What Now for the CRC Energy Efficiency Scheme?

October 2010

£1 billion cashback withdrawn

The UK Government has announced that, as part of the UK Spending Review 2010, the CRC Energy Efficiency Scheme (CRC scheme) will be simplified to reduce the burden on businesses. Full details have not yet been released, but the key changes are:

- The first allowance sales for 2011-12 emissions will now take place in 2012 rather than 2011.
- Revenues from allowance sales totalling £1 billion a year by 2014-15 will be used to support the public finances, including spending on the environment, rather than being recycled to participants.

The proposed retention by government of revenues from allowance sales is a massive change to the CRC scheme - originally it had been designed to be revenue neutral. The implications are:

- This will substantially increase compliance costs for businesses.
- It is unclear from the information released by the Treasury what impact changes made will have on allowance prices.
- It appears that there will no longer be an auction of allowances from 2013. Allowances will be sold at a fixed price, starting at the rate of £12 per tonne in 2012, but estimated to rise to £16-£18 per tonne by 2014/15.
- The positive aspect of this change is that it provides a strong and clear financial incentive for companies covered by the scheme to invest in energy efficiency.

So, with the CRC registration deadline having passed on September 30, what happens next?

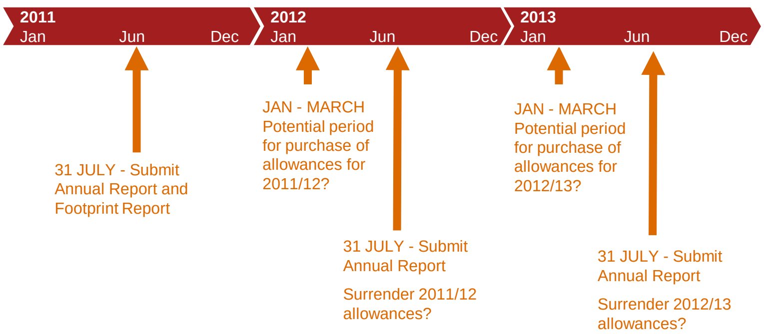
Performance league tables are still likely to be published, so the reputation impact remains.

For those who have missed the deadline, it is not yet clear how strictly the Environment Agency will enforce the £5,000 one-off and £500 per day maximum fines for not having registered. Companies with half hourly meters that have not registered, or that made an information disclosure, should still contact the Environment Agency and comply with the requirements. The level of proactive effort by organisations will be an important consideration in any decisions made by the regulator.

Registration is, however, only the first step of the CRC scheme. For those that are full participants in the scheme, registration is the start of the journey, not the end. The hard work begins now.

When are the revised regulatory deadlines?

There is limited information available at present. The main changes are a delay in purchasing allowances and a removal of the recycling payment. This diagram shows how the deadlines might now work.



Key challenges in the next 18 months

Despite the changes there are a number of key challenges that remain. The ability to gather the raw numbers for the reports will rely upon the existence of effective processes, systems and controls to generate reliable and timely data. Unlike "registration data" - which comprised half hourly electricity consumption data - footprint and annual report data must also include all other site-based fuels, such as gas, oil, diesel and coal.

Those processes, systems and controls over fuel use data need to be established and "stress-tested" now, so that management, and more specifically the nominated Senior Officer, can have confidence in their data and can compile reports easily, within the regulatory deadline.

The regulatory reports will need to be delivered under time pressure during the limited four month period between the close of the reporting year (31 March 2011) and the need to submit correct and complete information to the Environment Agency by 31 July 2011. This could present challenges for organisations with a large number of sites.

Developing the data collection systems and reporting structures will ensure that companies can overcome these problems, manage the risks and have confidence in their purchasing of allowances for the 2011/12 period and future years.

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Looking Ahead

The last 12 months have witnessed a backlash against the CRC, with a number of parties complaining to the Government about the amount of work involved in achieving and demonstrating compliance. Judging by the UK Spending Review announcements, such lobbying has been effective up to a point, but at a cost. What further change might be anticipated?

Full details of the changes announced in the UK Spending Review have not been released, leading to continued uncertainty over key aspects of the CRC scheme. What is clear, however, is that the Government is committed to a 34% reduction in CO2 emissions by 2020, and therefore regulatory action to support the achievement of this goal will be a fact of life going forward. However the exact nature of the regulations will be subject to change. The implications of this are twofold.

- Providing for sound measurement and management of energy and related carbon emissions is important regardless of the CRC. It will help companies comply with current regulations, reduce energy bills and help them understand the costs of any proposed changes to these regulations. The benefits of being better at carbon and energy management go beyond complying with the CRC.

- There are going to be a variety of opportunities that businesses can profitably realise from supporting the UK to achieve the 34% CO_2 reduction target and by minimising the impact of any future regulatory or emissions tax costs to their business. If not already underway, companies should start to incorporate the impact of CO_2 emissions into their business strategies (supported by credible, relevant and timely information).

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