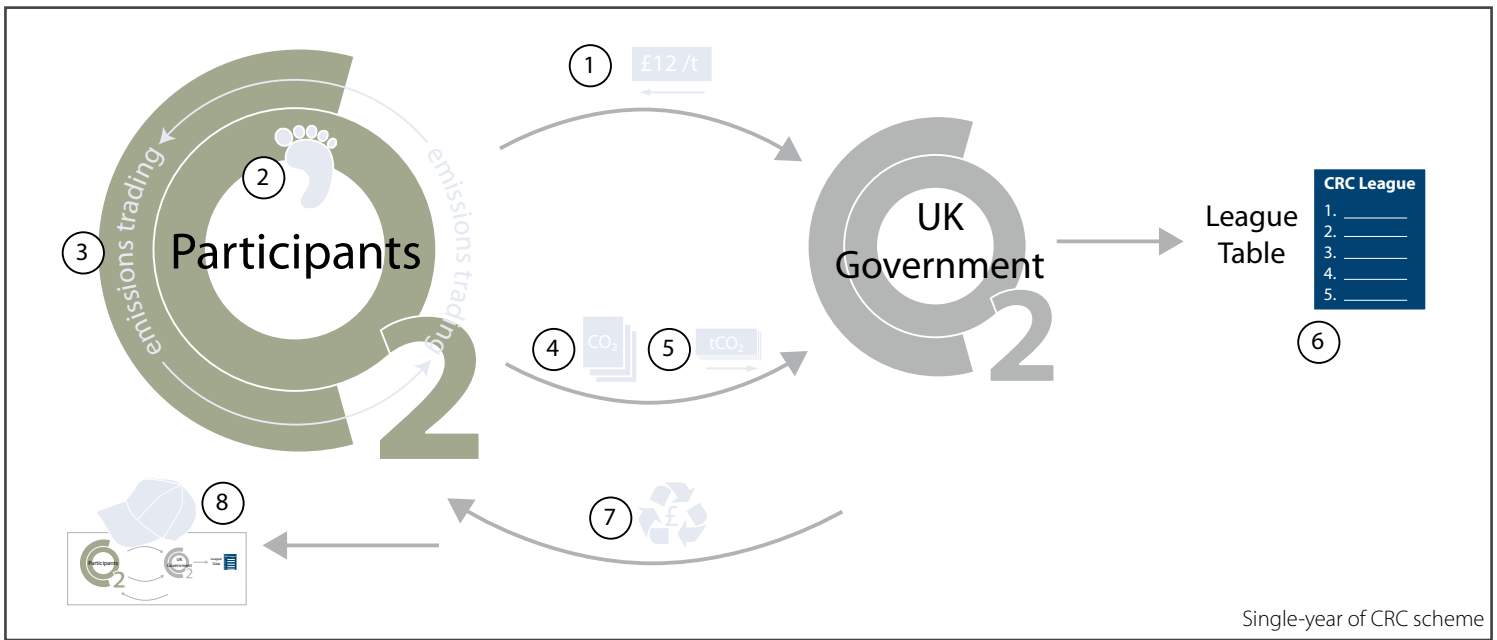


# 01: Carbon Reduction Commitment

The Carbon Reduction Commitment (CRC) is a Government policy that requires large non-energy intensive organisations to monitor their operating CO<sub>2</sub> emissions and publish them to form a national league table of the best and worst corporate performers in terms of energy use. The PR value of a public league table as well as a financial reward and penalty system based on league position both act to incentivise major reductions in CO<sub>2</sub> emissions.



## Who does it apply to?

The qualifying criteria for participation are:

- The presence of a half hourly meter (HHM) settled on the half hourly market (this is a mandatory requirement for all sites with a peak electricity consumption greater than 100kW) and
- Where total annual electricity from HHM's is greater than 6,000MWh
- If an organisation has HHM's but doesn't exceed the 6,000MWh boundary, then they will be expected to provide information to the Government on their electrical consumption (this is to be known as an 'Informative Disclosure') but they will not have to be a full 'CRC Participant' and be involved in the league system.
- Emissions already covered by the EU Emissions Trading Scheme (EU ETS) or Climate Change Agreements (CCA) are not included.

To put the above into a more understandable context; a company operating 1,200m<sup>2</sup> of air conditioned office space is likely to have an HHM, however, it would only have to be a full CRC Participant if it, or its subsidiaries combined, spent more than about £0.5million on electricity a year. If total consumption was below this 6,000MWh boundary it would just have to make an Informative Disclosure.

The CRC applies to both public and private organisations with the ultimate parent responsible for the emissions of its subsidiaries. Types of organisations likely to be involved include central government departments, local authorities, universities, hospitals, schools, supermarkets, banks, high street chains etc.

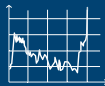
## When does it start?

The first compliance year begins in April 2010. Whether an organisation is required to join the CRC will be based on emissions from 2008. Firms can improve their first year league position through early action by achieving the Carbon Trust Standard.

## How does it work?

The following outlines the main principles of the Carbon Reduction Commitment as shown above:

1. **Purchase allowances** – Each participant will buy allowances, at £12/tonne of CO<sub>2</sub>, for all the emissions associated with energy use for the forthcoming year (for the first introductory year this allowances purchasing will occur at the end of the footprint year)
2. **Footprint** – For the next 12 months participants must monitor operating emissions for a year; this includes electricity, and gas any other fuel types but does not include transport emissions or emissions already covered by the EU ETS or CCA
3. **Trade** – Allowances can be traded between participants. Participants who are reducing their emissions can sell them to those who are struggling. Alternatively allowances can be banked for future use when the price of CO<sub>2</sub> may have increased
4. **Report** – Participants then have roughly 3 months to formalise a report of their emissions for the previous reporting period
5. **Allowance Surrender** – On submissions of the report the participant must also surrender a sufficient quantity of allowances to cover their emissions for the reporting period
6. **League Table** – Three months later the government releases a league table based on all the reports and ranked dependent on a number of metrics
7. **Revenue Recycle** – All of the revenue collected from the allowance purchase for the previous year will then be recycled to participants based on their league position
8. **Cap** – Once the introductory phase is completed a cap will be placed on the quantity of allowances available for purchase. This will force all participants as a group to reduce their emissions ensuring that there is a continued incentive to further reduce emissions. The Government, after each seven year period, will then further reduce the cap



### Introductory Phase



The first capped phase will last for seven years and will follow a similar format to the 2010/13 introductory phase but with the following changes:

- A cap is introduced on the number of allowances available
- The annual sale of allowances will be by auction

Capped Phase Begins

CRC Timeline

## How do I comply?

XCO2 Energy recommend the following strategy for compliance:

1. **Meter** - meter and sub-meter as much energy use as possible since this will allow you to be more accurate when footprinting and also provide information as to where energy use can be reduced. Note that all emissions associated with fuel use that is estimated due to a lack of or inaccurate metering will be increased by 10%.
2. **Footprint** - conduct a footprint of last year's emissions to act as a baseline for the forthcoming monitoring period. This is achieved by quantifying energy use that is not already covered by the EU ETS, CCA or is transport related. CO<sub>2</sub> is calculated by using conversion factors: 0.537 kgCO<sub>2</sub>/kWh of grid electricity, 0.185 kgCO<sub>2</sub>/kWh of grid gas; other fuel conversion factors can be found in the CRC regulations. Emissions covered by the EU ETS, CCA and CCR Footprint must account for at least 90% of total emissions from energy use.
3. **Reduce Use** - behavioural change and a knowledge of energy use can ensure energy is not wasted. Simple solutions like turning equipment off when not in use or reducing internal temperature during the heating season can have a significant effect on emissions.
4. **Efficiency** - there are numerous efficiency measures that can be implemented at low cost. Low energy lighting, shading to reduce cooling requirements, lighting controls and insulation are just a few such measures.
5. **Low carbon systems** - these often require significant financial investment but also have the potential to significantly impact CO<sub>2</sub> emissions. Feasibility studies should be carried out to determine the most appropriate renewable or low carbon technologies.
6. **Report** - submission of annual reports occur every July and must include energy use set out as described in Schedule 13 of the CRC regulations. Reports will be submitted via an online interface.

## What will it cost?

The major cost of the scheme will be administration costs; incorporating internal systems to monitor, meter and report emissions.

The actual emissions allowances themselves will be collected and then recycled in full based on league position 18 months after submission. Therefore unless a firm performs badly they will not lose out financially and could even benefit.

There are fines for non compliance based on £5,000 plus £0.05/tCO<sub>2</sub>/day for not submitting reports and £40/tCO<sub>2</sub> for incorrectly reported emissions.

## How am I rated?

Ranking in the league table is based on three metrics:

- **Absolute metric** - based on the relative change in an organisation's CRC emissions
- **Early action metric** - energy saving measures put into place by an organisation before the start of the CRC (NB to be removed post introductory phase)
- **Growth metric** - this takes into account organisations that are growing and therefore whose emissions will increase. This rewards organisations that grow in an energy efficient way.

## XCO2 Energy Services

The key to compliance and success within the CRC is good carbon management. Our approach to carbon management is to develop internal processes to track, set targets, audit and monitor CO<sub>2</sub> emissions. We develop strategies which improve operational efficiency, generating competitive advantage in a changing business environment and leading towards a sustainable business.

Our services include:

- **Carbon Audit** - We conduct analysis and monitoring of emissions from buildings, operations, product life cycle, supply chain, and transport. Our reporting follows standards such as the Greenhouse Gas Protocol.
- **Carbon Strategy** - We work with businesses in setting targets and benchmarking, and provide guidance on emissions tracking and the development of integrated energy strategies
- **Carbon Standards** - We help organisations work towards compliance with the Carbon Trust Standard, Carbon Reduction Commitment, ISO 14064, ISO 14001 and the Carbon Disclosure Project
- **Engaging Businesses** - Other services we provide include making the case for carbon reduction, industry analysis, future proofing, CSR strategies, engaging tenants through Green Leases and establishing consultant benchmarks. We collaborate with leaders in the climate change communication sector on stakeholder engagement and behavioural change to achieve optimum results.

Some of the companies we have worked with in the past include: TNT, British Telecom, Honda UK, Honda Formula 1, Ralph Trustees, Willmott Dixon Construction, Aedas architects and WATG architects

The Information in this guide is based on the draft documentation published by The Department of Energy and Climate Change in March 2009.