



CRC energy efficiency scheme update

The Comprehensive Spending Review announced changes to the CRC energy efficiency scheme and a new consultation has been issued on amending the scheme. This briefing provides an update on these changes and asks for feedback from councils on the consultation. It is provided to local authority chief executives, council leaders and all APSE environment services contacts.

Key issues

First allowance sales for 2011-12 emissions now taking place in 2012 rather than 2011

Revenues from allowance sales will not be recycled to participants

Consultation on extending the introductory phase and postponing the start of phase 2 – email responses through to djohns@apse.org.uk

1. Introduction

The CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment) is the UK's mandatory climate change and energy saving scheme. The scheme started in April 2010. It aims to improve energy efficiency and reduce the amount of carbon dioxide (CO₂) emitted in the UK. This is vital to achieving our overall targets of reducing greenhouse gas emissions by 2050 by at least 80% compared to the 1990 baseline. APSE briefing 09-04 outlined the main provisions of the Carbon Reduction Commitment ([click here to view the briefing paper](#)).

The Comprehensive Spending Review 2010 announced some important changes to the Scheme:

'The CRC Energy Efficiency Scheme will be simplified to reduce the burden on businesses, with the first allowance sales for 2011-12 emissions now taking 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 recycled to participants. Further decisions on allowance sales are a matter for the Budget process.'
Section 2.108, Spending Review 2010, HM Treasury

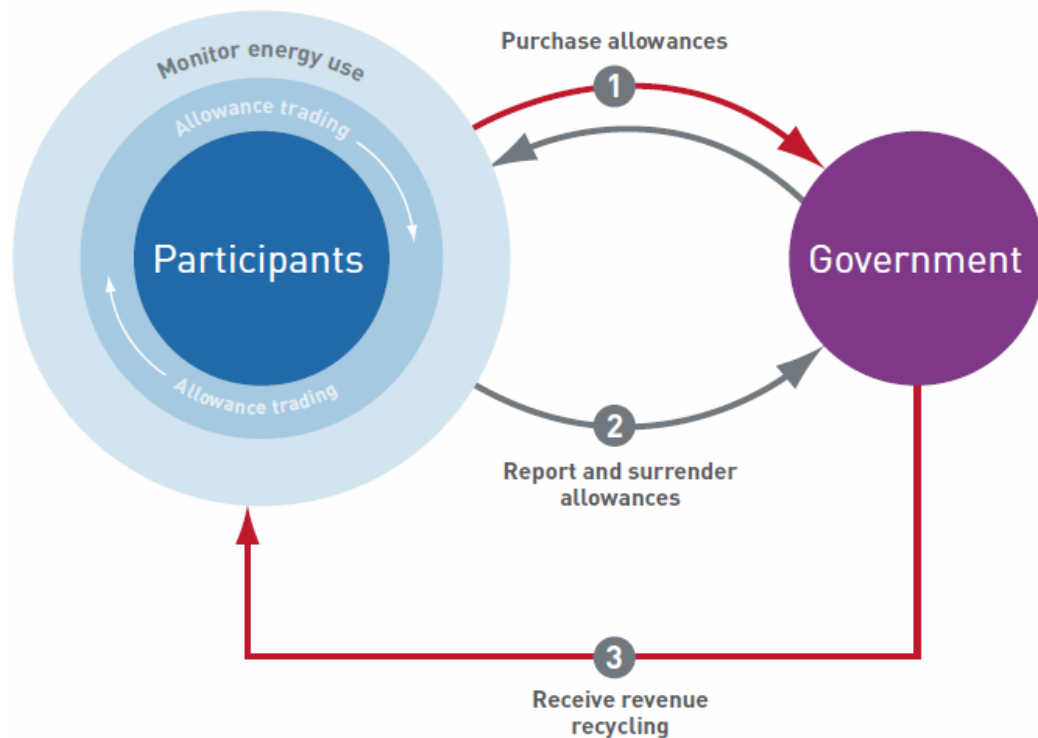
Following on from the spending review announcements, in November 2010, the Department of Energy and Climate Change issued a consultation on amending the CRC Energy Efficiency Scheme Order 2010. These changes are primarily focused on extending the introductory phase and postponing the first allowance sale of phase two. The full consultation document is available by clicking on the following link ([click here](#)).

This briefing paper summarises the changes announced as a result of the spending review and also outlines the main provisions of the consultation. APSE will be responding to the consultation, please email any comments to djohns@apse.org.uk by Thursday 16 December 2010.

2. Changes to the current scheme as a result of the Comprehensive Spending Review 2010

The current scheme requires participating organisations (including councils) to monitor their emissions and purchase allowances, initially sold by Government, for each tonne of CO₂ they emit. The more CO₂ an organisation emits, the more allowances it has to purchase. So there is a direct incentive for these organisations to reduce their emissions. In addition, the better an organisation performs in terms of reducing its emissions, the higher it will appear in the annually published league table, showing the comparative performance of all participants. This in turn provides a further benefit: all the revenue raised from selling allowances is 'recycled' back to participants, and the league table position affects how much of the revenue each organisation receives.

CRC cycle



The changes announced to the Scheme as a result of the Spending Review 2010 mean the following:

a) The first sale of allowances will be in 2012 rather than April 2011. Participants will be able to purchase allowances to cover their 2011/12 emissions at the end of the 2011/12

compliance year. This means that the budget allocated by councils for allowances in 2011 can now be used for other things; e.g. investing in other energy efficiency measures.

b) There will be no allowances revenue recycling payment and no related bonus and penalty calculations. Revenue from the sale of CRC allowances, totaling £1 billion a year by 2014/15 will not be recycled to participants. Therefore, participants (including councils) will still be required to purchase allowances, but they will not receive any recycled payments. *Please note: the CRC scheme is a joint scheme between the UK Government and the Devolved Administrations; revenue recycling is a matter of all of the Devolved Administrations to review following the UK Government's announcement.*

c) The price for government allowances in the introductory phase is currently stated to be £12 per tonne of CO₂ but this price is subject to the budget process and so is not yet confirmed.

d) The league table will be retained, including all three metrics but their impact is now limited to reputation only (no bonus/penalty calculations).

A key feature of the CRC Energy Efficiency Scheme was the recycling of revenues through the league table. It provided both a strong financial and reputational incentive for participants to reduce energy consumption and CO₂ emissions. The financial incentive for the league table was based on your organisation's proportion of the total CRC emissions in the first year of the scheme (2010/11), adjusted by a bonus or penalty payment based on your position in the league table.

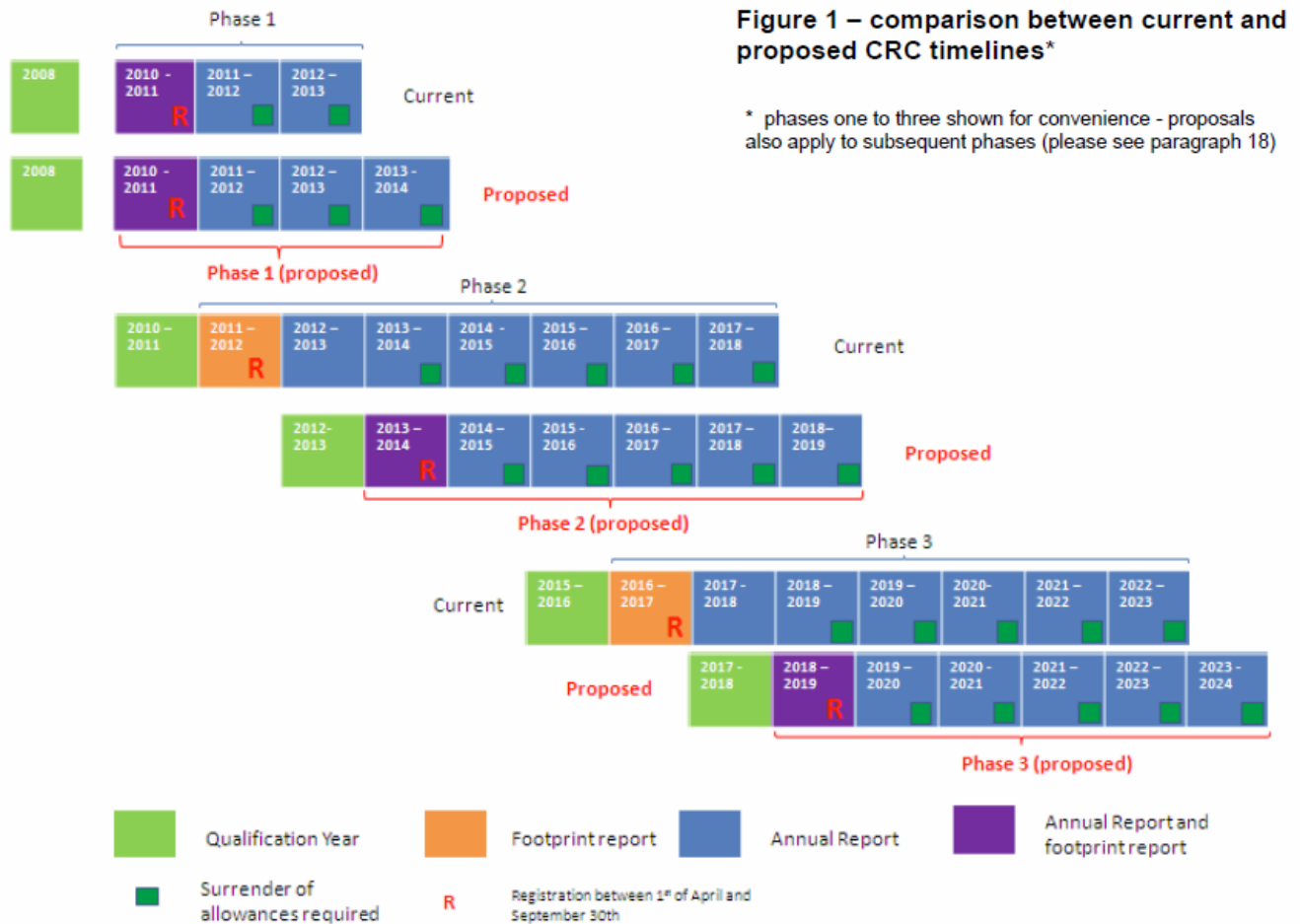
Year (Revenue recycling date in October)	Bonus/ Penalty Rate
Year One	+/-10%
Year Two	+/-20%
Year Three	+/-30%
Year Four	+/-40%
Year Five	+/-50%

Therefore, an organisation under the scheme may have been expecting to generate a bonus (as well as retrieving the money spent on allowances) from their position in the league table, as early as next October, which will no longer be the case.

3. Consultation on amendments to the CRC Energy Efficiency Scheme Order 2010

The current timescales for the start of the CRC's second phase give insufficient time to action significant changes before April 2011 (the default start of phase 2). Therefore, the consultation is primarily focused on postponing the start of the second phase. This will then provide time for a simplification review and draft appropriate amendments to the CRC Order. The proposed amendments as a result of the consultation are as follows:

1. Extend the introductory phase by 12 months so it runs for 4 years until March 2014 rather than March 2013, postpone the start of phase 2, and subsequent phases and align the treatment of footprint years. A comparison between the current and proposed CRC timelines is shown below:



2. Remove the requirement for organisations that are not required to register as participant to make information disclosures.
3. Amend the CRC's landlord provision to recognise the way in which Northern Ireland departments are accommodated in Northern Ireland Civil Service buildings.
4. Update the division of responsibilities between the scheme's 3 administrators.
5. Correction of reference errors and technical fixes.

4. APSE comment

The consultation on the amendments to the Order postpones the start of the second phase so that further amendments can be made to the scheme. APSE will be responding to this consultation and would welcome any comments by Thursday 16 December 2010 to djohns@apse.org.uk. Some organisations may favour extending the introductory phase as it would allow participants with an additional year's experience of reporting, complying and surrendering allowances in the introductory phase.

The announcements on revenue recycling from the Comprehensive Spending Review 2010 mean that organisations who were expecting to receive this revenue from the previous guidance on the Scheme will now lose out on this. Some organisations have invested in energy efficiency measures, such as installed automatic meters (AMR), to improve their prospects of future dividends under the CRC Energy Efficiency Scheme. This, alongside up to 30% budget cuts facing councils, will have a substantial impact on local authorities who have taken measures to improve their energy efficiency. The London Energy Project (LEP) said that the CRC has gone from being 'revenue neutral' to costing approximately £12m in London alone – an increase of around £350,000 per authority (LGC today). This removes revenue which local authorities could have used to spend on energy efficiency measures that will have an impact on driving down UK carbon emissions.

Those authorities who have implemented energy efficiency measures and are 'ahead of the game' will still gain financially in terms of lowering the amount of allowances they need to purchase, as well as lowering their own electricity bills. There is also still the reputational incentive as the Performance League Table will be retained.

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