

# Carbon Reduction Commitment An Introduction

**Are You Ready?**

# Introduction

**The Carbon Reduction Commitment (“CRC”) – new emissions trading scheme.**

**Target – large non-energy intensive organisations**

**Proposed Start Date – 1 April 2010**

# Background

**Kyoto Protocol**

**Climate Change Levy (CCL)**

**Climate Change Agreements (CCA)**

**Climate Change Act 2008**

# Objective of the CRC

**To reduce the emissions of the large non energy intensive businesses and public sector organisations through a “cap and trade” scheme.**

# CRC – who will be affected?

- Approximately 4,000-5,000 business and organisations, primarily those with annual electricity bills above £500,000 in 2008
- The CRC will target UK emissions of the highest parent organisation in a Group
- Parent organisation must consider electricity use of subsidiaries in assessing whether the parent will be included in the scheme

# Who will be affected?

- Organisations in the UK whose half-hourly energy consumption exceeds 6000 mega watt hours over the course of 2008
- Businesses and organisations likely to be subject to the CRC include
  - large offices
  - large retailers
  - supermarkets
  - hotel chains
  - rail operators
  - banks
  - hospitals
  - universities
  - government departments
  - large local authorities
  - NHS

# How will the CRC work?

- **Government to set a cap on total CO<sub>2</sub> emitted by the participant in any one year (“allowances”)**
- **Administered by:**
  - **the Environment Agency (“EA”) in the UK**
  - **Scottish Environment Property Agency in Scotland**
  - **Northern Ireland Environment Agency in Northern Ireland**

# Timetable

- **September 2009 – registration packs to be sent out**
- **By 30 September 2010 – registration as a CRC participant**
- **April 2010-March 2011 – first CRC scheme year**
- **April 2011-March 2012 – second compliance year – First Sale of Allowances**

# Timetable continued

- **April 2012-March 2013 – third compliance year and end of introductory phase**
- **April 2013 – first capped phase begins**
  - Allowances to be auctioned**

# Allowances and Self Certification

- **Participants required to self certify their energy use**
- **No independent third party certification**
- **Environment Agency will run an independent audit of approximately 20% of relevant businesses and organisations each year.**

# The League Table

- From 2011 participants ranked based on relative performance within the CRC
- League table to be published yearly
- CRC participants to be awarded bonus or penalty payments according to their placement in the league
- CRC will be revenue neutral to the Treasury
- League table to be calculated on a score of three metrics
  - The absolute metric
  - The early action metric
  - The growth metric

# Costs of the Scheme

- **Absolute minimum cost will be £38,000**
- **Penalties for under-reporting**

# Exclusions from CRC

- Emissions which already fall under the scope of the EU Emissions Trading Scheme
- An organisation which falls under the EU ETS may still qualify for CRC if its non-EU ETS activities use sufficient electricity through half-hourly meters
- Emissions from transport
- Where an organisation's emissions are covered by Climate Change Agreements the organisation will be completely exempted from CRC

# Can Organisations avoid being in the CRC Scheme?

**No**

**Will green energy tariffs be counted as zero carbon?**

**No**

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# How can Companies best benefit from the CRC?

- **Reduce CO<sub>2</sub> emissions**
- **Dropping out of the CRC**

# Implementation of the CRC

- A wide variety of job functions will be affected
- Expertise and investments in trade and financial instruments for emissions
- The implementation of major infrastructure changes
- Who in the Company will deal with CRC?
- Steps to take
  - Collect data
  - Processes for collecting data and maintaining options
  - Identify abatement options

# Property Issues

- **Freehold Property**
  - **Rented Property**
    - **Who is the counterparty to the energy supply contract?**
  - **Organisations that own both tenanted buildings and buildings for their own use – CRC calculations for both**
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## **Key Steps for Landlords in implementing the CRC**

- **Set up CRC responsibility chains**
- **1 April 2010-31 March 2011 – monitor all energy sources and prepare a footprint report**
- **Purchase allowances for actual use in 2010/2011 and forecast 2011/2012 emissions or purchase allowances via auction from 2013**
- **Monitor emissions over the scheme year (1 April-31 March)**

## Key Issues for Tenants in relation to the CRC

- Is it the Landlord or the Tenant who qualifies as a CRC participant?
- What do the terms of the Lease say?
- Points of concern
  - How do other tenants use energy?
  - Does the Landlord have the right to include the cost of CRC in the service charge?
  - Does the Landlord want to vary the terms of the Lease?
  - Restrictions on alienation
  - Sinking fund – does the tenant want this?

# Apportioning the cost of the CRC between Landlords & Tenants within Leases

- **The Government has stated that the CRC will not impose any structure on Landlords and Tenants**
- **Provisions of Leases granted after the CRC has commenced**
- **The position for Leases before details of the CRC have been finalised**

## Other points for Landlords & Tenants

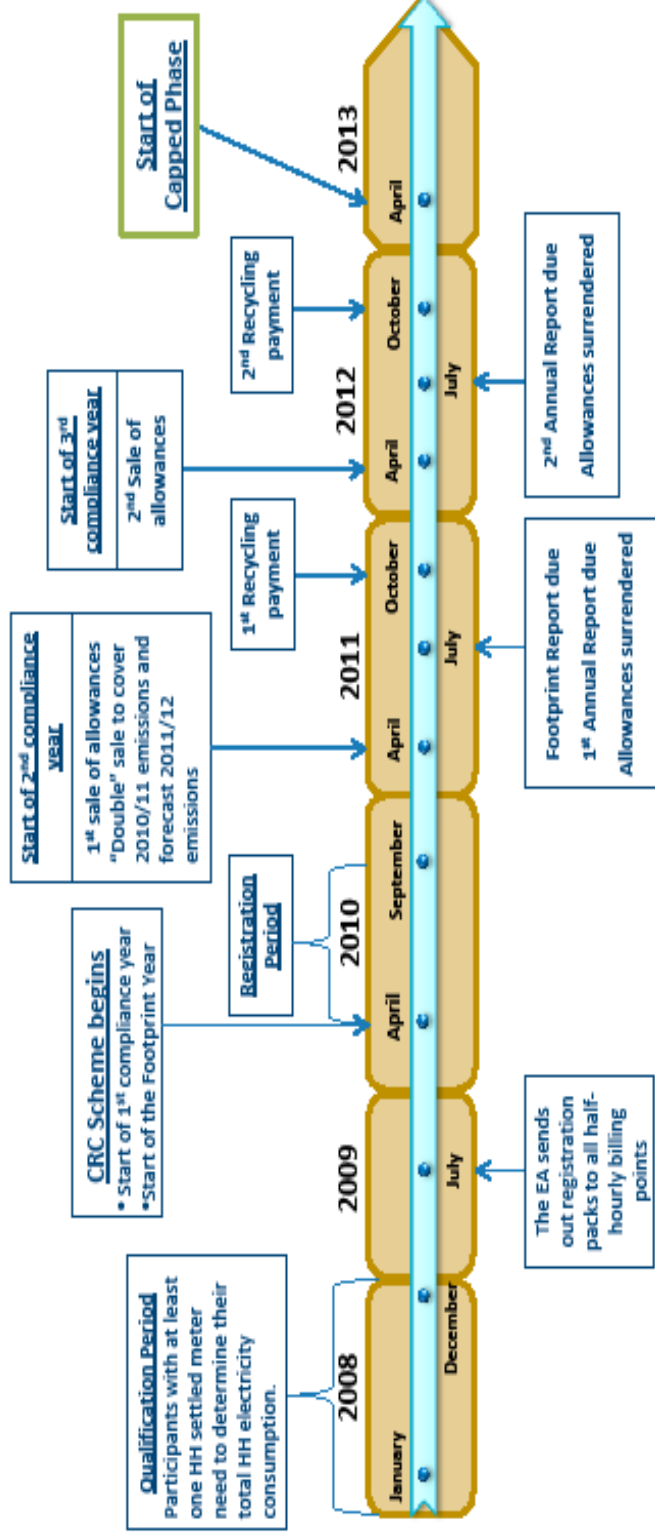
- **Calculating the cost of allowances**
- **Passing on other costs associated with being a CRC participant**
- **Should the Landlord give the Tenants the benefits of the revenue recycling payments?**
- **How could Landlords give Tenants the benefit of the revenue recycling payments?**
- **Paying the revenue recycling payments to the Tenants?**

## Summary - Carbon Reduction Commitment

- **Carbon Reduction Commitment will be an:**
  - **Obligatory**
  - **Emissions trading scheme (aka “cap and trade”)**
  - **For large non energy intensive business and public sector organisations**
  - **In the UK**

# CRC Timeline – Introductory Phase

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