

CRC: DECC Announcement on Proposals for Simplification

1 July 2011

On 30 June 2011, the Department of Energy and Climate Change (DECC) outlined its proposals to make the CRC Energy Efficiency Scheme (CRC) easier and simpler for businesses.

The CRC will not be scrapped, but will be heavily amended following considerable criticism of the scheme and DECC's review of responses to its 5 discussion papers on simplification that were published on 25 January 2011.

In terms of timing, interested parties have until 2 September 2011 to comment on these proposals, DECC will consult on the draft legislation to give effect to the changes in early 2012 and the changes will come into force for phase two of the CRC, from April 2013.

This note summarises the significant changes to CRC proposed by DECC and looks at their importance. Businesses affected by the CRC should however note that until the changes are made to the CRC Order¹ they must continue to fulfil the existing CRC requirements and (amongst other things) file their footprint and annual reports by 29 July 2011.

■ Qualification for CRC

The current qualification rules will be replaced with a simpler process focussed only on settled half hourly meters (HHM). An organisation will qualify for CRC if it is supplied with a threshold level of qualifying electricity through settled HHM at non CCA and non-EU ETS sites.

The rules relating to the type of meter will be simplified² so DECC have stated that the 6,000 MWh electricity usage threshold might be revisited, to maintain current coverage. This threshold will be proposed after review of the 2011 footprint and annual reports.

¹ The CRC Energy Efficiency Scheme Order 2010 (SI 2010 /768)

² The CRC will be restricted to electricity measured through a meter with a profile class of 00 and 03 to 08. However, DECC might expand this to unmetered supplies provided on a passive pseudo half hourly basis and pseudo non half hourly basis.

■ Scope of CRC

Under the current scope of CRC, businesses have to report on 29 different fuels. As 95% of emissions captured under CRC come from 4 fuels, CRC will be restricted to electricity and gas as well as kerosene and diesel that are used for heating.

Given the experience of many businesses in preparing footprint and annual reports for the end of July 2011, this should considerably ease the administrative burden imposed on businesses – as CRC participants have had real difficulties working out the calculations necessary for the current CRC filing requirements.

The restriction of the CRC scheme to 4 fuels means fuels used in certain off-road vehicles will no longer be included in CRC. This will have a large impact on many businesses, including in particular those in the waste and construction sector.

■ CRC and EU ETS Exemptions and 90% Rule

To reduce complexity, any climate change agreement or EU Emissions Trading Scheme sites will be automatically exempted from the scheme. This exclusion will include electricity generated and "self-supplied" to EU ETS installations.

Government also announced that it will be consulting shortly on revised CCAs to make them less burdensome until this finishes in 2023.

As the scope of the CRC is changing, the seriously challenging 90% residual percentage rule will also disappear.

■ Reporting Requirements

As the coverage of fuel sources is changing and the 90% rule will be no longer, there will be no need for footprint reports and residual measurement lists (from April 2013 onwards).

To produce greater alignment, the CRC will seek to adopt the emissions factors used for greenhouse gas reporting purposes rather than fixing these for each phase.

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The Agency is also going to review the information required in evidence packs (after one reporting year) and provide more simplified guidance.

■ Sales of Allowances

The first allowance sale for 2011/12 emissions will be a retrospective sale in June 2012 at £12/tonne, as we already know and retrospective sales will continue for the rest of the introductory phase. From the second phase of the scheme there will be two yearly sales of fixed price allowances instead of having a cap and trade scheme.

To encourage energy forecasting, there will be a lower fixed priced sale at the beginning of the year and a retrospective sale of more expensive allowances at a fixed price at the end of the year. These sales will be on an upfront sealed bid uniform price basis, with a capped number of allowances available and the ability to buy on the secondary market or via the EU allowance safety valve mechanism.

■ Organisational Rules

The organisational rules will be changed to allow greater flexibility to businesses on how they participate. As at present, top parent companies will have to report on the overall structure of their group. However, the group will have the option to disaggregate more flexibly to allow the monitoring, management and reporting of energy use under CRC to proceed for natural business units instead of using the present inflexible systems. This will be an enormous relief to those businesses with structures where they seldom or never act together for any purpose, where they have currently formed one CRC participant group.

■ Landlord/Tenant rules

DECC is not intending to reform the landlord/tenant rules but is considering the case for revisiting these where the landlord owns only the land that the structures are built on, the landlord supplies the energy but the tenant is the sole occupant of the building and is wholly responsible for its maintenance and hence can control its energy performance.

■ Performance League Table

This will be retained as DECC see it as the reputational driver for the scheme. The detailed metrics will however be removed from the legislation and placed in guidance, so that this reputational element can be revisited more easily in future.

■ Trusts

The current rules will be amended so that when they apply to Trusts, the scheme will allocate CRC responsibility to an entity with a genuine commercial interest in the property and its use, with access to the information and resources necessary for effective and efficient compliance with the scheme.

■ Conclusions

It is clear from the proposals for simplification of CRC put forward by DECC yesterday that they have listened to the wide ranging criticism of this scheme and tried to set out changes that will make this administratively easier and less costly. Business should take this opportunity to comment again before 2 September 2011 if they feel that further substantial changes are necessary, prior to the Government drafting legislative measures.

We will be following the next steps in this process closely and will update you once there is more news.

■ Links to Key Information from DECC

1. DECC press release, Energy efficiency scheme for business is streamlined - 30 June 2011.

http://www.decc.gov.uk/en/content/cms/news/pn11_058/pn11_058.aspx

2. Ministerial statement by Greg Barker, Simplifying the CRC Energy Efficiency Scheme – next steps, 30 June 2011.

http://www.decc.gov.uk/en/content/cms/news/wms_300611/wms_300611.aspx

3. DECC's full paper (56 pages) on proposals for simplification, setting out the proposed changes in detail and including three annexures detailing the timeline,

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providing an analysis of the proposed changes and summarising the responses to the five discussion papers.

<http://www.decc.gov.uk/assets/decc/11/cutting-emissions/crc-efficiency/2088-simplifying-crc-next-steps.pdf>

If you would like assistance with considering the implications of these proposals or any other environmental issues, please contact: Georgie Messent or Jay Jagasia or your usual Environment Team contact .



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