Simplifying the CRC Energy Efficiency Scheme (CRC)

Aldersgate Group (AG) Response to DECC Proposals

September 2011

Introduction

There is scope for significant reductions in carbon and energy use for large organisations that will lead to both environmental and financial savings. However, the AG believes that the current policy landscape is too complex and does not maximise opportunities to improve the double bottom line.

Aldersgate Group (AG)

The AG is an alliance of leaders from business, politics and society that drives action for a sustainable economy. Its mission is to trigger the change in policy required to address environmental challenges effectively and secure the maximum economic benefit in terms of sustainable growth, jobs and competitiveness.

CRC

The AG supports the objectives of the CRC, a mandatory scheme aimed at improving energy efficiency and cutting carbon emissions in large public and private sector organisations which are collectively responsible for around 10% of the UK's carbon footprint.

However, the removal of the revenue recycling mechanism has severely weakened the financial incentives for organisations to invest in energy efficiency and has damaged the reputation of the scheme. It has effectively transformed the CRC into a tax, with revenues directed towards HM Treasury.

The original recycling mechanism gave high levels of reward for the highest performers. The revised scheme now only gives the same marginal return as the Climate Change Levy (CCL) and as a result, the CRC has become a much weaker financial driver for investment in energy efficiency. Energy mitigation strategies have been replaced with compliance strategies. Furthermore, the validity of the performance league table has also been damaged and as a result, combined with a large number of discrepancies, is increasingly regarded as an ineffective reputational driver.

Simplifying the CRC

The CRC is overly complex and burdensome. DECC is committed to simplifying the scheme and published proposals in June 2011. While the removal of the emissions cap will negate the need for participants to develop auctioning strategies and thereby reduce administrative burdens and simplify business cases, it also removes a fundamental aspect of the "cap-and-trade" scheme. This will lead to more uncertainty in the effectiveness of the CRC to limit carbon emissions to a pre-determined threshold. The original cap and trade scheme would have also brought with it a secondary market in CRC allowances.

The other simplification measures include providing greater flexibility for businesses to define "natural business units", reducing the number of fuels reported and reducing overlap with other schemes. While these will make the CRC less complex, they maintain the fundamental discrepancies between the CRC carbon footprint and that produced under other government guidance. The scheme remains too burdensome for an energy tax, especially considering the relatively weak reputational drivers. In the context of the wider energy policy landscape, the CRC simplification measures are tinkering at the edges and do not fundamentally address the root of the problem.

Better Regulation

The Coalition Government is committed to simplifying the complex regulatory system and reducing bureaucracy in order to promote growth, innovation and social action. It must apply these principles to the climate change and energy policy landscape.

As set out in the AG's report *Dealing with Deficits,* driving the agenda to green the economy will require legislative change in a number of areas and it is critical that these are not developed in isolation but form a clear framework with a joined-up approach. Environmental legislation has developed over many years in response to specific problems, leading to a wide range of different regulations, methodologies, enforcement mechanisms and legal requirements. The cumulative result is significant complexity and this must be overcome.

Holistic Approach

The climate change and energy policy landscape includes what is effectively two taxes charged on the energy used in business, the CRC and CCL, and the Government recently consulted on the introduction of mandatory carbon reporting.

There is significant scope to streamline these regulations whilst maintaining revenues for HM Treasury and increasing carbon reductions. The Government should seek to harmonise carbon and energy reporting obligations in a single, mandatory reporting framework (that could be used to compile an annual public league table), which is transparent and consistent with international reporting requirements.

These simplifications should be made in a way that boosts investment in renewable electricity generation and which rewards best performers and penalises the worst performers. They should also ensure visibility at Board level of the key recognitions made by Government and of a business's own fossil fuel dependency and costs. At the same time, there needs to be full visibility as to the impacts on competitiveness for manufacturing and energy intensive sectors (such as through a system analogous to Climate Change Agreements).

Support from Industry

"Domestic carbon pricing policies need to be harmonised and streamlined in terms of programmes and prices."

OECD
Economic Survey of the UK 2011

"The government must step back – only a holistic approach will achieve policy simplicity… Wrap the CRC up into the CCL and extend the scope of CCAs to new sectors formerly covered by the CRC. The current issues with the CCL should be formed in light of the current electricity market reform proposals. This approach would remove a significant layer of complexity currently experienced by businesses in the CRC. Current uncertainty in the organisational rules, supply rules and price of carbon makes calculating and attributing the cost of the CRC very difficult. Moving to a levy-based system would remove uncertainty and legal ambiguity, and ultimately distribute the cost of carbon more equitably across the sectors while protecting those most at risk from international competition."

The CBI
Back to the Answer: Making the CRC work (March 2011)

"The combination of the Climate Change Levy, the Carbon Reduction Commitment (CRC), and Climate Change Agreements for companies in the non-traded sector is overly complex, whilst failing to deliver adequately on climate change goals… we urge the Government to abolish the bureaucracy associated with the CRC, and instead collect revenue through the introduction of a simple carbon tax or the extension of the Climate Change Levy, whilst ensuring transparency through company reporting requirements…

Where the Government wishes to raise revenues through carbon taxation, this should only be as part of a clear, appropriate and strategic approach which does not impose unnecessary burdens on business. The Government has not followed this approach in its *decision to keep revenues from the Carbon Reduction Commitment, which is now a significant but poorly designed carbon tax."*

The Corporate Leaders Group on Climate Change
Seize the Day: A call to action for UK climate leadership (June 2011)

"The CRC Energy Efficiency Scheme, while having an impact, has become overly and unnecessarily complex, burdensome and unfair. Policy layering, including changes to the CRC in the Comprehensive Spending Review, means that effective carbon prices vary hugely and distortingly both across different sectors of the economy and between electricity and heating (in 2020 they will range from £10 to more than £100/tonne CO2). As a result, the policy mix fails to harness the market's ability to identify the cheapest possible carbon reductions. Following from this, the report's principal recommendations are:

- *Scrap the CRC Energy Efficiency Scheme (CRC);*
- *Instead, deploy mandatory carbon reporting to a wide group of companies;*
- *Flatten carbon taxation so that it is more consistent across different sectors."*

Policy Exchange
Boosting Energy IQ: UK energy efficiency policy for the workplace (July 2011)

"Implicit carbon prices vary across sectors, and should be harmonized to increase the cost efficiency of policy. The unevenness partly reflects the way in which policies have proliferated and overlap and a simplified structure would be desirable."

LSE
Climate change policy in the United Kingdom (August 2011)

Next Steps

The Government's CRC simplification proposals state that:

"Some have suggested that we should replace the CRC with a more conventional tax. After considering this and other policy alternatives suggested by stakeholders, we have decided to retain the CRC, in a simplified form. The tailored combination of reputational, financial and standardised energy measurement and monitoring drivers remain, in our view, the most effective way to tackle the barriers to the uptake of energy efficiency. We have ample evidence that price alone does not ensure organisations implement cost effective energy efficiency measures. Therefore, we consider the simplified CRC – alongside the Green Deal – is the best way to achieve greater energy efficiency and contribute to meeting our carbon budgets in the relevant sectors."

At the same time, DECC Secretary of State Chris Huhne told Parliament in May during the debate on the fourth carbon budget:

"I also take on board the fact that the OECD's latest country report urged us to look at the different implicit carbon prices in our policies across the board. I very much take that to heart and we will look at it."

Given that there is such a strong consensus from external stakeholders on the need for more holistic policy reform, and given the Government's stated intention to simplify the "complex regulatory system", it is clear that the Government has not made a sufficiently clear case for retaining the CRC and must clarify why it has rejected alternatives to the CRC with more open dialogue with industry. For example, the AG is not proposing that the CRC is replaced simply with a more conventional tax and agrees "price alone does not ensure organisations implement costs effective energy efficiency measures". That is why the AG is proposing that the CRC and CCL are streamlined in a way that provides additional reputational drivers such as mandatory carbon reporting and additional recycling which rewards best performers and penalises the worst performers.