POLICY NOTE

THE CRC ENERGY EFFICIENCY SCHEME (AMENDMENT) ORDER 2014

SSI 2014/502

This Order makes amendments to the CRC Energy Efficiency Scheme Order 2013 (2013 Order) to finalise simplification of the Scheme. The Government committed to simplify the CRC and in partnership with the UK Government, the Welsh Assembly Government and Northern Ireland Executive, published conclusions to the second and final consultation on the issues covered, in tandem with this Order.

Description

The CRC is a mandatory UK-wide emissions trading and reporting scheme introduced in April 2010. It is a key climate change policy developed to tackle the barriers to the uptake of energy efficiency measures, originally identified by the Carbon Trust.

The simplification measures now proposed include encouragement to take up onsite, self-supplied renewable electricity; exclusion from the Scheme of energy used for metallurgical and mineralogical processes that are deemed eligible for an exclusion from the Climate Change Levy (CCL) as announced by the UK Exchequer in the last Budget; two drafting changes to avoid double-counting of energy supplies used in third party Climate Change Agreement facilities or EU Emissions Trading System installations and to allow participants greater flexibility to disaggregate subsidiaries of their organisations; plus a number of technical amendments to make the wording of the regulations clearer for participants.

Government proposes this Amendment Order comes into force at the beginning of the next phase of the CRC Scheme on 1st April 2014.

Policy Objectives

Since the introduction of the CRC in April 2010, stakeholders have argued that it is overly complex and administratively burdensome, especially in relation to emissions regulated under the EU ETS or CCAs. They have also stated that the organisational focus of the CRC is misaligned with their operational management structures and business processes. Government announced its intention to simplify the scheme in August 2010.

In December 2012, following consultation, Government announced conclusions on simplification plans. These were enacted the following May through the 2013 Order and delivered significant simplifications and consequent cost savings to CRC participants. Changes included:

- reduction in fuels covered from 29 to 2 – electricity and gas (latter for heating purposes only);
- an organisation-wide 2% de minimis threshold for gas (for heating);
- a reduced reporting burden;
- removal of the overlap with CCAs and EU ETS schemes; and

Consultation

In November 2013, Government consulted on proposals to finalise simplification of the CRC.

Of the 31 responses, the majority agreed with the measures proposed. Whilst several respondents queried the renewable electricity proposal, the majority accepted it; the overwhelming majority supported the proposal to implement the new supply deduction for energy used in metallurgical and mineralogical processes from the start of the next CRC phase in April 2014; and the drafting amendments were well received by all who commented.

Impact Assessment

The UK wide Impact Assessment is attached at Annex D. It is estimated that the legislative changes that are being made will result in a small reduction of coverage of the CRC of 0.3MtCO_2 and associated reductions in energy savings and other ancillary benefits such as air quality. The reduced coverage – principally owing to the met/min exclusion will also lead to a £3.5m reduction in Exchequer income per year on average. Whilst the cost benefit ratio of the Scheme remains net positive at £2.7bn (NPV up to 2030), these impacts do represent a small decrease of £52m and are justified by safeguarding the full benefits to the met/min sector from the CCL exemption.

The following impacts have been considered as having no or negligible effects:

1. Costs in employment
2. Barriers to start up and other impacts in small and medium size business
3. Competitive distortions
4. Regional distortions
5. Social impacts such as well-being, human rights and inequality

Financial Effects

The overall net benefit to participants of £52m over the next 20 years is a significant reduction in direct cost compared to the relatively small loss in carbon savings.

Scottish Government
Energy and Climate Change Directorate

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