



THE CARBON REDUCTION COMMITMENT: AN OVERVIEW

BCSC - FORMERLY KNOWN AS THE BRITISH COUNCIL OF SHOPPING CENTRES - IS A MAJOR UK INDUSTRY ASSOCIATION NOW WELCOMING OVER 2800 CORPORATE AND AFFILIATE MEMBERS. AS PART OF ITS COMMITMENT TO UNDERSTANDING CLIMATE CHANGE AND TO OFFERING GUIDANCE TO MEMBERS AND STAKEHOLDERS, BCSC PRODUCES A SERIES OF GUIDANCE PAPERS AND RESEARCH, MOSTLY AVAILABLE TO MEMBERS. THIS IS A SUMMARY OF THE FIRST OF A TWO-PART SERIES ON THE CARBON REDUCTION COMMITMENT, PUBLISHED IN FEBRUARY 2009.

The first few months of 2009 will usher in a new and far-reaching scheme: the Carbon Reduction Commitment (CRC). The CRC mandates that companies (and larger public bodies) pay for the carbon dioxide (CO₂) emissions their properties produce. In February, Defra - the UK's Department for Environment, Food and Rural Affairs - issued a detailed consultation on the draft guidelines and by the summer of 2009, implementation of the programme will be well underway.

Many UK organisations previously unaffected by carbon regulation 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 companies to improve their

COMPANIES THAT FAIL TO IMPLEMENT CARBON REDUCTION STRATEGIES FACE SIGNIFICANT FINANCIAL AND REPUTATIONAL CONSEQUENCES AS ENERGY PERFORMANCE IS NOW MEASURED, MONITORED, TAXED, AND PUBLICLY REPORTED

energy efficiency by adding a tax on carbon. Companies 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. Those that improve their performance can make a profit by auctioning unused allowances; businesses that fail to improve must purchase additional allowances to cover their activities. Because allowances will be capped in 2013, the system will create winners and losers; poor performing companies face rising costs as allowances are auctioned in a constrained environment.

The CRC is not the first carbon taxation or emissions trading scheme to affect UK industry, but it is the first initiated by the UK government. Moreover, the CRC targets a broad range of businesses that have to date escaped financial penalties for their CO₂ production. The CRC thus signals the arrival of carbon taxation on a much wider scale for UK industry and represents a concrete cost for sustainability. Companies that fail to implement carbon reduction strategies face significant financial and reputational consequences as energy performance is now measured, monitored, taxed, and publicly reported.

WHAT IT IS

In May 2007, the UK 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 carbon emissions and requires that companies purchase 'allowances' - priced commodities

(£/ton) that are to cover the equivalent amount of CO₂ a company produces from all of its buildings in a year. If a company reduces the amount of allowances it needs, it can auction these to other companies requiring further allowances. The use of market mechanisms encourages companies to become leaner in their energy usage as CO₂ production is now associated with a definable financial reward or risk.

NOT TAKING STEPS TO IMPROVE ENERGY EFFICIENCY AND CO₂ EMISSIONS WILL BECOME, OVER TIME, A COSTLY PROPOSITION

The CRC applies to large commercial and public sector organisations (including supermarkets, hotel chains, government departments, large local authorities) whose total annual half-hourly metered electricity use is above 6,000 MWh (equal to an electric bill of roughly £1,000,000). The CRC covers companies that have traditionally fallen outside the EU Emissions Trading Scheme and Climate Change Agreements and thus affects a larger spectrum of energy users.

Businesses and other large organisations will be required to report annually all of their UK-based CO₂ emissions from their total building portfolios, including energy use for lighting, heating, and cooling. Thus, while metered energy use is the signaller for company inclusion in the scheme, allowances will have to be purchased for all CO₂ emissions generated by the company's real estate assets. Organisations will not be required to report on or purchase allowances to cover their transport emissions.

YEAR	ACTION
2008	This is the benchmark year for inclusion in the CRC. Companies should calculate their electricity use based on information provided by their suppliers. Those whose electricity consumption is greater than 6,000MWh per annum (organisations with a total electricity bill of £1,00,000 or more are likely to be included), will be covered by the CRC.
2009 (February)	The UK government will issue a detailed consultation on the CRC draft guidelines.
2009 (Summer)	The UK 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, assisted by your electricity supplier.
2010	The CRC scheme begins with the 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.

HOW IT WORKS

Following the February draft regulations and beginning in the summer of 2009, the UK Environment Agency will contact companies viewed as candidates for the programme. Notification will be based using 2008 as the benchmark year. If a company has an energy consumption for 2008 that exceeds the limits outlined above, they will be required to participate. Data collected for the full calendar year will determine who must participate in the mandatory scheme.

Once eligibility has been determined, companies are required to calculate their emissions and determine their CO₂ output. At the start of each compliance year, companies must purchase allowances from

the auction (or fixed price sale during the introductory phase) to cover these total emissions.

Throughout the year, companies are required to monitor their activities and try to reduce their energy needs. At the end of each year, companies must report actual emissions versus those projected and surrender sufficient allowances to cover their CO₂ output. An introductory phase is planned to start in April 2010, whereby all allowances will be sold at a fixed price. The UK 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 CARBON BY RESTRICTING ALLOWANCES ENCOURAGES COMPANIES TO REDUCE ENERGY YEAR ON YEAR

Establishing a rising price for carbon by restricting allowances encourages companies 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 their cumulative emissions reductions. Overall company 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 UK government. Revenue raised will be recycled to participants proportional to their 2009 emissions adjusted by a bonus or penalty related to their performance in the Carbon Reduction Commitment league table. This will continue for each year of the programme, with the percentage given to best performers increasing every allowance cycle. 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 companies 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 table on page 23 highlights the major phases of the programme.

THE CRC: THE BIGGER PICTURE

The CRC is important because it is the first

attempt by the government to specifically target less energy intensive companies 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 carbon 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 companies increases, so too does the cost of doing business.

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

For more information about the Carbon Reduction Commitment, please visit:

- + The UK's Department for Environment, Food and Rural Affairs (Defra) CRC website: www.defra.gov.uk/Environment/climatechange/uk/business/crc/index.htm
- + The Carbon Trust: www.carbontrust.co.uk/climatechange/policy/CRC.htm
- + BCSC: www.bcsc.org.uk

