

CRC Energy Efficiency Scheme Update

CRC Footprint & Annual Reporting

With the deadline for submission of the Introductory Phase footprint reports and first annual reports having passed on the 29th of July, the Environment Agency have published figures indicating that approximately 95% of the anticipated reports were received before the deadline passed. Data submitted within the first annual reports will be used to compile the CRC Energy Efficiency Scheme's first annual Performance League Table, which is due for publication in October.

CRC Energy Efficiency Scheme Simplification

The CRC simplification process, first announced during the October 2010 Spending Review, is continuing with DECC seeking further feedback from participants to inform the preparation of draft legislation due in 2012.

In late June DECC issued a “**Simplifying the CRC Energy Efficiency Scheme: Next Steps**” paper which described Government's proposals for simplification; this followed analysis of stakeholder feedback including responses to the CRC simplification discussion papers issued by DECC early in 2011. The June paper outlines the proposals for a simplified CRC, which from Phase Two would feature:

Changes to the Organisational Structure rules: It's proposed that the rules surrounding private sector organisational structure will remain broadly the same, but with significantly greater flexibility in the arrangements surrounding disaggregation to allow organisations to disaggregate in ways that align more naturally with their corporate structures.

Revised rules regarding overlaps between EU Emissions Trading System (EU ETS) / Climate Change Agreements (CCAs) and CRC: Facilities with coverage under the EU ETS or CCAs would not contribute towards CRC qualification thresholds, while for those organisations with EU ETS or CCA coverage who continue to qualify for the scheme, energy supplies to these facilities would not need to be reported under the scheme and would attract no CRC liabilities. This amendment would remove the current CCA exemption rules.

New qualification rules: Qualification would be based purely on settled half hourly electricity consumption at non EU ETS / non CCA facilities. In addition to removing CCA and EU ETS facilities from the qualification calculation, the amendment would also prevent AMR



meters from contributing to the total. The proposals indicate that the qualification threshold (that was 6,000MWh of HHM electricity consumption during 2008 for the Introductory Phase) may be reduced but only in order to maintain total scheme emissions coverage, not to increase it.

Fixed price sales for CRC allowances rather than an auction process with a cap: The proposals include the continuation of retrospective fixed price sales during the Introductory Phase, moving to twice yearly fixed price sales at the beginning of Phase Two. A forward sale at a discounted price would be followed by a retrospective (“buy-to-comply”) sale at a higher price, encouraging participants to forecast emissions and allowing the development of a secondary market, with the retrospective sale acting as a price ceiling and replacing the safety valve mechanism.

Simplification of the energy supplies regulated under the scheme and removal of the 90% rule and footprint report requirement: The CRC scheme presently considers a large number of fuels. It is proposed that only electricity, gas, kerosene and diesel will be regulated, with kerosene and diesel usage only falling within the scope of CRC where these are used for heating. Electricity supplies within domestic profile classes (01 and 02) would be removed from the scheme altogether, with similar provisions likely for small supplies of gas, kerosene and diesel. All usage of CRC supplies not covered by the new exclusions would then be regulated under the scheme, removing the requirement for (1) the present classification of core and residual supplies, (2) the 90% rule and residual measurement lists and (3) the requirement for a footprint report each phase.

Simplification of Evidence Pack requirements: The data requirements for Evidence Packs are likely to be simplified and made less prescriptive, while the proposals also include the shortening of data retention requirements from (up to) twelve to six years.

The paper also outlines further proposals including the harmonisation of greenhouse gas reporting and CRC emissions factors and changes to the rules surrounding Trusts, in such a way that organisations with a genuine commercial interest in properties, who are best placed to comply with the scheme, become responsible for the relevant supplies. Areas that appear unlikely to change substantially include the present landlord and tenant rules, although new provisions may be made in relation to situations where the landlord owns the land but a sole tenant builds the structures and receives energy from the landlord. Calls to overhaul the landlord and tenant rules and to apportion responsibility on the basis of consumption have been rejected.



Are there any likely winners and losers under the proposals?

It is difficult to judge the impact of the proposals until the draft legislation and full consultation are published (these are due in early 2012) but the changes to rules relating to the overlaps between EU ETS / CCA and the CRC have some of the most significant potential to change outcomes for those participants effected. As an example of an organisation who may fare less well under the revised scheme, a company with a single 90/10 CCA site that accounted for 30% of the organisation's footprint emissions would have claimed CCA exemption during the Introductory Phase, while the same company may (subject to the removal of the CCA site HHM supplies from the qualification total) have to participate in the proposed Phase Two, albeit with emissions from the CCA site excluded from reporting.

Looking at the changes to CRC supplies, an organisation who had been able to exclude a large number of residual gas and electricity supplies under the 90% rule in the Introductory Phase may find that many of these are subject to annual reporting in Phase Two, potentially increasing the annual administrative burden and slightly increasing their total CRC emissions.

Organisations likely to benefit under the new proposals include those with CCA's who did not exceed the 25% exemption threshold during the Introductory Phase, organisations with significant EU ETS coverage and those for whom "other fuels" including gas oil and fuel oil comprise a significant proportion of footprint emissions.

In addition to inviting feedback to the simplification paper, which should be submitted before the 2nd of September, DECC have appointed KPMG to manage a survey of the administrative burdens and costs experienced by participants within the CRC scheme, the results of which will also feed into the development of CRC policy and the draft legislation due next year. Information on how to participate in the survey has been emailed to all CRC participants and can also be found on the CRC pages of the DECC website.

