

The Carbon Reduction Commitment – a summary by the London Energy Project

What is the Carbon Reduction Commitment (CRC)?

The CRC is an obligatory emissions trading scheme covering non-energy intensive users in both public and private sectors, and is a central part of the UK's strategy to deliver the emission reduction targets set in the Climate Change Act 2008. The scheme will affect up to 6,000 organisations throughout the UK and is a mandatory cap and trade emissions scheme.

Who will be included in the CRC?

Initially the CRC will target organisations that use more than 6,000 MWh (6,000,000 kWh) of half-hourly metered electricity across their organisation in 2008.

All larger councils are expected to have a legal obligation to participate in the scheme and to take responsibility for state funded schools and academies. This means that all council operations are included, administrative offices, leisure centres, social care homes, etc. It also includes *landlord tenant relationships and may extend to certain PFI and joint ventures etc.

What will councils have to do in the scheme?

Once included, CRC participants must account for 90% of their emissions from half-hourly electricity and non-half-hourly electricity and natural gas. From April 2010 the council will be required to calculate all its energy use and purchase carbon allowances to cover emissions generated. These allowances are at a fixed price of £12 per tonne of CO₂ for the first three years and then through an auction.

Revenues from the sale or auction will be returned to participants in proportion to their performance (against others' performance) in reducing emissions from energy use, which determines their league table position. Known as a recycling payment, it will not be made until October of each year. This means that 6 months will exist between paying for an allowance and obtaining a recycling payment. If the council performs well, the money it gets back may exceed the cost of buying allowances, dependent on how others fare.

The CRC league table has been designed to assess every participating organisation on an equitable basis. It includes various metrics to account for size, growth or contraction of an organisation. The league table will be publicly available and it is widely expected that it will have PR value for some participants. Importantly, league table position will also determine a bonus or penalty factor applied to a participant's recycling payment. The aim being to reward a well performing organisation while penalising those with poor performance. The bonus or penalty payment, will start at ± 10% in Year One but rise to ± 50% by Year Five. Although these performance metrics are

fixed, the actual penalty and bonus can be greater or lower than these percentages.

Importantly councils will have responsibility for state-funded schools (including Academies). This means that a constructive dialogue for sharing data and reducing energy consumption in schools should take place, along with plans to purchase and recharge schools for the cost of carbon allowances.

Impact

The London Energy Project believes that most councils will be at the lower end of the league table, due to the difficulties of dealing with such a diverse portfolio, this is partly due to the age, nature and capital investment required. It should also be noted that schools' energy consumption is rising year on year with the increasing technology deployed. These factors may have a negative impact on councils' league table position particularly compared to organisations such as Tesco, who may have an aggressive carbon reduction programme.

There is also a cashflow burden and the cost of administration of the scheme, which is likely to include additional staffing, database solutions and increased liaison with stakeholders, such as schools and leaseholders, if social housing remains included in the scheme.

Cost of the Scheme

Councils will need to purchase their first allowances in April 2011, two years must be purchased in the first trading year. The Council will receive its first recycling payment in October 2011. The likely cost of double allowances for an average London borough in 2011 could be as much as £1 million**.

*(**This figure assumes expenditure of approximately £5 million but should be verified with council energy managers).*

It should be borne in mind that as final regulations are yet to be published, any detail referred to is subject to change without notice.