

THE CARBON REDUCTION COMMITMENT (CRC): AN OVERVIEW

GUIDANCE NOTE 58

Note: This is the first in a series of guidance notes on the Carbon Reduction Commitment (CRC). This article provides a general description of the programme. The next paper will examine specific issues regarding implementation from the point of view of landlord and tenant.

The first few months of 2009 will usher in a new and far-reaching scheme: the Carbon Reduction Commitment (CRC). The CRC mandates that organisations (and larger public bodies) with significant energy demand should pay for the carbon dioxide (CO₂) emissions that they produce. Businesses will have to buy allowances for their CO₂ output and then will be rewarded or penalised according to how well they perform against other organisations in a league table, ranked based on their emissions performance. In Q1 2009, the Department of Energy and Climate Change (DECC) will issue a detailed consultation on the draft regulations and the final shape of the scheme; by summer, implementation of the programme will be well underway. Many businesses previously unaffected by emissions trading are likely to be subject to the CRC and should begin preparing strategies for its implementation.

Built upon a 'pay as you pollute' premise, the CRC encourages participating organisations to reduce their energy use by placing a cost on CO₂ emissions. Participants will be required to purchase allowances to cover their projected emissions from their properties and then surrender those allowances based on their actual energy use. Businesses that are unable to reduce their emissions must purchase additional allowances to cover any shortfall. As the number of allowances available for purchase will be capped in 2013, the system will create winners and losers; poor performing participants face rising costs as allowances are auctioned in a constrained environment.

The CRC is not the first emissions trading scheme to affect UK industry but it is the one that will affect most businesses. The CRC targets a broad range of organisations that have to date not been subject to emissions trading. It signals the arrival of CO₂ regulation on a much wider scale for UK industry and represents a concrete cost for sustainability. Bodies drawn into the CRC that do not implement emissions management strategies face significant financial and reputational consequences as their emissions are measured, monitored, taxed and publicly reported.

What is the CRC?

In May 2007, the government published the Energy White Paper and announced its decision to implement a new emissions trading scheme - the CRC. The scheme introduces mandatory emissions trading to cut CO₂ emissions and requires that organisations purchase allowances - priced commodities (£/tonne) - that are to cover the equivalent amount of CO₂ an organisation produces from its operations in a year. The use of market mechanisms encourages organisations to become leaner in their energy usage as CO₂ becomes associated with a definable financial reward or cost.

The CRC applies to large commercial and public sector bodies (including supermarkets, hotel chains, government departments, large local authorities) whose total annual

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half-hourly metered electricity use is above 6,000 MWh. As a general rule of thumb, businesses with a total annual electricity bill of £1,000,000 or more will be covered by the scheme.

Businesses and other large bodies will be required to report annually all of their UK-based CO₂ emissions, including energy use for lighting, heating and cooling. Metered energy use is the defining inclusion criteria, but participating organisations will have to purchase allowances to cover all CO₂ emissions generated, including fuels burned for heating and unmetered electricity use. However, organisations will not be required to report on or purchase allowances to cover their transport emissions. CRC covers emissions that are not regulated by the EU ETS or Climate Change Agreements, and will affect, mainly but not exclusively, organisations that have not previously been subject to carbon regulations.

How the process works

Following the consultation on the draft regulations and beginning in the summer of 2009, the Environment Agency will contact all organisations with half-hourly meters requesting information on half-hourly electricity consumption in 2008. Businesses should engage with their energy suppliers to assist in providing this information, although they are not legally required to do so until after the CRC regulations become law. If a business has an electricity consumption for 2008 that meets or exceeds the limits outlined above, it will be required to participate.

Once eligibility has been determined, organisations are required to calculate their emissions and determine their CO₂ output. At the start of each compliance year, allowances must be purchased from the auction (or fixed price sale during the introductory phase) to cover these total emissions.

Throughout the year, organisations would monitor their activities and, in order to reduce the number of allowances they need to purchase and/or surrender, try to reduce their energy needs. At the end of each year, actual emissions must be reported and sufficient allowances must be surrendered to cover CO₂ output. An introductory phase is planned to start in April 2010, whereby all allowances will be sold at a fixed price. Government intends to proceed with the allowance price of £12/tCO₂ for the introductory three-year phase.

From April 2013, allowances will be allocated through auctions with a diminishing number of credits available over time. Establishing a rising price for CO₂ by restricting allowances encourages organisations to reduce energy year on year. Not only will they have to purchase fewer allowances at the start of the year but they will be rewarded over time based on cumulative emissions reductions. Overall performance - based on absolute reductions since the start of the scheme - will be summarised in a public league table that outlines the best and worse performers.

The CRC is intended to be revenue neutral for the government. Revenue raised will be recycled to participants proportional to their 2009 emissions adjusted by a bonus or penalty related to their performance in a CRC league table. This will continue for each year of the programme, with the bonus given to the best performers increasing every allowance cycle (and the penalty for the worst performers also increasing). As such, the revenue recycling will provide further incentives for emissions reductions and energy efficiency improvements.



The scheme has been designed for simplicity, with self-certification by the organisations involved. Participants will be required to submit annual data statements via an on-line registry to the Environment Agency using their own meter readings or with reference to annual energy bills. It is proposed that the Environment Agency, the Scottish Environment Protection Agency and the Northern Ireland Environment Agency will regulate and audit the scheme, respectively.

Timeline and important dates

The scheme is scheduled to begin in April 2010 with a three-year introductory phase. The first capped phase will begin in April 2013. The following table highlights the major phases of the programme.

| YEAR | ACTION |
|--------------------------|---|
| 2008 | This is the benchmark year for inclusion in the CRC. Organisations should calculate their electricity use based on information provided by their suppliers. Those whose electricity consumption through half hourly meters is greater than 6,000 MWh per annum (organisations with a total electricity bill of £1,000,000 or more are likely to be included), will be covered by the CRC. |
| Q1 2009 2009 (Summer) | The government will issue a detailed consultation on the CRC regulations. The Environment Agency will contact all UK billing addresses with half hourly meters providing them with Registration Packs. If you receive one of these packs you will need to provide information on your total half-hourly electricity consumption in 2008 together with a list of your half-hourly meters. |
| 2010 | The CRC scheme begins with a three-year introductory phase. |
| 2011 | First sale of allowances begins in April. Sale will be for 2010/2011 and 2011/2012 allowances. All future sales/auctions of allowances will only be for allowances for the year ahead. Allowances will be sold to participants for a fixed price of £12/tCO ₂ . |
| 2012 | Second compliance year. |
| 2013 | Auctioning of carbon allowances begins. Price for allowances expected to rise as number of allowances is capped. |

The bigger picture

The CRC is important because it is the first attempt by government to specifically target less energy intensive producers with a carbon cap-and-trade scheme. Energy intensive organisations are covered by the EU ETS and have been for some time but the CRC casts a much wider net.

What it means in most direct terms is that there is now a potential additional cost of doing business based on CO₂ output. Not taking steps to improve energy efficiency and CO₂ emissions will become, over time, a costly proposition. Other cap-and-trade schemes instituted elsewhere quickly reveal financial winners and losers, and as the distance between emitters increases, so too does the cost of doing business.

Further, as the scheme is designed to rank organisations against one another, the risks of not performing well are relative as well as absolute. The CRC will quickly establish frontrunners in reducing the impact of climate change in a very understandable and translatable way. Up until this point, there has not been a single measure to rank organisations on their CO₂ emissions and energy use. The CRC will do this with reputational as well as financial costs at stake.

For more information:

Defra's CRC website (though responsibility now lies with the Department for Energy and Climate Change) www.defra.gov.uk/Environment/climatechange/uk/business/crc/index.htm

The Carbon Trust www.carbontrust.co.uk/climatechange/policy/CRC.htm

BCSC sustainability portal www.bcsc.org.uk/sustainability

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Guidance notes prepared and issued by BCSC are intended as aide memoires to good practice in the design, construction and management of shopping places. They do not replace the need for specific and individual research.

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