



# Market Design and Performance League Table

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# Key CRC Market Features

- Cap and Trade Scheme
- Distribution of allowances:
  - Fixed price introductory phase
  - Auction
  - Payment and receipt of allowances
- The Safety Valve, the Secondary Market and Banking & Borrowing
- Revenue recycling
- Performance League Table and metrics
- Changes of Organisation Structure

# Distribution of Allowances – Introductory Phase

- Three year period
- No market cap set by Government
  - Unlimited purchase during month-long sale
  - Second sale in July of first year
- Suggested allowance price of **£12/tCO<sub>2</sub>**
- Learning by doing
- Establish accurate emissions cap

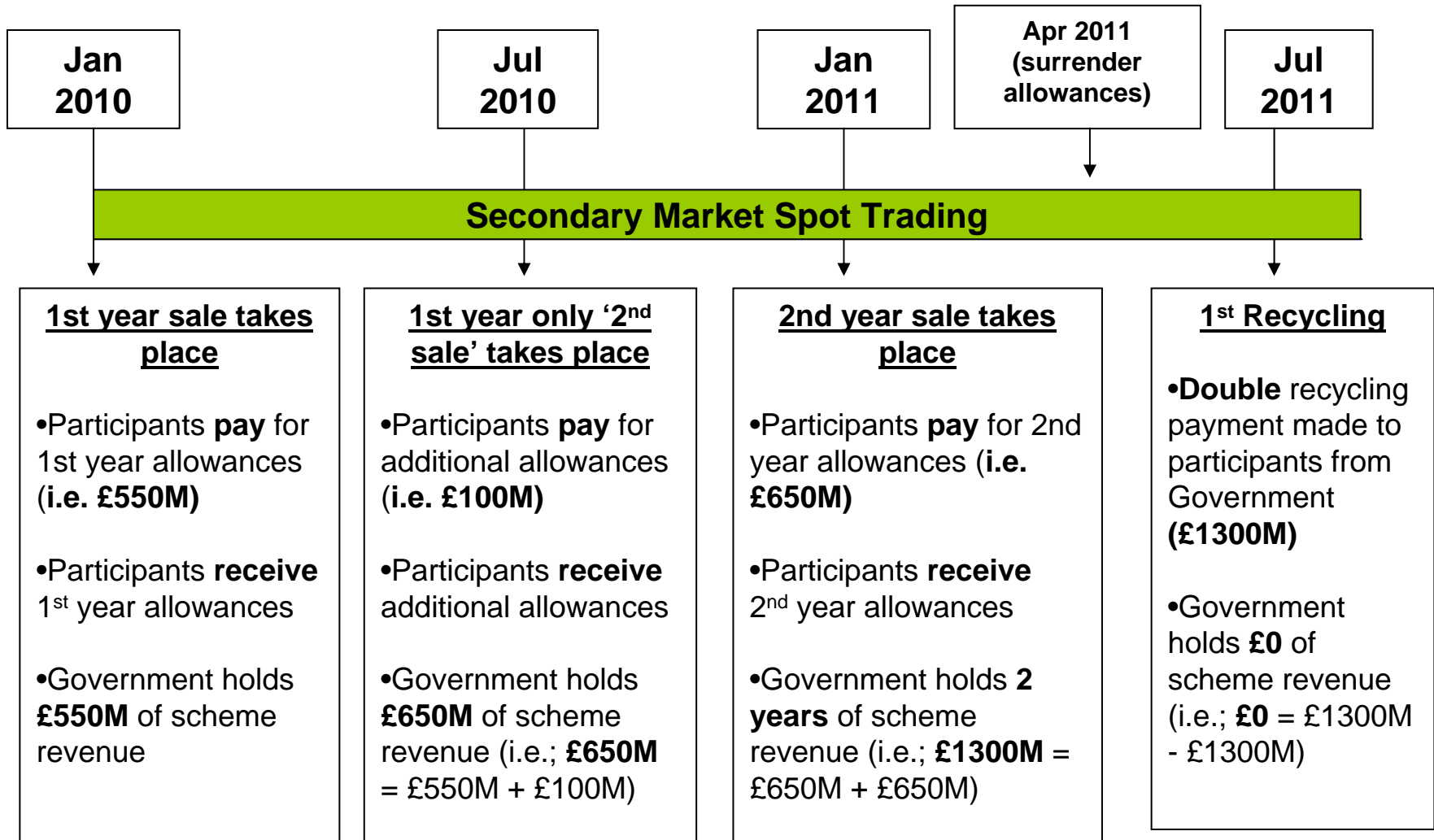
# Distribution of Allowances – Capped Phases

- First capped phase and auction in 2013
- Fixed quantity of allowances (the absolute market cap) & variable price
- Auction Type: Sealed bid, uniform price
- Auction restrictions
  - Limited to scheme participants
  - Limit on % of total allowances to any one participant

# Payment and Receipt of Allowances

- Sale or auction held at start of year
- Consulted on:
  - **Option 1:** Payment and receipt of allowances at time of auction
  - **Option 2:** Deferred payment and receipt of allowances by 12 months
- Suggested **‘Third Way’**
  - Pay for and receive allowances at time of auction, BUT receive a double recycling payment in the first payment

# Payment and Receipt of Allowances



# The safety valve, the secondary market and banking & borrowing

- The safety valve
  - Buy-only link to EU-ETS
  - Administered by EA
- Banking and borrowing
  - Unlimited banking of allowances between scheme phases (except between intro and capped phases)
  - No borrowing of allowances from future years
- The secondary market
  - No restrictions

# Revenue Recycling

- Auction revenue recycled back to participants
  - Payment proportional to 2009 CRC emissions
  - Bonus or penalty based on position in league table

## For example:

**Total CRC emissions in 2009: 100 tCO<sub>2</sub>**

**Organisation X emissions in 2009: 1 tCO<sub>2</sub>**

= Organisation X receives 1% of revenue raised in sales or auctions

**This is then adjusted by the bonus or penalty**

# Performance League Table

- Published performance league table at the end of each year
  - Reputational and financial drivers
- Bonus or penalty payment based on position in league table
- Year 1 maximum bonus or penalty of +/-10%
- Year 2 maximum bonus or penalty of +/-20%
- Year 5 maximum bonus or penalty of +/-50%

# Performance League Table

- Government suggests 3 metrics:
  1. Compulsory absolute metric
    - Change in annual emissions relative to **preceding 5 year average**
  2. Voluntary early action metric
    - Extent of voluntary AMR
    - Extent of Energy Efficiency Accreditation Scheme
  3. Voluntary growth metric
    - Change in emissions per unit turnover/revenue expenditure
- Inclusion of 3 tick box questions
- Important trade-off between perceived 'fairness' and simplicity

# Performance League Table – Compulsory Absolute Metric

- Absolute emissions reductions – compulsory
- Change in annual emissions relative to average annual emissions over the preceding 5 years (or since start of the scheme):
  - Recognises ongoing absolute emissions reductions
  - In line with overall objective of scheme
- Measure of change – not absolute

# Performance League Table – Voluntary Early Action Metric

- Combination of measures:
  1. Extent of non-mandatory automatic metering:
    - Metric measures proportion of emissions not covered by mandatory meters, that are covered by automatic metering
    - One off calculation – same score in 2010, 2011 & 2012
  2. Extent of emissions covered by EEAS
- Early Action Metric to be ended after introductory phase

# Performance League Table – Voluntary Growth Metric

- To provide credit for organisations that decouple economic and carbon growth
- To provide context to performance in absolute metric
- Based on:
  - Change in annual emissions per unit turnover (rev. exp) relative to average emissions per unit turnover (rev. exp) over the preceding 5 years
- Measure of change – not absolute

# Performance League Table

- Participants awarded points score for each metric
- Weighted combined score determines position in Performance League Table
- Weighting of metrics
  - 60% Abs: 20% Early Action: 20% Growth
- Government retains option of adjust market parameters

# Changes of Organisation Structure

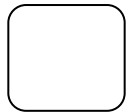
- Consultation position:
  - No changes to baselines or transfer of responsibility if participant sold
- Loss of coverage if CRC participant or subsidiary sold to non CRC organisation.
- No transfer of historic emissions - creates perceived financial and reputational fairness issues
- **Administratively simple**

# Changes of Organisation Structure

- **Suggested revision:**
  - Participant to report emissions for all large subsidiaries that would qualify for CRC on their own
    - But not Growth or Early Action
  - Enables transfer of historic emissions information if participant or **large sub.** sold to another organisation
    - Reduces loss of coverage
    - Increases scheme fairness
- **Not suggesting UK ETS “changes of operation” regime**

# Changes of Organisation Structure

## KEY



Highest UK parent organisation



Subsidiary using more than 6,000 MWh/yr through half hourly metering systems which must be reported separately



Subsidiary reported only as part of A's overall data

