



## CLIMATE CHANGE COMMISSION

15 SEPTEMBER 2008

Report of the Director of Regeneration and Community

### The Carbon Reduction Commitment Scheme

#### 1 Summary

- 1.1 From April 2010, the Carbon Reduction Commitment (CRC) will be a mandatory “cap-and-trade” scheme for the public and private sectors. The business and public sectors currently generate over one third of UK CO<sub>2</sub> emissions. By putting a price on carbon the CRC aims to provide an incentive for organisations to reduce their emissions in a similar way to the European Carbon Trading Scheme. The target is to reduce carbon emissions in large non-energy intensive organisations by 1.2 million tonnes of carbon per year by 2020.
- 1.2 The details of the scheme are still in preparation. The aim of this report is to provide an overview about the scheme and to outline a series of steps to put in place to ensure we are ready for the introduction of the CRC in April 2010.

#### 2 Recommendation

- 2.1 To note the main developments with the CRC.

#### Background information

#### 3 Overview

- 3.1 The Carbon Reduction Commitment (CRC) will be a mandatory “cap-and-trade” scheme for the public and private sectors. By putting a price on carbon the CRC aims to provide an incentive for organisations to reduce their emissions in a similar way to the European Carbon Trading Scheme.
- 3.2 The scheme will operate by setting a limit for the amount of energy a participating organisation can use. If this figure is exceeded the organisation will need to buy additional allowances, on the open market. Conversely if it stays within its limit it will be able to sell any surplus allowances.
- 3.3 Some local authorities will be included in the scheme depending on the amount of electricity they use. It has also recently been decided to include schools in the scheme if they exceed the threshold figure. This figure currently stands at >6,000 MWhr/year of half hourly metered electricity, equivalent to an annual electricity bill of ~£500k. The Council currently exceeds this figure and will therefore be subject to the scheme.

## 4 Timetable

- Consultation on Draft CRC Regulations – autumn 2008
- CRC Regulations in force – 2009
- CRC qualification year to determine if the LA is included – 2008\*
- Formal identification of CRC participants – early 2009
- CRC scheme begins – April 2010.  
\*The electricity used during 2008 will determine whether an organisation qualifies for CRC.

## 5 How it Works

5.1 Once qualification for CRC is established, all energy sources are considered to be part of the CRC scheme. There is recognition that some energy sources used by the organisation are too small to warrant this level of monitoring and abatement. The government has decided to adopt an approach focussed on the source of 'core' emissions. If these core emissions do not total 90% or more of the organisation's total energy-use then other emissions will need to be included - the choice of additional sources is at the discretion of the organisation as long as it reaches 90%. The core CRC energy sources are:

- electricity from half-hourly meters
- all electricity consumed through meter profile classes 5-8 (these are non-domestic customers that have a peak demand for energy)
- all daily-read gas meters
- all non-daily metered gas consuming more than 73,200kWh per annum.

5.2 In terms of coverage the following issues need to be considered:

1. Third party arrangements including PFI/PPP - the latest legal guidance for the scheme is that to be eligible the organisation has to be 'financially liable for paying the bill'. This test will need to be applied in Derby to, for example, the new PFI schools. The Council's Procurement Team will need to be consulted in order to gain a better understanding of the overall scope of the CRC with regard to contractual arrangements that may be covered by the scheme.
2. Local Authority housing – only need to include the energy used in housing offices and not individually rented homes.
3. Schools – State funded schools and academies would not participate in the CRC individually but would come under emissions of the respective local authority. The LA would be defined as the CRC participant and the legal and financial responsibility for participating in the scheme would fall onto the LA. Local authorities therefore need to engage with schools to provide energy management advice and resources in order to secure a higher place in the CRC league table.

4. Street Lighting - In many cases street lighting has an un-metered supply (UMS) of electricity and would be a non-core supply. However because of the significant amount of energy this service uses, it is likely to be included in the CRC to meet the 90% target. Within the CRC un-metered supplies of electricity will be seen as an estimate. This means it will be subject to an adjustment factor that will increase the amount of carbon allowances that need to be purchased. If participating authorities have in place a method called "pseudo half hourly metering" for street lighting this will provide a more accurate measurement that will not be subject to the adjustment.

## 6 Forecasting / Monitoring

- 6.1 The introductory phase for the scheme will run from 2010 to 2013. The likely fixed price for a tonne of carbon for this phase will be £12. The figure will be formally confirmed in the response to the imminent consultation on Regulations. This phase is intended to enable local authorities to gear up for the first open market sale in 2013 when a cap will be set to restrict the number of credits on the open market.
- 6.2 During this phase there will be the following opportunities to purchase allowances:
  - April 2011 (fixed price)
  - April 2012 (fixed price)
  - April 2013 (open market)
- 6.3 In the April 2011 sale organisations will need to buy sufficient allowances to cover both their **forecast** emissions for 2011/12 as well as their **actual** emissions for 2010/11. For all subsequent years organisations will not be able to buy allowances from the sale/auction in a given year to cover their previous year's emissions.
- 6.4 All the money raised through the scheme will be recycled back to participants. With the scheme operating on a financial year basis, the first recycling payment will take place at the end of October 2011, 6 months after the first auction in April 2011.
- 6.5 The formal consultation about the scheme will take place in the autumn.
- 6.6 In the first years of the scheme, based on league table performance the revenue recycling payments from the scheme will amount to:
  - in 2010 a 10% maximum bonus payment on the initial outlay of allowances, rising to 50% in year 5
  - in 2010, a 10% penalty for poor performance on the initial outlay of credits, rising to 50% in year 5.
- 6.7 The bonus payments will be based on the following 3 metrics:
  1. Absolute emissions (the % change against the organisations baseline figure).
  2. Voluntary early action which secures a higher placing in the league table (we need more clarification about this)

3. Voluntary growth (to take account of organisational growth and/or decline and how this relates to the overall performance of the organisation)
- 6.8 In terms of monitoring, the scheme will adopt a self certification, light touch approach with no third party verification. However a 20% risk based audit will be applied to test out the methodology and monitoring deployed by participating local authorities. Evidence packs will need to be developed to record energy use and provide a suitable audit trail. Emissions reporting will be via a national registry.

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**Background papers:** -  
**List of appendices:** Appendix 1 - Implications

<b>IMPLICATIONS</b>
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**Financial**

1. The CRC will have significant budgetary implications for the Council that will be costed once the draft regulations come out.

**Legal**

2. None arising from this report.

**Personnel**

3. None arising from this report.

**Equalities impact**

4. Effective scrutiny is to the benefit of all Derby people.

**Corporate Priorities**

5. This report links with Council's priority for 2008-11 to:
  - Leading Derby towards a better environment.