

## Reducing the overlap between schemes

### Introductory Notes

- In the light of feedback about the operation of the CRC scheme, the Government is considering simplification of the CRC. In doing so, Government will take into account feedback from stakeholders including:
  1. The effectiveness of the framework for driving energy efficiency in large private and public sector organisations, in the light of wider policy developments in other areas such as the implementation of a carbon price floor<sup>1</sup>, electricity market reform<sup>2</sup>, implementation of a Green Deal for business<sup>3</sup> and the review of Climate Change Agreements<sup>4</sup>, and company reporting of greenhouse gas emissions<sup>5</sup>.
  2. The perceived complexity of the CRC scheme and hence the need to reduce the administrative burden on:
    - those organisations which are subject to the scheme
    - the administrators of the scheme (Environment Agency, Scottish Environment Protection Agency, Northern Ireland Environment Agency).
  3. Optimising the projected emissions savings attributable to the CRC scheme<sup>6</sup> due to an increased focus on energy efficiency by the target sectors.
- This is one of a series of discussion papers which aim to stimulate an informal dialogue between Government and participants about the simplification of the CRC Energy Efficiency Scheme. As such, this paper is not a statement of Government policy.

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<sup>1</sup> [http://www.hm-treasury.gov.uk/consult\\_carbon\\_price\\_support.htm](http://www.hm-treasury.gov.uk/consult_carbon_price_support.htm)

<sup>2</sup> <http://www.decc.gov.uk/en/content/cms/consultations/emr/emr.aspx>

<sup>3</sup> [http://www.decc.gov.uk/en/content/cms/legislation/energy\\_bill/energy\\_bill.aspx](http://www.decc.gov.uk/en/content/cms/legislation/energy_bill/energy_bill.aspx)

<sup>4</sup> [http://www.decc.gov.uk/en/content/cms/what\\_we\\_do/lc\\_uk/ccas/ccas\\_policy/ccas\\_policy.aspx](http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/ccas/ccas_policy/ccas_policy.aspx)

<sup>5</sup> <http://ww2.defra.gov.uk/environment/economy/business-efficiency/reporting/>

<sup>6</sup> Projected savings attributable to the CRC are outlined in Annex G of the June 2010 DECC energy and emissions projections

- These papers have been developed on the basis of feedback from participants about the operation of the scheme since April 2010. Ideas for simplification arising from this dialogue process will help inform consideration for amendment to the current legislation underpinning the scheme. Any formal legislative proposals would be subject to public consultation with the intention that they would come into force through affirmative Orders in Council before registration for the second phase of the scheme begins in April 2013.

It is essential that all participants continue to comply with the existing scheme, in full, as set out in the current legislation. The CRC remains a mandatory scheme, and the Environment Agency and other administrators continue to provide support to participants with their CRC compliance. Organisations who fail to comply may be subject to enforcement action and civil penalties. Participants should continue to fully comply with the scheme and use the introductory phase to gain experience on reporting, complying and surrendering allowances in CRC. For advice and support on compliance with the first phase of the CRC scheme participants should refer to the CRC Energy Efficiency Scheme Order 2010<sup>7</sup> and Environment Agency guidance.<sup>8</sup>

## **Issue**

The CRC scheme places a number of requirements on organisations which are subject to obligations under the EU ETS and/or CCAs. This paper discusses potential options to simplify the scheme which would eliminate the need for organisations which are within the EU ETS or which are subject to CCAs to report their EU ETS and/or CCA emissions under the CRC. This paper also seeks views on wider overlap issues in the UK climate change policy landscape.

## **Background**

Since the beginning of the operational phase of the CRC scheme, concerns have been raised about:

- The administrative burden for organisations covered by a CCA to prove they are eligible for exemption from the CRC scheme.
- More widely, the interaction between the CRC scheme and the reporting and financial aspects of other policies such as Greenhouse Gas reporting, and the Climate Change Levy.

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<sup>7</sup> [http://www.opsi.gov.uk/si/si2010/draft/ukdsi\\_9780111491232\\_en\\_1](http://www.opsi.gov.uk/si/si2010/draft/ukdsi_9780111491232_en_1)

<sup>8</sup> <http://www.environment-agency.gov.uk/business/topics/pollution/98263.aspx>

## Options for simplification

DECC has received extensive feedback from organisations which are subject to several climate change policies including the CRC. Based on this feedback, three different conceptual options for tackling overlaps between policies are highlighted below.

**Blanket exclusion** - One suggestion has been that a group which has an undertaking that is in the EU ETS or which has a CCA should be excluded from the CRC. Whilst this would reduce administrative burdens, it would also significantly reduce the emissions coverage of the scheme, as a large group could be lost from the scheme if one of its smaller members is part of a CCA (for example, a large UK-wide retailer could be exempted under this approach if its bakery is part of a CCA). This approach may not therefore fulfil one of the guiding principles for simplifying the scheme outlined in the introductory box of this document, which is that simplifications should safeguard the environmental effectiveness of the scheme. However, **views on this approach would be welcome.**

**Exclusions at qualification** - An alternative approach is to reduce the complexity of the scheme and to ensure that organisations with EU ETS and/or CCA obligations would no longer have to report their EU ETS/CCA emissions within the CRC for compliance purposes. One way to achieve this would be to assess qualification on the basis of non-CCA supplies. This approach would enable the removal of the 'applicable percentage' provision<sup>9</sup>. The qualification process would be as outlined in Annex 1. For those groups which are not excluded, CCA and EU ETS emissions reporting would not be required at any point within the CRC, but reporting on other energy use in line with the approach for other CRC participants would be required. The impact of this approach would be to greatly simplify CRC rules including removal of the complex CCA group/member/general exemptions (which would no longer be needed as many CCA organisations would simply not need to register). **Views on this approach would be welcome.**

**Proposals to address wider overlap** - More widely, recent feedback from some participants has suggested that the CRC should be merged with other climate change policies, such as the Climate Change Levy, Greenhouse Gas reporting (to

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<sup>9</sup> A key principle of the existing CRC scheme is the applicable percentage provision which states that 90% of a participants emissions must be regulated by the CRC or by EU ETS or CCAs , under Part 4 of the CRC Order. Refer to 'Supply rules' paper for a discussion about how this provision could be simplified (available on [www.decc.gov.uk/crc](http://www.decc.gov.uk/crc)).

create a mandatory company reporting obligation), and/or some form of Display Energy Certificate extended to the private sector. **Views on more fundamental approaches to merge or recast climate change instruments are welcome.** Should you wish to propose more radical changes to the existing policy landscape, please provide your views and provide evidence to support them regarding likely carbon savings and administrative burdens. Please also explain how your proposals would address the known barriers to the uptake of cost effective energy efficiency measures (e.g. awareness of opportunities, senior engagement, split incentives), and how the proposal would ensure transparency and reliability (for example audit/verification). Note also that under the powers of the Climate Change Act, we have legal vires for a CRC scheme which facilitates a market for the trade of allowances; if your proposals do not allow for such a market, this will require abolition of the current scheme.

### **Contributing to the dialogue**

If you would like to submit written views on simplifying this aspect of the CRC scheme, or if you would like to make wider comments and suggestions about the scheme as a whole, please send your comments to [crc@decc.gsi.gov.uk](mailto:crc@decc.gsi.gov.uk) or CRC Team, National Carbon Markets, Department of Energy and Climate Change, 3 Whitehall Place, London, SW1A 2AW) **by 11<sup>th</sup> March 2011.**

## **Appendix I – Proposal for reducing overlaps between schemes by addressing exclusions at the qualification stage**

This approach would enable the removal of the ‘applicable percentage’ provision<sup>10</sup> within the CRC scheme, as proposed in the ‘supply rules’ paper accompanying this document. Under this lighter touch approach, groups would consider whether they are subject to the CRC scheme by answering, and then acting upon, the questions outlined below:

**1** – Do you have at least one settled HHM (Half Hourly Meter) for your non CCA (Climate Change Agreement) electricity supply within your organisational structure?

If **yes** – go to 2.

If **no** – No further obligations under CRC.

**2** – Do you have an electricity consumption of 6000 MWh<sup>11</sup>, and over, per year through your HHMs for your non-CCA electricity supply?

If **yes** - Register as a participant.

If **no** – No further obligations under CRC.

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<sup>11</sup> The level of the threshold for qualification, and simplifications relating to the metering rules for qualification are discussed in the ‘Qualification’ paper which can be accessed from: [www.decc.gov.uk/crc](http://www.decc.gov.uk/crc)