

Briefing Note

Carbon Reduction Commitment

Background

The Carbon Reduction Commitment (CRC) is a new legally binding climate change and energy saving scheme. It will cover large business and public sector organisations, including City of York Council, and will have a significant impact on reducing UK carbon dioxide emissions. The CRC will be a mandatory carbon emissions trading scheme. During a planned introductory phase, due to start in April 2010, all allowances will be sold at a fixed price. From April 2013, allowances will be allocated through auctions with a diminishing number of credits available over time. At the end of each year, company performance, mainly based on absolute carbon reductions since the start of the scheme, will be summarised in league tables outlining the best and worse performers in terms of carbon emissions and reduction.

The timeline for implementing CRC is detailed below.

2008 - Qualification year

Organisations will need to calculate their electricity use based on information provided by their suppliers (calendar year)

Early 2009

The Environment Agency – who will administer the CRC – will contact organisations in CRC and issue Registration Packs.

October 2009 – March 2010

Registration - Eligible organisations to monitor and report total emissions for this period

April 2010 – March 2011, First Compliance Year – NO SALES THIS YEAR

April 2011

First sale of allowances. Organisations will have to purchase allowances to cover their actual emissions in 2010/11 as well as for their forecast emissions for 2011/12

July 2011

Surrender allowances for 2010/11

October 2011

First recycle payment (based on 2010/11 emissions) and production of league table

April 2013

First capped phase begins

Auctioning of Carbon Allowances begins

Policy Background:

Energy White Paper

The commitment to implement CRC was announced in the [2007 Energy White Paper](#), (and now the Energy Act 2008), following consultation on measures to best secure cost-effective carbon savings from large non-energy intensive business and public sector organisations. This paper relates to specific measures that will ensure individuals, businesses and Government reduce their carbon emissions and save energy. It also places the UK on a path to cutting CO2 emissions by some 80% by about 2050 (and in line with the new Climate Change Act 2008), with real progress by 2020. (please note that The Energy Act implements the legislative aspects of the 2007 Energy White Paper).

Climate Change Act.

This act puts into statute the UK's targets to reduce carbon dioxide emissions through domestic and international action by 80 per cent by 2050 and at least 26 per cent by 2020, against a 1990 baseline.

Forecasted financial projections

The financial consequences to the council for the first three years of this scheme and based on the initial cost of £12 per tonne would amount to £792,000 (or £264,000 a year). This is also based on emissions of 22,000t being emitted by the council (based on 2007 figures for gas and electricity consumption). This total will be recycled back to the Council if it does not exceed its carbon budget over the three years (the baseline consumption figure – in this instances the 22,000t/yr).

In April 2011 the 1st sale takes place and CYC will have to purchase **£528,000** of emissions credits (please note this is 2010/11 **and** 2011/12 credits @ £12/tonne CO₂ - (£12 x 22,000t = £264,000 x 2 yrs = £528,000)

October 2011, CYC will receive their 1st recycling payment. This is in the form of a bonus or penalty of +/-10% (max. approx. **£52,800**). (Please note that payment is dependent on performance in a national league table).

In April 2012 the second sale takes place. CYC will have to purchase emissions credit for 2012/13 (at present this is fixed at £12/tCO₂) (approx. £ 264,000) please note this based on emissions remaining at 22,000t)

In October 2012 CYC to receive 2nd recycling payment. (This is in the form of a bonus or penalty of +/-10% (max approx. **£26,400**).

Should the council fail to stay within its carbon budget we would have to purchase additional allowances (at £12/t) and would risk a penalty for poor performance. This could result in the council loosing up to 10% of its annual recycling payment (£26,400)

From April 2013, allowances will be allocated through auctions with a diminishing number of credits available over time. The price for allowances therefore will not remain fixed after 2013 and could increase, especially over the years as demand for additional credits increases.

Please note this information was collated from the most up to date sources available. Further guidance on CRC is due to be issued in March 2009.

Conclusion

CYC needs to create as part of its CMP effective Carbon Trading Strategy annually in order to deal with CRC. Effective carbon management programmes and accurate carbon forecasting will be vital to ensure the council remains within its carbon budget. A dedicated team across the council including energy, sustainability, finance and legal officers will need to be set up. DEFRA recommend that a management commitment of 57 person days per year will be needed to undertake primary activities of the scheme.

Recommendations:

1. To create a project team to initiate work on preparing for CRC; and
2. Project team to report back to the Executive, by October 2009, with proposals for managing CRC