

Title: CRC Energy Efficiency Scheme (Amendment Order) 2011 Lead department or agency: Department of Energy and Climate Change Other departments or agencies: Environment/climate change departments from Scottish Government, Welsh Assembly Government and Northern Ireland Executive.	Impact Assessment (IA)
	IA No: DECC0035
	Date: 19/10/2010
	Stage: Consultation
	Source of intervention: Domestic
	Type of measure: Secondary legislation
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Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

The CRC Energy Efficiency Scheme (CRC) is a new mandatory UK-wide scheme that came into force in April 2010. The scheme is designed to incentivise large public and private sector organisations to take up cost-effective energy efficiency opportunities through the application of reputational and financial drivers. Government has announced its intention to simplify the design and operation of the scheme in light of stakeholder feedback about its perceived complexity. This Amendment Order is therefore proposed to provide a suitable window in which to undertake this simplification review.

What are the policy objectives and the intended effects?

The policy objective of this Amendment Order is primarily to extend the scheme's introductory phase by 12 months and postpone the commencement of the second phase by 24 months in order to provide a window for the simplification review. The extension will also provide participants with additional experience of complying with the scheme's requirements under the introductory phase. Government also intends to take the opportunity presented by the Amendment Order to implement minor simplification amendments and update reference errors in the original CRC Order.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

The proposed option as been considered in relation to a 'do nothing' approach.

The CRC simplification review proposed by Government would be significantly compromised if a suitable review window is not created. There is insufficient parliamentary time to resolve the bulk of the simplification issues before the default start date of phase two (April 2011). Government therefore proposes it is more desirable to extend the introductory phase and address the simplification issues before the commencement of phase two rather than resolving the issues mid-phase. In light of this time imperative the proposed option has only been considered in relation to a 'do nothing' approach

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed 2011/12
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Date:.....

Description:

CRC Energy Efficiency Scheme (Amendment) Order

Price Base Year 2010	PV Base Year 2010	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: 0.68

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate			

Description and scale of key monetised costs by ‘main affected groups’

There are no further costs when compared to the counterfactual option. Other costs have been identified in earlier consultations and Impact Assessments available at:
<http://www.decc.gov.uk/en/content/cms/consultations/crc/crc.aspx>

Other key non-monetised costs by ‘main affected groups’

Information declarers, organisations on the cusp on inclusion in the scheme, will no longer be required to report their energy use and emissions at the beginning of each phase. The cost of the loss of data has not been quantified.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate			0.68

Description and scale of key monetised benefits by ‘main affected groups’

Reduced administration burden for information declarers from phase two onwards. A one off benefit in each phase by merging the footprint and the annual report in the first compliance year of each phase.

Other key non-monetised benefits by ‘main affected groups’

Participants will have a chance to gain additional experience in measuring and reporting emissions before the cap and trade phase of the scheme begins.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

There are some gaps in the evidence base for organisations around the participation threshold. Behavioural responses to simplification changes are uncertain.

Impact on admin burden (AB) (£m):		Impact on policy cost savings (£m):		In scope
New AB:	AB savings: 1	Net: 1	Policy cost savings:	Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom				
From what date will the policy be implemented?	04/2011				
Which organisation(s) will enforce the policy?	Environment Agency and devolved administration equivalents				
What is the annual change in enforcement cost (£m)?	£0m change				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: 0		Non-traded: 0		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs: 0		Benefits: 0		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	Yes/No	Yes/No	Yes/No	Yes/No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties¹ Statutory Equality Duties Impact Test guidance	No	N/A
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	N/A
Small firms Small Firms Impact Test guidance	No	N/A
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	N/A
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	N/A
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	N/A
Human rights Human Rights Impact Test guidance	No	N/A
Justice system Justice Impact Test guidance	No	N/A
Rural proofing Rural Proofing Impact Test guidance	No	N/A
Sustainable development Sustainable Development Impact Test guidance	No	N/A

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	The CRC Energy Efficiency Scheme Order 2010 – available at http://www.legislation.gov.uk/uksi/2010/768/contents/made
2	Earlier consultations and Impact Assessments available at http://www.decc.gov.uk/en/content/cms/consultations/crc/crc.aspx
3	
4	

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits										
Annual recurring benefits										
Total annual benefits										

* For non-monetised benefits please see summary pages and main evidence base section



Microsoft Office
Excel Worksheet

Evidence Base (for summary sheets)

Introduction

1. This Impact Assessment is part of a package published in November 2010 which contains a consultation document on proposed amendments to the CRC Energy Efficiency Scheme and a draft CRC Energy Efficiency Scheme (Amendment) Order. The Impact Assessment is focused on the proposed amendments detailed within this package.
2. Government intends to produce a wider consultation package on the CRC's simplification review in the next few months, which will include an Impact Assessment looking at the effects of those simplification measures Government proposes to take forward.

Background

3. The UK CRC Energy Efficiency Scheme (CRC) came into force at the beginning of April 2010. It is designed to address the barriers to the uptake of cost-effective energy efficiency measures identified by The Carbon Trust through the application of new financial and reputational drivers. Further details of the rationale for the scheme design can be found in the Impact Assessment which accompanied the consultation on the CRC Order (November 2009) – available via: <http://www.decc.gov.uk/en/content/cms/consultations/crc/crc.aspx>.
4. Those organisations which meet the scheme's qualification criteria are required to report their CRC emissions and surrender a commensurate number of CRC allowances for each compliance year of the phase for which they have qualified. Participants will be ranked in a league table according to their relative performance in reducing their carbon emissions.

Problem under consideration

5. Recent stakeholder representation has highlighted significant concerns about the CRC's complexity and administrative burden. Government has acknowledged these concerns and committed to review the scheme with an aim to simplify it. In order to provide an appropriate window for this review, Government proposes amending the timelines from the second phase onwards of the scheme. This approach will enable detailed simplification measures to be worked up, and consulted on, without requiring complex adjustments to be made mid-phase; thereby avoiding associated ramifications on participants and league table positions. Unless this review window is created, participants will be required to register for the second phase between April and September 2011.
6. A 'do nothing' approach has been used as the counterfactual position for this Impact Assessment. Such an approach would see the scheme's timetable and policies implemented as currently laid out in the CRC Energy Efficiency Scheme Order 2010 (no 768) with no amendments.

Description of amendments

7. The primary amendment proposed under this Order is the extension of the CRC's introductory phase by one year from March 2013 to March 2014. This will provide participants with an additional year's

worth of experience monitoring and reporting their emissions. It would also provide Government with additional data on emissions coverage and the operation of the financial mechanisms and incentives.

8. In addition the qualification year and registration period from the second phase onwards will be postponed by two years – e.g. to 2012/13 and 2013/14 respectively for the second phase. Government proposes to achieve this by making the 2013/14 year both a footprint year² and annual reporting year³ – which is aligned with the approach in the introductory phase. This proposal would result in fewer administrative requirements upon participants.
9. The extension to the introductory phase pushes back the requirement to surrender phase two CRC allowances for one year (from 2013/14 to 2014/15). Participants will still be required to surrender allowances in respect of their 2013/14 CRC emissions but this will be under the extended introductory phase rather than under the second phase.

A timeline comparison of the proposed amendments is shown in Figure 1:

2 – **footprint year**; first year of a phase for which participants have to produce a footprint report establishing the sources of energy use to be included in CRC for that phase.

3 – **annual reporting year**; scheme year for which participants have to produce an annual report detailing their energy supplies. Performance reported in the annual report will be used to determine a participant's position in the CRC league table.

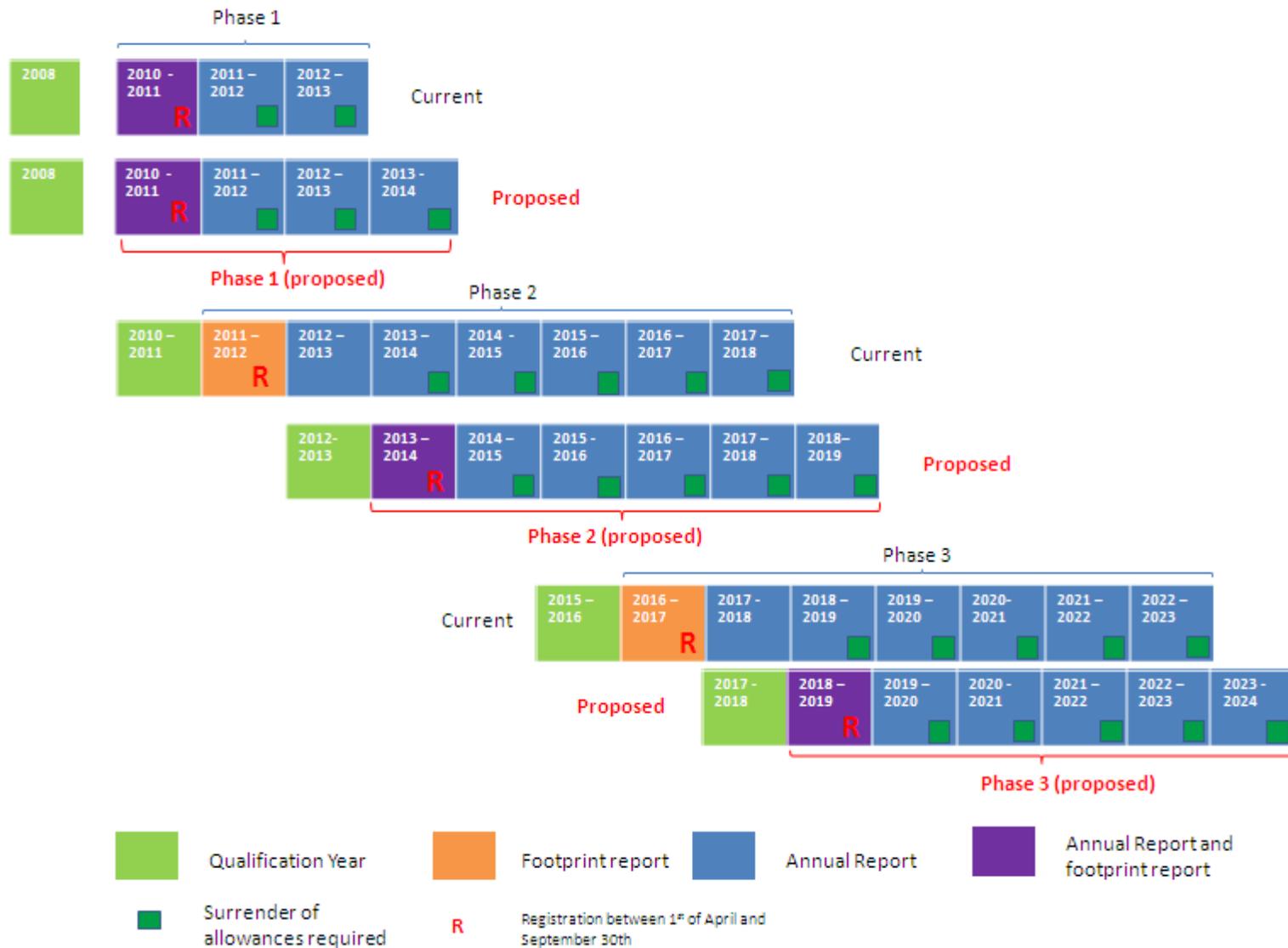


Figure 1 – comparison between current and proposed timelines for the first three phases of the CRC

10. Government also proposes removing the administrative requirement on organisations which fail to qualify for a CRC phase, but which have at least one settled half hourly meter, to make an 'information disclosure'. Currently such organisations are required to make this disclosure once per phase in order to ensure that all settled half hourly meters have been accounted for during the CRC's registration period. In addition the data would provide evidence should Government wish to review the scheme's qualification threshold. In response to stakeholder feedback Government proposes to completely remove this administrative requirement on c. 15,000 organisations which do not qualify for CRC participation.
11. Government intends to use the opportunity presented by the Amendment Order to action minor policy corrections to the original Order – detailed in paragraphs 12 through to 14 below. There are no cost or benefit implications of these amendments, which are aligning drafting with Government's original policy intent modelled in the previous Impact Assessment.
12. The CRC is focused on incentivising the uptake of energy-efficiency measures by participants. The scheme is effectively blind as to how electricity is generated, where and by whom; all electricity supply is reported at the grid average emissions factor for the phase. The CRC does not provide incentivisation for generation from renewables, as this is already subsidised through other measures such as the Renewables Obligation and Feed-in-Tariffs. However in limited circumstances participants may be eligible for Electricity Generating Credits, which can be used to reduce their CRC obligation. Currently Government departments are ineligible for EGCs, which is not in line with the eligibility criteria of other non Government participants. Government therefore proposes to correct this discrepancy through an amendment in this Order.
13. All Government departments are required to participate in the CRC in order to show public sector leadership. The manner in which Government accommodation is allocated in Northern Ireland however, results in one department being considered responsible, as 'landlord', for the majority of energy supplied to the whole Northern Ireland Civil Service. Whilst there is no loss of emissions coverage under this approach, it does not fully deliver Government's commitment for all Northern Ireland departments to be individually responsible for their CRC emissions. Government therefore proposes to disapply the CRC's landlord/tenant rule in respect of Northern Ireland departments and enable the department providing the accommodation to claim unconsumed supply. The occupying department would be responsible for their energy supply where provided by their hosting department.
14. Government also proposes to redistribute the split of responsibilities between the scheme's administrators. This is to bring the drafting into line with Government's original policy intent. Government also proposes to update several reference errors in the original Order.

Description of options considered

15. The two options considered at this stage are the Amendment Order, containing the aforementioned proposals, and a 'do nothing' approach which acts as the counterfactual against which the costs and benefits of other options are measured. The primary simplification measures for the scheme will be consulted on in the next few months and accompanied by a revised Impact Assessment. Although the Amendment Order proposes to extend the introductory phase and postpone the start of subsequent phases, the time horizon of the policy will not change.

Option 1

Benefits

16. Four types of impact have been identified from the measures proposed under the Amendment Order, which would result in fewer administrative requirements.

- a) **Extending the introductory phase** for one year implies that allowances for 2013/14 will be sold at a fixed price rather than auctioned as part of the phase two cap. A differential in allowance prices between the two phases of the scheme has been assumed in CRC Impact Assessments to date. Allowances are sold at a fixed price of £12/tCO₂e in 2011-12 and 2012-13. Estimates for the price under the phase two cap are uncertain. Impact Assessments have used a central price scenario of £16/tCO₂e. Following the extension of the introductory phase, during the extra year of fixed price allowances it is assumed that participants will face an equivalent financial incentive to the counterfactual i.e. in 2013/14 the sale price of allowances will be set at £16/tCO₂e, mirroring previous expectations of allowance prices for 2013/14⁴. Decisions on allowance prices are a matter for the Chancellor at the Budget. The central expectation for the carbon and energy impacts of the change to the policy are zero. However, it should be noted that, owing to the uncertainty over allowance prices in capped schemes, the actual carbon and energy savings in 2013/14 may be higher or lower than those that would have been generated in the counterfactual.
- b) **Removing the information disclosure requirement.** This measure would generate administrative savings for 15,000 organisations.

These savings would be made at the start of each phase. The estimated cost of disclosure for every phase, for all participants, is around £150,000. This is based on DECC estimates of administration burdens from the CRC submitted to the Review of Pipeline Regulations (BRE, Measuring Administrative Cost: UK Standard Cost Model). The net present value using the social discount rate of 3.5% is around half a million pounds at 2010 prices.

Benefit of Eliminating Disclosure	£150,150
NPV for 6 phases	£590,952

⁴ – 2013/14 allowances to be subject to a vintage.

These savings would be realised for the six future phases, scheduled to commence as per the following table. There are no savings from this amendment for the introductory phase as the registration period, and therefore information disclosures, have already been completed.

Phase	Current start date / amended start date
Two	1 April 2011 / 1 April 2013
Three	1 April 2016 / 1 April 2018
Four	1 April 2021 / 1 April 2023
Five	1 April 2026 / 1 April 2028
Six	1 April 2031 / 1 April 2033
Seven	1 April 2036 / 1 April 2038

- c) **Delaying qualification for two years** could result in some organisations being excluded from the scheme. Over the two year period between the original qualification date and the revised qualification date there is a chance for organisations to reduce their electricity consumption below the 6000MWh qualification threshold. It is anticipated that this would only be applicable to a few organisations in the margin of the 6000MWh threshold. The delay could therefore affect the coverage of the CRC scheme.

For those firms which manage to reduce their electricity consumption below the threshold, this may bring forward implementation of energy efficiency measures to avoid the requirement to participate in the CRC. This would increase energy and carbon savings in the short term. However because these organisations would then be exempted there would be a reduction in the coverage of the scheme potentially reducing savings in future years from these firms. It has been assumed that overall the net impact is neutral.

For those firms exempted from the scheme, there would be extra admin savings. However, there is no evidence to quantify how many firms would cease to qualify due to this extension. Some data on participation from the registration process and from the initial Impact Assessment has been used to assess the size of this impact. We found 271 firms above 20% of the qualification threshold which lead us to conclude that these savings would be relatively small. For example, if 50% of the firms within the threshold would fall below the 6000 MWh threshold, these savings would be around £250,000.

- d) Finally, there would be a one off benefit in each phase from **merging the footprint and the annual reporting years** in the first compliance year of each phase. This would take place once for each phase and would save the administration costs of producing the annual report for all organisations once for each phase of the scheme.

Since there are very few organisation that will leave the scheme as a result of postponing the phase two qualification year, the aggregate figures submitted to the Review of Pipeline Regulations have been used. This produces a reduction of admin costs of £86,673. The net present value is based on the social discount rate of 3.5% and reported at 2010 prices.

Benefit of Eliminating an Annual Report	£22,022
NPV for 6 phases	£86,673

Total benefits

Total benefits are found by adding up sections b) and d) above.

Removing the information disclosure requirement £m	£0.59
Merging the footprint and the annual reporting years £m	£0.09
Total NPV £m	£0.68

Option 1

Costs

17. This is a simplification measure which delays some of the aspects of the initial CRC scheme and simplifies others.
18. There is a cost to government of losing data submitted by information declarers that could be used to model future policies. This cost is hard to value because it is not known a priori what the potential uses of that information are and whether it could be obtained from other sources at a lower cost. However, the Environmental Agency has access to data on half hour meters and with the information obtained from phase one qualification, which will allow an initial mapping exercise to be completed, there would be a minimal data loss.

Risks and assumptions

19. Some of the costs and benefits have not been quantified. However, this Impact Assessment only focuses on small changes introduced by extending the introductory phase. Risks and assumptions will be analysed in more detail in the consultation process for the simplification measures that will be included in the next consultation.

Administration burden and policy savings calculations

20. All benefits identified represent reductions in administrative burdens.

Wider impacts

21. Appropriate specific impact tests were undertaken as part of the CRC's previous Impact Assessments, available via <http://www.decc.gov.uk/en/content/cms/consultations/crc/crc.aspx>. In these assessments the CRC was not considered to have a negative impact upon any area.
22. The relatively minor and technical nature of the proposed amendments detailed within this Impact Assessment are not considered to alter any of the responses provided for the previous Impact Assessments. However this position will be revisited for the CRC's simplification review in 2011.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p>Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];</p> <p>Government has committed to reviewing the CRC scheme in light of recent stakeholder feedback. The review will be focused on the design and operation of the CRC, as detailed in the CRC Energy Efficiency Scheme Order 2010. It will not focus on the amendments proposed within this Impact Assessment, which are primarily designed to create the window in which to undertake the review.</p>
<p>Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p> <p>The review will be undertaken with an aim to simplification of the scheme.</p>
<p>Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p> <p>Details to be determined but likely to involve significant stakeholder input and a formal consultation.</p>
<p>Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]</p> <p>Operation of the scheme as required by the current CRC Energy Efficiency Scheme Order 2010.</p>
<p>Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p> <p>To be determined.</p>
<p>Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]</p> <p>Analysis of information submitted to the Environment Agency by CRC participants. This will include information submitted during registration and footprint/annual reports</p>
<p>Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]</p> <p>N/A</p>

Add annexes here.