



# The Carbon Reduction Commitment (CRC)

ESTA aM&T Conference  
19 February 2007

Ian Trim  
Senior Policy Advisor, CRC



# CRC Summary

- Mandatory auction based emissions trading scheme
  - targeting energy use emissions from up to 5,000 large business + public sector organisations
  - MHHM electricity use > 6,000 MWhr / year
- Revenue neutral to the Exchequer
  - Auction revenue recycled to participants
- Avoiding overlap
  - Target energy use emissions outside EU ETS and CCAs
  - Organisations with more than 25% of their emissions in CCAs would be completely exempt
- As simple a scheme as possible

# Broader policy context

Pre Budget Report 2004: Launched HMT / DEFRA review into innovation in energy efficiency

Dec 2005

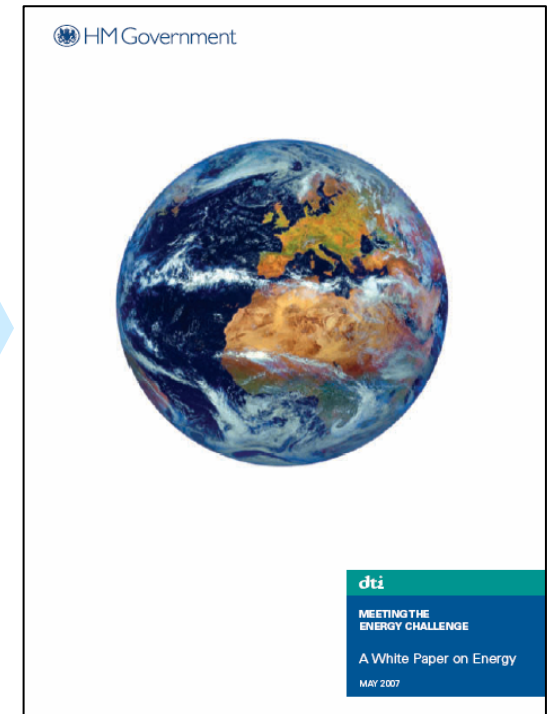
CT report  
EEIR report

July 2006

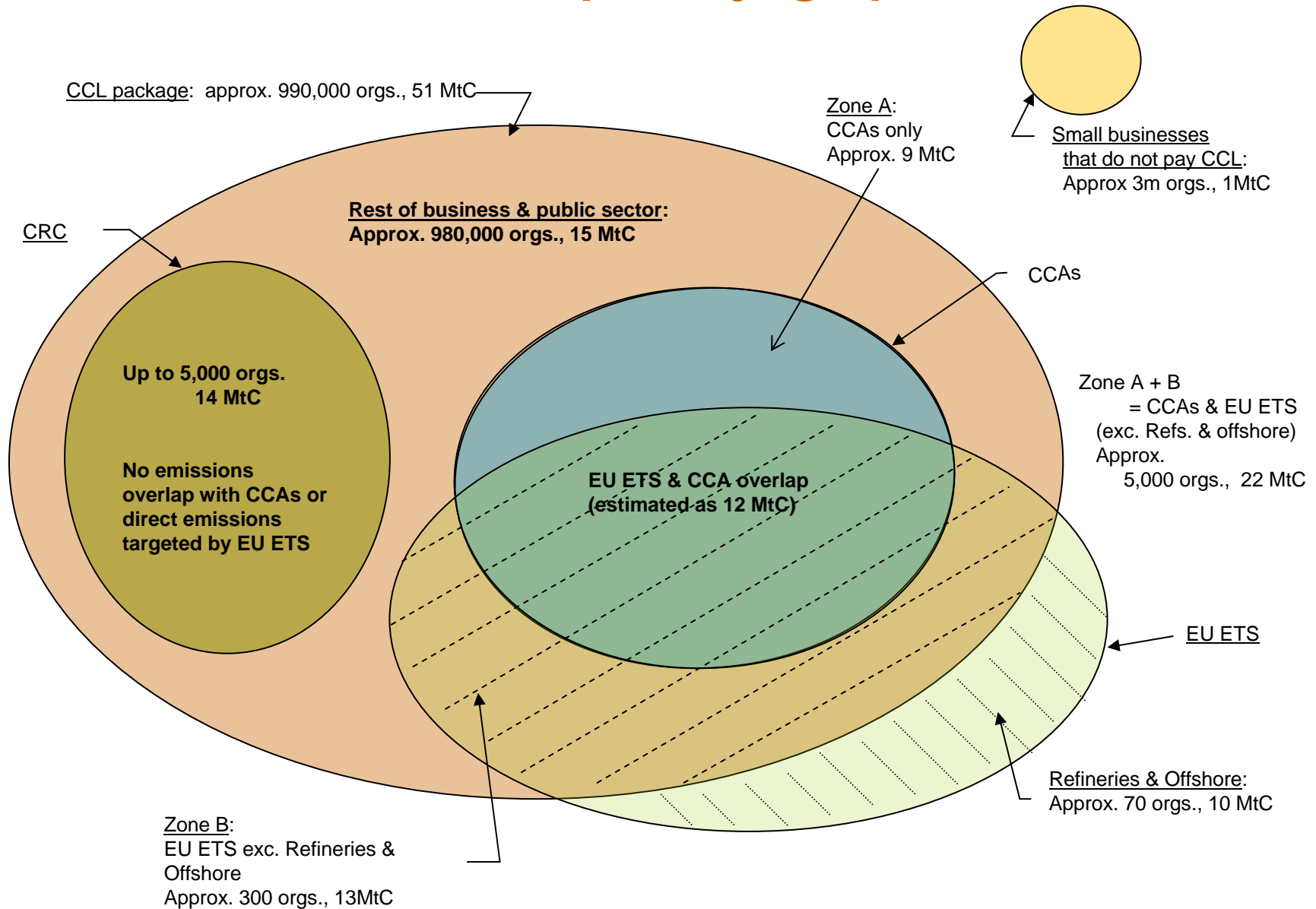
Energy  
Review

May 2007

Energy White  
Paper



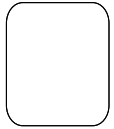
# There is a “policy gap” ...



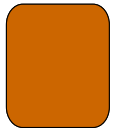
# Why CRC?

- The Carbon Reduction Commitment (CRC) aims to:
  - Provide certainty of environmental outcome through the cap
    - Government decides emissions cap – market participants decide where reductions take place
  - Overcome sector's barriers to energy efficiency take-up by introducing **financial** and **reputational** drivers
- CRC is part of a broader policy package:
  - Voluntary reporting initiatives (e.g. CDP)
  - Voluntary support: Carbon Trust & Salix Finance
  - Regulatory requirements: Building regulations and EPBD
  - Polluter pays: Energy bill incorporates cost of CCL and EU ETS

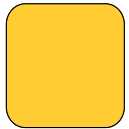
# KEY



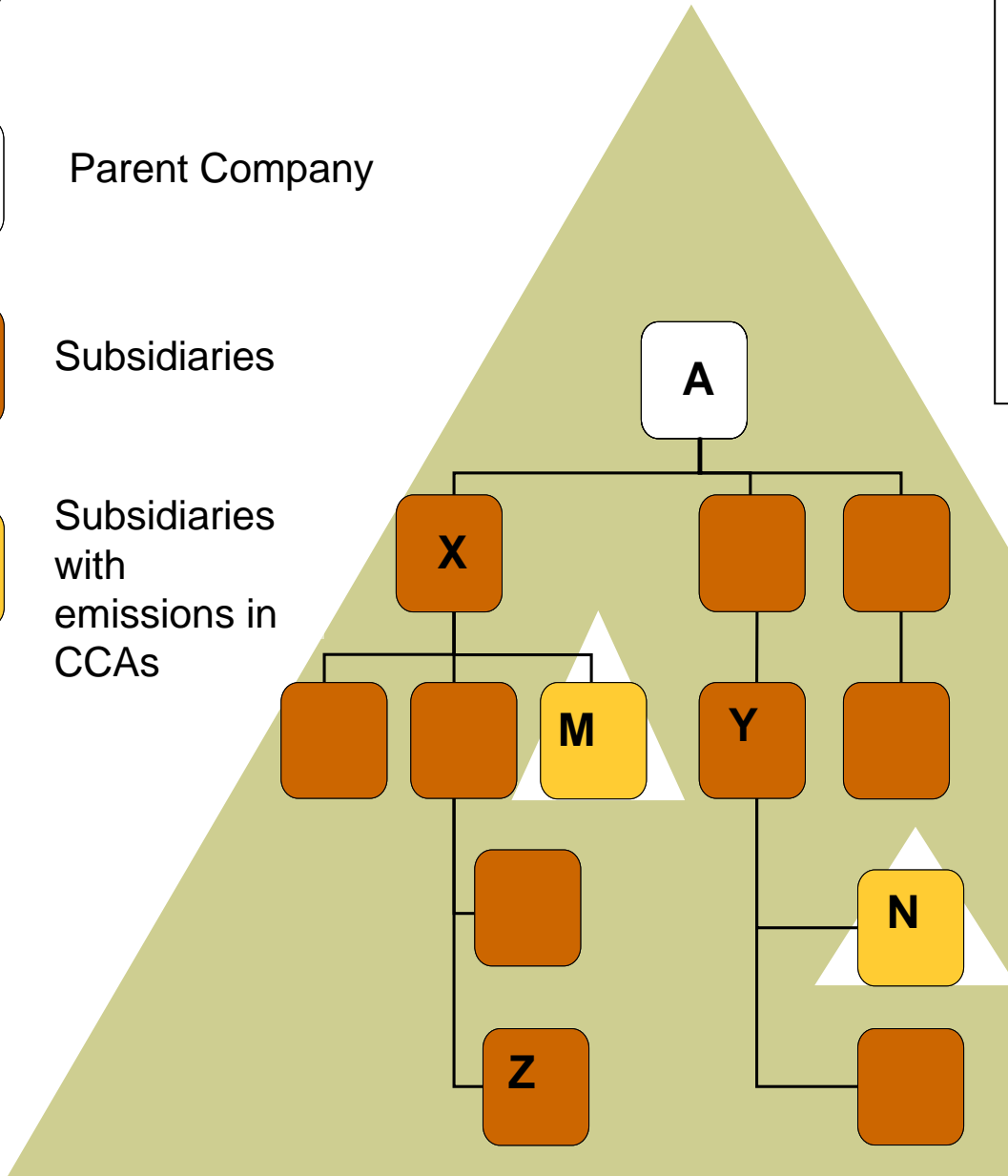
Parent Company



Subsidiaries



Subsidiaries with emissions in CCAs



In this company structure, subsidiaries M & N have emissions covered by CCAs. These CCAs cover more than 25% of the subsidiaries' total emissions, therefore they are exempt from CRC.

# Market design

- Revenue Neutral - Energy Review stated: “Auction revenue would be recycled to participants”
  - A simple, end of year payment, with bonus/penalty depending on position in a “league table”
- League table based on:
  - Emissions reductions relative to average annual emissions during the scheme, plus
  - Potential additional simple proxy metrics recognising:
    - Early movers and / or
    - Growth
- Safety Valve

# From consultation to policy development I

Stakeholder concern	Action
Admin burden	<ul style="list-style-type: none"><li>•Raised inclusion threshold from 3000 to 6000 MWhr/year MHHM electricity</li><li>•Eliminated benchmarking from scheme and updated RIA with more conservative figures</li><li>•3 year introductory phase</li></ul>
Scope for greater emissions savings than 1.2MtC	<ul style="list-style-type: none"><li>•Clarified that Carbon Committee will advise Ministers on the CRC cap, rather than an 8% reduction by 2020 being “the final word”</li></ul>
Weak financial incentives	<ul style="list-style-type: none"><li>•Inviting views on +/-10% bonus/penalty, and whether there should be an escalator</li></ul>

# From consultation to policy development II

Stakeholder concern	Action
Definition of organisation won't work	•Commissioned HEDRA analysis, which has led to the new proposal set out in the new con doc
Lack of clarity regarding when CRC targets landlords and when tenants	•New consultation document invited views on specific proposals, drawing on HEDRA analysis
League Table design – growing organisations	•Consulted on whether to include a relative metric as an additional metric within the league table
League Table design – early mover organisations	•Consulted on whether to include an additional metric within the league table to recognise action taken before the start of CRC

# From consultation to policy development III

Stakeholder concern	→ Action
Auction design	<ul style="list-style-type: none"><li>•Consulted on two types of auction, flagging pros and cons</li><li>•Simple fixed price sale in introductory phase</li></ul>
Cash flow – 18 month gap between auction and revenue recycling	<ul style="list-style-type: none"><li>•Invited views on approaches to address this concern</li></ul>
Lack of “ring fencing” of auction revenue to energy efficiency	<ul style="list-style-type: none"><li>•Consulted on whether to use some auction revenue for Carbon Trust / Salix</li></ul>
Confusion over EPC and EPCs required under EPBD	<ul style="list-style-type: none"><li>•EPC renamed as the CRC</li></ul>

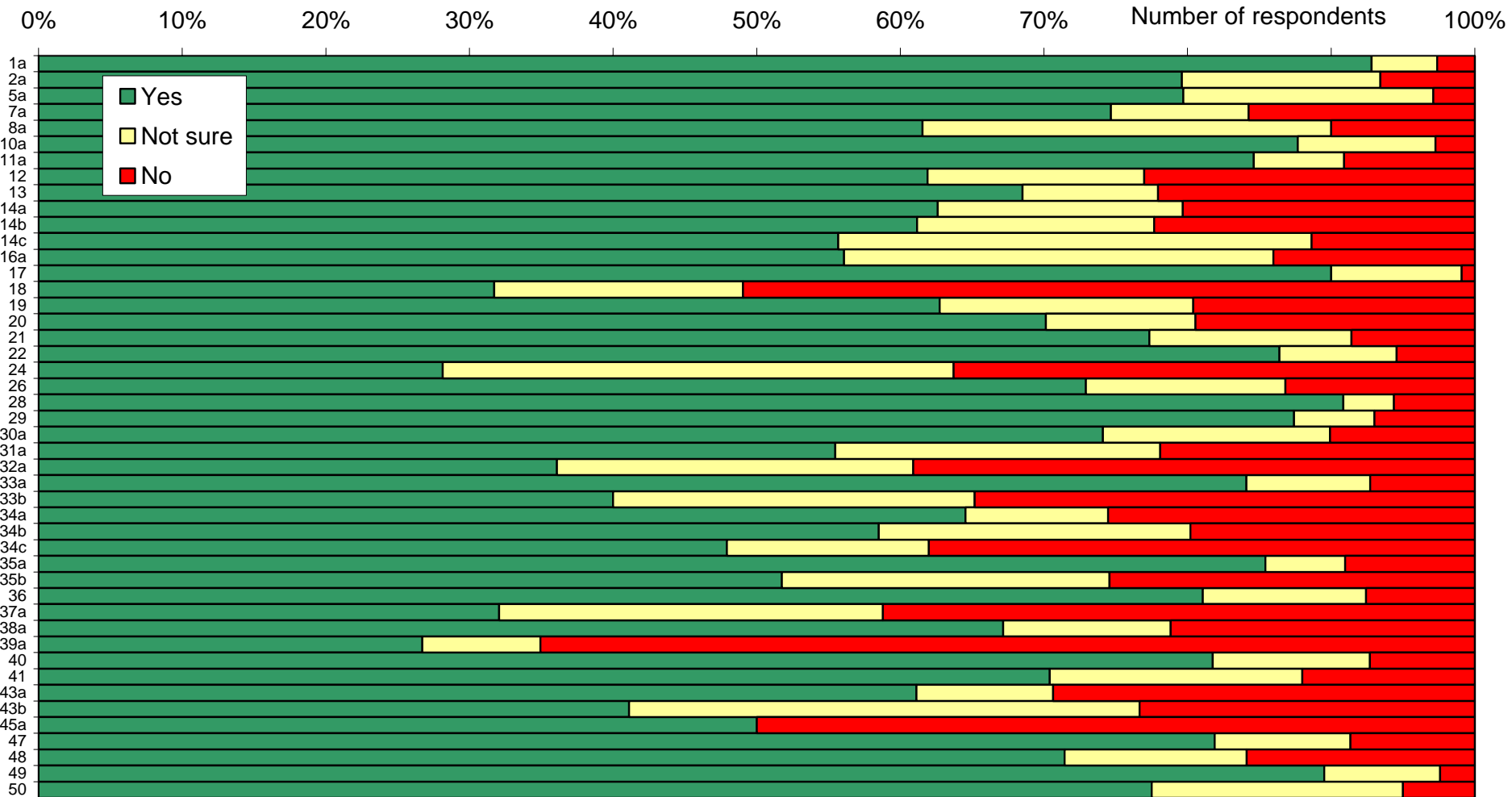
# CRC consultation workshop feedback

- Five stakeholder workshops held across UK during the summer (over 500 attendees)
  - Reports available on-line
- Key areas of feedback from stakeholders
  - Organisations could manage the definition of organisation
  - Make it a UK based scheme
  - Don't top slice auction revenue for CT & Salix
  - Clarify approach to landlord/ tenant and PFI/ PPP
  - Keep emphasis on absolute metric, but do include relative and early action metrics
  - Concerns over potential complexity of auction
  - **Keep it simple**

# CRC early consultation feedback

- Over 200 responses from wide range of stakeholders
- Considerable support for much of the proposed scheme design
- Strong consultation response around
  - national scheme
  - top-down approach to organisation definition
  - the inclusion of sites and de minimis
  - trading design (particularly simple auction)
  - top slicing of revenues for CT & Salix
- Views were more mixed for issues including
  - details of the organisation definition
  - league table design

# CRC consultation responses



# Implementation Timetable

Consultation closed – October 2007

Government response – February 2008

Climate Change Bill in Parliament – November 2007

Consultation on Draft CRC Regulations – Summer 2008

Draft CRC Regulations in force – 2009

CRC qualification year – 2008

Identification of CRC participants – start early 2009

CRC scheme begins – January 2010

# Improving energy management ahead of CRC

- Monitoring – could your organisation do more voluntarily to roll out automatic metering? Do you log your energy bills centrally, to monitor total organisation wide energy use emissions?
- Energy efficiency – is your organisation a member of the voluntary Energy Efficiency Accreditation Scheme?
- Carbon disclosure – does your organisation voluntarily publicly disclose in its annual reporting...
  - (i) a longer term quantitative carbon target
  - (ii) performance against that carbon target
  - (iii) a named Director responsible for carbon