Implementation proposals for the Carbon Reduction Commitment
(formerly the Energy Performance Commitment)

Report on the public consultation (June 2007)
and Government’s policy decisions

March 2008
Foreword

The UK is leading the way – with all four countries of the UK doing their bit to tackle climate change. We are on track to almost double our Kyoto commitment, and we expect the long-term downward trend to continue. But we need to do more.

The UK Government’s goal is to put the UK on a path to cut carbon dioxide (CO₂) emissions by at least 60% by 2050, and the Climate Change Committee has been asked to advise on whether the target should be increased to 80%. The Scottish Government recently announced that it would put Scotland on track to reducing emissions by 80% by 2050. The Welsh Assembly Government’s One Wales document contains a clear commitment to achieving annual 3% reductions in greenhouse gas emissions by 2011 in areas of devolved competence and to setting sectoral targets for residential emissions, transport and the public sector. Northern Ireland has set a target of 25% reduction in greenhouse gas emissions by 2025 (30% reduction in CO₂). Further consideration is being given to Northern Ireland targets by Northern Ireland Ministers. The UK Climate Change Bill will put the UK on course to be the first country to set a long-term legal framework for reducing emissions over the next 45 years and beyond. The Bill demonstrates decisive international leadership, showing the UK is committed to taking its responsibility for reducing global emissions. The Scottish Government will introduce its own Climate Change Bill and launched a public consultation on its proposals in January. The Scottish Bill will set a long-term legal framework for reducing emissions and will complement the UK Bill.

Our aim is to reduce absolute carbon emissions whilst growing the economy – and the Carbon Reduction Commitment (CRC) is geared accordingly to help large non-energy intensive public and business sector organisations to reduce their emissions and thereby save money through improved energy efficiency. Without new policies, emissions from these types of organisation are set to increase over coming years and yet this group of organisations has significant potential to achieve cost-effective carbon reductions. As Sir Nicolas Stern said in his report, there are clear benefits from strong and early action to tackle climate change. Investment that takes place in the next 10-20 years will have a profound effect on the climate in the second half of this century and in the next. We are committed to ambitious targets to reduce the UK’s CO₂ emissions, and this will require contributions from all sectors of the economy and from across all parts of the UK.

The CRC will apply a balanced approach to emissions reductions across the economy by requiring the large non-energy intensive business and public sectors - not currently covered by a targeted, quantity based climate change instrument - to make their contribution to meeting the UK’s climate change obligations. It will apply to both public and private sector bodies, providing an effective mechanism for achieving our targets. We want to engage senior management, by providing a policy framework that spreads the existing best practice of our leading organisations, so that emissions are reported and published on a common basis and the public can make their own judgements.
about the contributions each is making to tackling climate change. We believe that the CRC achieves these aims.

This document sets out Government decisions and implementation proposals for the CRC. Alongside this document we have published analysis of the consultation responses to the June 2007 consultation. There will be a further consultation on the draft regulations to implement the scheme in the summer.

Since June 2007 the UK Government has continued to work together with stakeholders and devolved administrations in Scotland, Wales and Northern Ireland, to ensure that the development of CRC is in keeping with our long term vision for a light touch yet strong scheme, which provides both financial and reputational incentives for the target sector to ensure emissions reductions.

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Contents

Foreword .....................................................................................................................i
Contents ..................................................................................................................iii
List of Questions .......................................................................................................v
List of Boxes ..............................................................................................................x

Section 1. Executive Summary ...........................................................................xi

List of Acronyms .....................................................................................................xviii

Section 2. Scheme Coverage ..............................................................................1
2.01 Overview .........................................................................................................1
2.02 Definition of Organisation for the Purposes of CRC .................................3
   (a) Public Sector .................................................................................................3
   (b) Overseas Ownership ....................................................................................5
   (c) Joint Ventures ............................................................................................6
   (d) Franchises ..................................................................................................8
2.03 Identification of Participants .......................................................................11
2.04 Coverage of the Scheme ..........................................................................21
   (a) Interface with CCAs ..................................................................................27
   (b) Interface with EU ETS .............................................................................27
   (c) Interface with IPPC regulation ..................................................................28
2.05 Coverage Treatment of Specific Activities ..............................................28
2.06 Entry to and Exit from CRC: Updating Baselines ....................................31
   (a) Emissions transfers between EU ETS and CRC ....................................31
   (b) Emissions transfers between CCAs and CRC ........................................32
   (c) Schools .....................................................................................................33
   (d) Emissions transfers from landlord to tenant ..........................................33
   (e) Purchase or sale of large CRC subsidiary or entire CRC
       organisation ...............................................................................................33

Section 3. Phases and Cap Setting .................................................................37
3.01 Phase Caps ....................................................................................................37

Section 4. Scheme Market Design ....................................................................41
4.01 The Introductory Phase ..............................................................................41
4.02 The Capped Phases ....................................................................................42
4.03 The Safety Valve ........................................................................................47
4.04 Revenue Recycling and the League Table ..............................................48
4.05 Maintaining a Functioning Market .............................................................57
4.06 Tying a Proportion of recycling Payments Directly to Energy
       Efficiency Activities ......................................................................................58

Section 5. Monitoring, Reporting and Audit ................................................59
5.01 Monitoring Energy Use ..............................................................................59
5.02 Reporting Energy Use ..............................................................................61
5.03 Improving Billing and Metering .................................................................67
5.04 The Registry ................................................................................................69
5.05 Enforcement, Offences and Penalties .........................................................70
Annex 1 – An Illustrative Example of the Recycling Payment in the Third Year of the Scheme
Annex 2 – Minimum Standards for Automatic Meter Reading
Annex 3 – Evidence Packs
List of Questions

Section 2. Scheme Coverage.................................................................1

1. Should the CRC apply on a UK-wide basis, or should the Devolved Administrations develop separate schemes?.................................3

If separate schemes, how can we guarantee a level playing field for operators and that the required carbon reductions estimated from the CRC would be realised? ........................................................................................................3

2. Is the ‘top-down’ approach of defining a CRC organisation a suitable way of identifying large, non-energy intensive organisations? and; .........................................................3

If not, can you suggest a preferable alternative? and; ................................3

3. Do you have a view as to what would be the appropriate highest UK parent organisation for public sector participants?..........................3

4. Do you have a view as to whether Government should proceed with either option (A) or (B) above, or neither?........................................................9

5. Could your organisation manage these procedures to correctly identify the CRC organisation? and;.................................................................12

If not, which particular aspects of the organisation identification procedure would cause a problem? ........................................................................... 12

6. Could the procedures be simplified and still allow Government to identify non-compliant organisations? If so, how?..............................13

7. Do you agree that 2008 should be used as the qualification year? and; .................................................................14

If not, which time period would you recommend? ........................................14

8. Do you agree that the proposed approach to establishing which CRC organisation is responsible for energy use in a tenanted property is workable? and; .................................................................19

Can you suggest an alternative approach that is preferable and retains the emissions coverage of the current proposal? ............................................ 19

9. Which option should Government take forward to ensure wide emissions coverage of CRC? .................................................................21

10. Do you agree that organisations should be able to include all their sites in the scheme?..............................................................................23

If so do you agree that they should not be able to remove them at a later date? .........................................................................................23
11. Do you agree with the Government’s proposal to implement a site level fuels *de minimis*? .................................................................26

Should this be set at 5% of site energy use emissions, 3% or some other percentage? ...........................................................................................................26

If <3% or >5% please state a level and explain why. ..............................................26

Do you think that this percentage should be based on site energy use emissions (as proposed) or total site energy spend? .................................26

12. Do you agree that CCA organisations with more than 25% of their energy use emissions in CCAs should be excluded as described in the diagram above? ............................................................................................27

13. Do you agree that unmetered supplies (UMS) should be included in the CRC, subject to a suitable *de minimis*? and; .................................................28

14. Do you agree that pseudo half hourly metering should be incentivised by the CRC? and;...............................................................................................28

a) that ‘pseudo half hourly metering’ should be treated in the same way as AMR for the purposes of the performance league table? and;.......................28

b) that the standard UMS billing methodology should be treated as an ‘estimate’ for the purposes of the adjustment factor and that ‘pseudo half hourly metering’ should not be? .................................................................29

15. In terms of non-rail energy, would you highlight any key issues specific to the rail sector that Government should bear in mind in developing the CRC policy design? and; .................................................................29

16. Given the UK commitment to consider the inclusion of surface transport within the EU ETS, do you agree that rail energy should currently be excluded from the CRC? and; .................................................................29

If excluded, what other policy approaches (including voluntary action) would be most suitable to deliver energy efficiency benefits and emissions reductions from train energy use? ........................................................................30

17. Do you think there are significant cost-effective opportunities for energy efficiency within schools? and; .................................................................30

18. Do you agree with the Government’s decision not to mandate the inclusion of all school energy use within local authority portfolios for CRC? and; .................................................................................................30

19. Do you agree with the proposed approach – of including school energy use within CRC local authority portfolios where such authorities pay the energy bill? .................................................................30
20. Do you agree with the overall principle of not having to report changes of operation during each phase of the CRC? and; ..................................................31

21. Are each of the proposed exceptions to the overall approach reasonable? ..................................................................................................................31

Section 3. Phases and Cap Setting ....................................................................37

22. Do you agree with the proposed overall approach on cap setting? ......37

Section 4. Scheme Market Design ..................................................................41

23. Which price option do you think would be most appropriate for the introductory phase fixed price sale?; and.................................................................41

24. Do you think CRC organisations would undertake significantly greater carbon abatement under the Option with the highest carbon price? ..........41

25. Which auction mechanism would you prefer? .........................................42

26. Do you agree that the auction should take place each January, at the beginning of the emissions year?.................................................................43

27. Which payment option do you prefer? .....................................................44

28. Do you agree that Government should limit the auction to only scheme participants and their agents?; and.................................................................46

29. Do you agree that there should be a limit placed on the percentage of allowances available to any one participant to buy in the auction? ..........46

30. Does the proposed mechanism for operating the safety valve seem reasonable? If not what changes would you suggest? .............................47

31. Do you think that a bonus or penalty of +/- 10% as described above is appropriate? If not, do you think the bonus or penalty should be higher or lower?; .............................................................................................................48

If not, do you think the bonus or penalty should be higher or lower (please state a percentage)?; .........................................................................................................48

32. Should the rate of bonus or penalty increase steadily and gradually over time? and; ..............................................................................................................48

If yes, please state by how much and how regularly you think these increments should be applied (e.g. 5% increments per year: +/-10% for year 1, +/-15% for year 2, +/-20% for year 3 and so on)? ........................................49

33. Should the league table include a metric to recognise those organisations who have been undertaking good energy management practices for some time? and; ..................................................................................................................51
If so, do you agree with the proposed AMR metric as a proxy for early action? ...............................................................51

34. Would the benefits of the league table including a few simple yes/no disclosure based questions outweigh the additional complexity involved?; ....53

If so, are the questions outlined above appropriate? and; ............................53

Should they be incorporated for revenue recycling calculations? .................53

35. Do you think that the CRC league table should include a relative metric to take account of organisational growth/decline?; ..........................................................55

If yes, do you agree with the proposed growth metric described above?; ......55

If not, please state a better alternative that meets the stated league table design criteria; and.........................................................55

36. Do you agree that if turnover/revenue expenditure is used to formulate the growth metric, that organisations should report the published figure for the financial year that most closely corresponds with the ‘emissions year’?.......55

37. If early action and growth metrics are included in the league table, do you agree with the proposed weighting of 60%:20%:20% (absolute: early action: growth)? and; .................................................................56

If not, please suggest an alternative weighting that you prefer? ..................56

38. Do you agree that the Government should be able to adjust key parameters within phases if absolutely necessary as an option of last resort? and; .....................................................................................57

If yes, what limits should be placed on the use of this power (e.g. requirement to engage in public consultation as to whether circumstances are sufficient to justify use of the power, and with Parliamentary approval)? ..................57

39. Should a percentage of CRC auction revenues be top-sliced and either given to Carbon Trust/Salix or handed out to participants as credits/tokens? and; .................................................................................................58

If so, do you prefer Option A, paying 10% of auction revenue directly to Carbon Trust/Salix, or Option B paying 10% of each participant’s revenue recycling payment as ‘credits’? and; ..............................................................58

What percentage of CRC auction revenue should be top-sliced and either given to Carbon Trust/Salix or handed out to participants as credits/tokens?.... .......................................................................................................58

Section 5. Monitoring, Reporting and Audit...........................................59

40. Do you agree with the Government’s proposal on what would be required within an ‘evidence pack’? If not, why not? .................................59
41. Do you agree with this approach to reporting emissions from CHP? ....61

42. What in your experience is the extent of estimated billing for energy use on which CRC returns would be based? ........................................................67

43. Do you think that there should be an adjustment factor for any estimates of energy use from individual sources in a CRC organisation to encourage operators to read their own meters or press for accurate bills from their suppliers? ......................................................................................................67

If so, is 10% the right figure to apply? .................................................................67

44. Are there any other suggestions for reducing reliance on estimated bills? ..............................................................................................................67

45. Does your organisation have previous experience of using other similar online registries? ............................................................................................69

If yes, which registry/registries does your organisation have experience of and what features worked well/badly (please specify)? ........................................69

46. Do you have any further comments or suggestions in relation to the features and functions the CRC registry should have? .................................69

47. Do you agree that organisations that fail to provide the necessary evidence for exemption on CCA grounds within the required timescales should remain in the scheme? ........................................................................................................70

48. Do you agree that a more moderate fine can be applied to over-reporting of emissions than under-reporting? .................................................................70

49. Do you agree with the overall approach towards penalties – of proportionality between the offence and the penalty? .........................................................71

50. Do you agree with the proposed approach on penalties in respect of the offences listed? ........................................................................................................71

If not, please state areas where you have substantial concerns ......................71
List of Boxes

Section 2. Scheme Coverage .................................................................1

Box 2.1 – Mandatory Half Hourly Electricity Meters and Half hourly/70kVA Metering Systems across Great Britain and Northern Ireland: the CRC Qualification Threshold ..............................1

Box 2.2 – The ‘Counterparty to the Energy Supply Contract’ ..................4

Box 2.3 – Joint Ventures/Joint Ownership ...........................................7

Box 2.4 – Reporting of ‘Significant’ Subsidiaries ..................................10

Box 2.5 – The CRC Qualification Process ..........................................15

Box 2.6 – De minimis Step by Step Guide ...........................................24

Section 3. Phases and Cap Setting......................................................37

Section 4. Scheme Market Design .....................................................41

Box 4.1 – VAT Treatment of CRC Allowances ..................................43

Box 4.2 - Double recycling and entering/exiting the scheme ...............45

Box 4.3 – CRC comparison years for measuring performance .............50

Box 4.4 – EEAS and Employee Engagement .......................................52

Section 5. Monitoring, Reporting and Audit .......................................59

Box 5.1 – Scheme Regulators ..............................................................59

Box 5.2 – Emissions Factors ...............................................................60

Box 5.3 – Electricity Generating Processes ........................................63

Box 5.4 – Green Electricity Tariffs and On-site Renewables ................64

Box 5.5 – Annual Statement of Electricity and Gas consumption ..........68

Box 5.6 – Risk-Based Audit ...............................................................72
Section 1. Executive Summary

On 23 May 2007 the Government announced, as part of the Energy White Paper, that it has decided to implement the Carbon Reduction Commitment (CRC).

The CRC is a new scheme which will apply mandatory emissions trading to cut carbon emissions from large commercial and public sector organisations (including supermarkets, hotel chains, government departments, and large local authorities).

On 26 June 2007, Government launched a 15 week consultation on proposals for the CRC. This consultation invited views on how UK Government and the Devolved Administrations should implement the UK CRC, in order to secure the required emissions reductions.

Four key areas were covered within the consultation:

- The proposed definition of a CRC organisation
- Coverage of specific activities and emissions
- Design of the auction and CRC league table
- Monitoring, reporting, audit and penalties

Alongside the consultation period, Government and the Devolved Administrations conducted five stakeholder workshops, held in London, Manchester, Edinburgh, Cardiff and Belfast. These events attracted more than 500 participants, who engaged in an interactive dialogue on the detailed implementation proposals outlined in the consultation document. The consultation closed on 9 October 2007 with written consultation responses received from around 200 public and private sector organisations. Government commissioned independent consultants, Enviros, to analyse these formal responses. The Enviros report is published alongside this document.

This report sets out the Government’s responses to feedback not only received as part of the written consultation process, but also during the five stakeholder workshops that took place over the summer of 2007. Responses to the consultation document itself were largely positive towards the proposals set out for the implementation of the CRC (see Figure 1 below). Support was shown for proposals such as taking CRC forward as a UK-wide scheme; for a top-down approach to organisation definition; for including a flexible de minimis; and choosing a sealed-bid, uniform price auction design (as apposed to the more complex ascending clock option). Views were more mixed around

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1 See http://www.defra.gov.uk/Environment/climatechange/uk/business/crc/index.htm
2 Note that, unless otherwise stated, percentage figures given for particular response types to questions refer to the percentage of those that answered the question rather than the percentage of all respondents. The latter figures are also given in the Enviros Analysis of Consultation Responses.
3 In the diagram, the length of the green bars represents the proportion of respondents to each question that supported Government proposals – i.e. gave a ‘yes’ answer to tick-box questions.
the design of the league table and certain details of organisation definition (e.g. Joint Ventures). The two key areas in which consultation document proposals were not supported (represented by the long red bars in the graph above) were as follows:

![Figure 1. Breakdown of yes/no/not sure answers to the 'tick box' questions within the consultation document.](image)

- Respondents disagreed with the Government’s proposal to not mandate the inclusion of all school energy use within CRC local authority portfolios
- Respondents did not support any top-slicing of CRC auction revenue for energy efficiency programmes with Salix Finance/Carbon Trust

Government has now updated its approach in the light of the particularly strong feedback on these policy areas\(^4\).

Since the publication of the June 2007 consultation document, some significant progress has been made on the design details of the scheme. A major development has been the introduction of a requirement on participants to measure and report their emissions for 2009 as the basis of establishing the sources of emissions to be excluded from the scheme and as part of the process for recycling scheme revenue. In this respect, Government is grateful for the continued level of engagement from a wide range of stakeholders. Further key areas where CRC policy proposals have been developed in light of the consultation include:

**Scheme Coverage:**

\(^4\) Note that the third red bar in Figure 1 (Question 45) does not represent disagreement with a specific policy design proposal. Rather, it indicates a large number of respondents replying ‘no’ to the question: ‘does your organisation have experience of using other similar online registries?’– underlining the point that the CRC sector is not generally experienced with emissions trading.
• Government wishes to demonstrate leadership and commitment in launching this scheme and therefore will include all central government departments in CRC, regardless of whether they meet the inclusion threshold. In respect of the National Health Service, we will consult on the details of the scheme as it applies to the NHS in the summer.

• Clarifying the organisation definition for public sector bodies, Private Finance Initiatives, Public-Private Partnerships, DBFO (Design, Build, Finance, Operate), franchises, overseas-ownership and private equity companies to ensure that the scheme has reasonable coverage and leverages corporate social responsibility drivers appropriately (Questions 2 & 3).

• Simplifying the qualification threshold so that it is based on electricity through all half hourly meters (HHM)\(^5\) in Great Britain and 70kVA metering systems in Northern Ireland (as opposed to only mandatory half hourly meters) – given the difficulties of distinguishing accurately between mandatory and voluntary meters, and so that it may be effectively applied in both Great Britain and Northern Ireland. Taking this new approach removes an administrative task within CRC, whilst still ensuring the CRC inclusion threshold of 6,000 MWhr/year through HHM (and 70kVA metering systems in Northern Ireland) remains based on suitably accurate data. In addition, the approach remains aligned with the aim of targeting large organisations, for whom the CRC administrative costs would generally be outweighed by the energy efficiency benefits. Half hourly meters which have been installed voluntarily would generally belong to large organisations who would qualify for the scheme anyway. Government is currently minded that energy use from street lighting (which is settled on the half hourly market) should count towards the 6,000 MWhr/year inclusion threshold. The forthcoming summer 2008 consultation on the draft CRC regulations will consider this in detail. (Questions 2 & 3)

• Identifying the need for Government to work collaboratively with stakeholders to develop guidance for how CRC landlords could pass through CRC costs and benefits to their tenants – with the central suggestion that, to maintain administrative simplicity for all parties, landlords and tenants could usefully agree to channel CRC revenue recycling payments into a dedicated fund for the purpose of energy efficiency investment (Question 8).

• Simplifying the flexible de minimis so that it is based on a source-based approach, removing the need for an additional site-based fuels de minimis (which would have required numerous site based calculations across a large number of sites). In addition, we now propose that, once every phase (rather than every year), CRC organisations would need to ensure that at least 90% of their energy

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\(^5\) In referring to ‘half hourly meters’, Government is referring to meters through which electricity supplied has been settled half hourly.
use emissions are covered by EU ETS, CCAs and CRC. Importantly, all ‘CRC core sources’ would need to be included in CRC, even if this takes the organisation over the 90% threshold (Questions 9, 10 & 11). CRC core sources are as follows:
- electricity use through half hourly meters in Great Britain (and 70kVA electricity meters in Northern Ireland)
- electricity used through profile class 5-8 meters
- gas used through daily-read meters
- all non-daily metered gas consuming more than 73,200 kWh per annum

- Not proceeding with a voluntary approach to the inclusion of state schools within CRC local authority portfolios given stakeholder views expressed in responses to the consultation (Questions 17, 18 & 19). Instead, Government will consider whether to include all schools in the CRC as part of the responsibility of CRC local authorities.

- Proposing **adjustments to emissions baselines** when 'large CRC subsidiaries' are bought or sold, to improve scheme fairness (better accounting for growth and decline), and to improve scheme effectiveness (leveraging CSR drivers of major subsidiaries). At the same time, Government aims to keep site based changes of operation to an absolute minimum, given the complexities of such baseline updates. Accordingly, Government no longer proposes any site based changes of operation in respect of schools and landlords/tenant emissions transfers. There remain only two sets of circumstances where Government does still propose site based changes of operation. The first is in respect of emissions transfers between EU ETS and CRC (e.g. if ‘small emitter’ EU ETS installations belonging to CRC organisations are removed from EU ETS). The second is in respect of emissions transfers between CCAs and CRC – though only if Government changes the CCA eligibility criteria. By definition, this will only apply to the small percentage of CRC organisations that have CCA emissions or direct EU ETS emissions (Questions 20 & 21).

**Market Design:**

- Inviting the **Committee on Climate Change to advise Government on the level of the CRC caps**, the trajectory for the bonuses and penalties incorporated within the revenue recycling regime beyond the first five years of the scheme and the level of the CRC buy-out price. (Questions 22, 30, 31 & 32).

- Indicating (subject to consultation over summer 2008 on the draft CRC regulations) that Government is minded to proceed with a CRC **introductory phase allowance price of £12/tCO2** – to strike a balance between providing a strong carbon price and limiting the costs faced by participants in the early years of the scheme (Question 23).

- Deciding, for simplicity, that payment for allowances will take place at the time of the sale/auction. To address **cash flow concerns** there will
be two fixed price sales in the first year of the scheme. Moreover, the first revenue recycling payment will be a ‘double’ payment (incorporating proceeds from the first two years’ sales) to avoid Government effectively retaining a year’s revenue for the duration of the scheme. (Question 27).

- Deciding to change the timeframe for the CRC league table baseline from ‘since the start of the scheme’ to a rolling five year average – of the previous five years – to ensure that organisational changes are better accounted for (Questions 31 & 32).

- Deciding that revenue recycling performance payments will be proportional to 2009 emissions, with a bonus or penalty depending on position in the CRC league table. Importantly, this avoids perverse incentives associated with recycling in proportion to ‘annual average emissions since the start of the scheme’, and is also simpler (Questions 31 & 32).

- Deciding to set a clear trajectory to strengthen the bonus/penalty incentives incorporated within the revenue recycling regime – rather than a more ad-hoc process of changing the revenue recycling regime on a phase by phase basis. This should help ensure that the scheme delivers credible emissions reductions within the sector and that organisations can adequately plan long-term investments. Moreover, it should ensure that the CRC revenue recycling is considered a strength of CRC, usefully reinforcing the incentives from the rest of the scheme (Question 31 & 32).

- Improving the early action metric to include an additional component – the extent to which organisations have their CRC emissions covered by the voluntary Energy Efficiency Accreditation Scheme (EEAS). This new EEAS component will sit alongside the proposed automatic metering (AMR) component of the early action metric. Government has decided that the AMR component of the early action metric would be ‘frozen’ in year one of the scheme (participants would receive the same score for the AMR component in years 2010, 2011 and 2012) to ensure that it focuses essentially on action taken prior to the start of the scheme. In addition, Government has decided that the early action metric will only apply to the introductory phase. This should simplify scheme incentives for the capped phases, and ensure that capped phases are more clearly focussed on future emissions reductions (Question 33).

Monitoring, Reporting and Audit:

- Clarifying what emissions factors should be used when reporting under the scheme (Question 40).

- Clarifying how combined heat and power (CHP) will be treated within the scheme – with an emphasis on simplicity, by ‘zero rating’ heat (Question 41).
• Deciding to proceed with the proposal for a legal obligation on energy suppliers to provide an **annual statement of electricity and gas consumption**, to improve the accuracy and availability of emissions data for CRC participants. The details of this proposed obligation will be consulted on in the summer 2008 consultation on the draft CRC regulations (*Questions 42, 43 & 44*).

Government wishes to emphasise the importance of employee engagement and training as a core part of a robust carbon management and reduction strategy. Government recognises that leading organisations support and enable staff to actively contribute to energy management through a variety of approaches. Such approaches include, for example, joint environmental committees involving employees; staff awareness and energy training initiatives; and - in those cases where a trade union is recognised for collective bargaining purposes – taking forward energy and environment issues within the scope of such agreements.

**Further Scheme Details and Next Steps**

A further consultation on the detailed scheme design and regulations is expected to be published early in the summer of 2008. In the intervening period, Government will continue to work on the detailed development of the scheme in collaboration with potential CRC participants and other stakeholders.

The CRC forms a key component of the Climate Change Bill and will help to deliver against the ambitious emissions reduction targets the Bill sets for the UK. Once the Climate Change Bill receives Royal Assent, the detailed regulations for the scheme can be put forward under its enabling powers. The CRC continues to be developed with close regard to Better Regulation principles (as set out in the previous consultation document) to ensure that it delivers cost effective carbon savings. As part of a similar process, the CRC was also recently reviewed as part of the Government’s Climate Change Simplification Project (with the project recommendations now subject to public consultation). The outcomes of the Project will be considered in ongoing work on the CRC.

The CRC is scheduled to start on 1\textsuperscript{st} January 2010. As stated later in this document (see *Question 7*), 2008 has now been confirmed as the qualification year for the scheme. During February/March of this year, a leaflet will be sent out by UK energy suppliers to all bill payers of half hourly meters in Great Britain (and 70kVA metering systems in Northern Ireland), informing them that

\[\text{Note that a number of the scheme powers will be included in the 2008 Finance Bill, with secondary legislation taken forward on the basis of these powers. This will consist of regulations for the auction and sale of allowances.}\]

\[\text{The Climate Change Simplification Project reviewed Defra's three major climate Change instruments - EU Emissions Trading Scheme, Climate Change Agreements and the CRC – with a view to eliminating avoidable overlap, simplifying the existing regulation, and ensuring that the regulatory burden on the economy is kept to a minimum. The final report is currently open for consultation and can be found at http://www.defra.gov.uk/corporate/consult/cc-instruments/index.htm.}\]
they may be covered by the scheme and directing them to a special area on
the Defra website. This resource provides organisations with an opportunity to
make an initial assessment of whether they expect to be covered by the
scheme and to log their interest in finding out more about the scheme with
Government. Those organisations that are certain to be covered, as well as
those that may consider themselves at the margin of qualification should now
be preparing themselves to collate bills relating to their 2008 electricity use
through half hourly/70kVA metering systems so that qualification for (or
exemption from) the scheme can be confirmed in 2009.
List of Acronyms

AMR – Automatic Meter Reading
BSC – Balancing and Settlement Code
CCA – Climate Change Agreement
CCL – Climate Change Levy
CHP – Combined Heat and Power
CSR – Corporate Social Responsibility
DA – Devolved Administration
DBERR – Department of Business, Enterprise and Regulatory Reform
DBFO – Design Build Finance Operate
DEC – Display Energy Certificate
EEAS – Energy Efficiency Accreditation Scheme
EU ETS – European Union Emissions Trading Scheme
HHM – Half Hourly Meter - In referring to ‘half hourly meters’, Government is referring to meters through which electricity supplied has been settled half hourly
HMRC – Her Majesty’s Revenue and Customs
IPPC – Integrated Pollution Prevention and Control
kVA – Kilo Volt-Ampere
kW – Kilo Watt
MPAN – Meter Point Administration Number
MPRN – Meter Point Reference Numbers
MHHM – Mandatory Half Hourly Meter
MWh – Mega Watt Hour
NPV – Net Present Value
PFI – Public Finance Initiative
PPP – Public Private Partnership
RO – Renewables Obligation
ROC – Renewables Obligation Certificate
SME – Small-Medium Enterprise
UMS – Unmetered Supply
VAT – Value Added Tax
Section 2. Scheme Coverage

2.01 Overview

Box 2.1 – Mandatory Half Hourly Electricity Meters and Half hourly/70kVA Metering Systems across Great Britain and Northern Ireland: the CRC Qualification Threshold

In former consultations and correspondence, Government has referred to ‘mandatory half hourly metered’ electricity. A half hourly electricity meter is required to be installed by the electricity supplier where:

‘the average of the maximum monthly electrical demand in the three months of highest demand, either in (a) the previous twelve months, or (b) the period since the most recent Significant Change of Demand (whichever is the shorter) exceeds 100kW.’

This requirement is described in Section L of the Balancing and Settlement Code (BSC)\(^8\) – the governing industry code for the electricity market in Great Britain – and a half hourly meter installed under such conditions is referred to as a 100kW half hourly Metering System.

The BSC only applies to electricity suppliers in Great Britain and is not binding in Northern Ireland. There is currently no similar requirement in Northern Ireland to install half hourly meters (except in respect of new meters installed since November 2007). In practice, however, 70kVA half hourly meters are widespread in Northern Ireland. As the CRC is to be applied on a UK-wide basis the definition of a ‘mandatory half hourly meter’ or its most effective equivalent must be applicable across the whole of the UK. The term ‘mandatory half hourly meter’ will therefore be replaced with the terms ‘half hourly metering system’ for Great Britain and ‘70kVA half hourly metering system’ for Northern Ireland. In referring to ‘half hourly meters’, Government is referring to meters through which electricity supplied has been settled half hourly. Therefore, an organisation will pass the CRC inclusion threshold if its combined electricity use through Great Britain half hourly metering systems and Northern Ireland 70kVA metering systems equals or exceeds 6,000 MWh/year (subject to the proposed approach on exemptions for companies with Climate Change Agreements).

Accordingly, Government does not propose to distinguish between mandatory and voluntary half hourly metering systems in determining which organisations are included in CRC. This is because, in practice, many so-called ‘voluntary’ half hourly meters (so described because of their electricity use over the most recent 12 months) have in fact been installed because they

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\(^8\) The Balancing and Settlement Code (BSC) can be accessed online at: http://www.elexon.co.uk/bscrelateddocs/BSC/default.aspx
have at some point satisfied the mandatory threshold requirements (as set out under the Balancing and Settlement Code) – rather than because they have been installed voluntarily. Where an end user has changed supplier during the qualification year (and hence a given supplier does not have the most recent year’s data on which to examine the electricity use through the meter), the risk of meters being incorrectly classified as ‘voluntary’ is even higher.

Basing inclusion simply on electricity use through half hourly metering systems (and 70kVA metering systems in Northern Ireland) removes a loophole that could have significantly reduced scheme coverage (compared with the scheme coverage identified in the quantitative analysis and the CRC consultation). At the same time, the new approach is unlikely to result in any significant increase to CRC coverage (compared with that identified in the quantitative analysis and the CRC consultation). Whilst it is technically possible that an organisation that has installed large quantities of half hourly meters voluntarily would now qualify for CRC, those half hourly meters which have been installed voluntarily would generally belong to large organisations who would qualify for the scheme anyway and for whom the benefits of participation would outweigh costs.9

Moreover, taking this new approach removes an administrative task within CRC, whilst still ensuring the CRC inclusion threshold of 6,000 MWh/year through all half hourly metering systems (and 70kVA metering systems in Northern Ireland) remains based on suitably accurate data. In addition, the approach remains aligned with the aim of targeting large organisations, for whom the CRC administrative costs would generally be outweighed by the energy efficiency benefits. Government is currently minded that energy use from street lighting (which is settled on the half hourly market) should count towards the 6,000 MWhr/year inclusion threshold.

Accordingly, in Great Britain, the Scheme Administrator (based on information provided by the energy suppliers) will notify all buyers (‘counter-parties to the supply contract’) of all half hourly metering systems that they may potentially be covered by CRC, depending on their electricity use. For Northern Ireland, Government similarly proposes that the Scheme Administrator will notify all buyers (‘counter-parties to the supply contract’) of all 70kVA metering systems that they may potentially be covered by CRC, depending on their electricity use. On grounds of administrative simplicity, Government proposes that any electricity passing through any 70kVA metering system would count towards whether an organisation passed the 6,000 MWhr/year CRC inclusion threshold.

Government will consult on the detail of this approach in the consultation on the draft CRC regulations planned for summer 2008.

9 Note that voluntarily installed half hourly metering systems would still count towards the AMR component of the early action metric as long as an organisation could provide evidence of the voluntary purchase and installation of the meter as part of its evidence pack.
1. Should the CRC apply on a UK-wide basis, or should the Devolved Administrations develop separate schemes?

If separate schemes, how can we guarantee a level playing field for operators and that the required carbon reductions estimated from the CRC would be realised?

Support for applying the CRC on a UK-wide basis was almost unanimous across respondents to this question (93%). Respondents commented that a UK wide scheme was important in terms of maintaining simplicity, cost effectiveness and achieving the required level of emissions reductions. Devolved Administrations also recognise the benefits in taking forward the scheme as UK-wide and continue to work on policy development with Defra on that basis. UK Government, together with the Devolved Administrations, has therefore decided to implement CRC as a UK wide scheme. However, it is likely that the policy will need to be endorsed by the Northern Ireland Executive Committee, under the terms of its Ministerial Code, before this can be confirmed for Northern Ireland. Further work will be undertaken in the coming months to ensure that Devolved Administration-specific issues are taken into account within the design and implementation of the UK wide scheme.

Accordingly, for the private sector, we propose using UK wide definitions of subsidiaries and undertakings, based essentially on the Companies Act 2006. Where relevant, the Companies Act approach to undertakings and subsidiaries will also be used for the public sector. Where administrative structures in the public sector do not fall within Companies Act definitions Government does not, in general, propose grouping public sector bodies into larger organisations for the purposes of CRC. However, in those particular instances where we do propose to group public sector bodies, the approach taken will need to apply equitably in the Devolved Administrations. Owing to differences in Devolved Administration government structures this may mean that groupings will not be identical in all territories only that the same types of public bodies are covered by CRC.

2.02 Definition of Organisation for the Purposes of CRC

2. Is the ‘top-down’ approach of defining a CRC organisation a suitable way of identifying large, non-energy intensive organisations? and;

If not, can you suggest a preferable alternative? and;

3. Do you have a view as to what would be the appropriate highest UK parent organisation for public sector participants?

(a) Public Sector

Government wishes to demonstrate leadership and commitment in launching this scheme and therefore will include all central government departments in
CRC, regardless of whether they meet the inclusion threshold. In respect of the National Health Service, we will consult on the details of the scheme as it applies to the NHS in the summer.

Responses to this question showed significant support (80%) for the general ‘top down’ approach proposed to define CRC organisations, with a number of respondents highlighting the value of its simplicity.

In the case of the private sector, highest UK parent organisations – i.e. CRC participants – will be identified with reference to the definitions of organisations and subsidiaries set out under the Companies Act 2006\(^\text{10}\). In the case of the public sector, the issue of subsidiaries does not often arise, and Government does not, in general, propose grouping of public sector organisations. As such, the majority of public sector bodies within the scheme will participate as separate CRC organisations. Whilst, in general, grouping public sector organisations would not help to leverage Corporate Social Responsibility drivers, there are some important exceptions. Notably, Government proposes that the energy use from the colleges of Oxford, Cambridge and Durham universities should be grouped under their respective university.

Stakeholders raised questions as to whether special cases would be made for the definition of organisation in respect of issues such as:

- PFI/PPP/DBFO
- Third-party purchasing of energy
- Outsourcing
- Facilities management

Government commissioned consultants Burges Salmon/Ecofys to consider these issues, amongst others, in detail\(^\text{11}\). Such analysis highlights the potential for special rules to create a very complex and administratively burdensome scheme – which Government and stakeholders are keen to avoid. Accordingly, in light of the analysis, Government intends to minimise the number of special rules, with the default approach being that the highest UK parent organisation of the ‘counter-party to the supply contract’ would be the CRC organisation responsible for the emissions. In respect of the specific issues listed above, the default approach would apply.

**Box 2.2 – The ‘Counterparty to the Energy Supply Contract’**

In most circumstances it is clear and obvious which organisation is responsible for any particular source of energy-use emissions. However in some instances, more than one party has an interest in the use or procurement of the same energy – for example in landlord and tenant scenarios or private finance initiatives (PFI) – and so it is necessary to define

\(^{10}\) See http://www.berr.gov.uk/bbf/co-act-2006/index.html

\(^{11}\) See http://www.defra.gov.uk/Environment/climatechange/uk/business/crc/index.htm
which party takes responsibility for the purposes of CRC. In the previous consultation, Government proposed a rule of thumb to assign responsibility for emissions from a given source to whomever pays the energy bill. Therefore, in the example of a landlord-tenant scenario, the emissions responsibility would lie with the landlord where the landlord pays the bill and the tenant where the tenant pays the bill. Government has now decided to clarify this in the more legally robust terms of assigning responsibility to 'whomever is the counterparty to the energy supply contract.'

The counterparty to a contract is the party that is legally liable for fulfilling the terms of that contract. In the case of energy supply, the counterparty is the organisation financially liable for paying the bill. This nuance on the original 'who pays the bill' rule has little affect on most participants, since the counterparty and the bill payer are generally the same organisation. However in certain circumstances, such as where energy is procured by a third-party and recharged to an end-user, the organisation 'paying the bill' is open to interpretation. In this respect, referring to the 'counterparty to the supply contract' will provide a clear and robust definition – avoiding any potential confusion. This change also supports the CRC financial driver, since the party with financial liability for a contract will, in most cases, also have a financial interest in reducing energy consumption. Furthermore, as the rule can be applied on a case by case basis, it means Government does not need to anticipate the diverse and varied range of energy and risk management scenarios in which participants are engaged. This allows the parties involved in arrangements such as PFI or outsourced facilities management to discuss how best to share the costs and benefits of CRC, without Government mandating a particular arrangement that will not be suitable in all circumstances and that could create perverse incentives that act against the finance and reputation drivers of CRC.

(b) Overseas Ownership

Overseas ownership was also a key issue considered by the Burges Salmon/Ecofys analysis. In line with the analysis, Government wishes to avoid giving differential treatment to organisations owned by overseas parents. Government has therefore decided that – irrespective of whether the highest parent organisation is based in the UK or overseas – if the UK emissions of the highest parent organisation, including its subsidiaries, exceeds the proposed CRC inclusion threshold\(^\text{12}\), then a CRC organisation will be designated to group the UK emissions.

For example, in the case of a US based parent organisation with multiple UK subsidiaries and operations – where the total UK emissions exceed the

\(^{12}\) 6,000 MWhr/year of electricity through half hourly metering systems in Great Britain and 70kVA metering systems in Northern Ireland. Note that subsidiaries of CRC organisations (or whole CRC organisations if no subsidiaries exist) would be exempt if they can demonstrate that they have more than 25% of their total energy use emissions covered by Climate Change Agreements.
inclusion threshold – these UK emissions would be grouped to form a single CRC organisation (effectively, the 'UK arm' of the overseas based business). Government has decided to require such a CRC undertaking to nominate a leading UK subsidiary (or a proxy/agent for service in the UK). This would apply equally to situations in which an overseas based business owns, for example, 10 UK subsidiaries each using 600 MWh/year of electricity (through half hourly metering systems) and to situations where two subsidiaries are both above the qualification threshold. Importantly, this mirrors the approach that would be taken if the companies were wholly UK owned.

(c) Joint Ventures

A number of stakeholders sought clarification on the treatment of Joint Ventures (both 50/50 joint ventures and joint ventures involving three or more parent companies) within the CRC. In this respect, Government proposes that Joint Ventures will participate as individual CRC organisations (where the Joint Venture exceeds the inclusion threshold). Responsibility would not be split between the shareholders. Therefore, where an organisation owns a minority stake (50% or less) in a company, the company's electricity consumption will not be aggregated with that of its minority shareholder for the purposes of ascertaining eligibility for the scheme. This principle is clearly also relevant to private equity and venture capital contexts. If a CRC organisation X was bought by a private equity consortium (with each private equity parent holding an equity stake of 50% or less), then the organisation X would simply remain the CRC organisation, rather than featuring under different private equity parents.
Box 2.3 – Joint Ventures/Joint Ownership

The first two diagrams below illustrate those situations where the JV’s emissions would be aggregated with the controlling shareholder organisation under the proposed solution:

The third diagram illustrates a situation where there would be no such aggregation of emissions:
(d) Franchises

Government is committed to ensuring that large franchise based organisations (e.g. franchise based companies in the fast food sector) should participate in CRC. Such organisations have considerable potential to improve energy efficiency and deliver cost-effective carbon savings, and a definition of organisation which failed to include such undertakings would not be acceptable. Accordingly, in line with the Burges Salmon/Ecofys analysis, Government has decided to require franchisors to include the electricity consumption of their franchisees when establishing eligibility, i.e. rendering the franchisor liable to participate in CRC as part of the whole organisation.

Placing responsibility with the franchisor maximises leverage of reputational/Corporate Social Responsibility drivers, given that individual franchisees use the brand name of the franchisor. Moreover, it ensures effective emissions coverage, given that many individual franchisees would clearly not exceed the eligibility threshold on their own. Government will consult further on detailed mechanisms for the inclusion of franchisors (and their franchisees).
4. Do you have a view as to whether Government should proceed with either option (A) or (B) above, or neither?\textsuperscript{13}

This question asked whether organisations would prefer to publish results of large subsidiaries in addition to the parent company’s results (option A), or whether large subsidiaries could participate in their own right (option B). Responses indicated a preference for option A – 39% of those that answered the question chose option A, 27% chose option B, and 15% chose the ‘neither’ option, and 21% were unsure of which to choose. Key issues relate to the challenges of maintaining administrative simplicity and of ensuring that the reputational Corporate Social Responsibility drivers are effectively harnessed. Whilst a preference for option A was expressed by stakeholders, the comparatively mixed nature of responses demonstrated the difficulty in balancing these considerations. That said, a number of stakeholders made two key points:

- that reporting on energy use emissions of large subsidiaries (by the highest parent CRC organisation) would also be valuable in terms of leveraging the Corporate Social Responsibility drivers of those large subsidiaries (given that many such large subsidiaries will have a public profile and reputation)
- that buying or selling a large subsidiary could have a substantial impact on the league table position of the highest UK parent CRC organisation, unless there was data readily available to update baselines

Government therefore is minded to take forward a variant on option (A) – essentially, option (A) on a mandatory basis. As part of its annual reporting, the CRC organisation would be required to report energy use emissions covered by CRC for each of its large subsidiaries – defined as those that pass the CRC threshold in their own right (i.e. with electricity use over 6,000 MWh through half hourly metering systems in Great Britain and 70kVA metering systems in Northern Ireland). Significantly, as stated in the consultation document, all the legal requirements of CRC (together with the auction and revenue recycling) would continue to fall on the highest UK parent organisation (as ‘the CRC organisation’).

To minimise administrative burdens, Government proposes that annual reporting in respect of subsidiaries would be confined to disclosure of their total energy use emissions covered by CRC (i.e. CRC organisations would not be asked to report in respect of each subsidiaries’ turnover, extent of automatic metering, breakdown of fuel sources and other factors). Nonetheless, this would allow Government to calculate the absolute percentage emissions reductions delivered by large subsidiaries (against a baseline of the preceding five years). Large subsidiaries could be listed

\textsuperscript{13} Option A refers to the voluntary separate publication of results for subsidiaries, with all other CRC responsibilities (revenue recycling, purchase and surrender of allowances, etc) remaining with the parent. Option B refers to the complete separate participation of the subsidiary in the scheme. Both options would allow organisations to better leverage the scheme’s reputational drivers by demonstrating the performance of their known brands.
alphabetically as an annex to the overall CRC league table, alongside their percentage emissions reductions.

CRC organisations with well known or highly visible subsidiaries may wish to highlight these subsidiaries’ emissions reductions in their own literature to provide context to their overall ‘result’. Ensuring that this data was publicly available would help to ensure that reputational drivers were maintained, even in the event that the organisation that featured in the main CRC league table was a less well known parent.

Since large subsidiaries would, in any case, be monitoring their energy use in order to enable their parent CRC organisation to satisfy scheme reporting requirements, reporting only their total energy use emissions figure should not add significantly to organisations’ administrative effort. In the public sector, the issue of subsidiaries does not commonly arise.

In the diagram above, the parent Organisation (A) would be the CRC participant and would be responsible for all the CRC eligible emissions related to its entire organisation. It would be required to report a total emissions figure that included all the energy use emissions from all its subsidiary organisations and for surrendering allowances that corresponded with these emissions. Organisation A would report the additional information required to calculate the different league table metrics (such as turnover and AMR coverage), would be listed in the league table as ‘Organisation A’ and would receive the annual recycling payment.
In addition to this total emissions figure, Organisation A would also be required to separately report the emissions from any ‘significant’ subsidiary within its group. ‘Significant’ subsidiaries would be classed as those that, taking a bottom-up approach, had electricity use through half hourly/70kVA metering systems in excess of 6,000MWh/yr, and would therefore qualify for the scheme in their own right.

In this example, Organisation A would be required to report separate energy use emissions figures for subsidiaries B1, B2, B4, C1, D1 and D4, all of whom have electricity use in excess of 6,000MWh/yr through half hourly/70kVA metering systems.

Taking a bottom up approach will mean that it must report an emissions figure for Subsidiary C1 and a separate figure for B1 that includes the emissions for C1, C2 and C3. Likewise, it must report separate figures for subsidiaries D1 and D4, and then report a figure for subsidiary B4 that includes emissions from D1 and D4 (as well as D2 and D3).

Note, although A must report separately for D1, this does not mean it is required to present separate figures for E1 or E2 which do not use enough electricity to be classed as ‘significant’ subsidiaries – it must simply present a total figure for D1 that includes the energy use of E1 and E2.

These ‘significant’ subsidiaries would need to be specified alongside the parent organisation’s source list at the start of each phase. Any subsidiaries which grew during a phase to exceed the 6,000MWh/yr threshold would not need to be reported separately until a new list of significant subsidiaries was submitted at the beginning of the following phase.

These significant subsidiaries would only report a separate figure for their emissions. They would not be required to separately surrender allowances, would not be required to report the additional information needed to calculate the different league table metrics (such as turnover and AMR\(^{14}\) coverage), would not be listed in the main league table and would not receive separate recycling payments. However, significant subsidiaries would be listed with their absolute emissions performance in an annex to the main league table.

By requiring organisations to separately report emissions data relating to their significant subsidiaries the Scheme Administrator will be able to update emissions baselines, should transfers of entire subsidiaries take place between CRC participants (as outlined under Questions 20 and 21 below).

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2.03 Identification of Participants

\(^{14}\) Automatic Meter Reading
5. Could your organisation manage these procedures\(^{15}\) to correctly identify the CRC organisation? and;

If not, which particular aspects of the organisation identification procedure would cause a problem?

There was a high degree of confidence that potential participants would be able to manage the procedures for identifying the appropriate CRC organisation, with 80% of those that responded to the question answering ‘yes’. However, in the second part of the question, a number of respondents raised concerns over the ability of energy suppliers to provide adequate information to support effective identification and reporting processes.

In particular, some expressed concern over with the accuracy of non-half hourly meters. Government’s decision to base inclusion within the scheme purely on electricity consumption through half hourly metering systems in Great Britain and 70kVA metering systems in Northern Ireland (see Box 2.1) is consistent with the desire to base the qualification threshold on accurate data. The original analysis conducted by NERA and Enviros\(^{16}\) indicates that the quality of data collected from half hourly meters is generally very high – with estimated error margins of less than one percent. Basing the inclusion criteria on these half hourly/70kVA metering systems allows energy suppliers to pull together consumption data relatively quickly and inform the Scheme Administrator of the annual consumption of these meters and the buyer responsible for them (the ‘counter-party to the supply contract’). Organisations will then receive an information pack in early 2009, giving them time to fulfil their CRC obligation and inform the Scheme Administrator that they are part of the scheme. More details on this process is provided in Box 2.5 (‘The CRC qualification process’) and the ‘CRC Timeline’ diagram below.

More generally, Government has been exploring opportunities for improving the quantity and quality of information available to consumers on their energy consumption. For example, Government recently consulted on a range of billing and metering measures designed to give consumers direct access to information about their energy use to help them manage that use and reduce their carbon emissions. This consultation\(^{17}\) was published by the Department for Business, Enterprise and Regulatory Reform (DBERR) and closed for comment on 31 October 2007. Of particular significance to CRC organisations is the proposal to require the installation of smart meters over the next five years (2008 - 2012) to business customers in those sectors of

\(^{15}\) The consultation document outlined an identification which included three steps. The first was an obligation on suppliers to provide information to organisations and Government; the second was for the highest UK parent to collate this data for all its subsidiaries and determine whether it qualified for the scheme; and the third was for the scheme administrator to verify the qualification/exemptions claimed by organisations.


\(^{17}\) DBERR Energy billing and metering: changing consumer behaviour consultation can be found online at: http://www.berr.gov.uk/consultations/page40850.html. The consultation referred to potential measures in Great Britain – a separate consultation is being examined by the DETI in Northern Ireland.
the market where it is now cost-effective to do so. More specifically, the findings of a Carbon Trust smart meter trial\(^{18}\) support Government’s proposal to roll out smart meters for electricity meters with Profile Classes 05-08 and all non-daily metered gas sites consuming more than 73,200 kWh per annum. This proposed roll-out should be helpful to CRC organisations as such sources are required to be included in an organisation’s CRC portfolio (further detail is given in response to Question 9 on \textit{de minimis} issues). Government will respond shortly to the full range of metering and billing issues set out in the DBERR consultation.

Government considers that the data provided by smart meters, combined with energy saving advice, will allow organisations to make more informed decisions about investment in energy efficiency. In particular the data obtained by the customer about their consumption through these meters will be of a high standard, being accurate and frequent, allowing organisations to comply more easily with the reporting requirements under the CRC.

In addition, as part of the reporting process, Government has decided to introduce an obligation on suppliers to produce an Annual Statement of Electricity and Gas consumption for any gas or electricity supplied to a CRC organisation, if requested by the CRC organisation in due time\(^{19}\). It is proposed that suppliers would then be required to provide the Statement to participants by end of February. This gives the organisation two months to calculate their emissions before the CRC reporting deadline at the end of April. It is further proposed that suppliers would not be required to produce such a statement if they are not requested to do so (or if the request is made after the required timeframe) – hence it will be the responsibility of the participant to contact their supplier(s) to request an Annual Statement and to specify which supply contracts the Annual Statement should apply to. This would assist participants in meeting CRC reporting and compliance procedures and so reduce the administrative burden of compliance. Some suppliers already provide a similar service to some customers as negotiated in their individual contracts. It is Government’s intention that the legal obligation for energy suppliers to supply an Annual Statement of Electricity and Gas consumption will take the form of a statutory duty.

Government will consult further on the detailed approach to the Annual Statement in the consultation on the draft CRC regulations. For more detailed information on better metering and billing and the proposed ‘Annual Statement of Electricity and Gas consumption’, see Box 5.5.

6. Could the procedures be simplified and still allow Government to identify non-compliant organisations? If so, how?

\(^{18}\) Carbon Trust Advanced Metering for SMEs can be found at: \url{http://www.carbontrust.co.uk/Publications}

\(^{19}\) The legal requirement would be likely to take the form of a statutory duty (see Box 5.5 below).
In response to this question, some interesting suggestions were made as to how procedures could be simplified. A number of these suggestions related more specifically to other questions (e.g. landlord/tenant relationships as discussed under Question 8), and where practicable these have been considered and incorporated. One proposal in particular is that organisations could voluntarily disclose that they meet the CRC qualification criteria ahead of time. This would allow many of the biggest organisations, with energy use far in excess of the qualification criteria, to register for the CRC without having to wait for the formal identification process. This also has the further advantage of reducing the burden on the Scheme Administrator over 2009, following the qualification year (2008). Government encourages those organisations that are able to do so to put themselves forward in this way. Accordingly, Government has now carried out via suppliers (February/March 2008) a mailshot to all billing addresses for half hourly metering systems in Great Britain and 70kVA metering systems in Northern Ireland – to highlight that CRC is being developed, to invite organisations to log their contact details, and to indicate whether they think they are likely to be covered by CRC.

7. **Do you agree that 2008 should be used as the qualification year?**

If not, which time period would you recommend?

There was substantial support amongst those that answered this question (75%) for using 2008 as the qualification year for the scheme. A small number of respondents favoured using financial years for the scheme in general, including for the qualification year. It is clear that whichever period is used for the CRC compliance cycle, it would be not be ideal for every organisation – as exemplified by the variety of alternatives suggested in the second part of this question. Accordingly, and given the majority support for using calendar years in the CRC – as expressed in this question and elsewhere – Government will be taking forward the scheme on that basis.

More specifically, in the light of responses to this question, Government will take forward the proposal that qualification for CRC would be based on electricity consumption through half hourly/70kVA metering systems during the 2008 calendar year. Accordingly, all organisations with half hourly/70kVA Metering Systems will be required to assess whether their total electricity use during 2008 through these meters exceeds the 6,000 MWh threshold (in accordance with the appropriate definition of a CRC organisation as defined above).
Box 2.5 – The CRC Qualification Process

To help organisations calculate their annual electricity consumption through half hourly metering systems in Great Britain and 70kVA metering systems in Northern Ireland, information packs will be sent in early 2009 to the billing address of every organisation that currently receives such electricity. Government had originally indicated that this would be done by the energy suppliers, but now proposes that this would be done by the Scheme Administrator, from information provided by the energy suppliers. These information packs will contain a list of all half hourly/70kVA Metering Systems for which the ‘counter-party to the supply contract’ is responsible and the annual electricity consumption from each individual half hourly meter from 1st January – 31st December 2008. The packs will also provide guidance on follow-up actions, and the legal obligations for potential CRC organisations.

Organisations which receive this pack from their suppliers will need to identify their appropriate highest UK parent (the potential ‘CRC organisation’) and pass the information onwards accordingly. Where the highest parent is based overseas, its UK subsidiaries and emissions will nonetheless be grouped – so the respective ‘fellow subsidiaries’ will need to identify a ‘lead’ UK subsidiary (or overall UK agent) to act as the potential CRC organisation (and to therefore co-ordinate data collection).

The potential CRC organisation will then be required to collate this data for their whole organisation – including their subsidiaries. If the total consumption from all half hourly metering systems in Great Britain and 70kVA metering systems in Northern Ireland is above 6,000 MWh/year, then the organisation is included in CRC for itself and all its subsidiaries. Note that subsidiaries (or whole organisations where no subsidiaries exist) that have 25% or more of their energy use emissions covered by CCAs can be exempted from CRC (see response to Question 12 for detail as to how Government proposes this will work). It should be emphasised that any organisation that qualifies for CRC will be covered for its total energy use emissions, not just half hourly and 70kVA metered electricity. This is subject to the de minimis proposals outlined in the response to Questions 9, 10 and 11 below (and the exclusion of CCA emissions and direct EU ETS emissions).

Once the packs are sent out to organisations in early 2009, Government proposes to give organisations six months to collate their information and respond to the Scheme Administrator. They would need to declare the appropriate CRC organisation and list all the half hourly/70kVA Metering Systems they are responsible for within the scheme. This would then give the Scheme Administrator several months to ensure all half hourly/70kVA Metering Systems are allocated to an organisation and to investigate those which are not - via the information provided by energy suppliers. The first year of the introductory phase of the scheme would begin in January 2010. A similar process, to identify possible new entrants to the scheme, will take place sufficiently in advance of the beginning of a new phase (i.e. 2010 would be the qualification year for the first capped phase which begins in 2013, with...
CRC organisations reporting their total CRC covered emissions from 2011, so as to help inform the decision on the forthcoming CRC cap, and so as to help new entrants establish reasonable data collection systems).

It is important to assess qualification this far in advance of the scheme starting for data management reasons and also so that, in later phases, caps can be set in advance to give participants regulatory certainty. It will take time for suppliers to identify all the half hourly/70kVA Metering Systems they are responsible for, including the bill payer information for each of these individual meters. They will then be required to pass this information to the Scheme Administrator who will send out the information packs to the counter-party to the supply contract (which in the majority of cases will be the bill payer).

According to Elexon (the Balancing and Settlement Company responsible for balancing and settlement of the electricity market in Great Britain) there are currently about 106,600 of these meters within Great Britain. Analysis suggests that up to 35,000 organisations consume electricity through these meters. It is clear that organisations will need time to fully understand their obligations and provide the appropriate response to Government. Government considers that a 6 month period (January – June 2009) is an appropriate length of time for this process to occur.

Government has decided that potential CRC organisations (those with half hourly metering systems in Great Britain or 70kVA metering systems in Northern Ireland) will, by the end of June 2009, need to register with the Scheme Administrator their total 2008 electricity use through their half hourly/70kVA meters.

Any requests for ‘temporary exemptions for subsidiaries with CCAs’ will also need to be received by the end of June 2009 (see Question 12). Such requests will need to be accompanied by evidence to demonstrate that 2008 CCA energy use emissions in that subsidiary accounted for at least 25% of its total energy use emissions. Government is minded that this will relate to a 12 month period constituting the fourth CCA target period. This will require CCA firms to collect data in respect of total emissions (i.e. including non-CCA emissions) – covering both electricity and other fuels – across the subsidiary firm for this period. Where automatic meter read data is not available, Government will accept use of energy bills to calculate the total energy use emissions over the target period for the subsidiary firm. In those cases where no subsidiaries exist, the process for securing a temporary CCA exemption will apply at the level of the CRC organisation. It should be noted that, where the exemption of a CCA subsidiary leads to the parent organisation’s remaining electricity use through half hourly/70kVA metering systems falling below 6,000MWh, this will not lead to the parent organisation being exempted from the scheme. Importantly, Government has also decided that any CCA exemptions will be ‘temporary’, in that any subsidiary exiting a CCA will fall

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20 For most CCA organisations this will be from October 2007 to September 2008, for others it will be calendar year 2008, and for others it will be December 2007 to November 2008. While this leads to some variation across organisations, Better Regulation principles point to using a period in which CCA organisations will already be measuring and reporting their emissions.
straight back into the CRC scheme, starting from the forthcoming January (this is considered further in response to Q12).
8. Do you agree that the proposed approach to establishing which CRC organisation is responsible for energy use in a tenanted property\textsuperscript{21} is workable? and;

Can you suggest an alternative approach that is preferable and retains the emissions coverage of the current proposal?

The majority of respondents to this question (62%) supported the proposed approach to establishing the responsibility for emissions related to landlords and tenants. Amongst 10% of respondents that expressly disagreed with the proposal, most comments related to perceived difficulties associated with assigning responsibility for reducing energy use, and the perceived feasibility, practicality and administrative burden of the proposed approach.

Government is committed to including landlords within CRC, including in respect of where landlords are the counter-party to the energy supply contract for their tenants, to help address the split incentives that can exist in the sector. At the same time, Government welcomes the constructive suggestions – notably relating to the importance of sub-metering – from those stakeholders that raised particular concerns.

A key area of concern related to how the costs and benefits of CRC could best be passed from landlords and tenants, so as to maintain administrative simplicity for both parties, and so as to incentivise investments in energy efficiency. Notably, circumstances between landlords and tenants vary substantially (e.g. in terms of whether sub-metering is in place). Accordingly, rather than prescribing a ‘one size fits all’ approach in legislation, Government proposes to develop voluntary ‘good practice’ guidance (in collaboration with both landlords and tenants) for how landlords could pass on CRC costs and benefits to tenants. As an example, key features of such guidance could potentially centre on the following:

\textit{In respect of CRC costs:}

- Where there is no sub-metering, CRC costs could simply be passed through as a percentage increase on the service charge, as this would be administratively simple for both tenant and landlord
- Where tenants have sub-metering, landlords could pass through CRC costs as a simple percentage increase on the energy bill component of the service charge

\textit{In respect of CRC benefits:}

\textsuperscript{21} The approach proposed suggested that where the tenant was paying the energy bill, that its highest UK parent would be responsible for associated emissions; and that if the landlord was paying the energy bill, its highest UK parent would be responsible for the associated emissions. It was further proposed that this responsibility could be transferred between landlords and tenants if both were CRC participants and both agreed to the transfer.
• On the basis that landlords are passing through CRC costs to tenants, it would not be appropriate for landlords to simply retain the CRC recycling payments
• CRC revenue recycling payments could usefully be placed into a fund for the purpose of investing in energy management (including sub-metering). If it was not possible to spend all the CRC recycling revenue on energy efficiency and improving energy management, then any residual revenue could simply be used to reduce the annual pass through of CRC costs
• Where Display Energy Certificates (DEC) are present (either because they are required or because they have been installed voluntarily), percentage discounts could be applied to the overall service charge, depending on the DEC rating of the tenant (with these discounts financed from the fund). Alternatively, landlords and tenants may wish to consider using other methods of rating tenants (for example the LES-TER scheme)

Notably, the establishment of specific funds for energy management as described above could provide a valuable means of driving energy efficiency investments in a sector where analysis indicates there are substantial cost-effective opportunities for carbon saving. Government would welcome further feedback and involvement from stakeholders on the development of this guidance, both in the lead up to and during the forthcoming summer 2008 consultation on the draft CRC regulations.

The consultation document also floated the possibility, once per phase, of allowing responsibility for specific CRC emissions to be transferred from landlord to tenant in certain circumstances (i.e. where certain conditions are met). Having given this area further thought, Government considers that the necessary conditions would be as follows:

• The landlord is counter-party to the energy supply contract (in respect of the tenant’s energy use), and both landlord and tenant are part of a CRC organisation
• Appropriate sub-metering is in place, so that both landlord and tenant know how much energy is being used
• Both the landlord’s CRC organisation and the tenant’s CRC organisation agree that they would like to transfer responsibility for those emissions from the landlord CRC organisation to the tenant CRC organisation

Clearly, any such agreement would need to be reached in sufficient time in order to apply in respect of a forthcoming phase. Government is currently minded that should the tenant change within a phase, the responsibility for emissions would need to automatically revert back to the landlord’s CRC organisation, in order to avoid potential loss of CRC coverage. This approach will form part of the consultation on the draft CRC regulations.
For reasons of administrative simplicity, Government has decided that it will not carry out updates to CRC baselines in respect of any such transfers. Updating baselines in respect of site based changes of operation was extremely challenging for the voluntary pilot UK ETS, which included only around 30 organisations. By comparison, CRC is expected to cover around 5,000 organisations, and hence Government is committed to avoiding the administrative burdens of site based changes of operation wherever possible.

Government also considered whether to allow such transfer of emissions responsibility where desired by either landlord or tenant, and this issue was considered in the analysis by consultants Burges Salmon/Ecofys. On balance, Government has decided to rule out such an approach as too administratively complex, especially given the potential for disputes between landlords and tenants.

2.04 Coverage of the Scheme

9. Which option should Government take forward to ensure wide emissions coverage of CRC?

The majority of those who responded to this question (72%) supported Option 2 – a flexible de minimis approach, over Option 1 (20%) – the inclusion of all metered sites. In general respondents thought that a flexible de minimis approach was more practical, would avoid administrative burden and offered a good balance of coverage versus fairness. However there were concerns raised about the administrative burden in calculating and providing evidence to document that 90% of emissions were reported each year alongside the site based de minimis rule.

Government therefore has decided to adopt a variant on option (2), based on sources of emissions (i.e. which moves away from a site-based methodology). This approach is similar to option (2) in requiring:

- the inclusion of the following ‘core CRC sources’:
  - electricity from half hourly meters in Great Britain (and 70kVA meters in Northern Ireland)
  - all electricity consumed through meter profile classes 5 – 8
  - all daily-read gas meters

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22 Both in terms of the five year rolling average used for assessing performance in the scheme, and the base year used for revenue recycling purposes (see Box 4.3 below).
23 Option 1 was the inclusion of all sites with metered electricity (with no site-based de minimis); Option 2 was for a flexible de minimis covering all sites with mandatory/discretionary half hourly meters or meters with profile classes 5-8, with an additional requirement that organisations had sites that accounted for at least 90% of their emissions covered by CRC, a CCA or the EU ETS.
24 In this context, de minimis refers to a rule within the scheme that enables the smallest sources of emissions to be omitted.
o all non-daily metered gas consuming more than 73,200 kWh per annum

- the inclusion of at least 90% of CRC organisation emissions in either CRC, EU ETS or CCAs. Any CRC organisation which did not meet this threshold through inclusion of the above ‘core CRC sources’ would then be required to include other smaller emissions sources to reach (at least) the 90% threshold

This approach retains the flexibility for those participants who fall short of meeting 90% emissions coverage threshold with their ‘core sources’ to decide which other sources to include. At the same time, however, this approach is an improvement in the following ways:

- At sites with ‘core CRC sources’ (e.g. half hourly meters), CRC organisations will now have the additional flexibility to decide whether to include any other sources at those sites (providing the 90% threshold, which applies on an organisation wide basis, is met). This removes the requirement for a separate site based ‘fuels de-minimis’, significantly reducing complexity and administrative burden (since each application of the site based fuels de minimis would have required its own calculation)
- Uncertainty over the ‘definition of site’ is eliminated, since the CRC will operate on a source based approach (with each meter and geographically distinct fuel use counting as its own source) rather than a site based approach
- The 90% organisation based threshold would have to be calculated only once per phase, rather than every year. This means that (with the exception of the 3 year introductory phase) participants would be required to calculate 100% of their emissions only once every 5 years (the first occasion for this would be 2009). Furthermore, Government has decided that where automatic meter read data is not available, energy bills (including estimated bills) can be used to calculate an organisation’s total corporate footprint. Accordingly, this process should not be too onerous a task25

While investigating ways to improve the de minimis proposal, Government did consider an alternative organisation based threshold level (e.g. 80% rather than 90%). Government considers that opting for a lower threshold would unnecessarily lose valuable emissions coverage and carbon savings from the scheme, and that the 90% threshold achieves the aim of striking a balance between coverage and administrative burden. Indeed, Government is aware that many stakeholders may choose to include all of their emissions in the scheme – which Government very much welcomes.

25 Note that a similar calculation will also be needed for those seeking an exemption under the 25% CCA rule.
10. Do you agree that organisations should be able to include all their sites in the scheme?

If so do you agree that they should not be able to remove them at a later date?

Responses to this question greatly supported Government’s position in the consultation document, with 88% of respondents agreeing that organisations should be able to voluntarily include all their sites in the scheme. As discussed above, the idea of a voluntary opt in would work alongside the revised flexible de minimis. As Government is now proposing a source-based approach, an eligible CRC organisation could voluntarily opt in all of their sources to provide complete coverage for the organisation if so desired.

In the year prior to the start of each new phase, organisations would be free to nominate which sources they are including in the scheme to meet or exceed the 90% threshold for the following phase. For some organisations, their mandatory ‘core CRC sources’ alone would take them beyond 90% and these organisations could either participate simply on this basis, or nominate further additional sources, if they so wished. For those organisations that did not meet the 90% threshold with their mandatory ‘core CRC sources’, there would be a requirement to select additional sources to take them to at least this level of coverage (such organisations could also choose voluntarily to go beyond 90%, if they so wished). In either case, it would be possible for an organisation to opt-in all of its emissions.

It should be noted that whatever sources were included at the start of each phase – whether mandatory or ‘opted-in’, these would remain in the scheme for the duration of the phase. However, organisations would be permitted to re-evaluate and change their source list before the start of each new phase, subject to the following conditions:

I. That their new list met the ‘90% rule’; and
II. That their new list ensured that at least as high a proportion of their emissions would be covered by CRC, EU ETS and CCAs as would have been covered by their previous list in that same year (i.e. so that there is no backward step in terms of emissions coverage. A worked example is given in Box 2.6).

Responses to the second part of the question above favoured sources selected upon entry to the scheme being kept in for the duration of the scheme (82% of respondents), as a way to avoid the potential for gaming. While this new approach does allow organisations to remove sources, the rule requiring included emissions to be at least as high as a proportion as represented by the previous list (rule II above) should reduce gaming concerns, while retaining flexibility.

In situations where a CRC organisation acquires new sources (for example, by expanding the business, or by moving into new buildings), Government proposes the following approach:
• In respect of any new ‘core CRC source’, the CRC organisation would be required to simply add such sources to its CRC portfolio source list. ‘Core CRC sources’ are as follows:
  o electricity from half hourly meters in Great Britain (and 70kVA meters in Northern Ireland)
  o all electricity consumed through meter profile classes 5 – 8
  o all daily-read gas meters
  o all non-daily metered gas consuming more than 73,200 kWh per annum

• In respect of any other new CRC source (i.e. ‘non-core sources’), the CRC organisation would have the flexibility to choose whether to add such sources to its CRC portfolio source list.

If a CRC organisation divested itself of a source (for example, by selling part of its business or by moving out of a building) then clearly that source would, by definition, no longer be part of that CRC organisation’s portfolio for the phase (and hence would carry no reporting/emissions liability). To maintain simplicity, Government will not in general be carrying out updates to baselines. However, in certain exceptional circumstances, Government has decided that baselines should be updated. These exceptional circumstances are set out in the response to Questions 20 and 21 below.

**Box 2.6 – De minimis Step by Step Guide**

**Step 1.** In the year prior to the start of each new phase, every participant will need to measure their total energy use emissions across all of its CRC eligible sources. To assist this process, participants may choose to request annual statements from their energy suppliers in respect of supplied electricity and gas use (see Questions 42, 43 and 44 below for further details). However, all energy use emissions from other fuel sources will also need to be monitored.

*e.g. In 2009, Organisation M measures its total emissions through all sources and finds that its emissions for the year are 1,000tCO₂*

**Step 2.** Once an organisation has calculated its total energy use emissions, it will then be required to select its source list for the new phase - including all mandatory ‘core’ sources (as outlined above). In addition, the CRC organisation must ensure that at least of 90% of its total emissions are covered by the combination of EU ETS, CCA and CRC. If coverage under EU ETS, CCAs and ‘core’ CRC sources is less than 90% of the CRC organisation’s total emissions, it will be required to opt in additional sources. ‘Core’ CRC sources must be included in CRC portfolios, even if this takes organisations to a
combined EU ETS, CCA and CRC coverage level above 90%. Any organisation (including those that already have more than 90% of their emissions covered by these instruments) can voluntarily opt in additional sources, up to the full 100%.

*e.g.* Of Organisation M’s 1,000tCO₂ emissions in 2009, 300tCO₂ of emissions from sources Y and Z are covered by the EU ETS and CCAs, and 590tCO₂ are through mandatory CRC sources A, B and C. Emissions covered by CRC mandatory inclusions, EU ETS and CCAs therefore total 89%. Of remaining sources D, E, F, G and H, the organisation decides to opt in sources D, E and F in order to satisfy the mandatory 90% rule and indeed go further voluntarily, delivering a final coverage level of 95%.

**Step 3.** Prior to the first year of the new phase, each participant will need to ensure that it has included a copy of its source list within its evidence pack for later use in the case of audit by the Scheme Administrator. The source list should be signed and dated by a senior director within the organisations. The percentage of emissions covered by this source list and other sources covered by CCAs and EU ETS will then need to be reported to the Scheme Administrator on the CRC registry.

*e.g.* Organisation M records in its evidence pack that its source list for the following phase will be A, B, C, D, E and F. Organisation M also reports the figure of 95% to the Scheme Administrator on the CRC registry.

**Step 4.** Emissions from the sources on this list will need to be monitored and reported each year of the phase.

*e.g.* Organisation will continue to report on emissions through sources A, B, C, D, E and F for years 2010-2012 (or a five year period for each of the capped phases).

**Step 5.** Prior to the first year of the following phase organisations will need to, once again, monitor emissions across all of their CRC eligible sources.

*e.g.* In 2012, Organisation M monitors all sources. At the end of the year Organisation M has reduced its total emissions through all sources to 950tCO₂.

**Step 6.** In specifying its new source list for the following phase, each participant will need to ensure that its inclusions cover at least as high a proportion of emissions as those that are covered in that final year of the phase by its old list; and that emissions coverage meets the 90% rule (including covering all ‘core’ CRC sources).

*e.g.* Organisation M’s emissions from Y and Z remain at 300tCO₂.
Emissions through sources A, B, C, D, E and F are 575tCO₂, with sources G and H excluded under the de minimis rule. Therefore emissions through its EU ETS sources, CCA sources, and current CRC source list equate to 92% of its total CRC organisation emissions. In selecting its new list for this new phase, Organisation M has to ensure that its coverage is at least 92% to satisfy the 90% rule and also that its coverage is at least the coverage associated with its old source list in that year. Organisation M decides to opt out source F (50tCO₂) – which it found time consuming and expensive to monitor – instead including source H (52tCO₂) in its new CRC source list for the next phase.

11. Do you agree with the Government’s proposal to implement a site level fuels de minimis?

Should this be set at 5% of site energy use emissions, 3% or some other percentage?

If <3% or >5% please state a level and explain why.

Do you think that this percentage should be based on site energy use emissions (as proposed) or total site energy spend?

Responses to this question showed strong support for inclusion of a site based de minimis (85%) to exclude small sources at large sites – with respondents highlighting the importance of being able to exclude such sources, where inclusion in the scheme would not be cost effective. When asked at what level the de minimis level should be set, 54% of those who responded chose a level of 5%. However, some significant concerns were raised in regards to the administrative complexity identifying exclusions in this way, given that it would involve CRC organisations having to conduct numerous site based percentage calculations. There was almost unanimous support (93%) amongst respondents that if implemented, thresholds should be based on energy use emissions rather than energy spend.

Government is grateful for the views and concerns expressed in relation to these questions, and considers that taking forward the revised flexible de minimis proposal (as outlined above) constitutes a significantly improved policy approach. As previously stated, a separate fuels de minimis is no longer necessary. The revised de minimis proposal is based on emissions sources, and as such would generally retain the option for participants to exclude small fuel sources at large sites from the scheme. Significantly, the new revised approach also removes the administrative burden of having to conduct numerous site based percentage calculations.
12. Do you agree that CCA organisations with more than 25% of their energy use emissions in CCAs should be excluded as described in the diagram above?

(a) Interface with CCAs

Amongst respondents to this question, 62% agreed that subsidiaries (or entire CRC organisations if no subsidiaries exist) with more than 25% of their energy use emissions in a Climate Change Agreement should be excluded from the scheme. Amongst those that disagreed, there was some suggestion that a different threshold could be used. In this respect, it is Government’s view that the 25% threshold is appropriate in minimising the number of (subsidy) organisations in both CCAs and CRC.

To ensure that emissions coverage is maintained, it is proposed that if an organisation or subsidiary ceases to participate in a CCA for any reason, the exclusion from the CRC will cease. In the case of a CCA subsidiary belonging to a CRC organisation, the CCA subsidiary’s emissions would enter CRC with immediate effect – falling back into the CRC (under the highest parent CRC organisation, as appropriate). In the scenario where the entire CRC organisation had been exempted on CCA grounds (i.e. where no subsidiaries exist), the organisation would enter CRC from the beginning of the next compliance year. In any case, however, the 25% calculation will only need to be conducted once per phase, in order to minimise administrative burdens.

(b) Interface with EU ETS

Some respondents suggested that a similar exemption threshold should be in place for those organisations with obligations under the EU ETS. Direct emissions covered by the EU ETS will be exempt from the CRC (just as CRC will not target any CCA emissions). It follows that, whilst the EU ETS is one component of the energy bill, there will therefore be no double administrative regulation of emissions. Furthermore, emissions caught by the EU ETS would count towards the flexible de minimis threshold (as outlined in response to Q9) – making it less likely that EU ETS organisations would need to include ‘non-core CRC sources’ in their CRC portfolio (though, if they so wished, EU ETS organisations could do so).

However, Government will not be specifically exempting any EU ETS organisations or installations from the CRC. Emissions at EU ETS installations that are not covered by EU ETS administrative requirements (including, for example, electricity use in buildings) will be included in the CRC – assuming that the organisation as a whole meets the CRC qualification threshold. Government estimates that the percentage of CRC organisations covered by both CRC and the EU ETS will only be around 5% - and this percentage will become even smaller if ‘small emitter’ installations are removed from the EU ETS from 2013. Moreover, analysis indicates that EU ETS organisations have significant non-EU ETS emissions, where CRC will help to drive cost-effective carbon savings.
The proposed 25% exemption for CCA subsidiaries is because, unlike EU ETS, both CRC and CCAs are essentially downstream UK only schemes which include administrative requirements in respect of electricity use. Accordingly, Government aims to minimise the number of organisations covered by both CCAs and CRC – and, without the proposed 25% exemption, a very large number of organisations would be covered by both schemes. Whereas CRC is targeted primarily at large non-energy intensive organisations, CCAs are designed to apply as a targeted downstream instrument for energy intensive firms. However, given the challenging nature of the UK’s 2020 and 2050 emissions goals, Government recognises that there is concern from some stakeholders that this exemption could leave some energy intensive firms with potentially up to 75% of their emissions unregulated.

Going forward, Government has repeatedly stated that all sectors are expected to contribute to the UK’s carbon saving goals. Accordingly, any exemption from CRC will not exempt the energy intensive sector from making its equitable contribution to reducing UK emissions. The current CCA scheme ends in March 2013, the date until which eligible businesses can benefit from the reduced Levy, although the obligation to meet energy efficiency targets ends in 2010. However, it was announced in the 2007 Pre-Budget Report that, subject to State aid approval, CCAs will be extended to 2017. The Government will be consulting on the form the new CCAs will take in Summer 2008.

(c) Interface with IPPC regulation

Some respondents suggested that there should be some form of exemption or ‘better regulation’ action taken in respect of those processes subject to both CRC and IPPC. Accordingly, in the case of IPPC, it is proposed that, for those processes covered by IPPC regulation, the energy efficiency component of IPPC will be moved to a more ‘light touch’ approach where these processes are also covered by CRC. This is only likely to apply to a very small number of organisations and is analogous to the approach taken in relation to CCA organisations with IPPC reporting requirements.

2.05 Coverage Treatment of Specific Activities

13. Do you agree that unmetered supplies (UMS) should be included in the CRC, subject to a suitable de minimis? and;

14. Do you agree that pseudo half hourly metering should be incentivised by the CRC? and;

a) that ‘pseudo half hourly metering’ should be treated in the same way as AMR for the purposes of the performance league table? and;
b) that the standard UMS billing methodology should be treated as an ‘estimate’ for the purposes of the adjustment factor and that ‘pseudo half hourly metering’ should not be?

There was considerable support for the idea of including unmetered supplies (UMS) in the CRC, with 69% of those that answered the question answering ‘yes’. This support recognises the importance of including a significant source of energy use – especially in light of the improvements that could be made in terms of better monitoring and energy efficiency. Whilst Government recognises that UMS is often used to provide essential services such as street lighting, it is anticipated that efficiency improvements and carbon savings can be made without significant adverse effects on the organisations’ ability to meet these needs.

Government has decided that the inclusion of UMS would fall within the framework of the overall flexible de minimis approach – i.e. UMS would be a ‘non-core CRC source’ (see Question 9). Substantial UMS sources would be likely to be included under such an approach, given the need for organisations to pass the threshold of having at least 90% emissions being covered by CRC, EU ETS and CCAs (and for there to be no backward step in overall emissions coverage for each subsequent CRC phase, when CRC source lists may be updated).

In the consultation document, Government proposed that pseudo half hourly metering should be incentivised: firstly through being treated in the same way as AMR within the scheme league table, and secondly through applying a 10% adjustment factor (see Question 43) to UMS billed using standard methodology. (i.e. non half hourly traded). There was significant support for the idea of incentivising pseudo half hourly metering (i.e. half hourly traded) in the CRC (63% of those that answered the question), with majority support shown for these two proposed routes for providing this incentive (61% and 56% respectively).

In relation to the idea of treating standard UMS billing as an ‘estimate’, there was some concern that the same could also be said of pseudo half hourly metering (albeit to a lesser extent). However it is Government’s view that pseudo half hourly metering, whilst not perfect, constitutes good practice, and that to provide incentives to promote it would be in line with the scheme’s wider objectives. As such Government intends to proceed with the proposals as outlined in the consultation document.

15. In terms of non-rail energy, would you highlight any key issues specific to the rail sector that Government should bear in mind in developing the CRC policy design? and;

16. Given the UK commitment to consider the inclusion of surface transport within the EU ETS, do you agree that rail energy should currently be excluded from the CRC? and;
If excluded, what other policy approaches (including voluntary action) would be most suitable to deliver energy efficiency benefits and emissions reductions from train energy use?

Relatively few organisations responded to Question 15, but among those that did, issues voiced in relation to this question were largely similar to those raised elsewhere – such as the need to clearly define a CRC organisation, address issues of growth and to deal with landlord-tenant relationships.

For the reasons outlined in the consultation document, Government has decided to include non-rail energy in the CRC. Government does not consider that this approach will disadvantage the rail sector in relation to other forms of transport since, for example, airports would also be covered by the CRC – and, moreover, analysis indicates that CRC should help encourage the uptake of cost-effective opportunities to improve energy efficiency and achieve carbon savings.

Answers to Question 16 showed that there is significant support (56% of those that responded to the question) for excluding rail traction energy from the CRC, along with some helpful suggestions as to how emissions reductions can be best achieved from this sector. Therefore, rail traction energy will not be included in CRC at this time and Government will continue to work with Devolved Administrations to ensure that cost-effective means can be found to reduce emissions from rail and from surface transport more widely. As confirmed by the Energy White Paper, Government is committed to exploring the potential inclusion of surface transport within the EU ETS.

17. Do you think there are significant cost-effective opportunities for energy efficiency within schools? and;

18. Do you agree with the Government’s decision not to mandate the inclusion of all school energy use within local authority portfolios for CRC? and;

19. Do you agree with the proposed approach – of including school energy use within CRC local authority portfolios where such authorities pay the energy bill?

Amongst responses to Question 17, there was near consensus (90%) that there are significant cost-effective abatement opportunities within schools. This was also reflected in responses to Question 18, where (of those that responded) a small majority (51%) thought that Government should require schools to be included in local authorities’ CRC portfolios on a mandatory basis.

Answers to Question 19 indicated a majority of those that answered the question (63%) to be in favour of the proposed approach. However, as suggested by a number of stakeholders, there is a risk that taking such an approach could result in highly variable and patchy coverage of schools
across the UK. It may also lead to perverse incentives to move away from beneficial collaborate approaches between schools and local authorities to energy management (whereby some local authorities currently bulk buy energy for large numbers of schools).

In light of the concerns, Government has decided that it would not be appropriate to take a voluntary approach to including schools within CRC. Government will consider whether to include all schools in the CRC as part of the responsibility of CRC local authorities.

2.06 Entry to and Exit from CRC: Updating Baselines

20. Do you agree with the overall principle of not having to report changes of operation during each phase of the CRC? and;

21. Are each of the proposed exceptions\(^{26}\) to the overall approach reasonable?

Responses to this question showed strong support (70%) for the principle of, as far as possible, not having to report changes of operation within the CRC. This principle was put forward on the basis of avoiding administrative burdens for both participants and regulators. However, a number of potential exceptions were put forward in the consultation document under which participants' baselines\(^{27}\) could be adjusted. The potential exceptions were largely positively received by respondents, with 77% of those that answered the question indicating support. At the same time, however, stakeholders have emphasised the importance of maintaining administrative simplicity within CRC, with some indicating concern about the extent of administrative burden that any changes of operation process would in practice entail.

Government has therefore carefully reviewed each of the potential exceptions and now makes the following proposals (which will be included in the forthcoming summer 2008 consultation on the CRC regulations):

(a) Emissions transfers between EU ETS and CRC

By definition, emissions transfers between EU ETS and CRC could occur only for a small minority of CRC organisations (as most CRC organisations would never have any emissions in EU ETS). Examples of when such transfers could happen include:

- If public policy is established to remove ‘small emitter’ installations from phase III of EU ETS. Where these installations belong to CRC

\(^{26}\) The proposed exemptions in the consultation related to emissions transfers between EU ETS/CCAs and CRC; the addition/removal of schools within a local authority portfolio; and transfer of emissions from landlords to tenants.

\(^{27}\) In the context of this question, ‘baselines’ generally refers to both the ‘league table baselines’ (e.g. the previous five years’ performance – against which current year performance in both the absolute and relative metrics is compared) and the base year used for revenue recycling purposes (see Box 4.3 below)
organisations (for example, a CRC hospital), the emissions would naturally transfer from EU ETS into CRC, increasing the CRC organisation’s total emissions

- If a CRC organisation adds sufficient combustion capacity at a particular site, then it will create an EU ETS ‘new entrant’ installation, reducing the CRC organisation’s total emissions

As proposed in the CRC consultation document, in respect of any emissions transfer between EU ETS and CRC, Government proposes that CRC baselines be updated, providing the CRC organisation notifies the Scheme Administrator with appropriate data and in sufficient time. Any updates to the ‘league table baselines’ (see Box 4.3.) would be carried out each year, rather than waiting until the next phase (no changes would be made to the ‘early action’ metric).

(b) Emissions transfers between CCAs and CRC

In the consultation document, Government proposed potentially updating CRC baselines in respect of any transfer between CRC and CCAs. Government now considers that there is an important distinction to be drawn with respect to the CCAs, in line with an emphasis on administrative simplicity. Significantly, unlike the mandatory EU ETS, CCAs are voluntary, though eligibility to join the agreements is determined by Government. In general, Government anticipates that CRC organisations are likely to choose to exempt their CCA subsidiaries.

The current CCA scheme ends in March 2013, the date until which eligible businesses can benefit from the reduced Levy, although the obligation to meet energy efficiency targets ends in 2010. However, it was announced in the 2007 Pre-Budget Report that, subject to State aid approval, CCAs will be extended to 2017. The Government will be consulting on the form the new CCAs will take in summer 2008.

Only in the scenario that Government changed the eligibility criteria for CCAs (either extending or narrowing the range of eligible processes that CCAs cover) and thereby either forced or encouraged emissions to be transferred between CCAs and CRC – does Government propose (subject to consultation over the summer of 2008) that CRC baselines be updated (for the same reasons as with emissions transfer between EU ETS and CRC). As with the proposed approach on EU ETS/CRC emissions transfers, the CRC organisation would need to notify the Scheme Administrator with appropriate data and in sufficient time, in order for baselines to be updated. Any updates to the ‘league table baselines’ would be carried out each year, rather than waiting until the next phase (no changes would be made to the ‘early action’ metric).

For subsidiaries with less than 25% of their energy use emissions in a CCA, it is of course open to them to withdraw from the CCA before they enter into CRC (usually before the start of the scheme), if they wish to avoid
participating in two schemes. Government proposes that, if such an organisation chose to exit its CCA, then Government would not allow it to subsequently opt back in to the CCA regime (to avoid ‘gaming’ up the CRC league table by way of transferring emissions from CRC over to CCAs).

More broadly, Government further proposes that if a CRC organisation chose to exit a CCA (held by either one of its subsidiaries, or any other part of its operation) once the CRC scheme was underway, CRC baselines would not be updated.

(c) Schools

As Government has decided not to take a voluntary approach to the inclusion of state schools within CRC local authority portfolios, it no longer proposes to update any CRC baselines in respect of changes with schools. This will make the CRC significantly simpler.

(d) Emissions transfers from landlord to tenant

The consultation document invited views on the proposal that, on a once/phase basis, emissions could be transferred from the CRC parent organisation of a landlord to the CRC parent organisation of a tenant, if both CRC parties agreed. As stated in response to Q8, Government recognises that it would also be necessary for appropriate sub-metering to be in place. The consultation document highlighted that Government wished to consider whether it would be desirable to update CRC baselines where such emissions transfers took place.

For reasons of administrative simplicity, Government proposes not to update CRC baselines in respect of any such transfers. Updating baselines in respect of site based changes of operation was challenging enough for the voluntary pilot UK ETS, which included only around 30 organisations. By comparison, CRC is expected to cover around 5000 organisations, and hence Government is committed to avoiding the administrative burdens of site based changes of operation wherever possible.

(e) Purchase or sale of large CRC subsidiary or entire CRC organisation

Some consultation respondents expressed ongoing concerns around the need to more fully account for significant changes in organisation. Notably, it has been highlighted:

- that the sale of a large subsidiary or entire CRC organisation to a non CRC participant could result in significant loss of emissions coverage from the scheme
- that buying or selling a large subsidiary could have a substantial impact on the league table position of the highest UK parent CRC
organisation, unless there was data readily available to update baselines

• that reporting on energy use emissions of large subsidiaries (by the highest parent CRC organisation) would also be valuable in terms of leveraging the Corporate Social Responsibility drivers of those large subsidiaries (given that many such large subsidiaries will have a public profile and reputation)

As stated in response to Q4, Government therefore proposes to require each CRC organisation to report energy use emissions covered by CRC for each of its ‘large subsidiaries’ – defined as those that pass the CRC threshold in their own right (i.e. with electricity use over 6,000 MWh through half hourly metering systems in Great Britain and 70kVA metering systems in Northern Ireland). At the start of each phase, CRC organisations would be required to disclose a list of ‘large subsidiaries’ to the Scheme Administrator. (This would also apply to public sector CRC bodies, in the few cases where the issue of subsidiaries does arise).

With such data readily and publicly available, Government proposes to update the ‘absolute metric baseline’ when a ‘large subsidiary’ (or entire CRC organisation) is bought or sold. This should improve the fairness of the league table, and also sustain CRC coverage and the integrity of the CRC cap (since a ‘large subsidiary’ would continue to participate in CRC if sold to a non-CRC organisation).

To minimise administrative burdens, Government proposes that annual reporting in respect of subsidiaries would be confined to disclosure of total energy use emissions covered by CRC (i.e. CRC organisations would not be asked to report in respect of each subsidiary’s turnover, extent of automatic metering, breakdown of fuel sources and other factors). It follows that Government would not update baselines for either the ‘early action’ metric or the relative ‘growth’ metric given a purchase or sale of a subsidiary. As stated in Section Four, Government has decided that the ‘absolute metric’ will count for 60% of the overall league table score for the introductory phase – and proposes that this percentage should rise to 75% for the first capped phase (when the ‘early action’ metric will be removed).

Accordingly, Government will propose in the forthcoming summer 2008 consultation on the draft CRC regulations that ‘absolute metric’ baselines would be updated under the following five types of situation:

I. Entire CRC Organisation A completely taken over by another CRC Organisation B
   Organisation A’s entire ‘absolute metric baseline’ would be transferred to Organisation B for the start of the next scheme year. Organisation B is required to report total organisation emissions (including what was previously in Organisation A) the following year.
II. Merger of entire CRC Organisation A with another entire CRC Organisation B to form Organisation C
The entire ‘absolute metric baselines’ of Organisation A and Organisations B would be combined for the start of the next scheme year to form Organisation C’s baseline. Organisation C then reports on all organisation emissions.

III. Large subsidiary A (>6,000 MWh) of CRC Organisation B sold to CRC Organisation C
The entire ‘absolute metric baseline’ of Subsidiary A would be transferred to Organisation C for the start of the next scheme year. Organisation C then must include Subsidiary A’s emissions in its CRC report the next year.

IV. Entire CRC Organisation A taken over by non CRC Organisation B
Organisation A’s ‘absolute metric baseline’ and the responsibility for reporting on Organisation A’s emissions would be taken on by Organisation B. Organisation B would enter the scheme for its entire organisation’s emissions at the beginning of the next phase.

V. Large subsidiary A (>6,000 MWh) of CRC Organisation B sold to non-CRC Organisation D
The ‘absolute metric baseline’ of organisation B would need to be updated, removing the baseline of subsidiary A. Organisation D would then be required to report emissions of Subsidiary A and would enter the scheme for its entire emissions in the next phase.

Government anticipates that the first two scenarios are generally likely to take place less frequently than the latter scenarios. Where the above scenarios do occur, they are more likely to take place in the private sector than the public sector (since the issue of subsidiaries does not arise as often in relation to public sector CRC organisations).

Importantly, Government will not be updating baselines in respect of specific sites or emissions sources (with the sole exception of specific EU ETS/CCA source transfers as described above). Government is aware of the administrative complexities and burdens of such changes of operation from the experience of the voluntary UK ETS (featuring around 30 organisations) and will not be applying such an approach to the CRC scheme involving up to around 5,000 organisations.

Accordingly, Government has decided that there will be no updating of baselines in the following situations:

I. Organisation B owns subsidiary A. Part of Subsidiary A is taken over by non-CRC Organisation C
Organisation C would continue to have no obligations during the current phase. If Organisation C qualifies for the scheme in the next CRC scheme phase (uncovered via the identification process), then Organisation C would have to report its total emissions, including any
from recent acquisitions. Government recognises that as a result of this approach there may be some loss of emissions coverage until the next phase and that the ‘selling’ organisation may benefit in terms of apparent emissions reductions. However, accounting for such changes of operation would introduce substantial administrative complexity, which Government wishes to avoid. In addition, the growth metric and the 5 year rolling average proposals (see Box 4.3) should help to reduce this problem and provide context to the performance under the absolute metric in the league table.

II. CRC Organisation A, previously with Subsidiaries B and C, restructures these subsidiaries into new Subsidiary D (with parts of B and C) and new Subsidiary E (with different parts of B and C). Organisation A would continue to report as parent organisation for the ‘group’. Internal re-organisation of subsidiaries will not remove the overall obligation on the parent organisation. However, organisation A would not report any separate data within the phase in respect of subsidiaries D and E (since these were not declared on the ‘list of large subsidiaries’ at the start of the phase). At the start of the next phase, organisation A would declare subsidiaries D and E.

III. CRC organisation A merges with non-CRC organisation B (potentially forming new organisation C)
Organisation A continues in CRC but with higher associated emissions (i.e. as if it had grown organically).
Section 3. Phases and Cap Setting

3.01 Phase Caps

22. Do you agree with the proposed overall approach on cap setting? Amongst responses to this question, there was a clear majority (86%) in favour of the proposed approach to cap setting. Government recognises the need to take account of the specific circumstances of the CRC sector, alongside those of other sectors of the economy, to meet the UK’s emission reduction targets to be set out in the Climate Change Bill. Government has decided that the Committee on Climate Change will be asked to advise on the level at which the CRC caps should be set. Government welcomes the support from a number of stakeholders for challenging caps that recognise the new context of the Climate Change Bill targets.

In making their recommendations, the Committee will clearly need to take into account the Government’s and Devolved Administrations’ commitments under the Climate Change Bill (and more widely) – in particular the aim to reduce emissions by at least 26% against 1990 levels by 2020, and the effort required from particular sectors of the economy to achieve that goal. Decisions on trading scheme caps – for which CRC would be no exception – would, of course, need to take account of factors such as the extent of cost effective abatement potential within different sectors and the extent of possible competitiveness impacts across different sectors (depending on how carbon mitigation efforts are apportioned across the UK economy as a whole). It is in part in recognition of the differences in abatement opportunities and costs that are present across CRC participants that led Government to propose a cap and trade scheme. In a cap and trade scheme, participants can effectively set their own emissions reduction targets, reflecting their own particular circumstances. Those with less opportunity can effectively pay others to abate – leading to a more cost effective outcome than if they had simply been the subject of a more rigid target for their particular sector.

In order to provide the longest possible opportunity for CRC organisations to plan their investments, Government proposes to publish the revised 2020 CRC reduction target as soon as possible after the Committee on Climate Change has made its recommendation. Government estimates that the CRC sector currently covers around 14 MtC/year, and that emissions from the overall sector are currently rising. However, the introductory phase data will significantly improve Government’s understanding of the true magnitude of the CRC’s emissions coverage. Once this data is available, Government will be able to announce a specific trajectory for CRC caps which reflect both the

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28 The proposed approach to cap setting was that caps would be set in the light of the commitment to achieve emissions reductions of 1.2 MtC by 2020, with reference to the data provided by the introductory phase and the specific conditions in the sector. Advice on caps would be provided by the Committee on Climate Change.
circumstances of the CRC sector and the commitments under the Climate Change Bill – not least the goal to reduce UK emissions by at least 26% against 1990 levels by 2020.

This leads on to a discussion of how effective caps will be set for later phases of the scheme, as organisations enter (or exit) the scheme\(^{29}\). Over time, there are various routes through which new organisations could become eligible for the scheme, most notably through natural organisational growth driving energy use above the CRC inclusion threshold (e.g. through organic growth or by purchase of subsidiaries). Given current trends in energy use across the CRC sector, a significant number of organisations could appear as CRC ‘new entrants’ in 2013, the start of the first capped phase.

Also, in the longer term, given the stated intentions in the Energy White Paper (2007) to consider expanding the CRC over time, the CRC inclusion threshold could potentially be lowered from the current level of 6,000 MWh/year\(^{30}\). Similarly, increased coverage of the scheme could potentially occur over the longer term through Government basing the CRC qualification threshold on a broader range of metered energy use, once quality data is generally available from such energy use (e.g. alongside electricity through half hourly and 70kVA metering systems, counting large point gas sources and profile class 5-8 metered electricity toward the CRC inclusion threshold\(^{31}\)). The number of organisations that might newly qualify for the scheme under each of the above scenarios is unknown, but in all cases (especially in the case of the possible longer-term changes) there could be a significant number of ‘new entrant’ CRC organisations. Clearly, an effective process for setting CRC caps needs to take emissions from any such ‘new entrant’ into account.

Effective cap setting is contingent upon a relatively accurate knowledge of the quantity of emissions across all (potential) participants, and is essential if a well functioning scheme is to be established. It is important for Government to establish a robust method for assessing the effect of new entrants to the scheme on total scheme emissions. One possible way of doing this would be for new participants’ electricity use through half hourly/70kVA metering systems (as identified in each new ‘qualification year’) to be used to estimate full energy use emissions for those ‘new entrant’ participants (i.e. using a ratio

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\(^{29}\) Note that new entrants can enter the scheme only at the beginning of a new phase (with the exception of organisations that come out of a CCA). Similarly, organisations will be able to exit the scheme only at the end of a phase.

\(^{30}\) Government would invite the Committee on Climate Change to advise on any potential alternative CRC inclusion thresholds.

\(^{31}\) The rationale behind the current CRC inclusion threshold of 6,000 MWhr/year through half hourly metering systems in Great Britain (and 70kVA meters in Northern Ireland) is that data quality through such meters is generally high. Under Government proposals for the roll-out of smart metering, all electricity meters in profile classes 5-8 and large point gas sources (using > 73,200 kWh/year) would be mandated to be converted to automatic metering by 2013. Once data on such electricity and gas was generally available on an accurate basis, it may be appropriate to base the CRC inclusion threshold on a wider portfolio of meters than simply half hourly and 70kVA metering systems. If taken forward, this would lead to a larger number of meters counting towards participants’ calculations regarding eligibility for the scheme.
based on the extent to which half hourly/70kVA metered electricity accounts for existing overall CRC emissions).

Alternatively, Government could base the caps on 2011 emissions from all sources. Government is currently minded that once the qualification of the first round of ‘new entrants’ was confirmed, they would be required to report their full energy use (for years 2011 and 2012) in April 2012 and April 2013 respectively (i.e. in respect of the years between the ‘qualification year’ and the start of the forthcoming CRC phase). Therefore, in April 2012, organisations would need to record their list of large subsidiaries and their list of emissions sources (in line with the *de minimis* rules outlined under Question 9 above), along with the associated emissions from these sources. In April 2013, newly identified participants would then report on their 2012 emissions from their stated source list. A timeline illustrating this potential approach is given below.

This approach would ensure that accurate caps could be set, since even a relatively large number of new entrants would not be likely to represent a significant proportion of total emissions in the scheme. Thus the majority of the data used to calculate the cap would still be based on the accurate data generated by organisations participating in the introductory phase and only a small proportion would be based on data collected from new entrants. In addition, reporting energy use data for two years ahead of entering the scheme would help organisations to better prepare for becoming full participants through encouraging accurate monitoring and reporting of emissions, without the constraints of a cap. This will be important for organisations entering the scheme in later phases, who would not have had the benefit of gaining the learning experiences of the introductory phase. A further benefit of requiring new participants to report on emissions against their source list in the year immediately prior to their entry into the scheme is that it would enable them to be ranked in their first year of participation – rather than simply appearing in the middle of the table CRC league table.

Without emissions data for the year prior to their entry into the scheme, organisations could not be scored in either the absolute or relative metrics (and it is proposed that after the introductory phase, there will be no early action metric)

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32 Without emissions data for the year prior to their entry into the scheme, organisations could not be scored in either the absolute or relative metrics (and it is proposed that after the introductory phase, there will be no early action metric)
4.01 The Introductory Phase

23. Which price option do you think would be most appropriate for the introductory phase fixed price sale?; and

24. Do you think CRC organisations would undertake significantly greater carbon abatement under the Option with the highest carbon price?

Responses to Question 23 largely favoured an introductory phase allowance price of £8/tCO₂ (69% of respondents supported Option A). Choosing this lower value would be broadly consistent with wider stakeholder views that the introductory phase should be a learning experience, and that it should not impose unduly high costs on participants. Government agrees that it is important for the introductory phase of the scheme to be a learning experience – an opportunity to gain experience of managing, reducing and reporting their emissions and participating in the trading scheme. However, it is also Government’s view that there is a balance to be struck between limiting the costs in the introductory phase, and the need to set a strong carbon price for participants that motivates abatement action in the introductory phase, and incentivises early investments that will help participants to meet long-term reduction targets (and avoid locking-in higher cost abatement in later years). Moreover, with challenging caps likely to be in place after the introductory phase, there is a benefit to be gained from avoiding too significant a jump in allowance prices between the two phases.

It is Government’s view that £8/tCO₂ would be too low and would not send the correct price signals to participants. By way of comparison and context, the EU ETS Phase II price has recently been trading at over €20/tCO₂ (£14-£15). Moving towards this figure clearly has the advantage of helping to provide a more consistent explicit carbon price across different sectors of the UK economy. However, it is also viewed that a price of £16/tCO₂ or more would be close to the safety valve allowance price which may lead to an over-reliance on the safety valve in the introductory phase. Government is therefore minded to take forward an introductory phase price of £12/tCO₂.

Final formal confirmation of the introductory phase price will be given in response to the forthcoming summer 2008 consultation on the CRC regulations. Whilst Government reserves the right to opt for a CRC introductory phase price higher than £12/tCO₂, this would only be required in exceptional circumstances (e.g. in light of a substantial increase in the EU ETS forward allowance price for 2010).

33 The proposed prices were, option A: £8, option B: £12, and option C: £16/tCO₂.
Responses to Question 24 showed no clear consensus as to whether a greater level of abatement would occur with a higher sale price. This most likely reflects uncertainties that remain amongst potential participants as to their likely costs of abatement. This uncertainty demonstrates the enormous value there is in taking forward the introductory phase as a means of uncovering the level of emissions and abatement opportunity there is in the sector. This information will be vital to the Committee on Climate Change in its role as advisor to the CRC cap-setting process (see Question 22 above).

4.02 The Capped Phases

25. Which auction mechanism would you prefer

Government recognises that a number of stakeholders do not have experience of participating in auctions and have expressed concerns that they do not understand how the auction process will work. It should be noted that the first year in which allowances will be distributed on the basis of an auction will be 2013. During the introductory phase there will be no auction – rather, allowances will be sold to participants at a fixed price. Participants in the scheme will therefore have the opportunity to gain experience of forecasting emissions that will help them develop auction strategies in later years.

In direct response to the question, a significant proportion (71%) of respondents supported the idea of opting for the simpler sealed bid, uniform price (SBUP) auction design. Many stakeholders, both in their official consultation responses and during workshops and meetings, have highlighted that this preference is largely driven by a desire to keep the auction process as simple as possible. Whist there is an option within the dynamic auction design that allows for simple participation (‘proxy bidding’), Government recognises that overall participation, administration and set-up costs would be lower under a sealed-bid approach.

Given the impracticalities in revealing the economically preferable level of information between rounds, it is not clear that using a dynamic auction design would achieve the greater level of efficiency that would justify the additional burden on both participants and Government at this stage. Furthermore, choosing a dynamic auction could favour, particularly in the early years of the scheme, those organisations with greater experience of auctioning and emissions trading. Therefore, in order to offer a more level playing field and to retain simplicity, Government has decided to take forward the sealed bid, uniform price design for the CRC. Later phases of the scheme, once participants have greater experience of taking part in allowance auctions, may offer the opportunity to review this choice and decide whether switching to a more complex approach would be desirable.

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34 The two designs proposed were for a sealed bid, uniform price, or a dynamic ascending clock auction.
35 Including, for example, tentative league table positions and recycling payment
26. **Do you agree that the auction should take place each January, at the beginning of the emissions year?**

A significant majority of answers to this question (73%) supported the proposal that the sale/auction should take place in January of each year. While it is recognised that this timing may not be ideal for all participants, any choice of date is either more or less suitable for different participants. Accordingly, and acknowledging the level of consensus across responses to this consultation, Government has decided that sale/auctions will take place in January each year (and that, as previously outlined, the scheme will operate on a calendar year basis).

One further issue raised in responses to the consultation related to whether there could be advantages to holding multiple auctions each year within the CRC. It is the view of Government that over the duration of the scheme, the costs to both participants and Government of holding two auctions each year would outweigh the benefits. In particular, there are clear advantages to a system in which participants take time and care to forecast their emissions and abatement strategies well in advance rather than relying on a second sale/auction each year. This, allied with the fact that any excess or shortfall in allowances could be addressed through a combination of the secondary market and the safety valve, means that Government is minded not to introduce a second sale/auction each year on an ongoing basis.

However, recognising the role of the introductory phase of the CRC as a learning process and that at the start of the scheme participants may be less well placed to accurately forecast their emissions, Government has decided that a second sale will be held in July of the first year. Government will explore further how this may work, and will publish details in due course.

**Box 4.1 – VAT Treatment of CRC Allowances**

The VAT treatment of payments and allowances made under CRC is governed by the application of EU VAT rules, and depends upon the detail of each transaction. HMRC has confirmed that VAT will not be chargeable on the allowances sold at a fixed price in the initial phase of the scheme, and that in the longer term this will be kept under review against the requirements of EU rules in relation to trading by public bodies, the development of a tradeable market, the need to ensure fair competition, and the EU classification of income received under the scheme. From the outset of the scheme, VAT will be chargeable on all subsequent trading in allowances (e.g. in the secondary market and purchases through the safety valve), consistent with the VAT treatment of comparable trading. VAT will not however be due on any CRC performance payments made to participants under the scheme.
27. Which payment option do you prefer\textsuperscript{36}\textsuperscript{,}?

Responses to this question showed considerable support (79\%) for the idea of allowing organisations to defer payment for allowances by 12 months. The main reasons for this were to avoid the potential cash flow issues associated with payment at the time of the auction, and to also avoid Government - in effect - retaining the first year’s revenue for the duration of the scheme (bearing in mind that the scheme does not feature a sunset clause)\textsuperscript{37}. However, work undertaken during the consultation period has raised a number of problems that would be created by allowing a system of deferred payment. Firstly, in view of the risk of participants defaulting on the payment of the auction price, Government now considers that some kind of collateral would be required if a deferred payment approach were to be used. This would significantly reduce the financial advantages of allowing deferred payment and/or could create an additional burden for participants and scheme administrators. Secondly, as highlighted in the consultation document itself, a deferred payment regime would significantly and permanently reduce the CRC market’s liquidity – since participants would receive their allowances only after payment was received. This lack of liquidity, along with the complication of paying for and receiving allowances at different times of the scheme year, would be locked into the scheme for its duration.

Accordingly, Government has decided to follow an alternative approach – ‘double recycling’, coupled with a second sale in the first scheme year (as described in the above response to Question 26). Under this proposal, there would be no deferred payment, but rather the revenue raised from the first two years’ sales would be recycled back to participants in their first recycling payment. From this point forward the money recycled to participants will be the auction revenue raised in the same calendar year’s auction. Government would thereby hold revenue raised by the scheme for a maximum of only six months (18 months in the first payment/recycling round) with the balance cleared at the end of each June.

In terms of market liquidity, the double recycling option creates the same benefits as the simple non-deferred payment option, with allowances released at the time of the sale/auction. However, it also offers an improved cash flow position to participants compared to the non-deferred payment option, by recycling all the revenue received by Government in the first two auctions back to participants in their first payment. From a participant’s perspective the double recycling approach should retain simplicity, with allowances and payment taking place at the same time.

\textsuperscript{36} The proposed payment options were for either payment at the time of auction, or for payment deferred by 12 months (with allowances only released once payment had been made).

\textsuperscript{37} It should be noted that revenues from CRC will be paid into the Consolidated Fund, as is standard practice. The Consolidated Fund does not pay interest.
The ‘Double Recycling’ Approach

Box 4.2 - Double recycling and entering/exiting the scheme

Under the double recycling proposal, the emissions used to calculate the recycling payment and the money available for recycling back to participants would relate to different periods: the money recycled in July 2012 would have been raised in the auction in January 2012. However, the auction in Jan 2012 relates to the sale of allowances to cover emissions in 2012 (the ‘auction year’), whereas the recycling payments and bonus/penalty relate to organisations’ emissions in 2010 and 2011 (the ‘emissions years’).

Decoupling the ‘auction year’ and the ‘emissions year’ in this way raises an important question as to the treatment of those organisations leaving the scheme with regards to the amount of revenue they receive. Government proposes that organisations leaving the scheme at the end of a phase would still receive a payment, made from the auction revenue raised in the year immediately after they leave. While this would be a share of money they had not paid into the scheme, the number of participants in this situation, coupled with the fact that they would be ‘small’ (they would, by definition, need to have dropped below the 6,000 MWh threshold to leave the scheme), means that the payments would represent a very small proportion of overall revenues.
Organisations entering the scheme would receive a double payment in their first recycling payment, analogous to the treatment of organisations at the very start of the scheme. New organisations would not receive a recycling payment during the first year they participate in the scheme. Instead the money paid by these organisations for their allowances in their first year would be ring-fenced and removed from that year’s recycling ‘pot’. This money would be added to the new entrants’ first recycling payment, paid in the second year of the scheme. For example new organisations joining the scheme and purchasing allowances in January 2013 would not receive a recycling payment in July 2013. The money they paid into the scheme in January 2013 would be removed from the 2013 recycling pot and added back into their recycling payments in 2014.

While this and the provision proposed for organisations leaving the scheme will result in some additional administrative burden, this burden will fall on the scheme administrators rather than the participants themselves.

28. Do you agree that Government should limit the auction to only scheme participants and their agents?; and

29. Do you agree that there should be a limit placed on the percentage of allowances available to any one participant to buy in the auction?

Responses to these questions revealed a high level of consensus that the auction should be limited to participants and their agents (91% of those that answered the question), and that there should also be some restriction on what proportion of the total number of allowances can be purchased by any one participant (87% of those that answered the question). A small number of respondents highlighted the fact that, in theory, economic efficiencies could be gained by allowing unlimited access to the auction. However, respondents supported the view of the Government that there are perhaps more significant benefits to be achieved by placing some controls on the auction. The most important of these is to help ensure that all organisations with a mandatory obligation to comply with the scheme have the first opportunity to secure allowances, and that they are able to buy them from a market in which the opportunities for abuse of market power are minimised.

Accordingly, Government has decided that there will be limits placed on participation in the auction. The limit placed on the proportion of allowances that can be bought by any one participant will be set in the light of data from the introductory phase of the scheme. It is recognised that some participants will themselves be traders (or have trading arms to their business). However, the limit placed on the proportion of allowances should limit the opportunity for these organisations to make purchases in the auction on behalf of third parties. The scheme safety valve will also reduce the potential for ‘spikes’ in the price of CRC allowances, reducing the profits that could be made through speculation in the market.
It should be noted, as outlined in the consultation document, that there will still be an opportunity for participants in the scheme to assign responsibility for taking part in the auction to a specific agent (e.g. an environmental consultancy) in order to benefit from their experience in developing auction strategies. Furthermore, Government proposes, as previously stated, that economic efficiencies will be gained by allowing full and open access to both participants and those outside the scheme to the CRC secondary market.

4.03 The Safety Valve

30. Does the proposed mechanism for operating the safety valve seem reasonable\(^{38}\)? If not what changes would you suggest?

Responses to this question demonstrated significant support for the proposed Safety Valve mechanism (74% of those that answered the question), reflecting the important role that it will play in limiting the exposure of CRC participants to the risk of spikes in the price of allowances. The mechanism described within the consultation document features a buy-only link to the EU ETS with a minimum buy-out price. Under this approach participants will contact the scheme administrator who will purchase and retire an EU ETS allowance, before issuing a new CRC Safety Valve allowance to the participant. Retiring EU ETS allowances retains the environmental integrity of the scheme cap.

The Energy White Paper 2007 also proposed setting a minimum price floor for the buy-out to ensure that the emphasis on emissions reductions and energy efficiency within the target sector is preserved and that participants view the Safety Valve as an option of last resort. Government is encouraged by the Commission’s proposals for setting future EU ETS caps, included in the package of legislative proposals announced in January, and believes it should lead to a more robust EU ETS carbon price. Government will therefore retain the option of setting a minimum buy-out price, but will undertake further analysis on whether such a minimum price should apply and at what price and will come forward with recommendations in the consultation on the draft regulations in the summer.

This option could be important to secure the large NPV benefits indicated in the CRC Regulatory Impact Assessment, by ensuring the energy efficiency opportunities are taken up within the CRC sector, and that participants view the Safety Valve as an option of last resort. Retaining the flexibility to set the level of the CRC buy-out price means that Government can decide, for each CRC phase, to what extent it is necessary or desirable to drive greater

\(^{38}\) The basic structure of the mechanism proposed was that organisations wishing to use the safety valve would request the required number for allowances from the scheme administrator, and that these would then be purchased from the EU ETS. Once purchased, the participant would be invoiced, and when payment was received the EU ETS allowances would be cancelled, with the same quantity of CRC allowances created and subsequently credited to the participants’ registry account.
management attention to the uptake of energy efficiency opportunities within their organisations. In the event that a buy-out price is considered necessary and the buy-out price exceeds the cost of retiring an EU ETS allowance, any surplus revenue will be added to the money to be recycled in the CRC performance payments.

Participants will not simply be able to retire their own EU ETS allowance and request a Safety Valve allowance from the administrator. This would add significant complexity to the operation of the Safety Valve transactions and would need to be monitored and logged in line with normal EU ETS processes. The fact that it will be possible to buy safety valve allowances only through the administrator managed Safety Valve reinforces Government’s signal that buying Safety Valve allowances should be considered only as an option of last resort.

One further development in relation to the Safety Valve is that during the consultation period, Government held a number of discussions with both carbon market traders and the Environment Agency, and it has been suggested that the safety valve should be open at regular intervals rather than permanently open throughout the year. It is felt that this approach would help to concentrate requests made for its use to an extent that reduced the transaction costs to participants – which could otherwise be relatively high if single requests for small numbers of allowances were common. It was further suggested by traders that a similar approach could also be applied to the secondary market, in order to ‘concentrate liquidity’. These ideas could have considerable merit – particularly during the early years of the scheme while the secondary market fully develops – and Government will be investigating these possible approaches further. Should they be taken forward, they will be consulted upon in due course.

4.04 Revenue Recycling and the League Table

31. Do you think that a bonus or penalty of +/- 10% as described above is appropriate? If not, do you think the bonus or penalty should be higher or lower?

If not, do you think the bonus or penalty should be higher or lower (please state a percentage)?

32. Should the rate of bonus or penalty increase steadily and gradually over time? and;

39 It should be noted that in proposing this approach, Government is not suggesting that participants or other parties would be prevented from trading allowances between themselves at other times. Government is simply proposing that, for example, a notice-board could be created to assist participants in their trading, and that buyers and sellers would not be obliged to use this. If this were to be put in place, it might be best to only have this open at limited times to concentrate trades, thus yielding a clearer ‘market price’.
If yes, please state by how much and how regularly you think these increments should be applied (e.g. 5% increments per year: +/-10% for year 1, +/-15% for year 2, +/-20% for year 3 and so on)?

Views on the level of bonus and penalties in the scheme were somewhat mixed. A number of respondents viewed it as desirable that the financial impacts of the scheme were kept relatively small – particularly in the early years of the scheme when participants were still going through learning processes around energy management and participating in a cap and trade scheme. These views were balanced by others who pointed out that in sectors where energy costs are typically a small proportion of overall costs, a higher rate of bonus or penalty would be required to drive the necessary level of emissions reductions.

In addition, at stakeholder workshops held during the consultation period substantial support was shown for a bonus or penalty value of at least 10%, with a significant number of attendees suggesting that it should be greater. There was also a high level of support amongst workshop attendees for the idea of a pre-determined trajectory of change, compared to the alternative of more ad-hoc changes made in reaction to current circumstances. Responses in the consultation itself demonstrated more mixed views on whether and how quickly the level of bonus or penalty should increase over time.

Government recognises the concerns raised around the financial impacts on participants at the very start of the scheme. However there is a need to balance this consideration against a need to ensure that the scheme delivers a sufficient incentive to abate – especially in the introductory phase where the absence of a Government imposed cap could otherwise lead to rising emissions in the sector. A significant number of stakeholders (including at the workshops) highlighted the role that raising the bonus/penalty rates over time could play in providing this incentive. Accordingly, Government has decided that the bonus/penalty rate will start at +/-10% in respect of the first year of the introductory phase, and then rise to +/-20% in respect of year two, +/-30% in respect of year three, +/-40% in respect of year four and +/-50% in respect of year five. Moreover, to give organisations as much advance notice as possible of the longer term trajectory, Government will shortly invite the views of the Committee on Climate Change as to how much further the CRC bonus/penalty revenue recycling regime should be strengthened in respect of years 6 and beyond Government does not rule out the possibility that the bonus/penalty incorporated into the CRC revenue recycling regime could eventually reach +/-100%.

To set this figure in context, with +/-100% and a carbon price of £12/tCO₂, CRC would add only around 15% to the energy bill of an organisation that finished bottom of the CRC league table (and likewise reduce the energy bill of the organisation that finished at the top by a similar amount). It is also important to note that Government has always been clear that CRC will be

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40 Reports from the workshops can be found at http://www.defra.gov.uk/corporate/consult/carbon-reduc/index.htm
broadly revenue neutral to the Exchequer, with CRC auction revenue recycled back to participants. The substantial Net Present Value (NPV) benefits to participants identified in the CRC Regulatory Impact Assessment are premised on CRC providing robust incentives to help participants drive energy efficiency within the CRC sector, rather than simply buying safety valve allowances.

In addition, as stated above, Government is clear that it wishes to see an equitable contribution from the CRC sector to the UK meeting its challenging goal of a 60% absolute reduction in carbon emissions by 2050 against 1990 levels, with real progress by 2020. Some stakeholders emphasised that they would like to see meaningful carbon savings delivered from within the CRC sector (especially in a context of rising public concern over climate change) as they would like to have as secure a policy framework as possible in which to plan. Government too considers that it would like to set robust CRC financial incentives – to minimise the risk of CRC not delivering energy efficiency improvements and carbon savings within the sector.

In this context, Government considers that its decision to steadily phase in, over a five year period, a stable +/-50% bonus/penalty regime should provide suitably effective financial signals to secure the CRC’s intended uptake of energy efficiency opportunities and thereby Net Present Value (NPV) benefits. Moreover, once advice has been received from the Committee on Climate Change, Government will be able to extend this five year trajectory to the end of the first capped phase - providing a secure and long-term framework in which participants can plan their energy efficiency and carbon management investments. Later phases of the scheme will offer the opportunity to review how well it is functioning and to assess whether changes are required to any of the key scheme variables – including the rate of bonus/penalty

Box 4.3 – CRC comparison years for measuring performance

In the consultation, Government has suggested that the baseline against which an organisation’s performance should be measured is its average emissions since the start of the scheme. In addition, it was proposed that revenue recycling payments should be made in proportion to the organisation’s annual average emissions since the start of the scheme.

Further analysis of this proposal suggested that – in measuring performance within the scheme – the use of such a long-term average would have negative implications for fairness within the league table. Whilst averages help to reduce year-on-year volatility, over a long period of time CRC organisations are likely to be subject to significant changes in their operations. For reasons set out in the previous consultation, and in the response to Questions 20 and 21 below, it is proposed that the CRC would not seek to include complex change of operation rules. Accordingly organisations’ performance in the league table may, if using a long-term average, be unduly affected by long-past organisational growth or decline.
Thus, for the purposes of constructing the league table, Government has decided instead to use a five year rolling average to assess performance in the scheme. In order to remove the dampening effect of including current year emissions, this average will relate to the previous five years (i.e. it will not include the current year).

In recycling scheme revenue however, Government wishes to provide the strongest possible incentive to abate. Accordingly Government has decided that the base revenue recycling formula will be made in proportion to a fixed amount – which for participants qualifying for the first phase of the scheme would be their full energy use emissions in 2009. Recycling revenues in this way will naturally tend to reward those organisations that are reducing their emissions (and penalise those with increasing emissions – in line with the polluter pays principle), and will avoid any incentive for organisations to increase their emissions in order to increase their payments. Inclusion of a relative metric in the league table, as well as the small number of rules on updating baselines (see Questions 20 and 21) should help to dampen the effect on rapidly growing organisations.

33. Should the league table include a metric to recognise those organisations who have been undertaking good energy management practices for some time? and;

If so, do you agree with the proposed AMR metric as a proxy for early action?

Respondents showed strong support for the idea of including an ‘early action’ metric of some kind (84% of those that answered the question), while views were more mixed as to whether the proposed AMR metric was appropriate (40% of respondents to the question agreed, 35% disagreed). Concerns around the use of the extent of voluntary AMR as measure of early action have primarily focused on the fact that it may not always be the perfect proxy for good energy management, and that AMR is only one of the options that may be pursued by an organisation wishing to improve its energy management.

The early action metric, in line with other metrics chosen for the scheme, needs to be something that is simple, scheme-wide, easily auditable, and with low administrative burden for participants. While Government still considers that AMR fits very well with these criteria, ongoing concerns have led to the investigation of whether there may be additional measures that meet these principles and could strengthen the overall metric. Indeed, a number of consultation responses suggested that the early action could be fairer and

41 Note that organisations will be required to gather data in relation to their total 2009 emissions in order to specify their source list, and it would be this figure that is used for revenue recycling purposes.
more accurate if measured by a ‘basket’ of metrics. One option that has been widely put forward both in consultation responses and elsewhere is accreditation of organisations under the Energy Efficiency Accreditation Scheme\(^{42}\) (EEAS). The EEAS is a national scheme, managed on behalf of the Carbon Trust by the National Energy Foundation. Those wishing to become accredited under the scheme are required to demonstrate relative emissions reductions over the previous three years, alongside meeting various other energy management criteria. Importantly, the former requirement ensures that those that have accreditation in the early years of the scheme genuinely are those that have taken action prior to the start of the scheme.

Box 4.4 – EEAS and Employee Engagement

It is Government’s view that employee engagement and training is a key part of a robust carbon management and reduction strategy. Reflecting this, organisations wishing to receive accreditation by the EEAS are required to demonstrate appropriate commitment to, and sustainable and ongoing action on, staff awareness raising, engagement and training on energy efficiency and carbon management. The Carbon Trust will work to ensure that these requirements remain and are strengthened as necessary to promote employee action and engagement further in the future, and will collaborate with Government and wider stakeholders to ensure alignment with the CRC scheme and its principles.

Government has accepted the proposals from respondents that accreditation under the EEAS should be included as part of the overall early action metric as, like AMR, it also meets the desired criteria. It is proposed that the proportion of an organisation’s total emissions covered by voluntary AMR, and the proportion covered by EEAS accreditation would be combined with equal weighting to give a total early action score\(^{43}\). Additionally, as a further way to ensure that the overall metric is truly measuring early action, Government has decided that the AMR metric will be ‘frozen’ in year one of the scheme (participants would receive the same score for the AMR component in years 2010, 2011 and 2012). This should reduce the administrative burden on participants as organisations will be required to report this number only once.

\(^{42}\) http://www.eeas.org.uk

\(^{43}\) For example, if an organisation had 60% of its non-mandatory metered energy use emissions through voluntarily installed AMR, and 40% of its total emissions covered by EEAS accreditation, its early action ‘score’ would be \((0.5\times60)+(0.5\times40) = 50\%\). It should be noted that under the AMR metric, percentage coverage would be calculated against the CRC source list - e.g. would not include CCA, EU ETS sources, or those excluded under the de minimis. It should also be noted that voluntarily installed 100kW metering systems would still count towards the AMR component of the early action metric as long as an organisation could provide evidence of the voluntary purchase and installation of the meter as part of its evidence pack (along with evidence demonstrating coverage under other voluntary automatic meters). It is proposed that those organisations whose energy use is entirely through mandatory meters would be awarded 50% in the AMR metric.
More importantly, however, it should also help to avoid any unintended unfair consequences – should proposals to mandate the rollout of automatic metering be taken forward by Government 44.

One further change that Government has decided to take forward in relation to the early action metric, is to eliminate the early action metric at the end of the introductory phase. The rationale for this decision is related to three key points. Firstly, regarding the AMR metric, if proposals for the rollout of automatic meters to profile classes 5-8 is taken forward, the scope for voluntary installation will be almost entirely removed by the end of 2012, and thus this measure will be largely irrelevant. Secondly, by the end of the introductory phase, any emissions reductions that might be credited under EEAS would also coincide with participation in the scheme, and so would no longer warrant additional recognition beyond that given in the other league table metrics. Thirdly, and perhaps most importantly, the focus of the scheme is to recognise and reward additional carbon savings, therefore the capped phases of the scheme will focus on new actions rather than historic actions.

Ending the early action metric will, of course, also present an opportunity to re-weight the remaining two metrics (absolute and growth) in the light of evidence from the introductory phase. To help organisations plan and to signal that Government currently proposes to maintain the emphasis on the absolute metric, we are minded to maintain the 3:1 ratio between the absolute and growth metrics (i.e. when the early action metric is removed, the absolute and growth metrics would respectively account for 75% and 25% of the league table weightings).

For more details on what types of AMR will count towards the early action metric, see Annex 2.

Finally, Government proposes that there would be no mandatory requirement for organisations to submit this data. However, those organisations that did not disclose AMR or EEAS data for use in the early action metric would not score any points in this particular metric.

34. Would the benefits of the league table including a few simple yes/no disclosure based questions outweigh the additional complexity involved?

If so, are the questions outlined above appropriate? and;

Should they be incorporated for revenue recycling calculations?

There was a high level of support (64%) amongst respondents to this question for the idea of including some disclosure based questions in the league table.

44 For example, if energy suppliers started to install AMR on a regional basis, or began the process with services to their largest customers, this could lead to inequalities within the scheme. For details of Government proposals, see http://www.berr.gov.uk/consultations/page40850.html
It is Government’s view that positive responses to questions such as those suggested in the consultation would indicate that a participant was actively managing and attempting to reduce its carbon emissions in line with the objectives of the CRC, and would provide important context to the league table. The importance of encouraging this kind of disclosure is highlighted by the findings of the most recent Carbon Disclosure Project report on the FTSE 350, which show that reporting of this kind is still relatively rare, with only 17% of companies reporting some form of emissions or energy reduction programme (either in place or in development), and only 23% report board-level responsibility for climate change\textsuperscript{45}. It is therefore clear that there is an opportunity for CRC to incentivise an improvement in this respect through offering public recognition for organisations’ efforts.

The particular questions proposed received majority support from respondents to this question. This reflects the benefits outlined above, but also the fact that they would be extremely easy for participants to report, and for auditors to verify. In order to maintain this simplicity, Government has decided that in order to say ‘yes’ to the questions, organisations would be required to have the measures in place covering the \textit{majority} of their emissions (including but not necessarily limited to those covered by the CRC). Accordingly, Government proposes that the league table would include ‘tick box’ responses to the following questions:

1. Does your CRC organisation disclose long-term carbon emission reduction targets in its annual reporting in respect of the \textit{majority} of its CRC energy use\textsuperscript{46}?

2. Does your CRC organisation disclose carbon emissions performance against these targets, in its annual reporting in respect of the \textit{majority} of its CRC energy use?

3. Does your CRC organisation name a Director with responsibility for overseeing carbon performance, in respect of the \textit{majority} of its CRC energy use, in its annual reporting?

The emphasis of Question 1 on providing a ‘long-term’ target (defined as covering a period of five years ahead or more), is to encourage organisations to take a more strategic approach to carbon management, beyond publishing their forecasted allowance needs for the following year. For the introductory phase, Government has decided that published targets could be either absolute or relative. In the capped phases of the scheme, Question 1 could potentially be strengthened to ask whether organisations publish an absolute


\textsuperscript{46} Government proposes that, should they so wish, organisations may choose to answer these questions in relation not only to their CRC energy use emissions, but also wider organisation emissions. Providing a majority of the CRC energy use emissions are included in the target, the organisation would score a ‘tick’, irrespective of the position in respect of wider emissions.
emissions reduction target. In the light of a highly mixed response to the final part of the question, Government has decided that answers to these questions will not affect organisations’ revenue recycling payments. It is Government’s view that the Corporate Social Responsibility benefits of being able to answer positively to these questions should be a sufficient incentive within the scheme, and the league table score should focus on the three core metrics.

35. Do you think that the CRC league table should include a relative metric to take account of organisational growth/decline?

If yes, do you agree with the proposed growth metric described above?;

If not, please state a better alternative that meets the stated league table design criteria; and

36. Do you agree that if turnover/revenue expenditure is used to formulate the growth metric, that organisations should report the published figure for the financial year that most closely corresponds with the ‘emissions year’?

Responses to the first of these questions revealed significant support for the idea of including a metric in the league table that provided some recognition to those participants that were able to grow cleanly within the scheme, as well as accounting for the effects of organisational decline. Amongst those that answered the questions, 86% supported the idea of such a growth metric, and a small majority (52%) supported use of the turnover/revenue expenditure metric proposed.

Government recognises that, for a number of reasons, using turnover or revenue expenditure may not represent the most favourable or accurate measure of growth/decline for some individual organisations or sectors. However, as stated in the consultation document and in the discussion above, it is essential that any measure that is chosen needs to be simple, scheme-wide, easily auditable, and with low administrative burden for participants. While there were some suggestions made as to alternative growth measures, there was no consensus as to which would be the best, and none of those put forward clearly met the stated criteria. In response to a concern that was expressed by a number of stakeholders during the consultation process, it should be re-iterated that this metric would be measuring the percentage reduction in emissions per unit turnover – rather than the absolute value – and thus would not disadvantage relatively energy intensive organisations.

It should also be noted that the small number of ‘changes of operation’ rules proposed under Government’s response to Questions 21 and 22 above will

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47 The proposed metric in the consultation was the change in emissions per unit turnover (or revenue expenditure for the public sector) relative to a participant’s annual average since the start of the scheme.
also go some way to accounting for cases in which participants grow their emissions through acquisitions or mergers involving other organisations covered by the scheme. According to these proposals, historic emissions baselines would be transferred across from the seller to the buyer, increasing the fairness of the scheme (since in these cases there would have been a transfer rather than growth of emissions).

With regards to Question 36, there was considerable support for the approach outlined in the consultation. 81% of those that answered the question supported the idea of using the most closely corresponding financial year in the growth metric. There was some concern that this would lead to a small overlap between financial and ‘emissions’ years for some organisations. However, a number of respondents shared the Government view that this a necessary sacrifice in order to maintain simplicity. Government has, therefore decided to proceed with the use of the Growth metric based on turnover or revenue expenditure as outlined within the consultation document.

In response to concerns from participants that some organisations would not want to publish financial information, Government proposes that there would be no mandatory requirement for organisations to submit this data. However, those organisations that did not disclose financial information for use in the growth metric would not score any points in this particular metric.

37. If early action and growth metrics are included in the league table, do you agree with the proposed weighting of 60%:20%:20% (absolute: early action: growth)? and;

If not, please suggest an alternative weighting that you prefer?

Responses to these questions showed significantly less consensus than in other areas of the consultation. Only 33% of respondents to the first question supported the specific weighting suggested by Government, with 41% against the proposal. However, this can be put in context by answers to the second question, where there was no particular weighting put forward that was common to a large number of respondents. This also reflects views expressed in the workshops, where responses were again mixed as to what the exact weighting mix should be.

One aspect in which a common view was expressed in both consultation responses and the workshops was with regard to the absolute metric. Both respondents and workshop attendees clearly expressed a desire for the strongest weighting to be placed on the absolute metric – reflecting the need for the scheme to achieve absolute reductions in emissions. Thus the main area of disagreement related to the split between the early action and growth metrics.

In light of this lack of clear consensus, Government has decided to take forward the weighting suggested in the consultation document for the duration of the introductory phase of the scheme – maintaining a strong emphasis on
absolute emissions reductions, with an equal weighting on the remaining two metrics. As set out in the Government response to Question 33 above, Government proposes to eliminate the early action metric at the end of the introductory phase.

To help organisations plan and to signal that Government proposes to maintain the emphasis on the absolute metric, we are minded to maintain the 3:1 ratio between the absolute and growth metrics (i.e. when the early action metric is removed, the absolute and relative metrics would respectively account for 75% and 25% of the league table weightings). At the same time, ending the early action metric would of course also present an opportunity to re-weight the remaining two metrics (absolute and growth) in the light of evidence from the introductory phase.

One further decision regarding the league table is that it will include an entry for each organisation that highlights their change in position relative to the previous year. This will help those that refer to the league table to easily identify those organisations that are improving their performance year on year (for an example of how the revenue recycling payments will be calculated, see annex 1).

4.05 Maintaining a Functioning Market

38. Do you agree that the Government should be able to adjust key parameters within phases if absolutely necessary as an option of last resort? and;

If yes, what limits should be placed on the use of this power (e.g. requirement to engage in public consultation as to whether circumstances are sufficient to justify use of the power, and with Parliamentary approval)?

Responses to this question showed a majority (67%) of those that answered to be in favour of allowing Government to adjust key parameters within phases of the scheme as an option of last resort. However, responses to the latter question were unequivocal in stating that it was essential that this be subject to appropriate controls – in particular public consultation and appropriate parliamentary approval.

Government recognises that changes within phases do have implications for certainty within the scheme, and as such will make every effort to fully assess their potential effects on the market and to avoid such changes whenever practical. As phases draw to a close, there will be a clear opportunity to assess if any changes to scheme parameters would improve the effectiveness of the scheme, and in the vast majority of cases it will be at this point that adjustments would be announced and put in place. When and if in-phase adjustments are deemed absolutely necessary, Government will also aim to ensure that they are announced as far in advance as possible. Furthermore, Government proposes to set out clearly in advance clear guidelines as to
conditions under which such changes may be put in place – analogous to those set out in the Climate Change Bill relating to emissions reductions targets (see clauses 6 and 7 of the draft Bill).

4.06 Tying a Proportion of Recycling Payments Directly to Energy Efficiency Activities

39. Should a percentage of CRC auction revenues be top-sliced and either given to Carbon Trust/Salix or handed out to participants as credits/tokens? and;

If so, do you prefer Option A, paying 10% of auction revenue directly to Carbon Trust/Salix, or Option B paying 10% of each participant’s revenue recycling payment as ‘credits’? and;

What percentage of CRC auction revenue should be top-sliced and either given to Carbon Trust/Salix or handed out to participants as credits/tokens?

The proposal to top-slice auction revenues was perhaps the most controversial in terms of the degree of opposition to the approach amongst participants. Responses to the initial question on whether some of the auction revenue should be top sliced and recycled to the Carbon Trust/Salix demonstrated an overwhelming degree of opposition to this proposal (66% of those that answered the question did not agree). This view was also strongly expressed at workshops during the consultation period. Amongst those that answered the two sub-questions, the majority of respondents (62%) favoured the idea of paying some proportion of recycled revenues to participants in the form of ‘tokens’ rather than direct to the Carbon Trust/Salix, but with less clear consensus on what proportion should be recycled in this way.

This proposal was developed in response to suggestions during the previous consultation from businesses and other organisations (on measures for reducing emissions in the large non-energy intensive sector) that there could be some benefit in ensuring that a proportion of recycled revenues were spent on energy efficiency initiatives. However, there were clear concerns over the complexity of the proposed approach, along with a preference from participants to be free to invest their recycling payments as they choose. Therefore Government will not pursue this option. Government considers that the incentives inherent in the wider design of the scheme should encourage organisations to invest in energy efficiency measures, without more specific intervention of this kind.
Section 5. Monitoring, Reporting and Audit

Box 5.1 – Scheme Regulators

The role of regulator will be carried out by the relevant body in each part of the UK (i.e. the Environment Agency for England and Wales, Scottish Environmental Protection Agency for Scotland, and the Department of the Environment for Northern Ireland). The role of the regulator will include activities such as:

- Carrying out the registration process for scheme participants
- Carrying out desk based audits for those CRC organisations whose head office/main registered office (e.g. as under the Companies Act 2006) lie within their jurisdiction
- Carrying out any site audit in head offices within their jurisdictions, or, if necessary, at any site located within their jurisdiction but whose organisational head office is in another regulator’s jurisdiction
- Taking enforcement action against any organisation whose head office/main registered office (e.g. as under the Companies Act 2006) is in their jurisdiction, including action against companies failing to participate in the initial identification exercise or providing false or misleading information

The UK Government and the Devolved Administrations propose that the CRC scheme should be administered by the Environment Agency for the whole of the UK. Government proposes - subject to consultation on the CRC draft regulations - that the functions of the Environment Agency as UK-wide Scheme Administrator would include the following:

- Administering the process of identifying CRC participant organisations from company HQ returns
- Operating the registry and distributing allowances
- Running the auction
- Recycling the revenue
- Issuing guidance drawn up by all regulators
- Operating the safety valve
- Constructing and publishing the performance league table

5.01 Monitoring Energy Use

40. Do you agree with the Government’s proposal on what would be required within an ‘evidence pack’? If not, why not?
Amongst those that provided a response to this question, a significant proportion (82%) supported the requirements of an evidence pack as outlined in the consultation document. Some concerns were outlined in relation to reporting burdens for small sites, and over the quality of data available from suppliers. However, these should be addressed by the proposals related to the scheme de minimis (Questions 9-11) and through Government's wider work on improving energy metering and billing across the economy. The Annual Statement of Electricity and Gas consumption (as outlined in Box 5.5 below) should also help organisations to obtain high quality, consolidated data for use in their evidence packs.

Government will continue to work with both potential participants and stakeholders in order to further specify the exact nature of the evidence pack that will need to be maintained for those covered by the CRC. It should be emphasised that Government will continue efforts to ensure that data requirements are as light touch as possible, and that there will be no verification processes required under CRC. Participants will simply have to report and maintain their evidence pack, which would have to be presented to the Scheme Regulators should they be selected for audit under the risk-based audit regime. Government has decided that this evidence pack will have to be signed by a director of the organisation, as a means of ensuring that they are accurately and carefully maintained.

Government supports the suggestion made by a number of participants that development of an evidence pack ‘template’ should be considered as far ahead of the start of the scheme as possible. An outline of potential inclusions can be found in Annex 3 at the end of this document, and a more complete list will be included as part of the forthcoming consultation. It is anticipated that a draft template could be made available in the first half of 2009 with a final template to be published as part of wider scheme guidance (ahead of the start of the scheme in 2010).

Box 5.2 – Emissions Factors

In the consultation document, Government provided a set of emissions factors based on those used in the voluntary UK Emissions Trading Scheme (UK ETS), to calculate CO₂ emissions from different fuels.

Following further consideration within Government, it is proposed that the grid electricity emissions factor for CRC will now be based on the five-year rolling average emissions factor (currently 0.523 kg/CO₂/kWh). This is instead of using the long-term marginal emissions factor (0.43 kg/CO₂/kWh) as was used in the UK ETS. This change ensures that the CO₂ emissions from the use of electricity are more accurately represented within the reporting process, while keeping volatility to a minimum through use of a rolling average.
As highlighted in the previous consultation document, it is envisaged that the emissions factors would be revised only at the start of each phase (to take account of any changes). The grid electricity factor would be updated to the most recent five-year rolling average figure available. As this figure is based on a relatively short rolling average, it should not change a great deal between phases. Organisations would still be able to sensibly compare emissions reductions from grid electricity use against previous years when using the new figure.

5.02 Reporting Energy Use

41. Do you agree with this approach to reporting emissions from CHP?48

Responses to this question showed a significant level of support (71% of those that answered) for Government proposals for the treatment of Combined Heat and Power under the CRC. However, there were a high number of ‘not sure’ responses, which reflected the early stage of development reached in relation to this particular area of the policy. Accordingly, during the consultation period, a substantial amount of work was undertaken to clarify the position with respect to the treatment of CHP.

It was agreed from the outset of this work that the rules regarding CHP should be as simple as possible and applicable to all participants within the scheme; that CHP should receive full and fair reward within the CRC; and that significant distortions to the scheme and the wider economy should be avoided. Further, Government has sought to address the main stakeholder concerns as to the emissions factors associated with the import and export of heat and power, including in respect of boundary issues for CHP plants in EU ETS.

Within the CRC, participants must report all emissions arising from energy use within their organisation, subject to the de minimis rules outlined above (Questions 9-11). If a participant owns a CHP plant, the primary fuel input into CHP would need to be reported but not the use of electricity or heat from the plant. Imports of electricity from a CHP plant will incur the grid emissions factor per MWh imported. Similarly, for exports of electricity from CHP plant owned by CRC participants, the CRC organisation will receive an emissions ‘credit’, also at the grid factor. Heat would be zero rated for import and export.

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48 The proposal outlined in the consultation was for CHP plants to be reported on the basis of the fuel inputs, with any emissions associated with exported energy deducted from the CRC organisation’s emissions.
Government believes that this proposal for the treatment for CHP meets the criteria set out above and addresses stakeholders concerns – in particular, to maintain an emphasis on simplicity. To summarise the main points:

- The reporting requirements for all CHP plants will be the same
- Imports and exports of electricity will be treated equally – imports will need to be counted at 0.523kgCO₂/kWh, whilst exports will be credited at this rate. However, electricity exported from a CHP plant in EU ETS will be treated in line with other EU ETS generators – i.e. electricity exports can be netted off against all energy imports, but only up to zero (i.e. there cannot be a net carbon negative effect for the CHP process)
- The emissions factors will be:
  - Electricity – grid average (currently 0.523 kg/CO₂/kWh)
  - Heat – zero rated
- Where a CHP plant is in the EU ETS the fuel input and subsequent use of this specific generated heat and electricity by the same organisation will not be included within CRC

This approach ensures that all CHP plants covered by the CRC are treated the same, ensuring simplicity in the reporting process for organisations. No special treatment will be given to different efficiencies or size of plants. All CHP electricity imports and exports will be credited and debited at the same emissions factor – the CRC will therefore not provide any benefits or losses towards organisations importing and then re-exporting CHP electricity. This reflects the fact that organisations importing and then re-exporting CHP electricity are not taking any actions to reduce emissions.
Box 5.3 – Electricity Generating Processes

A number of respondents highlighted the need for clarification on how electricity used as an import into electricity generating processes would be treated within the scheme. Government proposes an approach that applies to both large and small generation (i.e. both power stations and CHP).

Where grid electricity is used as an input to an electricity generation process, Government proposes to allow the grid electricity input to be netted off against the grid electricity output over the course of each calendar year. For EU ETS covered electricity generation processes, CRC organisations will not be credited for electricity exports beyond the level of electricity imports for those processes over the course of each calendar year. As such, electricity used by EU ETS electricity generation processes would not be covered by CRC (irrespective of whether the EU ETS covered electricity generation process is a relatively small CHP facility at say a university or, at the other extreme, an EU ETS covered electricity generation process at a power station). This policy approach will be reviewed in light of experience from the introductory phase (especially given the context that many 'small emitter' installations may be removed from EU ETS from January 2013 as a result of the review of the EU ETS Directive). Importantly, in any case, organisations with electricity generation processes covered by EU ETS will not be wholly exempt – their office energy use emissions and other emissions outside CCAs and EU ETS (including electricity use) would be covered by CRC. Further consideration will be given in the forthcoming consultation on the CRC draft regulations to the coverage of energy consumption at power station sites not directly connected to the generation of electricity (for example in on-site offices, workshops, laboratories, visitor centres or canteens).

Similarly, where grid electricity is used as an input to a nuclear electricity generation process, Government also proposes to allow the grid electricity input to be netted off against the grid electricity output up to the level of imports over the course of each calendar year (i.e. CRC organisations will not be credited for electricity exports beyond the level of electricity imports for nuclear electricity generating processes over the course of each calendar year).

Government also proposes to exempt the net electricity used by pumped water storage facilities from CRC, as Government considers that CRC would not induce significant improvements in energy efficiency from such processes, where electricity constitutes the core business. Importantly, this approach would not exempt the overall companies that own pumped storage facilities or nuclear power plant (providing that the companies pass the general CRC inclusion threshold).
A number of policy options were looked at regarding the emissions factors. Having considered stakeholder views, Government has decided that a reasonable and fair approach would be to treat the electricity as grid average. This simplifies the reporting mechanism as there is no need to differentiate between CHP electricity and grid electricity, nor prove the direct relationship between the CHP plant and the user of the electricity.

The Government has also decided to zero rate all heat use. The reason for zero rating heat is to provide an incentive for CRC participants to import heat and so increase the size of the market for heat in the UK, resulting in an increased potential for CHP and the use of surplus heat (surplus heat is a by-product from power generation and some industrial processes). At present, the UK heat market is relatively under developed. As a result approximately 500TWh per year of surplus heat is disposed into the atmosphere and water courses in the UK. If heat markets were developed such that some of this heat could be used to displace on-site heat generation, it would result in significant carbon savings. The zero rating of heat will mean that all heat use is treated the same for reporting purposes, removing the need for the heat customer to keep documentary evidence on the source of the heat, for instance whether it was generated by burning biomass or gas (as any benefits of more efficient generation would have accrued to the generator). However, if a CRC participant owns a CHP plant outside EU ETS, the primary fuel input into CHP would need to be reported.

CHP plants that are owned by a CRC participant that are already covered by the EU ETS will be treated in line with other EU ETS generating plant. CHP plants in EU ETS will be reporting input fuels within the EU ETS and any electricity and heat export from the CHP within the installation will not be reported in the CRC. Exported electricity will be able to receive a credit only up to the point that it ‘nets off’ imported electricity.

Box 5.4 – Green Electricity Tariffs and On-site Renewables

**Green Electricity sourced from the grid**

The consultation set out Government’s position on the treatment of green tariff electricity within the CRC\(^{49}\). This position has not changed: any imported electricity will be treated as grid average – this includes energy purchased via a green tariff (irrespective of whether Renewables Obligation Certificates (ROCs) are purchased by the participant alongside or as part of the ‘green’ electricity package). Although the CRC will not create additional incentives to purchase green tariff electricity it will not penalise or create disincentives for its purchase. This is consistent with the approach taken under UK ETS and CCAs – and is consistent with the focus of CRC on actions taken by the end user organisation. Moreover, Government wishes to ensure that the carbon

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\(^{49}\) See section 26.1 of the consultation document.
savings from CRC are *additional* to those that will be delivered by the Renewables Obligation (RO).

For those organisations that import ‘renewable/green electricity’ via the grid, they will report this within CRC at the grid emissions factor.

In the longer term, given a substantially greater supply of renewables (in light of improvements in the planning system), retiring ROCs could guarantee additional renewables (as opposed to increased use of the Renewables Obligation ‘buy-out’ price). Accordingly, over the longer term, if the ROCs market develops in this way, Government could then consider crediting ‘renewable electricity’ within CRC (in those cases where ROCs are retired as part of the “green electricity” package).

**On-site renewables where ROCs are not claimed**

In the consultation document, Government also proposed that where organisations generate their own electricity from renewable sources, and do not claim ROCs for this electricity, their emissions from this energy use would be zero-rated, therefore receiving credit for the carbon savings within the CRC.

This proposal is aligned with the CRC’s aim of crediting participants for renewable energy where it is additional to that delivered by the Renewables Obligation. In particular, new microgeneration built to take advantage of CRC incentives (and not claiming ROCs) would be a prime example of where the CRC can play a valuable complementary role to the Renewables Obligation.

For on-site renewable electricity where ROCs are not claimed, the organisation will for information purposes have to report that electricity as on site zero-rated generation rather than as an ‘import’ (see diagram below) – since the renewable electricity would have a ‘zero rated’ carbon impact. This information would be used to enable Government to understand where CRC is incentivising additional on-site renewable generation. If this electricity is exported, it will be credited at a rate of minus 0.523tCO₂/MWh. Hence, if this electricity is exported, the net overall reporting impact is minus 0.523tCO₂/MWh.
Under this approach, the credit for the emissions reductions will accrue to the generator, rather than the importer of the electricity. This is in line with the treatment of other electricity generation technologies whose generation is covered by CRC.

**On-site renewables where ROCs are claimed**

Where ROCs have been claimed by organisations that have generated renewable electricity, the carbon savings resulting from that ROC will already have been accounted for by the RO, and Government would not wish to double count carbon savings from the Renewables Obligation (RO) and CRC. Therefore, additional emissions reductions are not delivered by allowing ROC-claimed electricity to receive recognition under CRC.

Government is committed to ensuring that CRC delivers additional carbon savings, over and above those already delivered by the Renewables Obligation. Any renewable electricity generated on-site for which ROCs are claimed will therefore need to be reported by CRC organisations as an ‘import’ at the standard CRC grid emissions factor (see diagram below). As with all export of electricity from generation covered by CRC, the export of ROC-claimed renewable electricity will attract a credit of 0.523tCO2/MWh, however, the organisation will have had to report this electricity as an import when produced, hence the net reporting impact is zero.
5.03  **Improving Billing and Metering**

42. What in your experience is the extent of estimated billing for energy use on which CRC returns would be based?

43. Do you think that there should be an adjustment factor for any estimates of energy use from individual sources in a CRC organisation, to encourage operators to read their own meters, or press for accurate bills from their suppliers?

If so, is 10% the right figure to apply?

44. Are there any other suggestions for reducing reliance on estimated bills?

Responses to the first of these questions suggested that overall, the level of estimated billing was relatively low across the sector, but that it varied substantially across organisations. Respondents to Question 43 showed a reasonably high level of support (61%), for the idea of an adjustment factor being applied to estimated bills, recognising the value of increasing the accuracy of energy billing for management purposes.

However, responses to this question, and the second part of the question highlighted that application of an adjustment factor needed to take into account a number of factors, including the scale of the problem and the definition of ‘estimated bills’. Accordingly there was some disagreement as to what the figure should be, with 41% of respondents to the question supporting the use of a figure of 10%. A smaller percentage of respondents suggested that the figure should be substantially higher, whilst others suggested it should be lower. In the light of these mixed views, Government has decided to take forward a value of 10%. There are clear benefits to encouraging better
monitoring of energy use in this way, and a figure of 10% should provide a sufficiently strong incentive to participants. For those organisations concerned that they have a large number of very low usage sources, with a high proportion of estimated bills, the *de minimis* proposals set out above should provide a means through which the least cost effective sources could be excluded from the scheme.

Government is aware of stakeholder uncertainty as to the definition of estimated billing. In order for a bill not to be classed as estimated, Government is proposing that a CRC organisation must provide evidence, which could be via the Annual Statement of Electricity and Gas consumption or energy bill, that they have actual meter reading or self meter reading for a period of at least six months in a reporting year. If an organisation is able to provide such evidence then Government is proposing that these figures will not be considered as an estimate and will not incur the 10% adjustment factor. Also, as stated under Question 14 above, pseudo half hourly metering applied to UMS would not count as an estimated bill. Government will invite views as part of the consultation on the CRC draft regulations as to the definition of estimated billing.

Suggestions of additional/alternative ways to reduce the reliance on estimated bills, in respect of Question 44, included a greater roll out of smart meters as standard, better data and higher rates of readings by suppliers and a focus on better metering (data) for gas use. Ideas such as these are central to the wider proposals recently put forward by DBERR. Defra will continue to work closely with DBERR, Devolved Administrations, energy suppliers and other stakeholders to ensure that participants can meet their reporting requirements under the CRC as easily as possible.

**Box 5.5 – Annual Statement of Electricity and Gas consumption**

In the consultation document Government proposed to introduce an obligation on energy suppliers to produce an Annual Statement of Electricity and Gas consumption, should such a statement be requested by a CRC participant. The Annual Statement of Electricity and Gas consumption would relate only to the supply of electricity and gas, as these are the major fuels within the CRC, and requiring statements in relation to other fuels would be substantially more difficult for suppliers.\(^{50}\)

Government is proposing that suppliers would be required to provide an Annual Statement for any gas or electricity supply contract related to a CRC participant, should the participant make the request prior to 1 November each year. Suppliers would then be required to provide the Statement to participants by the end of February the following year – i.e. they would have

\(^{50}\) In the case of electricity and gas, CRC participants may find it helpful to request Annual Statements of electricity and gas consumption from the energy suppliers. However, CRC participants will remain legally responsible for collating information in respect of all energy use (including energy use such as coal and LPG, as well as from electricity and gas).
four months to respond. The CRC organisation then has two months to calculate their emissions before the CRC reporting deadline at the end of April.

Suppliers would not be required to produce such a statement if they are not requested to do so (or if the request is made after 1st November) – i.e. it will be the responsibility of the participant to contact their supplier(s) to request an Annual Statement (or indeed a series of annual statements in respect of each separate contract) – specifying which supply contracts the Annual Statement should apply to.

Information that would be provided on the statement is listed below:

- Name of the CRC organisation (as specified by the applicant)
- Name of the counterparty to the supply contract (for each supply contract for which an annual statement has been requested)
- A list of all unique meter identification numbers/codes under the relevant supply contract
- Next to each unique meter identification number/code, the total annual energy consumption through that meter, covering energy consumption between 1 January and 31 December. (In cases where suppliers have changed during the year, each supplier would provide a statement of emissions to cover their part of the reporting period)
- Specification of whether each figure relates to actual, self read or estimated meter readings

It is Government's intention that the legal obligation for energy suppliers to supply an annual statement of Electricity and Gas consumption, when requested on time, will take the form of a statutory duty. Failure to comply with this duty would therefore, in general, be a matter for resolution between the CRC participant and its supplier(s). It is likely that specific penalties would apply in the case of systemic failures to comply with this duty (see Questions 48, 49 and 50 for further details on the wider approach to penalties within the CRC). Government will continue to work with stakeholders on developing requirements for the Annual Statement, details of which will be published as part of the consultation on the CRC draft regulations.

### 5.04 The Registry

45. Does your organisation have previous experience of using other similar online registries?

If yes, which registry/registries does your organisation have experience of and what features worked well/badly (please specify)? and;

46. Do you have any further comments or suggestions in relation to the features and functions the CRC registry should have?
Around 50% of respondents indicated that they had previous experience of using similar online registries. Although a number of registry systems were mentioned, the vast majority of respondents had previous experience of either the EU ETS or the UK ETS and CCA registries.

The comments received on what does and does not work on existing systems were extremely helpful, as were suggestions of the features and functions the CRC registry should have. Government will feed these into the ongoing development of the CRC registry and build on the experience from the EU ETS and UK ETS models. There will be further opportunity for stakeholders to comment on the design and construction of the system in due course.

5.05 Enforcement, Offences and Penalties

47. Do you agree that organisations that fail to provide the necessary evidence for exemption on CCA grounds within the required timescales should remain in the scheme?

The vast majority of respondents to this question (82%) agreed that those organisations failing to provide evidence in relation to a possible exemption from the scheme on CCA grounds should remain in the scheme. Amongst respondents, it was highlighted that key timescales would need to be defined. In early 2009, the Environment Agency (as Scheme Administrator) will formally notify all owners of half hourly metering systems in Great Britain (and 70kVA metering systems in Northern Ireland) – sending out a ‘qualification pack’. As set out above (see Question 7 above), Government proposes that, in respect of the introductory phase, those organisations seeking exemption will need to monitor their emissions and notify the Environment Agency (as Scheme Administrator) of their desire to be exempted, by June 2009, at the latest. To be exempt, a subsidiary organisation must have at least 25% of its total energy use emissions covered by CCAs (and, where no subsidiaries exist, the 25% threshold applies to the entire CRC organisation). As stated in response to Question 9, Government will allow energy bills, including estimates, to be used in this exemption calculation and does not regard the data requirements or timescales as overly onerous. Accordingly, any organisation that fails to provide the necessary evidence in time to secure a CRC exemption will be required to participate in CRC until the next phase.

In addition to the formal notification in 2009, a one-page flyer is being sent out to all owners of half hourly metering systems in Great Britain (and 70kVA metering systems in Northern Ireland), to raise awareness of the scheme and the 2008 qualification year.

48. Do you agree that a more moderate fine can be applied to over-reporting of emissions than under-reporting?
The majority of respondents (72%) to this question agreed with the proposal to apply a more moderate fine in the case of over-reporting. As noted by a number of participants, other incentives within the scheme (such as the league table) should go some way to ensuring that over-reporting is minimised, but that some level of penalties was necessary in order to avoid perverse incentives to over-report in the early years of the scheme in order to benefit from apparent reductions in later years.

Some respondents suggested that it was important to distinguish between significant and minor over-reporting, especially in the light of potential data inaccuracies. In this respect, Government proposes that, in assessing whether fines are appropriate in the case of over-reporting, a materiality test will be applied. As described in the EU ETS Monitoring and Reporting Guidelines\(^{51}\), if an installation submits/reports incorrect data, a materiality test is carried out on the extent and effect of the inaccuracies.

As a broad guide, a misstatement (i.e. an omission, misrepresentation or error) will be material if it leads an error (either positive or negative) in the total emissions figure of more than 5%. Government is eager to establish a similar and appropriate materiality test for misstatements on annual emissions lodged by CRC participants. Furthermore, within the CCA scheme, Government has a specific approach with respect to voluntary identification of errors, and a similar approach may be desirable within CRC. We will consult further with stakeholders on these issues in the forthcoming consultation.

More broadly, the EU ETS Monitoring and Reporting Guidelines require annual emission reports to be verified as satisfactory that the emissions are not materially misstated. By contrast, the monitoring and reporting aspects of CRC will be based on self certification - where initially around 20% of organisations would be audited annually. CRC will not have 100% independent third party verification as in EU ETS (in which all sites have to be verified) or even UK ETS (in which all organisations had to be verified). This means CRC will require strong penalties, to deter abuse and secure compliance.

49. Do you agree with the overall approach towards penalties – of proportionality between the offence and the penalty?

50. Do you agree with the proposed approach on penalties in respect of the offences listed\(^{52}\)?

If not, please state areas where you have substantial concerns.


\(^{52}\) Offences listed included failing to register to participate in the scheme; providing false information to secure a CCA exemption; failure to open a registry account; failure to provide annual data on time; provision of false emissions data; failure to surrender an appropriate number of allowances; and failure to pay for allowances.
Responses to these questions showed comprehensive support for the principal of proportionality in the application of fines (90%), and strong support for the penalties in respect of the offences listed (78%). Some respondents sought further clarification on the audit regime for the scheme (see Box 5.6 below), while a number of responses also highlighted the need to provide further information on the extent to which different penalties might be applied to different ‘degrees’ of offence.

Further work is required to add detail to the proposals related to penalties within the scheme. Government will continue to work closely with scheme regulators to ensure that the final regime is robust, comprehensive and transparent, striking a balance between maintaining incentives to comply, while avoiding penalties that are excessively severe. In constructing the regime, Government will draw upon the experiences gained through other policies, such as the EU ETS. In order to ensure that participants have as much clarity of penalties as possible, details will be included in the summer 2008 consultation on the draft CRC regulations.

**Box 5.6 – Risk-Based Audit**

Government has decided to proceed with a risk based audit approach where, during the introductory phase, 20% of CRC organisations will be audited annually. Government will consider the level appropriate for the scheme’s subsequent capped phase in light of the experience gained during the introductory phase. If the Environment Agency and Devolved Administration regulators find high levels of compliance and good reporting, then the annual percentage of CRC organisations audited could potentially be reduced in the capped phase. In any case, this type of approach will retain the scheme’s integrity and make it substantially lighter touch than either the UK ETS (which required third party verification of all organisations every year\(^\text{53}\)) or the EU ETS (which requires third party verification of all sites every year).

It is proposed that an audit would initially be a desk-based assessment of the evidence supporting the reported data. Site visits would result if there are information discrepancies which cannot be resolved by dialogue with the participant. The audits would run on a rolling annual programme, so could occur at any point in the year. During the first year it is envisaged that the Regulators will issue guidance for participants in order for them to understand the compliance requirements of the scheme, and to establish best practice for reporting.

Government is currently working with the Regulators to develop a risk assessment framework for selecting organisations for audit. Preliminary risk assessment framework criteria being considered include:

\(^{53}\) Within CCAs, independent third party verification is required whenever an organisation wishes to convert any overachievement into allowances
• Energy usage
• Compliance record
• Performance in the league table
• Information exchange
• Frequency

Energy usage

It is proposed that organisations could be selected for audit depending on how much energy they use. It is anticipated that the CRC sector will cover a broad spectrum of energy usage. Organisations could then be selected for audit from each of these energy usage bands. It is anticipated that more information on energy usage, and hence the various energy usage bands, within the CRC sector should be available once the participant identification process has been completed (in 2009).

Compliance record

It is proposed that organisations could be selected for audit based on their compliance record on registration, sale/auction, reporting and surrendering of allowances requirements. For example, a potential factor which could be taken into account when selecting an organisation for audit, is whether it has self-registered for the scheme or has only registered after repeated requests to do so from the Scheme Regulators.

Performance in the league table

It is proposed that organisations could be selected for audit depending on their position in the performance league table, e.g. best and worst performers and major movers (i.e. where an organisation’s position in the league table has substantially changed).

It is proposed that by auditing a sample of the best and worst performers this would 'validate' the reported performance and give the opportunity for dialogue with the CRC participant to understand what they are doing. Findings could then be shared with other CRC participants. For the worst performers, it is considered audits should be more likely, in-line with a risk based approach.

Frequency

Following receipt of compliance data for the first year of the scheme, it may be that the same organisations would not be audited again in the subsequent year unless there was a specific reason to do so.
Annex 1 – An Illustrative Example of the Recycling Payment in the Third Year of the Scheme

Example only uses 10 participants for simplicity - the actual bonus or penalty percentage will be spread on a linear basis (from a maximum of 30% through to -30%) between the first and last participant.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Yr 3 quantity of allowances purchased</th>
<th>Yr 3 auction revenue paid £ (ii)</th>
<th>Yr 3 Actual emissions tCO2 (iii)</th>
<th>Yr 3 League table position</th>
<th>2009 emissions tCO2 (iv)</th>
<th>bonus/penalty % (v)</th>
<th>Recycling payment score (vi)</th>
<th>% total recycling score</th>
<th>Yr 3 revenue recycling payment £ (vii)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>800</td>
<td>£9,600</td>
<td>750</td>
<td>1</td>
<td>1000</td>
<td>30%</td>
<td>1300</td>
<td>15%</td>
<td>£16,003</td>
</tr>
<tr>
<td>B</td>
<td>200</td>
<td>£2,400</td>
<td>210</td>
<td>2</td>
<td>250</td>
<td>15%</td>
<td>288</td>
<td>3%</td>
<td>£3,539</td>
</tr>
<tr>
<td>C</td>
<td>90</td>
<td>£1,080</td>
<td>90</td>
<td>3</td>
<td>100</td>
<td>10%</td>
<td>110</td>
<td>1%</td>
<td>£1,354</td>
</tr>
<tr>
<td>D</td>
<td>2400</td>
<td>£28,800</td>
<td>2500</td>
<td>4</td>
<td>2700</td>
<td>5%</td>
<td>2835</td>
<td>32%</td>
<td>£34,899</td>
</tr>
<tr>
<td>E</td>
<td>200</td>
<td>£2,400</td>
<td>300</td>
<td>5</td>
<td>300</td>
<td>0%</td>
<td>300</td>
<td>3%</td>
<td>£3,693</td>
</tr>
<tr>
<td>F</td>
<td>2100</td>
<td>£25,200</td>
<td>2050</td>
<td>6</td>
<td>2000</td>
<td>0%</td>
<td>2000</td>
<td>23%</td>
<td>£24,620</td>
</tr>
<tr>
<td>G</td>
<td>230</td>
<td>£2,760</td>
<td>250</td>
<td>7</td>
<td>200</td>
<td>-5%</td>
<td>190</td>
<td>2%</td>
<td>£2,339</td>
</tr>
<tr>
<td>H</td>
<td>110</td>
<td>£1,320</td>
<td>140</td>
<td>8</td>
<td>100</td>
<td>-10%</td>
<td>90</td>
<td>1%</td>
<td>£1,108</td>
</tr>
<tr>
<td>I</td>
<td>1200</td>
<td>£14,400</td>
<td>1500</td>
<td>9</td>
<td>1000</td>
<td>-15%</td>
<td>850</td>
<td>10%</td>
<td>£10,464</td>
</tr>
<tr>
<td>J</td>
<td>1700</td>
<td>£20,400</td>
<td>2000</td>
<td>10</td>
<td>1200</td>
<td>-30%</td>
<td>840</td>
<td>10%</td>
<td>£10,341</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9030</strong></td>
<td><strong>£108,360</strong></td>
<td><strong>9790</strong></td>
<td><strong>8850</strong></td>
<td><strong>0%</strong></td>
<td><strong>8803</strong></td>
<td><strong>100%</strong></td>
<td><strong>£108,360</strong></td>
<td></td>
</tr>
</tbody>
</table>

Recycling payment calculation

Notes
(i) Participants can purchase as many or as few allowances in the sale/auction as they desire - allowances not required can be sold to other participants or banked for use in future years.
(ii) Example uses £12/tCO2 and does not include any money paid for allowances on the secondary market, or through the safety valve.
(iii) Participants will have to retire sufficient allowances to cover their actual annual emissions - additional allowances can be purchased from other participants or through the safety valve.
(iv) Participants will receive a recycling payment proportional to their 2009 emissions (not their current year).
(v) For illustration only; the actual bonus or penalty will be spread on a linear basis (from a maximum of 30% through to -30%) between the first and last participant and will be determined by a participant’s position in the performance league table based on three metrics.
(vi) Recycling payment score = 2009 CO2 emissions multiplied by bonus/penalty. Note: this column used to illustrate the way in which the revenue recycling payment is calculated and would not feature in the published league table.
(vi) % total recycling score = Participant's recycling score divided by the total recycling score
(vii) Total auction revenue multiplied by participant's % of total recycling score
The table above demonstrates how revenue would be recycled to participants in the CRC in Year Three of the scheme. In the example, organisations A-J forecast their emissions and all buy allowances accordingly at £12/tCO₂ in the fixed price sale at the start of the emissions year. The total value of allowances bought is £108,360. Organisation D forecasts emissions of 2,400 tCO₂ and buys 2,400 allowances at a cost of £28,800 to cover these emissions.

During the ensuing emissions year, participants collect and collate their emissions and may find they have bought too few allowances in the initial sale (and therefore need to buy more allowances to cover their actual emissions e.g. through the secondary market), or have bought too many in the initial sale and sell them (again, through the secondary market). Accordingly the actual quantity of emissions – and hence number of allowances retired – for each participant (iii) may not match the number of allowances originally purchased. For example, Organisation D finds that its emissions were in fact 2,500 tCO₂ and thus buys 100 allowances from another participant.

On the basis of their performance against the three different metrics (figures for this are not shown), the organisations are then ranked from 1-10. As the scheme is in its third year, the maximum bonus/penalty is 30%, with positions in between first and last place assigned a bonus/penalty rate on a linear scale between these extremes. Organisation D has achieved a reduction of 200 tCO₂ relative to its 2009 emissions of 2,700 tCO₂, and achieves fourth position in the league table. Accordingly, D is awarded an amount proportional to its 2009 emissions, with an additional 5% bonus.

To calculate each organisation’s recycling payment:

1. Participants are assigned a ‘Recycling Payment Score’ calculated from their 2009 emissions multiplied by their bonus/penalty factor – For example, Organisation D receives a Recycling Payment Score of 2835 (2,700 (its 2009 emissions), multiplied by 5% (its bonus or penalty factor)).
2. All the participants’ Recycling Payment Scores are then summed to generate a Total Scheme Recycling Payment Score (8803).
3. Participants are then assigned a percentage proportion of the Total Scheme Recycling Payment Score based on their Recycling Payment Score as a proportion of the Total Scheme Recycling Payment Score. For example Organisation D scores 32% (2835/8803 x 100 = 32%).
4. Participants are then paid a proportion of the total revenue raised from the auction (£108,360) based on their proportion of the Total Scheme Recycling Payment Score. For example, Organisation D receives a payment of £34,899 (£108,360 x 32% = £34,899).

Performing the calculation in this way ensures that the amount of revenue recycled is always equal to the total ‘pot’ available. Importantly, in this instance Organisation D receives more money in its recycling payment than it paid into

54 Alternatively the organisation could bank the allowances for use in future years.
the auction, however, this does not take account of the money it has spent on the 100 allowances on the secondary market.
Annex 2 – Minimum Standards for Automatic Meter Reading

This annex set out Government's initial proposal on the minimum standard for both electricity and gas Automatic Meter Reading (AMR). Government will consult on the proposed minimum standard for both electricity and gas AMR in the consultation on the regulations of CRC.

In June 2007 Government consulted on an AMR metric\textsuperscript{55}, for inclusion in the performance league table alongside the absolute metric. This metric was proposed in response to concerns from stakeholders that they wish to see ‘early action’ credited within the scheme. The AMR metric was chosen as a proxy for ‘early action’ on the basis that, according to both anecdotal evidence and research undertaken by the Carbon Trust\textsuperscript{56}, those who have voluntarily installed AMR tend to be those that have also taken steps to manage and reduce their energy usage – with associated emissions reduction benefits.

While respondents have shown strong support for the inclusion of the AMR metric, Government must still specify the minimum standard of AMR to which reward will be attributed. In order to establish a suitable minimum standard of AMR for CRC, Government looked at a number of AMR existing standards. Out of the all the standards considered, two stood out:

- The Enhanced Capital Allowances Energy Technology Criteria List 2007: Energy Services and Technology Associations (ESTA) standards for Automatic Monitoring & Targeting (aM&T) equipment\textsuperscript{57}
- The Office of Government Commerce (OGC) Best Practice Guide for AMR\textsuperscript{58}

Both of these independent documents set out similar standards for AMR, and provide a useful guide as to what the minimum criteria could be set at for the purpose of establishing a minimum standard of AMR for CRC. In addition, Government identified four key high-level components that need to be considered when choosing a minimum AMR standard for the CRC, these criteria are:

1. Contribution towards overall aim of CRC e.g. reduction in emissions from energy use.
2. Consistency with existing metering standards or other metering standards that industry is working towards.

\textsuperscript{55} In which performance would be measured by the extent of Automatic Meters installed by participants above and beyond those required by law.

\textsuperscript{56} http://www.carbontrust.co.uk/technology/technologyaccelerator/advanced_metering.htm


\textsuperscript{58} http://www.ogc.gov.uk/documents/automatic_meteringAR.pdf
3. Economic burden on those organisations captured by the CRC.
4. Ease/cost of administration.

“Ideal” specification

Government considers a standard equivalent to a Code of Practice 5 (CoP5) Meter standard would be close to ideal. This specification exceeds three of the criteria. Firstly, it is an effective and efficient way of targeting carbon abatement through reducing energy consumption. It is the current industry standard and as such is easy and cost effective to administer. However, it is deemed too costly on the economic burden criteria: it costs between £400-800 to install and between £500-1000 on annual operation charges.

Proposed minimum standard

Table 1 outlines Government’s initial proposals on the minimum standard for both electricity and gas AMR, based on the four criteria described above:
<table>
<thead>
<tr>
<th>Minimum Requirements</th>
<th>Electricity</th>
<th>Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AMR</strong></td>
<td>- Class 2 accuracy</td>
<td>- 1. flow rates up to 1600m3/hr - Ofgem or EEC stamped meter (or a meter conforming to the MID)</td>
</tr>
<tr>
<td></td>
<td>- Ofgem approved⁵⁹</td>
<td>- 2. flow rates over 1600m3/hr - an Ofgem or EEC stamped meter (or a meter conforming to the MID) evidence shall be provided to ensure that the meter conforms to the accuracy requirements of a MID Class 1.5 meter</td>
</tr>
<tr>
<td></td>
<td>- Communications output compatible to the relevant IEC⁶⁰ standard (one-way communication)</td>
<td>- Supplementary electrical equipment shall conform to relevant ATEX requirements</td>
</tr>
<tr>
<td></td>
<td>- Capture, storage and retrieval of data</td>
<td>- Should be installed by an Ofgem Approved Meter Installer (OAMI)</td>
</tr>
<tr>
<td></td>
<td>- Data recorded at a frequency of each half hour by a data acquisition system capable of converting data to provide key consumption information to the user covering:</td>
<td>- Capture, storage and retrieval of data</td>
</tr>
<tr>
<td></td>
<td>1. load and consumption profiles</td>
<td>- Data recorded at a frequency of each half hour by a data acquisition system capable of converting data to provide key consumption information to the user covering:</td>
</tr>
<tr>
<td></td>
<td>2. half hourly, daily, weekly, monthly and annual comparison</td>
<td>1. load and consumption profiles</td>
</tr>
<tr>
<td></td>
<td>- Device capable of recording quantities of electricity recorded by the meter shall be built into the meter or fitted stand alone</td>
<td>2. daily, weekly, monthly and annual comparison</td>
</tr>
<tr>
<td><strong>AMR Software</strong></td>
<td>- Analysis, production and communication of ‘consumption’ data from meters, sensors and manual input.</td>
<td>- Data logger should be zone zero rated</td>
</tr>
<tr>
<td></td>
<td>- Local storage data and interval data</td>
<td>- Installer must be compliant with relevant IGEM standard (IGE/GM/7)</td>
</tr>
<tr>
<td></td>
<td>- Information should be displayed in text, tabular and/or graphical form.</td>
<td>- Device capable of recording quantities of gas recorded by the meter shall be built into the meter or fitted stand alone</td>
</tr>
<tr>
<td></td>
<td>- Potentially an internet-based service.</td>
<td></td>
</tr>
</tbody>
</table>

⁶⁰ IEC 62056, also called DLMS/COSEM is an international standard for a computer protocol to read utility meters and is designed to operate over any media, including the internet.
Assessment against 4 criteria:

The minimum specifications included in the table are broadly consistent with the 4 overarching criteria identified in the paper. Additional comment on certain criteria is outlined below.

Electricity

Communication – Whilst two way communication is desirable, only one way communication should be required for the purposes of CRC. Any benefits of two way communication accruing to a supplier, whilst not unhelpful, are not critical to reducing emissions.

Frequency – Half hourly information should be required as knowing the load profile throughout the day is crucial to targeting and reducing carbon emissions.

Gas

Gas metering is less developed and more expensive than their electricity counterparts.

Communication – Whilst two way communication is desirable, only one way communication should be required for the purposes of CRC. Any benefits of two way communication accruing to a supplier, whilst not unhelpful, are not critical to reducing emissions.

Frequency – Whilst half hourly data is desirable, it has historically been disproportionately costly on gas meters, hence, the next best alternative which is daily information should be required.

AMR Costs

A study carried out by Energywatch in 2007 estimated the cost of electricity smart meters will be in the range £50-70 (and £65-95 for gas).
Annex 3 – Evidence Packs

This annex is provided to give an indication of what may be included in an evidence pack. The final evidence pack rules/guidance will be issued at a later date.

Context

CRC participants will submit annual data statements to the Scheme Administrator/Regulator on a self-certified basis. Participants will need to be able to produce for audit the detailed data on which the overall annual figures are based, this data should be based on 'primary' documents, (i.e. original copies of supplier annual statements, energy bills, meter readings, delivery notes, invoices etc, summary records will not be sufficient). The Scheme Administrator/Regulator will carry out risk-based audits to check the accuracy of data being submitted to them. The detailed data should be collated into an Evidence Pack which will be key to the audit, and should contain data for all annual submissions to date and should be retained for the duration of the organisation’s participation within the scheme.

Submission of the information required in the annual data statement is mandatory. The Scheme Administrator/Regulator will encourage participants to collate the information listed below in their Evidence Pack.

Audit trails are easiest to keep for metered supplies, primarily electricity and gas. It is estimated that over 80% of energy used by CRC organisations is in this form. The remaining energy will mainly be oil products or liquefied petroleum gas (LPG), which is supplied in batches and is sometimes bought from many different suppliers on a spot market basis (rather than longer term contracts as is the case for electricity and gas). Oil products and LPG are sometimes metered but this is less common than for electricity and gas.

The nature of the information to be kept in an Evidence Pack relates to the type of metering used to measure the energy consumption and the confidence that the Scheme Administrator/Regulator can have in that data. For example, data from 100 kW metering systems (half hourly metering systems) provides much more confidence than the records available for batch supplies of oil. The Evidence Pack requirements will provide participants with additional incentives to install Advanced Meter Reading (AMR) wherever possible, if the AMR requirements are least onerous.

Data to be reported

Based on the current proposals, the data reported annually to the regulators would include:

- organisation details (i.e. highest UK parent organisation name, contact details, details of person(s) designated responsible for CRC data);
• annual organisation-wide energy consumption;
• organisation-wide AMR metric (for the first year of the introductory phase only); and
• annual organisation-wide growth metric.\(^{61}\)
• as above for ‘significant’ subsidiaries

**Information to be included in the evidence pack**

The evidence pack can be split into three parts:

- **Structural records** are required to define the organisation, setting out the organisational hierarchy (e.g. an organogram showing the highest UK parent company and all of its subsidiaries) where applicable. These records will also include a source list to identify which sources of emission are included in the scheme (important for non-metered supplies such as street lighting) – this list will also give some indication as to which energy/fuels types are used within the organisation.

- **Data records** are required to show the annual consumption of energy. These records should enable the verification of the accuracy of the energy data provided. Some examples of data records which could be included in the evidence are:
  - Copies of the annual statement of electricity and gas consumption
  - Copies of monthly invoices for each energy stream, e.g. electricity, gas, and fuel oil.

Where half hourly or AMR electricity metering systems are not available, utility company meter readings (meter profile classes 5 – 8) should be the principal source of data, but if ‘own meters’ are used instead of utilities’ meters, verifiable records of such readings should be included. In this situation evidence of suitable correlation between ‘own meters’ and utility meters should be included in the pack. A similar process is suggested for all other energy streams. These data should also include records to support any exemption or the application of a de minimis threshold based on a proportion of energy use (i.e. for CCAs or the EU ETS). If the growth metric is included in the league table, a record of the organisation’s annual turnover should also be retained.

- **Special event** records should be maintained to keep an audit trail of unusual events e.g. the actions taken following a meter failure.

\(^{61}\) Data in relation to both the AMR and the growth metric would be optional. However, if organisations declined to submit such data, they would score zero in the relevant metrics.
Structural Records

Amongst other things, these records will provide an indication of the extent of automatic meter reading within an organisation and so allow the auctioning revenue to be recycled on that basis (and, if adopted, an adjustment factor to be applied).

1. **For each organisation**, information about the organisation (including the highest UK parent organisation’s registered name and office, its structure (e.g. subsidiaries) and contact details), a detailed list of sites that are covered by the CRC, including address and postcode. The name of the person(s) designated with responsibility for managing the collation of data and submission of the organisations annual emissions. Copies of any written procedures that cover the data collection, handling, aggregation from site to organisational level, transfer and error checking.

2. **For each source**, details of its location, type of source (e.g. electricity, gas, oil etc) and MPAN/Meter Point Reference Numbers (MPRNs) in Northern Ireland.

3. **For electricity and gas supplies from utility companies**, a list of all supply meters with a record of the meter type (e.g. manual, 100 kVA etc) and the official meter identifier, the meter’s accuracy and who is responsible for accuracy of the information supplied from that meter.

4. **For non-utility company meters** (e.g. when a sub-meter is required in a landlord-tenant relationship) a list of relevant meters and their “unofficial” identifiers. Note that in some cases a sub-meter may be used to subtract energy that is being ‘exported’ (e.g. to facilitate the proposed treatment of CHP and renewables).

5. **For bulk supplies** (e.g. oil) a record of all suppliers used and of the on-site storage capacity. Also, the exact type of fuel being used (e.g. gas oil, medium fuel oil etc.) as this will affect the amount of CO₂ emitted. These records should be verifiable by supplier's invoices or other suitable methods of primary data.

Data Records

The approach to be taken will depend on the type of meter or fuel supply. Table 1 below describes the requirements summarised by fuel supply type.
<table>
<thead>
<tr>
<th>Supply Type</th>
<th>Evidence Pack Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 kW Metering System</td>
<td>A statement of the total annual kWh consumption based on the records collected by the Utility Company. This can be for the exact 12 month period for the “CRC Data Collection Year”.</td>
</tr>
<tr>
<td>AMR Electricity Meter, with data collected and stored by Utility Company or their meter reading company.</td>
<td>As 100 kW Metering System</td>
</tr>
<tr>
<td>AMR Electricity Meter, with data collected through an in-house system.</td>
<td>As mandatory 100 kW Metering System plus extra information providing an audit trail for the data being collected on a regular basis.</td>
</tr>
<tr>
<td>Manual Electricity Meter</td>
<td>Evidence of the meter reading at the beginning and end of the CRC reconciliation year. Ideally this should be an in-house meter reading on the start and finish date, backed up by external evidence to support the reading i.e. meter reads on utility bills near the start and end dates. Where no in-house reads are done the data can come from the Annual Statement or must be extracted from the utility bills, with a 'calendarisation correction' made to estimate the amount used in the exact CRC reconciliation year. A record of the way this correction calculation is made should be kept in the Evidence Pack. Where the relevant Utility Bills are based on estimates this must be recorded in the Evidence Pack.</td>
</tr>
<tr>
<td>Gas Meters</td>
<td>The rules for electricity meters are generally applicable to gas meters of equivalent types (e.g. AMR, manual). For gas it should be noted that supply pressure and calorific value can vary and may need to be taken into account. Utility companies make much more use of estimated readings for gas than for electricity and there is very little AMR. This will generally make it harder to keep a good audit trail for gas data in the early days of the scheme.</td>
</tr>
<tr>
<td>Bulk supplies e.g. oil, LPG, coal.</td>
<td>It will be necessary to keep a record of every delivery to site to calculate the total amount delivered in the CRC Data Collection Year. This must be backed up by records from suppliers e.g. delivery notes or statements. A record of stock level (e.g. tank level) at the beginning and end of the year should be kept and the annual consumption figure calculated.</td>
</tr>
</tbody>
</table>
For each type of supply, an organisation would record whether that energy use was covered by either a CCA or the EU ETS in order to facilitate any exemptions or to support the inclusion of a source under a *de minimis* rule.

If the growth metric is used in relation to the league table, information used to construct the metric should also be recorded for audit. For private sector companies this should include the audited turnover figure and for public sector organisations revenue expenditure, with details of the document in which the figure was published.

**Special Event Records**

It is important to keep records of events that may influence the accuracy of the audit trail. Three common examples are:

1. A change of energy supplier. This will mean that data from 2 sets of energy bills may be required to establish the annual consumption. The date of the changeover, together with the identity of the old and new supplier should be kept in the Evidence Pack.
2. A meter breakdown. If a meter breakdown occurs the dates for the last acceptable reading before the breakdown and the first after it has been repaired should be recorded. A reasonable estimate of unmetered energy should be made with a written justification being kept in the Evidence Pack.
3. A change in company structure. Each organisation should keep a record of any changes in the sites and energy uses covered during a data collection year. For instance, if an organisation divests or closes some of its sites, or acquires or opens new sites, details of the changes (e.g. date, sites, meters and energy uses affected) should be kept. Further comment on some specific circumstances is provided below.

**Responsibility for evidence pack following a change in ownership**

The parent organisation responsible for reporting data in the CRC is responsible for maintaining an evidence pack which contains information relating to all of its covered sites.

If a site changes hands during a data collection year the original owner is responsible for managing and submitting that site’s data up until the date that it surrendered control of the site. The new owner is responsible for the site’s information and compliance after that date. There will therefore be two evidence packs in this event, one for the first part of the year maintained by the original owner and a second for the second part of the year maintained by the new owner.

An exception is where a legal entity that had been a CRC participant is wholly taken over by another CRC participant so that the original legal entity does not exist at the end of the data collection year. In this instance, the evidence pack for the first part of the year should be transferred to the new owner which will
be responsible for submitting data for the full year. This should be taken into account when the sale is being negotiated.

If a site is bought by an organisation that is not covered by the CRC then the original owner is responsible for reporting and maintaining its data up until the date when it surrendered control. Its emissions for the second part of the year will not fall under the CRC.

If a company changes its name, this should be recorded in the evidence pack together with the date of the change.

If the person within an organisation designated responsible for CRC data changes, this should be recorded in the evidence pack together with the date of the change.