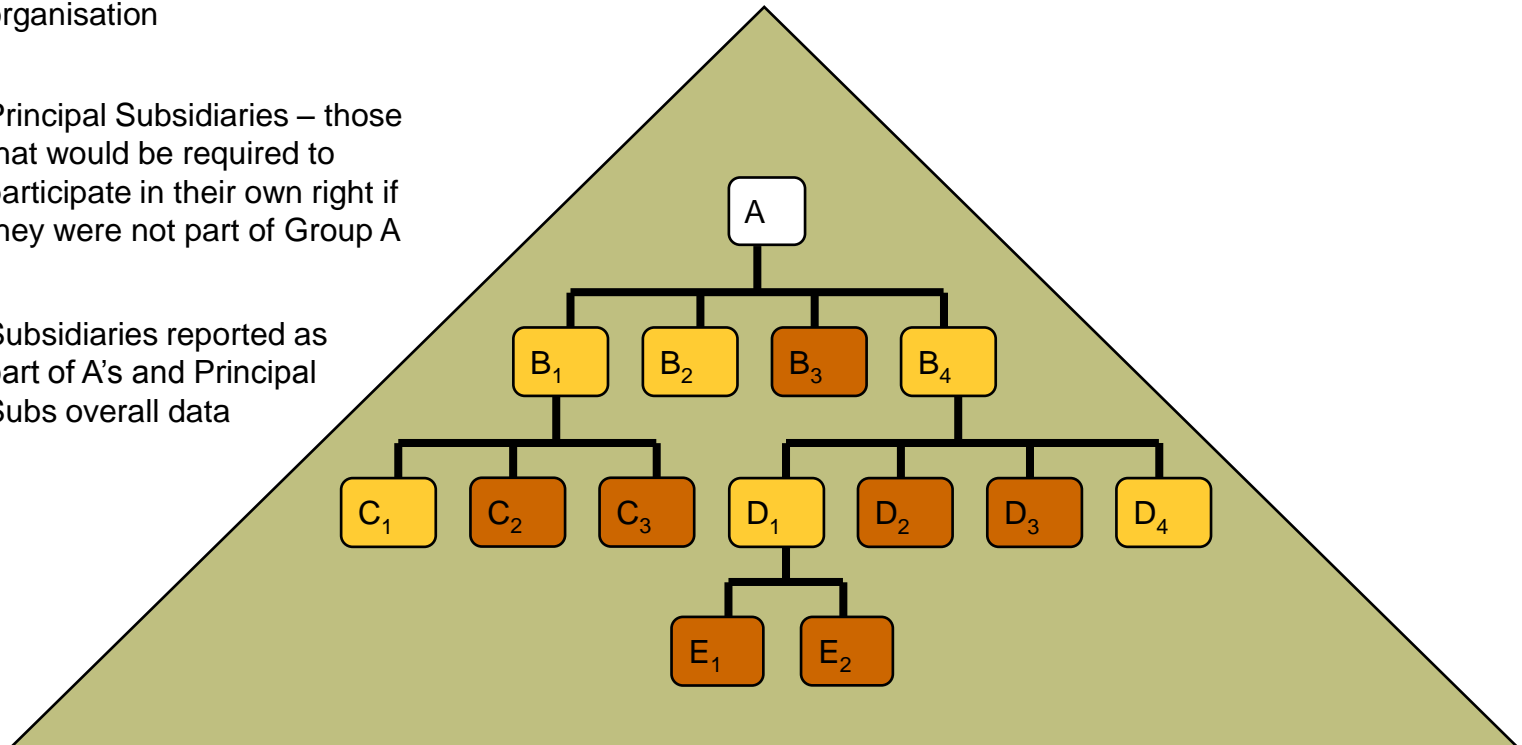
Highest parent organisation



Principal Subsidiaries – those that would be required to participate in their own right if they were not part of Group A



Subsidiaries reported as part of A's and Principal Subs overall data



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
 - Transport, Households
 - De-minimis

Emission Coverage

- Exclusions

- Excluded from CRC and from Footprint report
 - Onward supply and storage
 - Transport
 - Electricity imported for generation purposes

- Included in Footprint report, but not CRC
 - EU ETS
 - CCA

Emissions are not included in CRC, but will be considered for the purpose of identifying achievement of the 'Applicable Percentage' – the 90% rule

Emissions Coverage

- Exemptions

- **Transport Exemption**
 - Exemption for any organisation whose HH electricity used for transport takes them below 1,000MWh
- **CCA Exemptions**
 - Group member exemption – any group member (e.g. a subsidiary) with more than 25% of its emissions covered by a CCA will be exempt from CRC.
 - Residual Group Exemption – if after exempting group members according to the above an organisation has less than 1000MWh of half hourly electricity left in the scheme, the entire organisation is then exempt

Emission Coverage

– Footprint

- Identify their total energy use across the entire organisation
- Including consumption covered by EU ETS and/or CCA
- Excluding energy use from other excluded activities
- Excluding energy use of emissions from subsidiaries exempt on CCA grounds

- **Footprint = Total Energy Use – Exclusions – CCA Exempt subsidiaries**

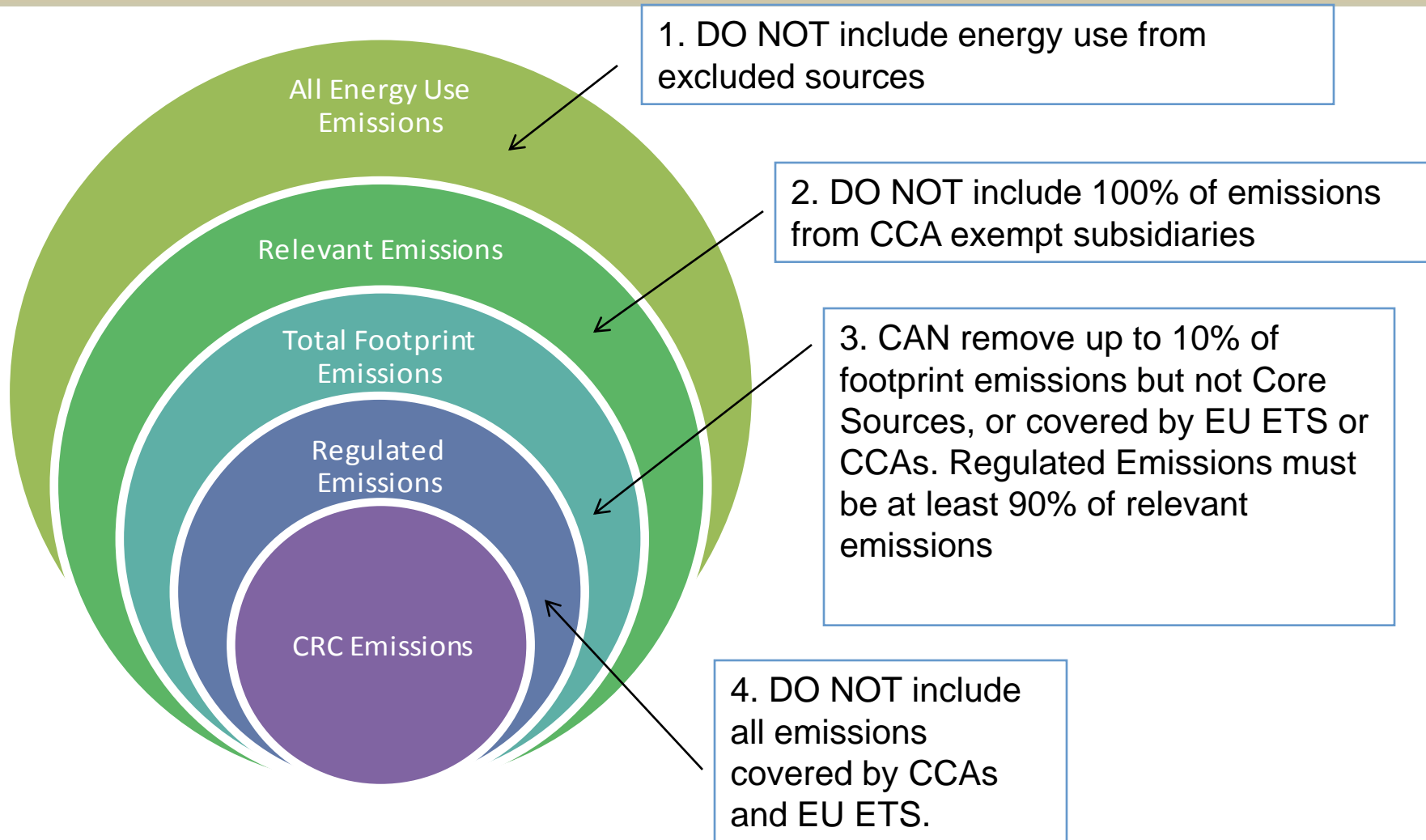
Emission Coverage

– CRC Emissions & 90% rule



- **90% of Footprint must be regulated** by either EU ETS, CCA or CRC (the ‘Applicable Percentage’)
- **Core Sources included on mandatory basis**
- Must include non-core sources to reach 90%
- Can include non-core sources voluntarily if above 90%
 - Recorded on the Residual Source List

Emission Coverage



Emission Coverage

– Core Sources

- All half hourly meters
- Meters profile classes 5 – 8
- Daily-read gas meters
- Non-daily metered gas > 73,200 kWh/annum

Emission Coverage

- CRC Emissions = Core Sources (that are not covered by CCA or EU ETS) + Residual Sources (if necessary to include to exceed applicable percentage)

- For that Phase need to annually:
 - Monitor CRC emissions
 - Report CRC emissions
 - Hold and cancel allowances – ‘Performance Commitment’

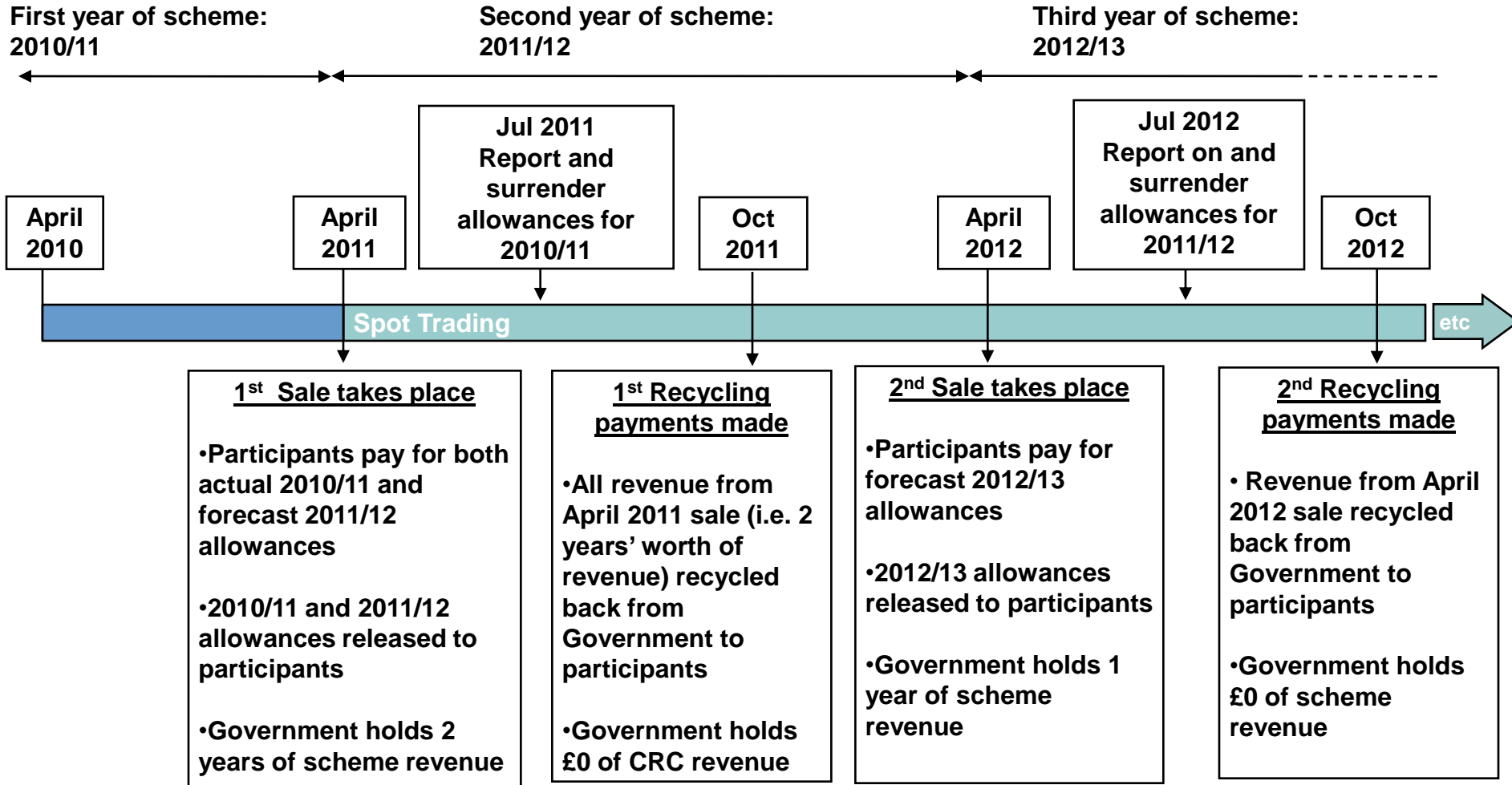
Allowance Sale

- **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** (Except between introductory and first capped phase)

Revenue Recycling

- Cash flow impact reduced to 6 months (2011 - “Double Recycling”)
- Payment proportional to 2010/2011 emissions
- Plus 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%

Sales/Revenue Recycling Timing



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 Carbon Trust Standard
 - To end after intro phase
 3. **Voluntary growth metric (20%)**
 - Change in emissions per unit turnover or revenue expenditure
- **First league table based 100% on Early Action metric**

- **Self Certification** – no 3rd party verification
- **Evidence Pack** – record energy use and provide audit trail
- Emissions Reporting via an online **Registry**
- Two types of report:
 - Once per phase – **Footprint Report**
 - Annually – **Annual Report**

Reporting

Footprint Report	Annual Report
31 July 2011 – then once per phase	31 July 2011 – then every year
<ul style="list-style-type: none">• Set emission coverage• Identify CRC Emissions• Demonstrate '90% rule'• Evidence of CCA exemption	<ul style="list-style-type: none">• Report on CRC Emissions• Provide information for the PLT
NOTE: Not linked with PLT and revenue recycling	NOTE: Cancel allowances at the same time

Reporting – Electricity Credits

Electricity Generation  Electricity Credits

- **Conditions:**
 - On-site Electricity Generation
 - Export Electricity to third parties

- **Receive Electricity Credits:**
 - Grid average conversion factor
 - Valid for the year when generation occurred
 - Report Net electricity consumption

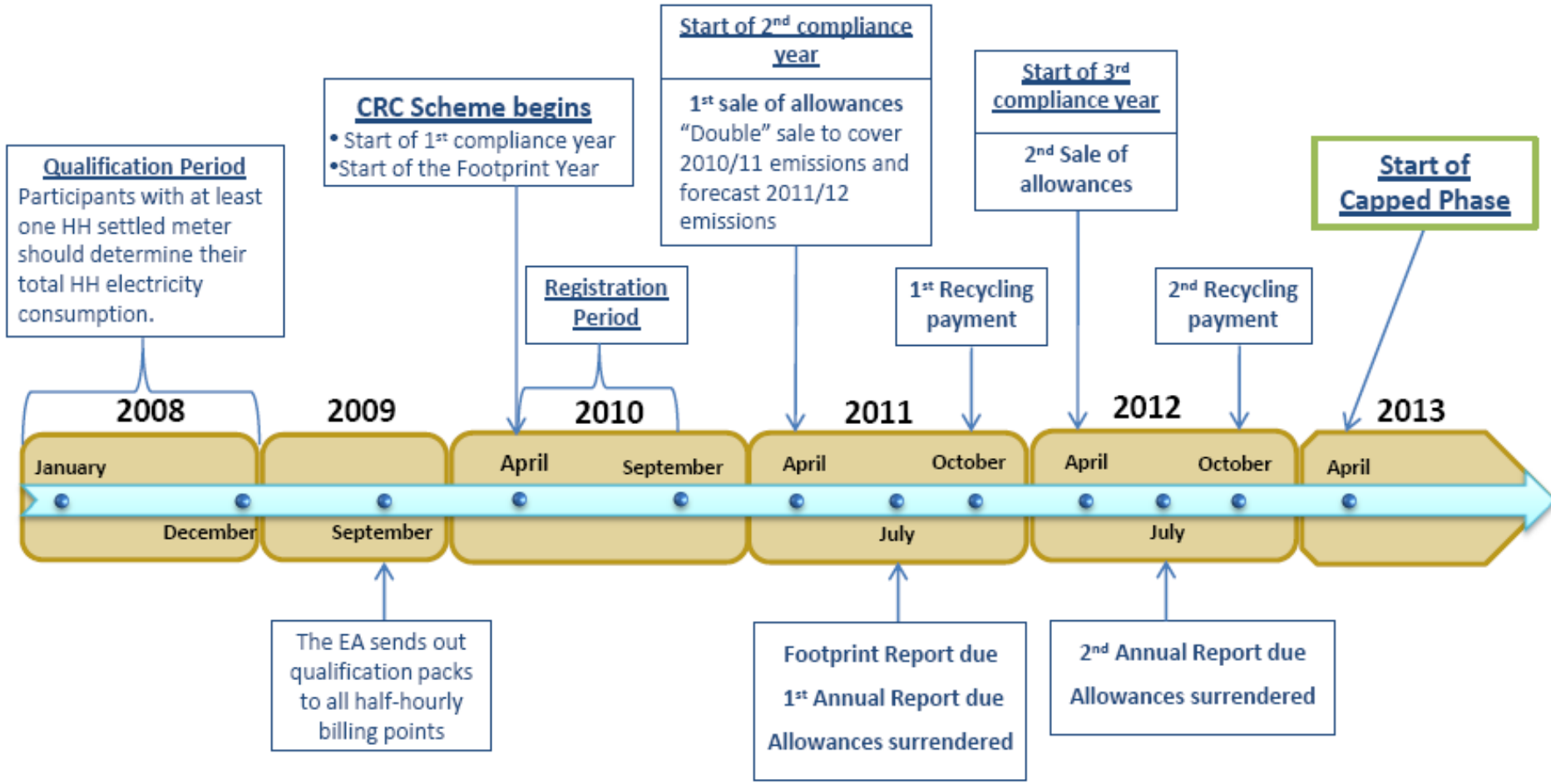
Excluded: Nuclear, EU ETS, large hydro, pumped storage

Penalties

- Mainly financial penalties
- Failure to comply with key obligations
- Proportional to the carbon footprint of the participant

- Failure to register
- Failure to disclose information
- Failure to provide footprint report
- Failure to provide annual report
- Incorrect reporting
- Failure to hold and cancel sufficient allowances
- Failure to keep adequate records

CRC timeline



For further information and explanation of these slides please refer to the CRC User Guide

<http://www.defra.gov.uk/environment/climatechange/uk/business/crc/comply.htm#userguide>

and Consultation Document

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

Any queries

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Respond to the Consultation

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