

# The Carbon Reduction Commitment User Guide

This document provides a step by step guide to the Carbon Reduction Commitment (CRC) – the UK's new carbon emissions trading scheme that will start operating in April 2010. It explains what the scheme is, who it applies to and how it will work.

## About this guide

Around 20,000 large public and private sector organisations will be involved in the Carbon Reduction Commitment (CRC) at some level. The document is written as a practical tool for those people within these organisations who will be responsible for ensuring compliance with the scheme. In many cases, this will be energy managers and financial managers.

Section 1 provides an overview of CRC and its principles. It is a good place to start if you have no previous knowledge of CRC. The later sections explain different aspects of the scheme in more detail.

There are a number of technical terms involved in CRC. A glossary at the end explains these terms and they are italicised the first time they appear.

CRC is still in development and so this document is still a draft version which reflects the March 2009 draft legislation, currently under consultation. We would therefore welcome any suggestions you have to make the User Guide more helpful to participants. These can be fed into the *consultation process*.

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How much do allowances cost and how do organisations buy them?

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## **An introduction to the Carbon Reduction Commitment**

This section provides an introduction to CRC, outlining what it is, who it affects and how it will operate.

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The Carbon Reduction Commitment (CRC) is a new mandatory emissions trading scheme that aims to improve energy efficiency and reduce the amount of carbon dioxide (CO<sub>2</sub>) emitted in the UK. This is vital to achieving our overall targets of reducing greenhouse gas emissions by 2050 by at least 80% compared to the 1990 baseline.

CRC will affect large organisations in both the public and private sector. Organisations that meet the qualification criteria, which are based on how much electricity they consumed in 2008, will be obliged to participate in CRC. Participant organisations will have to monitor their emissions and purchase *allowances*, sold by Government, for each tonne of CO<sub>2</sub> they emit.

The more CO<sub>2</sub> an organisation emits, the more allowances it has to purchase. So there is a direct incentive for these organisations to reduce their emissions.

As well as reducing our carbon emissions, by increasing energy efficiency the scheme will help organisations save money by reducing their energy bills. These savings should be well in excess of the costs of participating in the scheme.

In addition, the better an organisation performs in terms of reducing its emissions, the higher it will appear in the annual *performance league table* Government will publish, showing the comparative performance of all participants. This in turn provides a further benefit: all the revenue raised from selling allowances is 'recycled' back to participants, and the league table position affects how much of the revenue each organisation receives.

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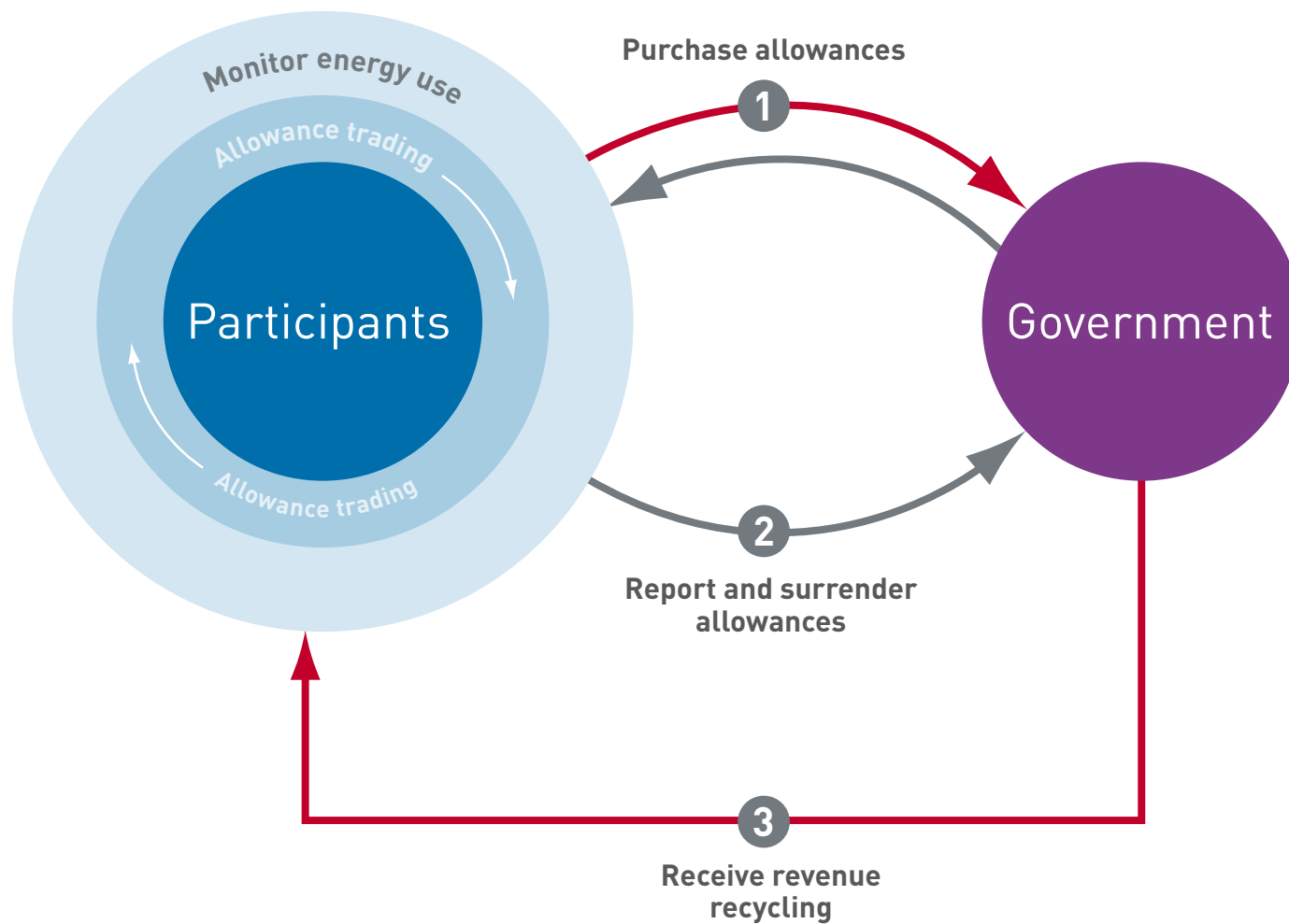
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## 1.1 Who must participate in CRC?

Government estimates indicate that around 20,000 public and private sector organisations will be required to participate in CRC in some way. The majority of these will simply be required to make an *information disclosure* once every few years that tells the *administrator* about their electricity usage.

Around 5,000 organisations will be required to participate fully. This means they must not only record and monitor their CO<sub>2</sub> emissions, but also purchase allowances equivalent to their emissions each year.

Where organisations are subsidiaries or part of a group, there is clear guidance on who is required to participate in CRC which can be found in section 2.2. In general, the *highest parent organisation* will participate on behalf of all the organisations in the group.

Section 2 of this guide provides full details on who must participate and who must make an information disclosure under CRC.

### What happens if an organisation refuses to participate?

CRC is a mandatory scheme and it places legal obligations on organisations to disclose information and – for larger energy users – to report on emissions and purchase allowances from Government. Any organisation that does not comply with its legal obligations under CRC will be subject to financial penalties.

## 1.2 When does CRC start?

CRC starts in April 2010. For administrative purposes, the scheme is divided into set time periods known as phases. The first phase is the *introductory phase* and runs for three years. Subsequent phases each last for seven years. The first 2 years of these phases are preparatory, and overlap with the previous phase.

Each phase has:

- a *qualification period*, where organisations must assess whether or not they qualify to make an information disclosure or participate fully in CRC
- a *registration period*, during which organisations that are required to take action under the scheme must either submit their information disclosure or register as a *participant* with the administrator
- a *footprint year*, where participants must monitor their total emissions from energy use and determine what emissions must be included in CRC. This data must be reported to the administrator in a *footprint report*, and
- a series of *compliance years*, which run from April to March like financial years. During a compliance year, participating organisations must purchase allowances for each tonne of CO<sub>2</sub> they emit, based on expected energy use, and monitor their usage.

Organisations must report their actual emissions by the end of July after each compliance year and surrender allowances to cover to their reported emissions. Then in October of that year, they will receive a [revenue recycling](#) payment, based on their performance in that year.

For the introductory phase:

- the qualification period is the calendar year 2008
- the registration period is April-September 2010
- the footprint year is April 2010-March 2011, and
- the first compliance year is also April 2010-March 2011.

### 1.3 How much do allowances cost and how do organisations buy them?

Allowances are sold by Government at the start of each compliance year.

During the introductory phase, allowances will be sold at a fixed price of £12 per tonne of CO<sub>2</sub>. Following the initial sale period, participant organisations can buy or sell allowances by trading on the [secondary market](#). This enables organisations that have reduced their energy consumption more than they expected to sell some allowances, while those that have higher emissions than anticipated can purchase extra allowances.

Buying and selling allowances is covered in section 4 of this document.

### 1.4 What emissions are covered by CRC?

There are rules covering what emissions count towards [CRC emissions](#) that organisations must report to Government. This ensures that organisations do not have to buy allowances for activities or emissions covered by other Government policies.

Emissions that participants will not have to purchase allowances for include:

- transport emissions
- emissions from activities covered by a [Climate Change Agreement](#) or the [EU Emissions Trading System](#).

If you qualify for CRC, you will have to consider which of your emissions can be excluded.

Section 3 covers the rules on what emissions are included in CRC.

### 1.5 Administering and regulating CRC

CRC has been developed by the UK Government and the Devolved Administrations. It is administered by the Environment Agency, which also acts as the [regulator](#) for England and Wales. In Scotland, the regulator is Scottish Environment Protection Agency (SEPA) and in Northern Ireland it is the Northern Ireland Environment Agency (NIEA).

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## What does my organisation need to do now?

1. The first thing you should do is work out whether you qualify for CRC. Read section 2 of this guide.
2. To make sure you are kept up to date with CRC, sign up to CRC mailing list.

[www.defra.gov.uk/carbonreduction](http://www.defra.gov.uk/carbonreduction)

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## Qualification – am I in?

This section helps you work out if your organisation is required to participate in CRC. It sets out the two levels of involvement – full participation and information disclosure – and the specific guidelines that cover organisations that are:

- part of a group (i.e. subsidiary organisations)
- a franchisee or franchisor
- a school
- a university
- part of, or an agency of, a central Government department
- a joint venture/PFI.

Finally, it covers how and when to register for CRC.

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## 2.1 Qualification criteria

Qualification for CRC is based on half hourly electricity consumption during the qualification period. For the introductory phase, this is the 2008 calendar year.

An organisation qualifies as a full participant in CRC if, during the qualification period:

- it had at least one *half hourly meter* (HHM) settled on the *half hourly market*, and
- its annual electricity consumption through all HHMs was at least 6,000 *MWh*.

Organisations that have at least one HHM settled on the half hourly market, but whose annual energy consumption is less than 6,000MWh do not have to participate fully in CRC. However these organisations do have to make an information disclosure. See section 2.3 for more information.

### About settled half hourly meters (HHMs)

Electricity suppliers use HHMs to calculate your bill. There are four types of metering which can be settled on the half hourly market. These are:

- *mandatory HHMs* (which are HHMs required to be installed in certain situations)
- *voluntary HHMs*
- *half-hourly Light Meters*, and
- *pseudo HHMs*.

### 2.1.1 Calculating electricity consumption

To work out your annual electricity consumption (for the second qualification criterion), you need to add up all the electricity you have used that is monitored by all types of HHM. This includes all *remotely read automatic meter reading meters (AMR)*, in addition to the settled HHMs listed above.

The administrator will send out qualification packs to the individual billing addresses of each HHM settled on the half hourly market. This information will include the 2008 consumption data for that meter which will help you calculate your total HH electricity for 2008.

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Note that electricity supplied to a licence holder for the purposes of electricity generation, distribution, transmission or supply does not count as electricity consumption according to the 1989 Electricity Act and should therefore not be considered when determining your annual electricity consumption.

The basic rule under CRC is that any electricity consumption counts as your responsibility if your organisation holds the contract with the electricity supplier for that electricity supply. Generally this will be the organisation responsible for paying the bill. If you purchase electricity through a third party agent who procures energy services on your behalf and pays the bills, you are responsible as the organisation that contracted the agent.

#### **Landlords and Tenants**

In the case of landlords and tenants, energy use in leased buildings is the responsibility of the customer who has the contract with the energy supplier. This means that if you rent space for your undertakings and you are billed by the supplier, you are responsible for that electricity under CRC. If you are a landlord organisation and you pay the bills, then you are responsible for the electricity use.

A landlord or tenant can never be considered an agent as described above.

Government is planning to issue more detailed guidance for landlords and tenants in due course.

## **2.2 What counts as an organisation?**

The rules above are simple to apply to organisations that are single entities. The single entity organisation will be responsible for determining qualification and will be the ‘*primary member*’ in CRC.

In CRC, organisations that are part of a larger organisational group must act together as one entity. Different parts of the group do not determine qualification separately. An organisational group counts as a single entity, both for qualification and when participating in the scheme. The energy consumption across the whole organisation must be taken into account.

If your organisation is any of the following, specific rules apply:

- part of an organisational group, (e.g. a subsidiary)
- a GB central Government department or related body or agency
- a joint venture
- a franchisee or franchisor
- a school or local authority
- a university.

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If your organisation fits into one of these categories, you should read the appropriate subsection for more information.

### Group organisations and subsidiaries

To simplify administration and performance reporting, CRC requires organisational groups to participate as a single entity. This is the case even if the group has large subsidiaries which would qualify for CRC in their own right.

In a group organisation, one part of the group must act as a primary member under the CRC, liaising with the administrator, reporting emissions for the group and submitting allowances. In general, this will be the highest parent organisation. However, the group can nominate a different primary member.

If the highest parent organisation is based outside the UK, then all the parts of the organisation within the UK should be grouped together to form a single CRC participant. The overseas parent organisation is required to nominate a UK agent to act as the primary member and participate in the scheme on behalf of the group.

Qualification for CRC is determined according to the organisational structure at the end of the qualification period. For the introductory phase, therefore, qualification is based on the organisational structure on 31 December 2008, meaning organisations will need to

aggregate the 2008 half hourly electricity usage from all the subsidiaries they owned on that date to determine whether a group qualifies.

#### *Changes to organisational structure*

When an organisational structure changes during a phase, or between the end of the qualification period and the start of the phase – for example, when there is a merger, an acquisition or a sale – there are specific rules on how to account for transfer of responsibility for energy use. See [Annex 1](#) for more information.

#### *Reporting on large subsidiaries*

If an organisational group has any subsidiaries that consume enough electricity in the qualification period that they would be eligible to participate in their own right were they not part of a group, there are some additional administrative requirements.

For each of these large subsidiaries, known as *principal subsidiaries*, the primary member must:

- provide separate information on the principal subsidiary's emissions, as part of their group *annual report*
- notify the administrator in the event of a purchase or sale of one of these subsidiaries.

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This enables the administrator to account for significant changes when calculating the performance league table. Though the primary member will still be the organisation listed in the performance league table and receive the revenue recycling payment, the performance of principal subsidiaries will also be made public when the table is published. This is intended to generate reputational incentives for principal subsidiaries to perform well in CRC.

Section 4 provides more information on reporting obligations and the performance league table.

### **Government departments**

All Central Government departments in Great Britain are included in CRC regardless of whether they meet the qualification threshold or not. The relevant Secretary of State is the legal entity for a department and its executive agencies (as well as any department-sponsored body that does not have a separate legal identity), and so is responsible for:

- recording and reporting all energy use from the department
- ensuring allowances are purchased
- submitting allowances at the end of each compliance year.

Non-departmental public bodies and public corporations which are autonomous and have their own legal status participate separately, but only if they meet the qualification threshold.

### **Joint ventures and PFI**

If your venture, Private Finance Initiative, Public Private Partnership or Build, Design, Finance and Operate agreement has a majority owner (> 50%) then the joint venture's energy use is aggregated with that of the majority owner organisation.

Where the venture has no single owner with a stake greater than 50%, the joint venture is counted as a separate organisation and must assess if it qualifies for the scheme in its own right.

### **Franchisees and franchisors**

Under CRC, franchisors are responsible for the energy use of all their franchisees – even if the franchisee is legally owned by another CRC organisation (i.e. not the franchisor). The franchisor is known as the *responsible person* and each franchisee is known as an *associated person*.

- The franchisor must consider all its franchisees to determine whether it meets the qualification criteria
- If the franchisor then qualifies, it must follow the processes set out in the following sections either to make an information disclosure or participate fully in CRC

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- During the scheme, franchisees should give their franchisor data about their energy use. In most cases, this can be done once a year and the franchisee can request an annual energy statement from its energy suppliers to help compile this data.

If the franchisor itself is a subsidiary, then it needs to follow the guidance for group organisations for reporting its energy use, including that of its franchisees, to the primary member for its group. See the guidance on *group organisations*.

If the franchisee is a tenant and the landlord pays the energy bills, the landlord has responsibility for the franchisee's emissions – not the franchisor.

These rules apply to other types of vertical distribution agreement such as distribution or licence agreements.

### Schools

Emissions from state-funded schools in Great Britain are included in the scheme through their local authority. The local authority is known as the *responsible person* and each school is known as an *associated person*.

- The local authority must consider all the schools it is responsible for (including Foundation, Voluntary Aided, Voluntary Controlled, Academy and Trust) to determine whether it meets the qualification criteria

- If the local authority then qualifies, it must follow the processes set out in the following sections either to make an information disclosure or participate fully in CRC
- During the scheme, schools should give their local authority data about their energy use. In most cases, this can be done once a year and the school can request an annual energy statement from its energy suppliers to help compile this data
- Schools must report their energy use to their local authority following the same rules that participants must comply with. These rules are explained in section 3.

In the case of PFI schools, where the PFI company is the counterparty to the energy supply contract, the energy use will be attributed to the PFI company.

Schools in Northern Ireland will be included as part of the Education and Skills Authority (ESA).

### Private schools

Private schools in Great Britain are **not** included as part of a local authority's energy use. Instead, private schools only participate in CRC if they, or their organisational group (including its school(s) as if they were subsidiaries), pass the CRC qualification threshold of 6,000 MWh / year of half hourly metered electricity use.

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## Universities

Universities participate in CRC as separate organisations. Only the institutions that meet the qualification threshold have to participate in the scheme.

In the case of the three collegiate universities (Durham, Cambridge and Oxford), the individual colleges are grouped as part of their respective university. The university is known as the *responsible person* and each college is known as an *associated person*.

- The university must consider all the colleges it is responsible for to determine whether it meets the qualification criteria
- If the university then qualifies, it must follow the processes set out in the following sections either to make an information disclosure or participate fully in CRC
- During the scheme, colleges should give their university data about their energy use. In most cases, this can be done once a year and the college can request an annual energy statement from its energy suppliers to help compile this data.

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## 2.3 Making an information disclosure

**This section is for any organisation that has to make an information disclosure under CRC. It explains what information you must provide, by when – and what happens if you don't make a disclosure.**

As described in section 2.1, if your organisation has at least one HHM settled on the half hourly market, but your total electricity consumption through all HHMs was less than 6,000 MWh over the course of the qualification period, you must make an information disclosure under CRC. This is done via the online [CRC registry](#).

The information you disclose:

- helps improve Government's understanding of energy use, and
- helps make sure that all HHMs settled on the HH market have been accounted for.

### 2.3.1 What information must my organisation disclose?

If you are required to make an information disclosure, you must:

- provide the administrator with a list of all your organisation's HHMs settled on the half hourly market, and
- calculate how much electricity you consumed through all HHM, including any AMR meters.

If you consume **more than 3,000 MWh** in the qualification year, you must **also** disclose your total annual consumption of half hourly electricity during the period. This is to improve the data available to Government on energy use in the target sector.

If you consume **less than 3,000 MWh** in the qualification year, then you will need to tick the appropriate box on the online form.

Your energy supplier should be able to tell you if you have any HHM settled on the half hourly market and your electricity consumption through these meters.

### 2.3.2 Making an information disclosure

Information disclosure takes place during the [registration period](#). For the introductory phase, this is 1 April 2010 until 30 September 2010.

You need to:

- add together the electricity consumed from all the HHMs your organisation is responsible for
- make sure your organisation did not consume more than 6,000MWh through HHMs during the qualification period, and
- use the online CRC registry to submit your information disclosure.

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### 2.3.3 What happens if we do not provide the information?

If you are required to make an information disclosure but fail to do so by the end of the registration period, a fixed fine of £1,000 will apply.

### 2.3.4 Help with the information disclosure process

In September 2009, the scheme administrator will send out a qualification pack to the individual billing address for each HHM settled on the HH market. The qualification pack will provide further details of the information disclosure process.

It will also include details of the electricity consumed through that HHM over the qualification year. You can use this information to help you work out your organisation's total electricity consumption.

**Important:** These packs are designed to help organisations understand their obligations under CRC. The packs are sent to HHM billing addresses, which may not be your head office. Therefore if your part of the organisation does not receive a pack, it does not necessarily mean your organisation has no obligations.

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## What does my organisation need to do now?

1. Work out if you need to make an information disclosure to the administrator.
2. If you do need to – or think you *may* need to – start gathering the necessary information. This includes details of all electricity consumed from all the HHMs your organisation was responsible for during 2008.
3. Inform anyone in your organisation who is responsible for energy bills to look out for the qualification pack(s) that will be sent out in September 2009 to the billing address for every HHM settled on the half hourly market.
4. Check how much electricity your organisation consumed through HHMs during the qualification period. If it is more than 6,000MWh, you must register as a full participant. See section 2.4 for details of how to do this.

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## 2.4. Registering for full participation

**This section explains how to register as a full participant in CRC. It also provides details of the circumstances in which you may be exempt.**

As described in section 2.1, if your organisation's total half hourly electricity consumption was at least 6,000 MWh during the qualification year then you qualify as a participant in CRC. You must register for CRC using the online [registry](#) during the registration period. For the introductory phase, this is from 1 April 2010 until 30 September 2010.

Your energy supplier should be able to tell you if you have any HHM settled on the half hourly market and your electricity consumption through these meters.

When you register you will have to provide information including:

- information on the organisation and its principal subsidiaries
- identification information for the person(s) responsible for the organisation's participation in CRC
- a list of all your organisation's HHM settled on the half hourly market and
- total half hourly electricity used.

When you register for CRC, the administrator will create an online account for you. You will then use this account to report your emissions and to surrender allowances.

### *Registration fees*

There is a registration fee for all participants. There are also subsequent annual fees for administration of this account. These fees are paid to recover costs for administering CRC and have been developed by Government in consultation with the regulators. The fees are set out in the [regulations](#), and a single set of charges applies throughout the UK.

### 2.4.1 Transport exemption from CRC

Organisations that use a large majority of their electricity for transport may be exempt from CRC – even if their total consumption during the qualification period is over 6,000MWh.

To work out if you qualify for the transport exemption, you must:

- add together the electricity consumed from all the HHMs your organisation (including any subsidiaries etc) is responsible for, then
- subtract from that the amount of electricity used for transport.

If the resulting HH electricity consumption across your organisation is less than 1,000MWh during the qualification period, then you qualify for the transport exemption. That means your entire organisation is exempt for the duration of the

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phase. You must inform the administrator that this is the case during the registration period. Use the online registration form on CRC registry to do this. You will be required to keep records to demonstrate why you are exempt.

You are not required to take any further action during that phase but you must keep the evidence that you qualify for this exemption. If the resulting HH electricity consumption across your organisation is more than 1,000MWh during the qualification period, you do not qualify for this exemption and you will need to register and participate.

There are also exemptions for participants that have a significant proportion of their emissions – or a subsidiary’s emissions – covered by a [Climate Change Agreement](#), but these apply later in the process. See [Annex 2](#) for more details.

### 2.4.2 What happens if my organisation fails to register?

Once the registration period has closed, the scheme administrator reviews its records and accounts for all HHMs in order to identify whether there are any meters for which a return has not been made.

**If your organisation is eligible for CRC, but has failed to register by the end of the registration period, you will have to pay a fixed fine of £5,000. Then for each subsequent working day you fail to register, you will be fined an additional £500.**

### 2.4.3 Help with the registration process

In September 2009, the scheme administrator will send out a qualification pack to the individual billing address for each HHM settled on the HH market. The qualification pack will provide further details of the registration process.

It will also include details of the electricity consumed through that HHM over the qualification year. You can use this information to help you work out your organisation’s total electricity consumption.

**Important:** These packs are designed to help participants understand their obligations under CRC. The packs are sent to HHM billing addresses, which may not be your head office. If your part of the organisation does not receive a pack, it does not necessarily mean your organisation has no obligations.

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## What does my organisation need to do now?

1. Work out if you will have to register for CRC.
2. If you do have to register – or think you *may* have to – start gathering the necessary information. This includes details of all electricity consumed from all the HHMs your organisation is responsible for.
3. Inform anyone in your organisation who is responsible for energy bills to look out for the qualification pack(s) that will be sent out in September 2009 to the billing address for every HHM settled on the half hourly market.
4. Check how much electricity your organisation consumed through HHMs during the qualification period. If it is more than 6,000MWh, you must register as a participant.
5. Work out if you qualify for the Transport Exemption. You will have to provide this information during the registration process.
6. Register using the online registry between 1 April 2010 and 30 September 2010.
7. Begin preparing for the scheme. See section 3 for more information.

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## Preparing for CRC

This section explains what you will have to do *after* you have registered to prepare for participation in the scheme. In particular, it focuses on how and when you must monitor your energy use, and how to determine what emissions you have to include in CRC.

Getting an accurate record of your emissions

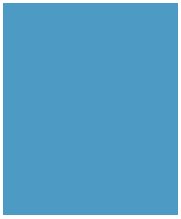
Working out your total footprint emissions

Working out emissions to be included in CRC

Listing CRC emissions

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### 3.1 Getting an accurate record of your emissions

The first step in preparing for CRC is to get a comprehensive and accurate record of your organisation's CO<sub>2</sub> emissions. You do this in the *footprint year* (2010/11). This is important because, based on this, the organisation then has to:

- provide a comprehensive report to the *administrator* that shows how much CO<sub>2</sub> they have emitted
- buy allowances from Government for each tonne of CO<sub>2</sub> they think they will emit
- record CO<sub>2</sub> emissions during each compliance year, and
- submit allowances at the end of that year for all the CO<sub>2</sub> they have emitted.

The following sections explain how to work out your organisation's *total footprint emissions* and equally importantly what parts of this total footprint needs to be included in your *CRC emissions*. **You only need to annually report on – and purchase allowances for – your CRC emissions.**

As discussed in section 2, qualification for CRC is based solely on electricity consumption. However, when you are actually participating in CRC, you are required to consider all energy use (for which your organisation is counterparty to the supply contract) in determining your CO<sub>2</sub> emissions. Remember, electricity supplied to a licence holder for the purposes of electricity generation, distribution, transmission, or supply does not count as electricity consumption according to the 1989 Electricity Act and should therefore not be considered when determining energy use.

### 3.2 Working out your total footprint emissions

Your organisation's total footprint emissions, which you record once for each phase, are based on your energy use over the footprint year. Normally, this will be two years before a phase starts. For the introductory phase, however, it will be April 2010-March 2011 – which is also the first compliance year.

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Working out emissions to be included in CRC

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To work out your total footprint emissions, follow the steps below.

1. Add up all energy use across your organisation from:

- electricity
- gas, and
- any other fuel types such as coal, LPG, diesel, etc.

CRC [regulations](#) provide a full list of what fuels and energy use you are required to monitor under the scheme.

You should use original copies of energy bills, meter readings or fuel delivery invoices to work out energy use. You can make estimates of energy use in CRC but any estimates are subject to an automatic 10% increase.<sup>1</sup>

To help you work out your organisation's total energy use, you can request an annual statement from each of your energy suppliers, covering:

- a list of all unique meter identification numbers/codes under the relevant supply contract, and
- the total annual energy consumption through every meter (detailing the type of reading – actual, self read or estimated).

To enable your suppliers to give you a statement in time, you must request such a statement by the end of February, one month before the end of the compliance year. Suppliers will be obliged to provide the statement within six weeks from the end of the compliance year.

Remember you will need an annual statement from each of your organisation's energy suppliers and for each account you have with them to work out the full amount used.

Suppliers will be able to provide you with an annual statement of consumption starting from the first compliance year. You should therefore request your first statement by the last working day of February 2011.

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<sup>1</sup> This uplift applies to all energy use estimates made in CRC. For metered energy use, data will only be classed as an estimate and therefore subject to the uplift, where estimates are based on less than 6 months of auditable accurate data which includes the supplier statement, energy bills or internal records, of actual meter readings (or self meter readings). The administrator will issue further guidance on suitable approximation and estimation techniques in due course.

2. Then, work out how much CO<sub>2</sub> your organisation has emitted, based on your energy use.

Different sources of energy produce different levels of CO<sub>2</sub> emissions per unit of energy generated, and CRC recognises this. Energy use is therefore translated into CO<sub>2</sub> emissions using the different emissions factors that are published in CRC regulations.

You need to multiply the total energy use for each source of energy by the emission factors. You can either do this yourself, using the factors in the regulations, or use the emissions calculator which is part of the online CRC registry.

Add the total emissions from each source of energy use and the result is a total figure of CO<sub>2</sub> emissions.

3. Next, exclude emissions related to energy used for:

- transport
- onward supply.

More information on these exclusions is available in [Annex 4](#).

Your total energy use emissions, minus the energy use from the above activities are known as your [relevant emissions](#).

4. Now, check whether your organisation, or any part of it, already has a Climate Change Agreement (CCA).

- If you are a single entity participant and at least 25% of your energy use emissions are covered by a CCA, you will be **exempt** from CRC for all your emissions. If you lose your CCA exemption then you will be required to participate in CRC from the start of the next compliance year. You will be required to provide details of your CCA to the administrator
- If any member of your organisational group has at least 25% of its emissions covered by a CCA, that member is treated as **exempt** when working out your group's total footprint emissions. You will be required to provide details of your member's CCA to the administrator
- If, after the removal of these members' energy use, your remaining organisation has less than 1,000MWh of half hourly electricity remaining in CRC, your entire organisation will be exempt. If you lose the CCA exemption you will be required to participate in CRC from the start of the next year.

[Annex 2](#) provides more details on CCA exemptions.

**Your relevant emissions minus the emissions of exempted parts of your organisation are known as your total footprint emissions in CRC.**

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### 3.3 Working out emissions to be included in CRC

Once you have worked out your total footprint emissions, you can then work out the emissions you will actually have to include in CRC each year – and purchase allowances for. The emissions that must be included are known as your CRC emissions.

There are two rules that determine CRC emissions:

1. All your emissions from *core sources* (see below) of energy must be included in your CRC emissions, unless they are covered by *EU Emissions Trading System (EU ETS)* or CCAs.
2. At least 90% of your total footprint emissions must be regulated either by CRC or by EU ETS or CCAs. The remaining 10% of your emissions may be omitted, primarily because the administrative burden of accounting for some very small sources of energy every year would be disproportionately large.

#### 3.3.1 Working out your core sources

Core sources are all emissions from the following sources:

- all electricity consumed through HHMs (including pseudo HHM)
- all electricity consumed through AMR meters
- all electricity consumed though *profile class 5-8 meters*

- all *daily-read gas meters*
- all gas consumed through AMR meters
- all *non-daily metered gas* consumption of more than 73,200 kWh per annum.

You must include all energy from these core sources in your CRC emissions, unless they are already regulated under EU ETS or CCAs.

#### 3.3.2 Including residual sources

If, having included all your core sources, you find that you have not yet reached the point where 90% of your total footprint emissions are regulated, then you must include some of your *residual sources* until your organisation's combined EU ETS, CCAs and CRC coverage level is above the 90% threshold.

Residual sources are any energy use other than the core sources listed above. A fuel list will be published in CRC regulations where you can identify your residual sources that may need to be included.

Once your organisation has achieved the 90% threshold you can choose to opt in residual sources, if you wish, until anything up to 100% of your total footprint emissions is covered.

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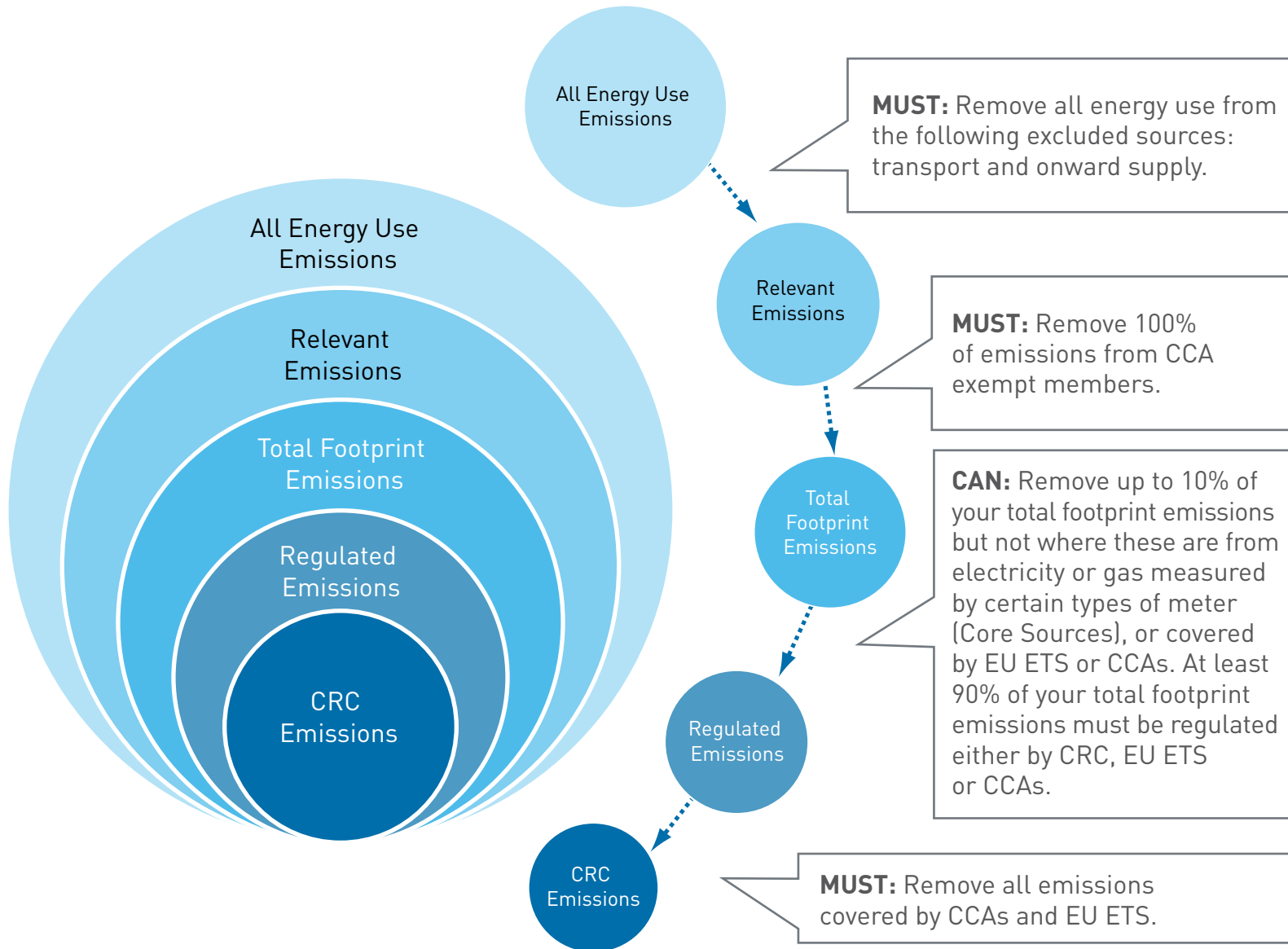
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### 3.4 Listing CRC emissions

Once you have worked out your CRC emissions, you need to compile a list of all energy sources included and add this to your *evidence pack* (see section 3.6 below). These will be the sources of emissions which you have to report on and purchase allowances for. Do not include the sources covered by EU ETS and CCAs in your CRC emissions source list.

These listed sources must be included in CRC for the whole phase. However, you will be able to re-evaluate them before the start of the next phase. Bear in mind, though, that the final percentage of your total footprint emissions covered by one of CRC, CCAs or EU ETS must be at least maintained in subsequent phases. This percentage will be assessed at the end of the phase to take into account organisational changes etc. So if for the introductory phase, 92% of your total energy use footprint is regulated at the end of the introductory phase then this percentage or more must be covered in the next phase.

### 3.5 Producing a footprint report

The steps described above should be performed using the data collected in the footprint year. At the end of the footprint year, participants have to provide a footprint report to the scheme administrator covering:

- their total footprint emissions (as calculated in section 3.2)

- their CRC emissions, and
- details of any exemptions through CCAs.

#### 3.5.1 How and when should a footprint report be submitted?

This report must be submitted, using the CRC registry, by the last working day of July – four months after the end of the footprint year. In the introductory phase, this is 29 July 2011. Further guidance on compiling a footprint report will be provided by the administrator.

#### 3.5.2 What happens if my organisation doesn't submit a footprint report?

If your organisation fails to submit a footprint report by the deadline, you will have to pay a fixed fine of £5,000. Then for each subsequent working day you fail to submit a report, you will be fined at a rate of £0.05 per day for each tonne of CO<sub>2</sub> in your CRC emissions.

#### Electricity credits

If you generate electricity yourself and export it to the grid or to other users, you can claim electricity credits. Any electricity credits that you are entitled to can be subtracted from your annually reported CRC emissions before you report your emissions via CRC registry. **Annex 3** provides more information on the treatment of electricity generation in CRC. You will need to disclose the amount of electricity credits that you generated during the footprint year in your footprint report.

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### 3.6 Compiling an evidence pack

You must put all records that support information provided to the administrator in an evidence pack. This should include records and evidence for all data that you used in your footprint report. You then add to this evidence pack information about your energy use and emissions each compliance year.

If your organisation is selected for an audit, you will need to disclose your evidence pack to the regulator.

The evidence pack should contain:

- **structural records** that define the scope of your organisation, the type(s) of sites within your organisation (important for non-metered supplies such as street lighting), and the types of energy you use
- **data records** showing your energy consumption – such as copies of monthly invoices or statements from suppliers for each energy source, e.g. electricity, gas, and fuel oil. Where HHM or AMR electricity meters are not available, utility company meter readings should be the principal source of data. If “own meter readings” are used instead of utilities, verifiable records of such readings should be included
- **special event records** covering any unusual events e.g. meter breakdown, change of energy supplier, change in company structure

- **data for Early Action and Growth metrics** (see sections 4.5 - 4.8 on reporting emissions and revenue recycling)
- **records to support exemptions and energy credits** (see section 3 and Annexes 2 and 3).

Participants must keep these records for a set period of time and ensure that the evidence pack is kept up to date, adding relevant records each year.

- Evidence from 2010/11 must be kept for the duration for the scheme, as this provides the emissions data on which each participant’s proportion of the revenue recycling is based
- Records from other years must be kept for five years after the end of the phase to which they relate.

A director within a CRC participant organisation will be required to take responsibility for the evidence pack. If your organisation fails to keep a complete evidence pack that can be viewed on the regulator’s request, you will be fined £5 for each tonne of CO<sub>2</sub> in your CRC emissions.

The scheme administrator will issue guidance on the compilation of evidence packs in due course.

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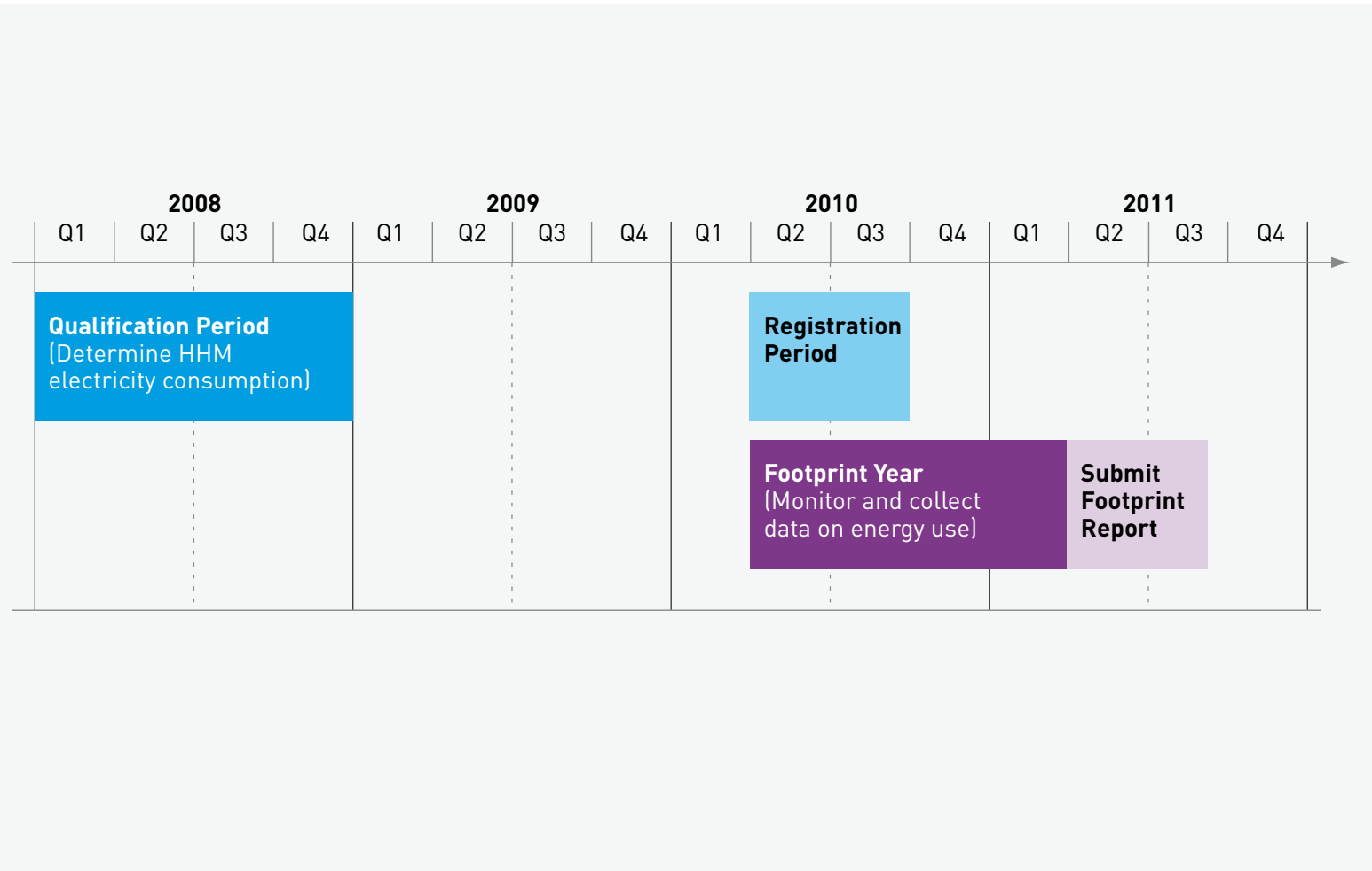
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## What does my organisation need to do now?

1. Make sure you have information – or can get information – about your annual energy use.
2. Follow the process explained in sections 3.2 and 3.3 for working out your total emissions and your CRC emissions. You do not need to do this until the footprint year, but it may be useful for you to start gathering data to identify your sources of energy use and to help you plan how many allowances you will need.
3. Produce and submit a footprint report by 29 July 2011.
4. Compile and keep an evidence pack.

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## Participating in CRC: The Introductory Phase

This section explains what your organisation will need to do as a participant in the introductory phase. It covers:

- how your organisation can buy allowances for your CO<sub>2</sub> emissions in CRC, how to 'budget' for them and how you can sell them if you find you have too many
- what information you have to report each compliance year, and how to do this
- how to surrender allowances
- how performance is evaluated, and
- the revenue recycling process.

It also states how CRC is audited.

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## 4.1 Buying allowances: principles

Allowances are an integral part of an emissions trading scheme. The basic principles for their use in CRC are:

- Organisations are required to surrender one allowance for each tonne of CO<sub>2</sub> they emit during the compliance year
- Allowances are sold by Government at the start of each year and organisations should buy as many as they think they will need to cover their *CRC emissions*
- If an organisation makes efficiency savings – so reducing the amount of energy it uses – it will need to buy and surrender fewer allowances. This will mean reducing not only the costs of their involvement in CRC, but also benefiting from cutting their energy bills
- If an organisation needs to purchase additional allowances, because it has exceeded (or is going to exceed) its emissions targets, it can do this through the secondary market, or via the ‘safety valve’

- All revenue raised through the Government sale of allowances will be ‘recycled’ to participants. A proportion of this is allocated to organisations according to their relative performance in cutting emissions.

## 4.2 Buying allowances from Government

Government will sell allowances annually, during a month-long sale period at the start of each compliance year. Only CRC participants will be allowed to buy allowances during this period. It is up to each participant to decide how many allowances they wish to purchase. Purchases are managed through the CRC registry.

To help organisations get used to the process, different rules will apply in the introductory phase from subsequent phases.

### 4.2.1 The annual sale in the introductory phase

During the three year introductory phase:

- the scheme administrator will sell allowances to participants at a fixed price of £12/allowance

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- there is no limit to the total number of allowances available to purchase during the April sale periods, and
- there is no sale of allowances in the first year. Instead, the first sale takes place in April 2011, when organisations will purchase allowances:
  - ◆ retrospectively, to cover recorded CRC emissions in the financial year 2010/11, and
  - ◆ to cover projected CRC emissions in the financial year 2011/12.

This is the only time there will be a double sale of allowances. Organisations may wish to budget ahead for this double sale.

- Government will issue allowances to participants if they receive payment in full within three working days, and
- allowances will be issued to participants as soon as possible after the payment has been received and reconciled by Government.

#### 4.2.2 The annual sale in future phases

After the introductory phase, the annual sale of allowances will be conducted via a closed auction. Section 5 provides more information about how CRC will operate in the *capped phases*.

### 4.3 Buying extra allowances

Following the initial sale, if you wish to buy further allowances – for example, because

your organisation's emissions are higher than anticipated – there are two ways of doing this:

- trading with other CRC participants on the *secondary market*
- buying allowances through the *safety valve*.

Revenue from sales on the secondary market and through the safety valve will not be included as part of the pot of money that will be recycled.

#### 4.3.1 Buying allowances on the secondary market

The secondary market consists of other CRC participants and traders (organisations and individuals that aren't participants in CRC but who are registered with CRC.)

It will be up to the buyer to agree a price with the seller and Government will not control the price (except through the existence of the safety valve).

The CRC online registry will have a noticeboard trading facility to help participants find buyers or sellers of allowances. However, trades will not be restricted to this system and there may be a number of third party trading facilities.

#### 4.3.2 Buying allowances through the safety valve

To protect against the price of allowances becoming too high, CRC has built in a safety valve. Through this, CRC participants can ask the administrator to issue extra allowances throughout the year.

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When a participant requests additional allowances through the safety valve, the scheme administrator:

- requests a deposit from the participant based on the final price paid for safety valve allowances the previous month
- makes a purchase of allowances from the [EU ETS](#) market corresponding with the number of requests from participants
- calculates the difference between the deposit and the actual price paid for the EU ETS allowances and either requests an additional payment from the participant, or issues a refund
- issues the required number of new CRC allowances for which payment has been received in three working days, and
- to retain the environmental integrity of the scheme, cancels the corresponding number of allowances from the EU ETS market.

The price of the safety valve is related to the price of allowances in the European Emissions Trading System, but is **always** greater than buying allowances through the fixed price Government sale. Government will not sell allowances for less than £12, even if the EU ETS market is trading below this. It is therefore in the financial interests of participants to purchase allowances through the safety valve only if CRC allowances for sale on the secondary market are more expensive than EU ETS allowances.

## 4.4 Selling and banking allowances

If you find your organisation is holding more allowances than you need in that year – perhaps because you have achieved greater emissions reductions than expected – you have two options:

- sell some of your allowances through the secondary market
- bank allowances for future use.

### 4.4.1 Selling allowances

You can sell allowances on the secondary market, either:

- direct to other CRC participants, or
- to a registered trader.

It is up to you to agree a price with the buyer.

### 4.4.2 Banking allowances for future use

Alternatively, you can bank unused allowances to cover emissions in future years. The only exception is the final year of the introductory phase. This is because at the end of the introductory phase all remaining allowances will be cancelled and cannot be banked for the capped phase.

In CRC, organisations can never borrow allowances from future years, with the exception of the first year of the scheme.

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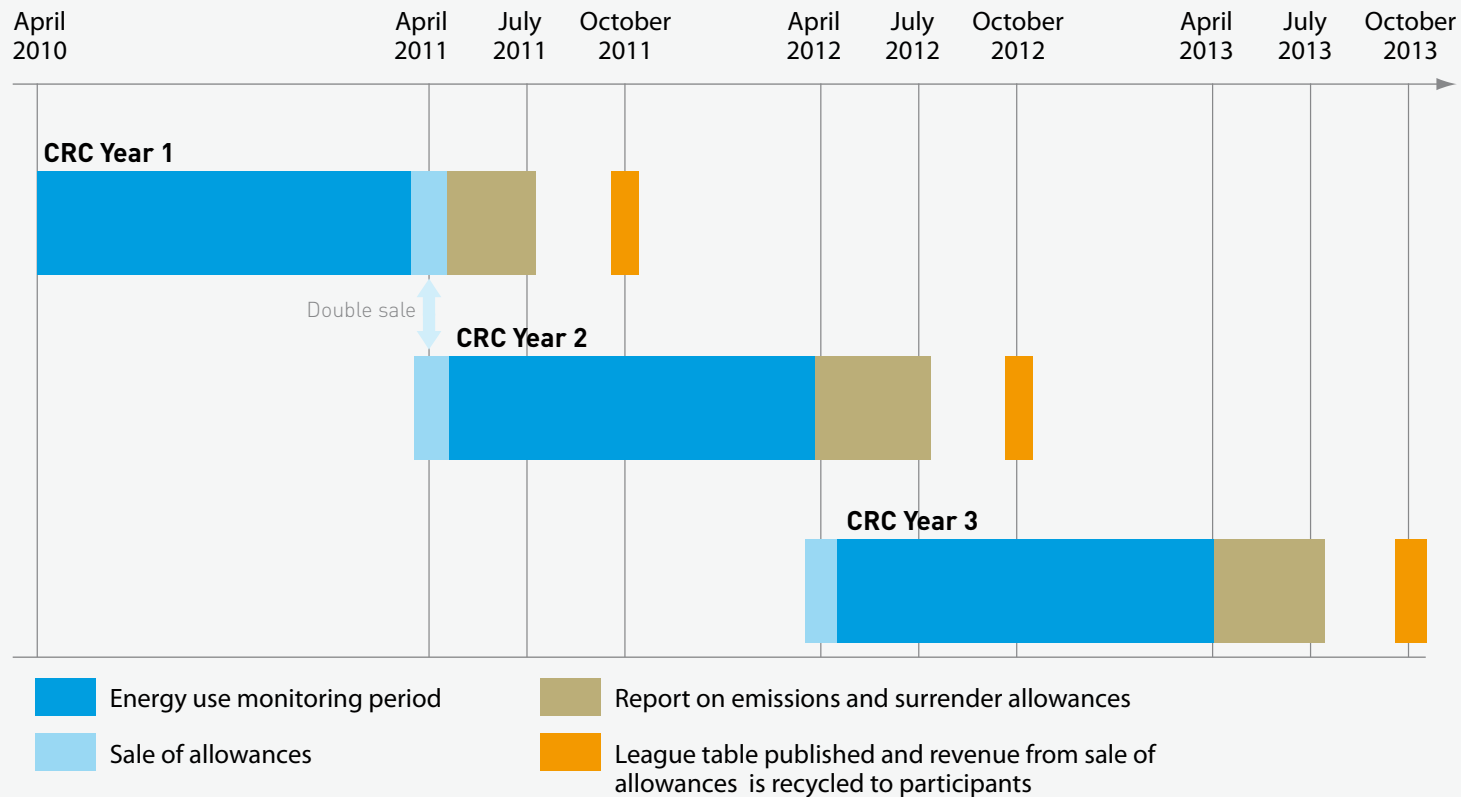
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## What does my organisation need to do now?

At this stage, you cannot buy allowances. However, to prepare for the first sale of allowances in April 2011, it might be beneficial to:

1. Work out how many allowances you would need to buy, based on your current CRC emissions.
2. Budget ahead for the fact that in April 2011 you will have to buy allowances for **two** years (retrospectively for 2010/11 and based on projections for 2011/12).
3. Read section 5 to understand how the auction will work in the capped phase.

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## 4.5 Reporting emissions and surrendering allowances

You must report your annual emissions by the last working day of July after the end of the compliance year. (In the first year, this will be 29 July 2011). By the same deadline, you must also surrender a corresponding number of allowances valid for that compliance year (i.e. if you report 1,000tCO<sub>2</sub>, you must surrender 1,000 allowances). You can do this either by:

- cancelling allowances from your CRC registry account yourself during the year, or
- ensuring that you hold sufficient valid allowances in your account at the reporting deadline. The administrator will then cancel these on your behalf.

You therefore have four months after the end of the compliance year to collate your data for the annual report, update your evidence pack (see section 3.6 for a reminder of what this includes) and purchase further allowances, on the secondary market or via the safety valve, if necessary.

Valid allowances are any that were issued in the preceding year's sale, or earlier – not those that have been bought in the same year's April sale (except for the first year of the scheme). All safety valve allowances issued up until the July deadline also count as valid for that year. For example, you cannot surrender allowances bought in April 2015, to comply with the scheme in July 2015, you will have to use those allowances issued in or before April 2014 or through the safety valve.

Remember, you are not required to report on all emissions, but instead just your CRC emissions, which you established in the footprint year, as explained in section 3.2 and 3.3. You only need to monitor and report 100% of your emissions in the footprint year of each phase.

### 4.5.1 Submitting an annual report

Like the footprint report, annual reporting is done via the CRC registry. You enter details of your energy use for the sources contributing to your CRC emissions, and the CRC registry then converts this figure into tonnes of CO<sub>2</sub>.

There are special circumstances regarding electricity generated during the scheme.

See [Annex 3](#) for more information.

Remember that in the introductory phase, the first compliance year of the scheme (2010/11) is also the footprint year for the first phase. You therefore have to submit your first annual report at the same time as your footprint report – by the end of July 2011.

### 4.5.2 What happens if my organisation doesn't submit an annual report?

If your organisation fails to submit an annual report by the deadline, you will have to pay a fixed fine of £5,000. Then for each subsequent working day you fail to submit a report, you will be fined at a rate of £0.05 per day for each tonne of CO<sub>2</sub> in your CRC emissions.

Full details of penalties are outlined in [Annex 6](#).

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## 4.6 How performance is compared and assessed

At the end of each compliance year, the CRC administrator gathers information from the reports of all participants. This information is then used to compare performance in terms of how well organisations have reduced their emissions. The comparative performance is then:

- published as a league table
- used as one of the two factors to determine each organisation's revenue recycling payment.

## 4.7 CRC performance league table

After all the reports have been received, a performance league table is compiled and published by the scheme administrator. To make a comparative assessment, performance is calculated using three different metrics. These are:

1. an **absolute** metric, which simply reflects the relative change in an organisation's CRC emissions
2. an **early action metric**, which takes into account energy saving measures an organisation put in place before the start of CRC<sup>2</sup>

3. a **growth** metric, which takes into account the fact that a growing organisation may have an increase in its absolute emissions by measuring change in emissions intensity. This metric therefore gives credit to organisations that are expanding in an energy efficient way.

Organisations are only legally required to provide information for the absolute metric. However, all metrics will be taken into account when working out your league position, and if you decide not to disclose information in your annual report for the other metrics, you will be unable to score any league table points for them. So even if your organisation would perform poorly in a metric, it will still be in your interest to disclose the information as you will score some points, whereas an organisation that does not disclose the information will not receive any points.

The table below describes each of these metrics in more detail and sets out each metric's relative weighting in the overall performance score. [Annex 5](#) provides worked examples of how these metrics will be calculated.

<sup>2</sup> This metric will be removed after the introductory phase.

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Metric	Description	Weighting Introductory Phase – Year 1	Weighting Introductory Phase – Years 2 & 3	Weighting Future Phases*
Absolute Metric	This measure is your percentage emissions change. Performance is assessed using a five year rolling average. The metric compares your current annual emissions to your average emissions over the preceding five years. In the first five years of the scheme, current emissions are compared against the average over the years available.	0%	60%	75%
Early Action Metric	This measure gives some recognition for good energy management undertaken prior to the start of the scheme. This metric is based on two factors, equally weighted, which have been chosen as a proxy for good energy management:  (i) The percentage of non-mandatorily HH metered electricity and gas emissions which are covered by voluntarily installed automatic metering (AMR) by 31 March 2011.  (ii) The percentage of your organisation's emissions covered by a valid <a href="#">Carbon Trust Standard</a> or <a href="#">Energy Efficiency Accreditation Scheme</a> certificate on 31 March of each compliance year.	100%	20%	N/A
Growth metric	This gives recognition and provides context for your organisation if you are growing or declining commercially, but your emissions are increasing at a slower rate, or decreasing. This is your percentage change in emissions per unit turnover (or revenue expenditure if you are in the public sector). It compares your current per unit level of emissions relative to your average over the preceding five years.	0%	20%	25%

\* These are proposed weightings and will be reviewed in light of evidence from the introductory phase

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#### 4.7.1 From performance metrics to league table points

For each metric, participants will be ranked to determine their points score. For example, if there are 5,000 participants then the best performing participant in each metric will receive 5,000 points, with the worst performer in each metric receiving 1 point.

A participant's score for each metric will be multiplied by the percentage weighting of each metric, and then the three are added together to give the participant's overall league table score.

##### The league table in the first year

At the end of the first year of the scheme, Government will only have collected one year of emissions data and therefore will not be able to calculate either the absolute or growth metrics. So for this first year, the league table will be based solely on the early action metric.

To improve your chances of doing well in this metric, you can:

- voluntarily install automatic meters (AMR) and
- attain the Carbon Trust Standard and ensure you have a valid certificate for the relevant compliance year.

#### 4.7.2 How the league table will be published

The league table will be published after the end of each compliance year on the public pages of the CRC registry.

Alongside the table, there will also be information about three other issues that indicate organisational commitment to carbon reduction. Organisations are asked to provide information about these issues through three simple tick-boxes when they are submitting their annual report:

1. Does your organisation disclose long-term carbon emission reduction targets, which cover the majority of your CRC emissions, in its annual reporting?
2. Does your organisation disclose performance against these emissions targets in its annual reporting?
3. Does your organisation name a Director with responsibility for overseeing carbon performance in its annual reporting?

It is not mandatory to provide this information and your answers to these questions do not affect your league table score. However the answers, or absence of these, will be made public.

#### 4.8 Revenue recycling

As an incentive to reduce emissions, all the revenue raised by the annual sale or auction of allowances is 'recycled' back to participants. Performance in the league table is a key factor in working out how much of the revenue each organisation receives.

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#### 4.8.1 How a revenue recycling payment is calculated

Each organisation's revenue recycling payment is calculated from two elements:

1. A set payment based on your organisation's proportion of the total CRC emissions in the first year of the scheme (2010/11). For example, if Organisation X has emissions of 100 tonnes of CO<sub>2</sub> in 2010/11 and the total emissions from all participants in 2010/11 is 10,000 tonnes of CO<sub>2</sub>, then Organisation X's share is 1%. The basis for each future recycling payment to Organisation X will therefore be 1% of the total revenue raised each year.
2. This is then adjusted by a bonus or penalty payment based on your position in the performance league table. Essentially, the higher your position in the table, the better your bonus payment.

Note that, when your organisation improves more than average, you spend less each year on allowances – but receive a higher fraction of the recycling pot. This therefore means there is a double financial benefit for good performance.

#### 4.8.2 The league table and recycling bonus/penalty system

Each position in the performance league table will have a different bonus or penalty rate. The top placed organisation will have the highest bonus rate and the bottom organisation the maximum penalty rate.

This bonus or penalty rate is then applied to your set payment, which reduces or increases accordingly. So for instance, if Organisation X (above) came top of the league table, its payment – based on 1% of the total revenue raised that year – would then be adjusted to incorporate the maximum bonus payment rate.

The bonus/penalty rates for the top and bottom placed participants in the league table have been set for the first five scheme years. The bonus/penalty rate for year six and beyond will be reviewed by Government after the first five compliance years.

Phase	Year	Bonus/Penalty Rate
Introductory phase	Year One	+/-10%
Introductory phase	Year Two	+/-20%
First capped phase	Year Three	+/-30%
First capped phase	Year Four	+/-40%
First capped phase	Year Five	+/-50%

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An example calculation of revenue recycling and the use of the bonus/penalty system is shown below.

### Example

This example considers revenue recycling in year 3 of a scheme with only two participants. The bonus/penalty rates for this year of the scheme are +/- 30%. The fixed price sale raised £30,000 at the start of the year with allowances costing £12 each.

Organisation A is ranked at number 1 in the league table and organisation B ranked number 2. Organisation A therefore receives a bonus of 30% whilst B receives a penalty of 30%.

The bonus/penalty rates are then used to adjust the base year emissions to give an overall **recycling payment score**.

Organisation A makes up 61% of the total recycling payment score and organisation B makes up 39%.

Organisation A therefore receives 61% of the total revenue (£18,224) and B receives 39% (£11,776).

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Organisation	Allowances purchased in fixed price sale		Yr 3 Actual CRC Emissions	Recycling payment calculation					
	Yr 3 allowances purchase in sale	Yr 3 sale revenue paid		Yr 3 League table position	2010/ 11 CRC emissions	Bonus/ penalty rate	Recycling payment score	Proportion of total recycling score	Yr 3 revenue recycling payment
	Allowances	(£)		(t CO <sub>2</sub> )	(t CO <sub>2</sub> )	(%)		(%)	(£)
<b>A</b>	800	9,600	750	1	1,000	30%	1,300	61%	18,224
<b>B</b>	1,700	20,400	2,000	2	1,200	-30%	840	39%	11,776
<b>Total</b>	2,500	30,000	2,750		2,200	-	2,140	100%	30,000

Organisation A that has the first position on the league table recovers the cost of £9,600 paid at the auction plus an additional £8,624. Organisation B that has the last position on the table will recover just over half of the auction revenue paid.

#### 4.8.3 When do organisations receive these payments?

Participants receive their payments by BACS transfer at the end of October – three months after the reporting deadline, to allow for reconciliation.

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Buying extra allowances

Selling and banking allowances

Reporting emissions and surrendering allowances

How performance is compared and assessed

CRC performance league table

#### Revenue recycling

Auditing and regulation

## What does my organisation need to do now?

1. Make sure you understand the way performance is measured in the CRC – and how this in turn leads to revenue recycling.
2. Because the first year of the scheme will measure performance based on the early action metric only, organisations that want to secure a high position in the league table in the first year should consider taking early actions, such as:
  - voluntarily installing automatic meters and
  - attaining the Carbon Trust Standard.

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Auditing and regulation

## 4.9 Auditing and regulation

CRC is based on self-certification of emissions. However, to ensure the integrity of the scheme there is an audit procedure to verify the accuracy of participants' records and returns.

### 4.9.1 The audit process

1. Each year a proportion of organisations in CRC will be audited. The selection of participants for auditing will be determined using an assessment of an organisation's risk of non-compliance. However, all organisations can expect to be audited during the scheme, and the data collected for previous years must also be made available for assessment.
2. Audits will be carried out throughout the year by the appropriate regulator (see section 1.5 Administering and regulating CRC)
3. An audit will begin with a desk-based assessment of the evidence pack provided by each participant to find out whether the data in the participant's reports is correct and based on sufficient records. Site visits will be made where necessary, either as part of random sampling or due to conclusions drawn from the desk-based assessment.

### 4.9.2 What happens if an organisation fails the audit?

If an organisation has reported information to the administrator incorrectly, they will have to pay a penalty of £40 for each tonne of CO<sub>2</sub> incorrectly reported. This penalty will apply wherever there is a margin of error greater than 5%.

If an organisation has failed to keep adequate records in their evidence pack, they will have to pay a penalty of £5 for each tonne of CO<sub>2</sub> of total emissions reported in their most recent CRC annual report.

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## Participating in CRC: The Capped Phases

This section summarises how CRC will operate after the introductory phase. In many respects, it will be broadly similar but there are some key changes that organisations should be aware of. These include:

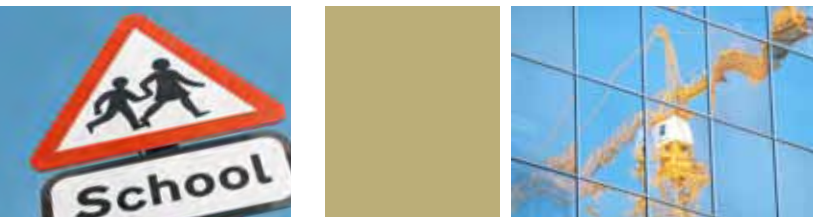
- a cap will be introduced on the total number of allowances available
- the annual sale of allowances will be by auction
- the early action metric will no longer be included as part of the performance league table.

Capping allowances

Sale by auction

Changes to performance measurement





The second phase of CRC starts in April 2013. It follows directly after the introductory phase.

In many respects, the second phase will operate in the same way as the introductory phase. In preparation for the new phase, there will be a qualification period, registration period and footprint year. Both incumbent participants and potential new qualifying organisations must follow these steps.

If you are an incumbent participant, you will have to:

- reassess your electricity consumption during the qualification year to determine whether you must participate in that phase
- register at the appropriate time
- work out your CRC emissions during the footprint year, and
- monitor energy use, report on emissions and buy and surrender allowances each year.

All of this is broadly the same as the introductory phase. However there are some significant differences:

- a cap will be introduced on the total number of allowances available
- the annual sale of allowances will be by auction
- the early action metric will no longer be included as part of the performance league table.

## 1. Capping allowances

In the introductory phase, the number of allowances available in the sale period is unlimited. In subsequent phases, there will be a cap on the total number of allowances available from Government. This will be based on actual emissions data from the introductory phase, and aims to ensure that over time the total amount of CO<sub>2</sub> emissions across the sector is reduced.

Note that the overall cap will be on the **total** number of allowances made available by Government in the auction. However, there will also be a maximum limit on the percentage of allowances that can be bought in the auction by any one party, to prevent a single party cornering the market.

### Capping allowances

Sale by auction

Changes to performance measurement

## 2. Sale by auction

In the introductory phase, allowances were sold at a fixed price. In subsequent phases, they will be sold by auction.

- Participants will be asked to submit a 'bid schedule' that sets out the number of allowances they would wish to buy at different prices. For example, an organisation might want to buy 1,000 allowances if the price were to be £15/allowance, but 1,500 at £10/allowance
- Government will add all the bids from participants together to determine the price where demand for allowances from participants meets the number of allowances for sale from Government – 'the clearing price'
- Participants will then be allocated the number of allowances they bid for, at the clearing price.

As allowances are auctioned and supply of allowances is capped, the price of allowances will be dependent on demand each year.

## 3. Changes to performance measurement

At the end of the introductory phase, the early action metric will be removed from the performance reporting process and will no longer affect league table positions. The weighting of the remaining two metrics will be reviewed in light of evidence from the introductory phase.

Capping allowances

**Sale by auction**

**Changes to performance measurement**

## Technical Guidance

This section contains 6 annexes with more detailed information on various elements of the scheme including:

- treatment of organisational changes
- Climate Change Agreements and CRC
- treatment of electricity generation
- excluded uses of energy
- calculating the performance league table, and
- penalties and offences for non-compliance.

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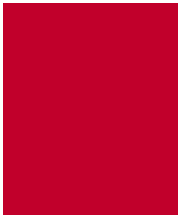
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## Annex 1: Changes in your organisation

It is likely that there will be changes to the organisational structure of many participants during the scheme. For example, an organisation may buy or sell subsidiaries, an entire CRC participant may be purchased by another organisation, or a Government department might restructure.

To minimise administrative burdens on both participants and the administrator, CRC will not require you to report on all changes in your organisation.

However, buying or selling a large organisation or subsidiary can have a significant affect on your CRC emissions. CRC therefore takes account of significant organisational changes, known as 'designated changes', as described below.

### Selling a principal subsidiary

As described in [section 2.2](#), principal subsidiaries are subsidiaries that would be eligible to participate in CRC in their own right were they not part of another organisation. As they are large organisations, these subsidiaries

contribute significant amounts of emissions to the total of their participating highest parent organisation – so selling one has a large impact on an organisation's total CRC emissions.

In order to account for this, when an organisation sells a principal subsidiary:

- the **seller** must notify the administrator
- the administrator then adjusts the seller's records to remove the principal subsidiary and the emissions they are responsible for from the seller's baseline figures, and
- the new baseline figures will be used to calculate the seller's subsequent performance in the scheme and revenue recycling payments.

The sale is deemed to have taken effect at the start of the compliance year. Therefore:

- the seller will not report emissions for that subsidiary or participant for that year
- the buyer will report the full year emissions for that subsidiary or participant, and

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- revenue recycling payments will be adjusted accordingly. Even if the seller's CRC energy consumption is now below the qualification level, the seller must continue to participate in CRC for the rest of the phase.

### Buying a principal subsidiary or entire participant

If a CRC participant buys a principal subsidiary from another CRC participant, or that participant in its entirety, their baseline figures are also adjusted. The buyer is then responsible for:

- reporting on the emissions of that principal subsidiary or entire participant, as part of the buyer's total CRC emissions, from the start of the compliance year in which subsidiary was bought, and
- surrendering sufficient allowances to cover the total CRC emissions.

For example, if participant organisation Y sells a principal subsidiary to organisation Z on 15 September 2012, midway through a compliance year, organisation Z is taken to be responsible for the emissions of that subsidiary from April 2012 onwards, the start of that compliance year.

In the event of a principal subsidiary changing hands more than once during a year, the organisation owning it at the end of that year is the organisation that must report the full year emissions for that subsidiary.

### Buying a participant or principal subsidiary as a non-participant

If a non-CRC participant buys a principal subsidiary or CRC participant, the buyer will then be obliged to:

- register and participate in CRC for the remainder of the phase, but only on behalf of the organisation it has acquired (i.e. it does not need to calculate its total CRC emissions and must only buy and surrender allowances for the organisation it acquired)
- assess whether, for the next phase, it qualifies for the scheme as an entire organisation and take action accordingly.

When purchasing a CRC participant or principal subsidiary, you should ensure the seller provides the necessary information in order for you to be able to comply with the requirements described above.

### Buying and selling smaller subsidiaries and sites

If you buy or sell a small subsidiary that would not qualify for CRC in its own right, you are **not** required to report it to the administrator, and there is no change to you emissions baseline in these cases.

Instead, these smaller organisational changes during each phase are accounted for via the growth metric, described in [section 4.7](#).

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## Changes to Government organisations

The above rules and the growth metric deal adequately with those structural changes likely to occur in the public sector involving existing CRC participants. These rules do not however account for those situations where new public sector entities are created. This is most likely to be a 'machinery of Government' change, meaning a new central Government department is created. In this case, the new participant enters CRC in the same manner as a business transferring from a CCA exemption to CRC inclusion.

This means the next reporting year is treated as both a footprint and first compliance year for that participant.

For more details on the process of transferring from a CCA exemption to CRC inclusion, see [Annex 2](#).

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## Annex 2: CCAs and CRC

CRC has been designed to minimise policy overlaps with Climate Change Agreements. As a general rule, any emissions across your whole organisation which are already covered by CCAs (or EU ETS) do not ultimately need to be included in your CRC emissions.

If a significant proportion of your organisation's emissions are covered by a CCA, you may be exempt from CRC altogether.

### CCA exemptions from CRC

There are three circumstances when an organisation can be exempt from CRC due to its emissions being covered by a Climate Change Agreement.

#### 1. Single entity exemption

If your organisation is not part of a group and has a CCA that covers over 25% of its *relevant emissions*, you will be exempt from CRC for that entire phase. If for any reason your organisation ceases to be covered by that CCA, however, you must participate in CRC from the beginning of the next compliance year.

#### 2. Group member exemption

If your organisation is part of a group and one of your members has a CCA, then that member may qualify for a CCA group member exemption. If a member has more than 25% of its relevant emissions covered by a CCA, 100% of its emissions will be exempt from CRC for an entire phase.

The rest of your organisation will still be included in CRC, with all remaining emissions counting towards your total footprint, unless by excluding your subsidiary, your remaining half hourly electricity consumption during the footprint year was less than 1,000 MWh (see Residual group exemption, below).

If for any reason the member ceases to be covered by that CCA, its emissions will then have to be included in CRC as part of the organisation's total from the beginning of the next compliance year.

#### 3. Residual group exemption

If, after exempting a member or members under the procedure covered in point 2 above, your organisation's half hourly electricity consumption in the footprint year is less than 1,000 MWh, then your entire organisation would be exempt from that phase of CRC.

If any part of your organisation is no longer covered by a CCA, its emissions will need to be included in your organisation's CRC emissions. If these then exceed 1,000MWh then you will lose your Residual group exemption and you will have to participate in CRC from the next compliance year.

If any of the exemptions above apply in your case, you must:

- register as a participant (see section 2.4), and

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- produce a footprint report detailing all emissions, including those covered by CCAs or EU ETS
- compile and maintain an evidence pack as appropriate (see [section 3.6](#)), and
- participate in CRC for all parts of your organisation not exempted in the case of the Group member exemption.

If at any time your CCA ceases or changes, you must inform the administrator.

### Reporting other CCA covered emissions

Even if your CCA coverage does not qualify you for an exemption, organisations will not have to report annually or buy allowances for any emissions that are covered by a CCA.

However, because emissions covered by CCAs or EU ETS contribute to ensuring that 90% of all your total footprint emissions are regulated, you do need to include details of them in your footprint report. You then exclude them when working out your CRC emissions (see [sections 3.2](#) and [3.3](#)).

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### Annex 3: Treatment of electricity generation in CRC

If your organisation operates an electricity generation process which exports electricity to the grid or other users, you are entitled to claim an **electricity credit** under CRC for the amount of electricity you generate and export. Any electricity credits that you are entitled to can be subtracted from your CRC emissions – meaning you have to buy fewer allowances.

The only exceptions are if the installation is:

- a hydroelectric pumped storage facility
- a large hydroelectric plant that is exempt from the *Renewables Obligation*
- a nuclear plant, or
- a generation facility covered by EU ETS.

This is because neither the fuel, nor the electricity used by these installations is included in CRC, and therefore organisations with these facilities would be able to gain a disproportionate advantage in the scheme. The large number of credits they could accumulate would enable them to cancel out energy consumption across the organisation and remove the incentive to improve energy efficiency which is the main purpose of the scheme.

The system of electricity credits and special circumstances regarding *Combined Heat and Power*, Renewables and Energy from waste are described below.

#### How electricity credits work

1. All energy credits refer to electricity generated over the course of a particular compliance year and can only be claimed in the compliance year in which the electricity was generated.
2. It is up to you to work out how many electricity credits you are entitled to during the footprint year, by monitoring the amount of electricity you generate and export. The value of these credits is calculated using the *grid average emissions* factor. You must report data on the sources and value of electricity credits in your footprint report.
3. Every year in your annual report, you should subtract the actual value of electricity credits that you have accrued that year from your CRC emissions.
4. If over the course of a year your organisation accrues more credits than your organisation's total energy consumption, then your energy consumption should be reported as 'zero'. You cannot report a negative figure for energy consumption.

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## Combined Heat and Power

Under CRC, organisations generating on-site electricity using *Combined Heat and Power* (CHP) can claim electricity credits for electricity exported to other users or to the grid. The electricity grid average emission factor is used to calculate the credits.

- If you own a CHP plant, you must report the primary fuel input to the plant as part of your organisation's energy use under CRC. However, your use of electricity or heat from the plant would not need to be reported
- All imports and exports of heat from a CHP plant are counted as having zero emissions in CRC. You therefore cannot claim electricity credits for any heat exported from CHP generation
- If your CHP plant is covered by the EU ETS, it will be treated in line with other EU ETS installations as described on previous page.

## Renewables

Electricity generation from renewable sources is handled in one of two ways in CRC, depending on whether or not *Renewables Obligation Certificates* (ROCs) are claimed:

- If you generate renewable electricity on-site and do not claim ROCs, then you do not have to record emissions for any of the electricity you use. If you export this electricity to other users outside the organisation, you can claim an electricity credit at the grid average emissions rate

- If you generate renewable electricity and claim ROCs, you must report the electricity generated as electricity consumption, at *grid average emission* factor. If you then export this electricity, it is similarly credited at the grid average emission factor – in practice cancelling out the effect of considering ROC-related electricity as energy consumption.

Renewable sources in CRC are those defined under the *Renewables Obligation*.

## Energy from Waste

In line with the general reporting practices proposed for CRC, where waste is used as an input fuel into an energy generation process, a participant will need to report the quantity of waste used, using the waste emissions factor listed in the regulations.

- If you generate electricity from waste to use onsite, you do not need to report this under CRC
- If you export electricity from waste to the grid, you can claim an electricity credit at the grid average emissions rate
- If waste is the primary input fuel in a CHP plant, you must report the waste input in the same way as for other electricity generation processes
- If ROCs are issued for your energy from waste plant this will be treated in line with the treatment of renewables where ROCs are claimed as outlined above.

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## Annex 4: Exclusions

As set out in section 3, energy consumed in certain specified activities does not count as part of your CRC emissions. The excluded activities are:

- transport
- onward supply of fuel.

### Transport

Any energy used in the transport of people or goods must be excluded from CRC.

However, energy used in:

- the transport of people within a place of entertainment, recreation or amusement, or cultural, scientific, historical or similar interest, and
- fixed equipment, such as conveyor belts, lifts, escalators and any other similar fixed mechanism or device which is used to move goods or people from one part of a premises to another

does not qualify as transport and must be included in your relevant emissions.

### Onward supply

Any fuel that is purchased for the purpose of supplying or delivering to a third party is excluded from consideration in CRC. Likewise, fuel that is purchased for consumption on premises outside the United Kingdom is excluded from the scheme.

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## Annex 5: Calculating performance

As introduced in [section 4.7](#), there are three metrics used for the calculation of the league table. These are:

- absolute metric
- early action metric
- growth metric.

The following sections describe how the score will be calculated for each.

### Absolute metric

The absolute metric is a measure of your organisation's performance in reducing emissions during each compliance year. Your performance is determined against your rolling average emissions during the five years prior to the current year. Where five years data are not yet available, this is the rolling average of all the years of data available up to that point.

The example in the table below takes the reported emissions for organisation X and calculates the absolute metric for year 6 of the scheme. The preceding five year rolling average baseline emissions is 4,960 tCO<sub>2</sub>.

CRC scheme year	1	2	3	4	5	Five Year Average	6
Emissions (tCO <sub>2</sub> )	5,000	5,200	4,900	4,900	4,800	4,960	4,600

The organisation would be ranked for the absolute metric on the basis of the percentage change in emissions for year 6 against the average of the preceding 5 years. The calculation is  $(100 \times (1 - (4,600/4,960)))$ . This equals  $-7.3\%$

### Early action metric

There are two components to the early action metric:

1. The percentage of your organisation's emissions from electricity and gas (excluding those covered by mandatory HHMs) which are covered by voluntarily installed automatic metering (AMR) at the end of March 2011.
2. The percentage of your organisation's annually reported CRC emissions covered by the Carbon Trust Standard or the Energy Efficiency Accreditation Scheme at the end of each compliance year of the introductory phase.

As an example, organisation Y had total energy use emissions of 10,000 tCO<sub>2</sub> during compliance year 1, the financial year April 2010 to end March 2011. It's electricity and gas emissions not already covered by mandatory HH metering were 5,555 tCO<sub>2</sub>. At the end of March 2011, organisation Y had 1,640 tonnes of these

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emissions covered by voluntary installed automatic meter reading, 30% of the total of these emissions.

Under CRC, this percentage is taken as fixed for the entire phase and therefore does not change (even if organisation Y increased the percentage of its emissions covered by voluntary AMRs after March 2011.)

Also at the end of March 2011, organisation Y had 4,400 tCO<sub>2</sub> covered by a valid CTS (or EEAS) certificate. The coverage of CTS (or EEAS) in the first year is therefore 44% (4400/10000). It increases the number of sites it has covered in the second and third years and scores 52% in year 2 and 54% in year 3.

The percentage then used for ranking is 50% of the AMR coverage and 50% of the CTS/EEAS coverage. For organisation Y the overall percentage would be:

- **Year 1: 37%**  $[(50 \times 30/100) + (50 \times 44/100)]$
- **Year 2: 41%**  $[(50 \times 30/100) + (50 \times 52/100)]$
- **Year 3: 42%**  $[(50 \times 30/100) + (50 \times 54/100)]$ .

### **Growth metric**

This metric is designed to take into account organisational growth during the phase. Organisations that grow, but with lower emissions intensity, perform well in this metric.

The growth metric is calculated as the percentage change in emissions per unit turnover (or revenue expenditure for the public sector) against that organisation's annual average emissions per unit turnover.

An example calculation of the growth metric for organisation Z is shown below.

In this example, in year 6, Organisation Z's annual carbon emissions have declined by 24%, relative to the preceding five year average emissions. During the same period Organisation Z's turnover grew from £10,000/year in year 1 to £13,500/year in year 6. Consequently it had a reduction in its emissions per unit turnover, relative to its ongoing average emissions per average turnover and would score well in the league table.

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Row	Organisation Z	Calculation	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6
a	Annual emissions (tCO <sub>2</sub> )		1,000	900	900	850	800	650
b	Turnover (£)		£10,000	£11,000	£12,000	£12,500	£13,000	£13,500
c	Annual emissions per unit turnover (CO <sub>2</sub> /£)	a/b	0.100	0.082	0.075	0.068	0.062	0.048
d	Preceding five year average emissions per unit turnover (CO <sub>2</sub> /£)	average of row c, up to a maximum of 5	0.100	0.100	0.091	0.086	0.081	0.077
e	Reduction in emissions per unit turnover relative to average	d-c	0.000	0.018	0.016	0.018	0.020	0.029
f	League table metric = % reduction in emissions per unit turnover relative to average emissions per unit turnover	e/d	N/A	18%	18%	21%	24%	38%

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## Annex 6: Penalties and Offences in CRC

CRC includes the following penalties and offences for non-compliance, falsification and obstruction.

### Civil penalties

Non-compliance	Penalties
Failure to register	<ul style="list-style-type: none"><li>■ Immediate fine of £5,000 imposed for failure to register by the deadline</li><li>■ Further fine of £500 per working day for each subsequent working day of delay until last working day of July (the next reporting deadline)</li><li>■ Publication of non-compliance.</li></ul>
Failure to disclose information	<ul style="list-style-type: none"><li>■ Where an organisation with a Half Hourly Meter (HHM) that does not meet the qualifying threshold fails to make an information disclosure, a one-off fine of £1,000.</li></ul>
Failure to provide a footprint report	<ul style="list-style-type: none"><li>■ Immediate fine of £5,000 for failure to provide a footprint report by the reporting deadline</li><li>■ Further fine of £0.05 per tonne of carbon dioxide (tCO<sub>2</sub>) per working day for each subsequent day of delay up to a maximum of 40 working days. This part of the fine is doubled after 40 working days</li><li>■ Publication of non-compliance.</li></ul>

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Failure to provide annual report	<ul style="list-style-type: none"> <li>■ Immediate fine of £5,000 for failure to provide an annual report by the reporting deadline</li> <li>■ Further fine of £0.05 per tonne of carbon dioxide (tCO<sub>2</sub>) per working day for each subsequent day of delay up to a maximum of 40 working days. This part of the fine is doubled after forty working days. Total emissions are doubled, for the purposes of calculating the league table only</li> <li>■ Publication of non-compliance</li> <li>■ Administrator will block the transfer of all allowances out of the participant's registry account until report is received</li> <li>■ Bottom ranking on the Performance League Table.</li> </ul>
Incorrect reporting	<ul style="list-style-type: none"> <li>■ Fine of £40 for each tCO<sub>2</sub> of emissions incorrectly reported – to be applied wherever there is a margin of error greater than 5%</li> <li>■ Publication of non-compliance.</li> </ul>
Failure to comply with the performance commitment	<ul style="list-style-type: none"> <li>■ Must obtain and cancel the outstanding balance of allowances as soon as possible</li> <li>■ Fine of £40/tCO<sub>2</sub> in respect of each allowance that should have been obtained and cancelled</li> <li>■ Publication of non-compliance</li> <li>■ Administrator will block the transfer of all allowances out of the participant's registry account until all necessary allowances are cancelled.</li> </ul>

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Failure to keep adequate records	<ul style="list-style-type: none"> <li>■ Fine of £5 per tCO<sub>2</sub> of total emissions reported in the most recent annual report</li> <li>■ Publication of non-compliance.</li> </ul>
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## Criminal offences

Offence	Penalty
<p>Falsification</p> <ul style="list-style-type: none"> <li>■ Knowingly or recklessly make false or misleading statement</li> <li>■ Falsification of evidence</li> <li>■ Attempt to deceive or mislead the administrator.</li> </ul>	<p>Summarily</p> <ul style="list-style-type: none"> <li>■ Imprisonment up to three years</li> <li>■ Fine up to £50,000.</li> </ul> <p>Indictment</p> <ul style="list-style-type: none"> <li>■ Imprisonment up to two years</li> <li>■ Fine (undetermined).</li> </ul>
<p>Non-compliance with enforcement</p> <ul style="list-style-type: none"> <li>■ Failure to comply with an enforcement notice</li> <li>■ Intentionally obstruct the administrator</li> <li>■ Failure to provide assistance, facilities and information or to permit any inspection</li> <li>■ Failure to appear, or prevent any other person from appearing, before the administrator as part of an inspection.</li> </ul>	

Annex 1:  
Changes in your organisation

Annex 2:  
CCAs and CRC

Annex 3:  
Treatment of electricity  
generation in CRC

Annex 4:  
Exclusions

Annex 5:  
Calculating performance

**Annex 6:**  
**Penalties and Offences in CRC**

## Checklist and Further Information

Further guidance

CRC participant checklist –  
Introductory phase



## Further guidance

### Carbon Reduction Commitment

#### DECC

- Consultation on the CRC Draft Order – March 2009 (<http://www.decc.gov.uk/en/contents/cms/consultations/crc/crc.aspx>).

#### Defra

- Defra's CRC website: (<http://www.defra.gov.uk/Environment/climatechange/uk/business/crc/index.htm>) Includes the latest news and upcoming events regarding CRC. Also on the website are case studies of organisations that are engaging with CRC process. You can sign up to a mailing list to keep updated on CRC
- Consultation on CRC Implementation proposals – June 2007 (<http://www.defra.gov.uk/environment/climatechange/uk/business/crc/policy.htm>)
- Government's response to the June 2007 consultation (<http://www.defra.gov.uk/environment/climatechange/uk/business/crc/policy.htm>)
- Consultation on measures to reduce carbon emissions in the large non-energy intensive business and public sectors – November 2006 (<http://www.defra.gov.uk/environment/climatechange/uk/business/crc/policy.htm>)
- Government response to the November 2006 consultation (<http://www.defra.gov.uk/environment/climatechange/uk/business/crc/policy.htm>).

### Further guidance

CRC participant checklist –  
Introductory phase

<b>Carbon Reduction Commitment</b>	<p><b>Carbon Trust</b></p> <ul style="list-style-type: none"> <li>■ For energy reduction advice (<a href="http://www.carbontrust.co.uk/climatechange/policy/CRC.htm">http://www.carbontrust.co.uk/climatechange/policy/CRC.htm</a>)</li> <li>■ For information and queries on the Carbon Trust Standard (<a href="http://www.carbontruststandard.com">www.carbontruststandard.com</a>).</li> </ul>
<b>CCAs</b>	<p><b>Defra:</b></p> <p>(<a href="http://www.defra.gov.uk/environment/climatechange/uk/business/cca/index.htm">http://www.defra.gov.uk/environment/climatechange/uk/business/cca/index.htm</a>).</p>
<b>EU ETS</b>	<p><b>Defra:</b></p> <ul style="list-style-type: none"> <li>■ (<a href="http://www.defra.gov.uk/environment/climatechange/trading/eu/index.htm">http://www.defra.gov.uk/environment/climatechange/trading/eu/index.htm</a>).</li> </ul> <p><b>An operators guide to the EU ETS:</b></p> <p>(<a href="http://www.defra.gov.uk/environment/climatechange/trading/eu/pdf/events-guide.pdf">http://www.defra.gov.uk/environment/climatechange/trading/eu/pdf/events-guide.pdf</a>)</p> <p><b>European Commission:</b></p> <ul style="list-style-type: none"> <li>■ (<a href="http://ec.europa.eu/environment/climat/emission/index_en.htm">http://ec.europa.eu/environment/climat/emission/index_en.htm</a>).</li> </ul>
<b>CRC Administrator and the Regulators</b>	<p><b>Administrator:</b></p> <ul style="list-style-type: none"> <li>■ Environment Agency (<a href="http://www.environment-agency.gov.uk/">http://www.environment-agency.gov.uk/</a>).</li> </ul> <p><b>Regulators:</b></p> <ul style="list-style-type: none"> <li>■ Environment Agency (<a href="http://www.environment-agency.gov.uk/">http://www.environment-agency.gov.uk/</a>)</li> <li>■ Scottish Environment Protection Agency (<a href="http://www.sepa.org.uk/">http://www.sepa.org.uk/</a>)</li> <li>■ Northern Ireland Environment Agency (<a href="http://www.ni-environment.gov.uk/">http://www.ni-environment.gov.uk/</a>).</li> </ul>

#### Further guidance

CRC participant action plan –  
Introductory phase

## CRC participant action plan – Introductory phase

The following table outlines an action plan for the activities that CRC participants must take both before and during the scheme.

Calendar	What's happening	What action do I have to take?	Tick when complete
2008 (Calendar Year)	Qualification Year for Introductory Phase	<p><b>You should have:</b></p> <ol style="list-style-type: none"> <li><b>1. confirmed your organisational structure</b></li> <li><b>2. checked whether your organisation, including any subsidiary, had a Half-Hourly Meter (HHM) settled on the half-hourly market, and</b></li> <li><b>3. determined the electricity used through all HHMs and assess whether your consumption exceeded the threshold of 6,000 MWh over the course of 2008.</b></li> </ol> <p>See <a href="#">section 2</a> for more information on what you needed to do in 2008 to confirm whether or not you qualify.</p>	
2009 (Calendar Year)		<p><b>In this year you should:</b></p> <ol style="list-style-type: none"> <li><b>1. look out for information and qualification packs sent to HHM addresses, and</b></li> <li><b>2. nominate someone within your organisation to oversee participation in CRC who can familiarise themselves with the requirements of the scheme.</b></li> </ol>	
May	Information sent out	The scheme administrator will send out introductory information on the scheme to all addresses that have an HHM settled on the half-hourly market.	

Further guidance

**CRC participant action plan – Introductory phase**

Calendar	What's happening	What action do I have to take?	Tick when complete
September	Qualification packs sent out	The scheme administrator will send out qualification packs to all addresses that have an HHM settled on the half-hourly market. If your organisation is part of a group, this information should be passed to the highest parent organisation or nominated primary member. The person in that organisation responsible for CRC should begin to prepare for the organisation's participation in CRC.	
<b>2010 (Financial Year)</b>	<b>Start of 1st Compliance Year and Footprint Year for Introductory Phase</b>	<p><b>In this year, you should:</b></p> <ol style="list-style-type: none"> <li><b>1. register for the scheme or make an information disclosure to the administrator</b></li> <li><b>2. monitor energy use for the year and collect records for their evidence pack.</b></li> </ol> <p>See <a href="#">section 2.3</a> for guidance on making an information disclosure or <a href="#">section 2.4</a> for information on how to register for the scheme.</p>	
April	Registration	Between April 2010 and the end of September 2010, organisations that meet the qualifying criteria must register for the scheme via the online CRC registry. Those organisations that do not meet the qualifying criteria but do have an HHM settled on the half-hourly market must make an information disclosure via the CRC registry.	
Ongoing	Monitoring energy use and collating evidence packs	Every qualifying participant must monitor their full energy use over the year and keep records for an evidence pack. You must keep the records for 2010/2011 data for the entire length of time you are a participant in the scheme. Subsequent records must be kept for five years after the end of the phase to which they pertain.	

Further guidance

**CRC participant action plan – Introductory phase**

Calendar	What's happening	What action do I have to take?	Tick when complete
<b>2011 (Financial Year)</b>	<b>Start of 2nd compliance year</b>	<b>In this year, you should</b> <b>1. buy allowances</b> <b>2. submit a footprint report</b> <b>3. submit an annual report</b> <b>4. surrender allowances</b> <b>5. receive a double revenue recycling payment.</b>	
April	Sale of allowances	In this first sale you must buy allowances to cover your emissions for the previous year (April 2010-March 2011) and your projected emissions for the forthcoming year (April 2011-March 2012). See <a href="#">section 4</a> for more details on buying allowances.	
July	1. Footprint report due	Participants must submit a footprint report for the previous year (2010/2011) outlining total energy use and emissions, and electricity credits. See <a href="#">section 3</a> for more information on working out your total CRC emissions.	
	2. Annual report due	Participants must submit their annual report detailing their emissions included in the scheme for the previous year, turnover or revenue expenditure, and data on early action. Reporting is done via the CRC registry. See <a href="#">section 4</a> for details of reporting.	
	3. Surrender allowances	Participants must ensure they have surrendered allowances equivalent to the emissions they reported in their annual report.	

Further guidance

**CRC participant action plan –  
Introductory phase**

Calendar	What's happening	What action do I have to take?	Tick when complete
October	Recycling payment	The first performance league table will be produced. In this instance, it will be based on the early action metric only. Organisations will then receive their recycling payment. This payment will be a double payment based on the early action data provided in your 2010/2011 annual report.	
Ongoing	Energy use monitoring and evidence packs	Participants must monitor their energy use over the year and keep records for their evidence pack.	
	Secondary market for allowances	Participants are able to buy and sell allowances through the secondary market. See <a href="#">section 4</a> for details of how this works.	
<b>2012</b>	<b>Start of 3rd compliance year</b>	<p><b>In this year, you should:</b></p> <ol style="list-style-type: none"> <li><b>1. buy allowances</b></li> <li><b>2. submit an annual report</b></li> <li><b>3. surrender allowances</b></li> <li><b>4. receive a revenue recycling payment.</b></li> <li><b>5. monitor energy use for the year and keep records for your evidence pack.</b></li> </ol>	
April (Financial Year)	Sale of allowances	You must buy allowances to cover projected emissions for the forthcoming year 2012/2013.	

Further guidance

**CRC participant action plan –  
Introductory phase**



Calendar	What's happening	What action do I have to take?	Tick when complete
July	1. Annual report due	Participants submit their annual report detailing their emissions in the previous year.	
	2. Surrender allowances	Participants must ensure they have surrendered allowances equivalent to the emissions they reported in their annual report.	
October	Recycling payment	The league table based on 2011/2012 reports will be produced and you will receive your recycling payment.	
Ongoing	Energy use monitoring and evidence packs	Participants must monitor their energy use over the year and keep records for their evidence pack.	
	Secondary market for allowances	Participants are able to buy and sell allowances through the secondary market.	

Further guidance

**CRC participant action plan –  
Introductory phase**

## Glossary of Terms



<b>Administrator</b>	<p>CRC will be administered by the Environment Agency. It is responsible for:</p> <ul style="list-style-type: none"><li>■ administering the process of identifying CRC participant organisations from returns</li><li>■ operating the CRC registry and distributing allowances</li><li>■ running the sale of allowances</li><li>■ recycling the revenue</li><li>■ issuing guidance drawn up by all regulators, and</li><li>■ constructing and publishing the performance league tables.</li></ul>
<b>Allowance</b>	<p>Participants in CRC must surrender allowances at the end of each compliance year for each tonne of CO<sub>2</sub> they emit. Allowances are sold by Government at the start of the year, and can also be traded on the secondary market.</p>
<b>Annual report</b>	<p>The report that each participant must provide via the CRC <i>registry</i> by the last working day of July, after the end of every compliance year detailing their CRC emissions for that year.</p>

<b>Associated Person</b>	<p>Under CRC, in certain cases emissions from one (normally smaller) organisation are assigned as the responsibility of another – even though the smaller organisation is not a legal subsidiary. These smaller organisations are referred to as the “associated person”. The responsible organisation is referred to as the “responsible person”. In CRC there are four cases of responsible and associated persons: franchisor/franchisee; local authority/schools; collegiate university/colleges; Greater London Authority/ GLA’s related bodies</p> <p>See <a href="#">section 2.2</a> for more information.</p>
<b>Automatic Meter Reading (AMR) meter</b>	<p>Automatic Meter Reading (AMR) meters have been developed for gas and electricity supply not measured by traditional HHMs. These meters provide consumers with access to half-hourly or hourly data of their energy consumption. As there is a wide range of AMR equipment available, CRC will only capture AMR meters which are the main meters measuring the quantity of electricity or gas supplied to a premise, not a sub-meter or clip-on device. In CRC, AMR meters must be read remotely by customers.</p> <p>Voluntary installation of AMR meters is one of the factors measured in the early action metric.</p>
<b>Capped phase</b>	<p>A capped phase is a phase in CRC which is subject to a cap on the total number of allowances made available to participants each year. All phases, except the introductory phase, will be capped. The first capped phase will start in 2013.</p>
<b>The Carbon Reduction Commitment (CRC)</b>	<p>A mandatory emissions trading scheme for non energy-intensive organisations in the public and private sector.</p>

<b>Carbon Trust Standard</b>	<p>An independently assessed accreditation offered by the Carbon Trust for organisations who measure, monitor and reduce emissions year on year.</p> <p>Achieving the Carbon Trust Standard is one of the factors measured in the early action metric.</p>
<b>Climate Change Agreements (CCAs)</b>	<p>Climate Change Agreements relate to the Climate Change Levy (CCL), which was put in place to encourage users to improve energy efficiency and reduce greenhouse gas emissions. Climate Change Agreements (CCAs) allow energy intensive business users to receive a discount from the CCL in return for meeting energy efficiency or carbon saving targets.</p> <p>As a general rule, any emissions across your whole organisation which are already covered by CCAs do not ultimately need to be included in your CRC emissions.</p> <p><a href="#">Annex 2</a> discusses the interaction of CCAs and CRC in more details.</p>
<b>Combined Heat and Power (CHP)</b>	<p>A combined heat and power station is one where heat or steam, which are by-products of the power generation process, are not lost but supplied to consumers for various uses.</p> <p>Organisations that generate energy through CHP can claim an electricity credit if they export any of that electricity to other users or to the grid. See <a href="#">Annex 3</a>.</p>
<b>Compliance year</b>	<p>Each phase is made up of a number of compliance years. Each compliance year runs over the same period as a financial year during which there are certain requirements, such as reporting or surrendering allowances with which participants must comply.</p>

<b>Core sources</b>	<p>Core sources are those that you are obliged to include in CRC. They include:</p> <ul style="list-style-type: none"> <li>■ all electricity consumed through HHMs (including pseudo HHMs)</li> <li>■ all electricity consumed through AMR meters</li> <li>■ all electricity consumed though profile class 5-8 meters</li> <li>■ all daily-read gas meters</li> <li>■ all gas consumed through AMR meters</li> <li>■ all non-daily metered gas consumption of more than 73,200 kWh per annum.</li> </ul> <p>Refer to <a href="#">section 3.3.1</a> for more details on inclusion of core sources in CRC.</p>
<b>CRC emissions</b>	<p>These are the emissions of each participant for which it must purchase allowances each year. A participant determines the sources of energy which will contribute to its CRC emissions in the Footprint Report. See <a href="#">sections 3.2</a> and <a href="#">3.3</a> for further details</p>
<b>Daily-read gas meter</b>	<p>Daily-read gas meters are required for high volume gas users (those consuming 58,600,000 kWh or more per year). Gas consumed through daily read gas meters is a core source for CRC.</p>
<b>Draft order</b>	<p>See Regulations.</p>
<b>Energy Efficiency Accreditation Scheme</b>	<p>An accreditation formerly offered by the Carbon Trust for organisations that make energy use savings through improved management and energy efficiency measures. This scheme has now been replaced by the Carbon Trust Standard.</p>

<p><b>EU Emissions Trading System (EU ETS)</b></p>	<p>A greenhouse gas emissions trading system covering emissions from large combustion installations (larger than 20 MW<sub>thermal</sub>) within EU Member States. Sectors covered by the system include: power generation, cement, glass, ceramics, steel, aluminium, and pulp and paper, which are termed ‘trading sectors’.</p> <p>Operators of installations that are covered by the system are obliged to monitor and report emissions of greenhouse gases (GHGs) from that installation and to surrender allowances equivalent to those emissions.</p> <p>See <a href="#">section 3</a> for the treatment of power generation already covered by EU ETS in CRC.</p>
<p><b>Evidence pack</b></p>	<p>Participants in CRC must keep an evidence pack, containing records of their organisation’s energy use, and other documents to support information provided to the administrator.</p> <p><a href="#">Section 3.6</a> explains how to compile an evidence pack.</p>
<p><b>Footprint year</b></p>	<p>The footprint year is the period prior to the start of each phase during which participants must monitor energy use across their organisation, and establish the sources of energy use to be included in CRC for the forthcoming phase.</p> <p>In the introductory phase, the footprint year will not take place prior to the start of the phase but will run concurrently with the first year of the phase – financial year 2010/2011.</p> <p>See <a href="#">section 3</a> for more details on the footprint year.</p>
<p><b>Footprint report</b></p>	<p>Participants must submit a footprint report, containing information about their energy use, via the CRC registry by the last working day of July, after the end of the footprint year.</p> <p><a href="#">Section 3.5</a> discusses the footprint report.</p>

<b>Grid average emissions</b>	The grid average is the average emissions per unit of all electricity supplied by the grid. CRC uses the five year rolling average for the grid average figure. Currently this five year rolling grid average emissions factor is 0.537/MWh.
<b>Half hourly light meter</b>	These meters will be introduced in April 2009 and are designed to be an alternative to traditional half hourly settled meters, as they are able to provide half hourly data at a lower cost. The data recorded by half hourly light meters can be used for settlement purposes. In CRC, these meters are therefore counted as half hourly meters settled on the half hourly market. As they have not yet been introduced, they will not be relevant for determining qualification for the introductory phase.
<b>Half hourly market</b>	The half hourly market is a mechanism used by electricity suppliers and generators to ensure there is a balance between consumption and generation.
<b>Highest parent organisation</b>	Defined in line with the Companies Act 2006, the highest parent is the body with ultimate control over an organisational group. The highest parent of an organisation will act as the participant on behalf of its organisational group unless an alternative primary member is nominated.
<b>Information disclosure</b>	Organisations that have a settled half hourly meter but do not meet the qualification threshold for participation in CRC will have to disclose information on the HHMs they have and their electricity consumption to the administrator via the CRC registry.  See <a href="#">section 2.3</a> for more details.
<b>Introductory phase</b>	The introductory phase is the first phase of CRC scheme. It begins in April 2010 and lasts for three years.



<b>Mandatory Half Hourly Meter (HHM)</b>	Mandatory Half Hourly Meters (HHM) are HHM settled on the half hourly market. They are required where a site's average peak electricity demand exceeded 100kW in three out of the previous 12 months.
<b>Megawatt hour (MWh)</b>	A unit of energy equal to 1 million watt hours or 1 million joules per second consumed for a period of one hour.
<b>Non-daily Metered Gas</b>	<p>Non-daily metering: All frequencies of metering less than daily are counted as non-daily metering:</p> <ul style="list-style-type: none"> <li>• For sites consuming between 73,200 and 293,000 kWh at least annual meter reading is required.</li> <li>• For sites consuming more than 293,000 kWh but less than 58,600,000 kWh, at least monthly meter reading is required.</li> </ul>
<b>Participant</b>	An organisation that qualifies, and then must register under CRC. A participant must comply with all requirements of the scheme such as reporting emissions, and purchasing and surrendering allowances.
<b>Performance league table</b>	An annual table, published by the administrator, that details the relative performance of all participants in CRC against the three weighted metrics: absolute metric, early action metric and growth metric. See <a href="#">section 4.7</a> .
<b>Primary member</b>	The organisation within an organisational group nominated to act as the participant in CRC on behalf of all parts of that group.
<b>Principal subsidiary</b>	Any subsidiary of an organisation which would meet the qualification criteria for participation in CRC in its own right were it not part of a larger organisation.

<b>Profile class</b>	Electricity meters are classified by profile class. Half hourly settled meters are profile class 00, domestic customers (profile classes 1 and 2) and non-domestic customers (profile classes 3-8). The profile class assigned to a meter is dependent on its maximum electricity demand.
<b>Pseudo Half Hourly Metering</b>	Pseudo Half-Hourly Metering is a technique for calculating half hourly electricity consumption where the supply is unmetered. It is calculated using historic data and is commonly used to monitor the electricity consumption of street furniture such as street lights and traffic lights. This data can be used for settlement purposes and so in CRC is counted as an HHM settled on the half hourly market.
<b>Qualification period</b>	The period during which electricity consumption through all half hourly meters must be monitored to determine whether your organisation qualifies to participate in the forthcoming phase of CRC. The qualification period for the introductory phase is the 2008 calendar year.  See <a href="#">section 2</a> for more details of CRC qualification process.
<b>Registration period</b>	This is the period during which organisations that qualify for the scheme must register with the scheme administrator via the online CRC registry. For the introductory phase, this period is from April 2010 until the last working day of September 2010.  See <a href="#">section 2.4</a> .
<b>Registry</b>	CRC will be administered online via a purpose-built website known as the CRC registry. Participants will register, report, buy and sell allowances and communicate with the administrator via this online system.
<b>Regulations</b>	The legislative document which provides the legal basis for CRC. It is also referred to as the Draft Order.

<b>Regulator</b>	The role of regulator will be carried out by the relevant body in each part of the UK: Environment Agency for England and Wales, Scottish Environment Protection Agency for Scotland, and Northern Ireland Environment Agency for Northern Ireland.
<b>Relevant emissions</b>	Relevant emissions refers to all an organisation's energy use emissions, minus those from energy used for excluded activities (transport and onward supply). See <a href="#">section 3.2</a> .
<b>Renewables Obligation (RO)</b>	The main support scheme for renewable electricity projects in the UK. It places an obligation on UK suppliers of electricity to source an increasing proportion of their electricity from renewable sources.
<b>Renewable Obligation Certificates (ROCs)</b>	A green certificate issued to an accredited generator for eligible renewable electricity generated within the United Kingdom and supplied to customers within the United Kingdom by a licensed electricity supplier.
<b>Residual sources</b>	Residual sources are any energy use other than CRC core sources. They include coal, LPG and diesel but a comprehensive list will appear in CRC regulations.  See <a href="#">section 3.3</a> for more discussion of core and residual sources.
<b>Responsible Person</b>	Under CRC, in certain cases emissions from one (normally smaller) organisation are assigned as the responsibility of another – even though the smaller organisation is not a legal subsidiary. These smaller organisations are referred to as the “associated person”. The responsible organisation is referred to as the “responsible person”. In CRC there are four cases of responsible and associated persons: franchisor/franchisee; local authority/schools; collegiate university/colleges; Greater London Authority/ GLA's related bodies  See <a href="#">section 2.2</a> for more information.

<b>Revenue recycling</b>	<p>All revenue raised from the sale of allowances every April is returned to participants in the form of a recycling payment to each participant. The amount each participant receives depends on their proportion of emissions in relation to the total CRC sector emissions and their performance in the league table. The revenue recycling occurs six months after the end of each sale, in October.</p> <p>See <a href="#">section 4.8</a> for more information on revenue recycling.</p>
<b>Safety valve</b>	<p>A mechanism by which participants can buy allowances from the administrator throughout the year if the price on the secondary market becomes prohibitively high. The price will be linked to the EU ETS price of carbon.</p> <p>See <a href="#">section 4.3.2</a> for more details on purchasing allowances through the safety valve.</p>
<b>Secondary market</b>	<p>The secondary market refers to any trade in allowances that takes place between participants or with third parties. See <a href="#">sections 4.3.1</a> and <a href="#">4.4.1</a> for more information on how this works.</p>
<b>Total footprint emissions</b>	<p>An organisation's total emissions from energy use after subtracting those from excluded activities and those exempt through CCAs.</p> <p>See <a href="#">section 3.2</a> for details on how to work this out.</p>
<b>Voluntary Half Hourly Meter</b>	<p>Voluntary Half Hourly Meters are the same type of meters as the mandatory HHMs, but have been installed on a voluntary basis. In most cases they are installed because an organisation wants their electricity settled on the HH market or because it wants to collect data on their electricity consumption for energy management purposes. In CRC, these meters are counted as HHMs settled on the half hourly market.</p>