

Government advised to re-design 'complex' CRC scheme for the second phase

Embargoed until: 00.01 on Friday 24 September 2010

Issue No: 28

The Committee on Climate Change has recommended that Government re-designs the Carbon Reduction Commitment (CRC) energy efficiency scheme prior to the start of the second phase (2013-2017), in order to reduce its complexity.

The CRC scheme requires large public and private sector organisations to buy allowances to cover emissions produced from their usage of electricity and heat. The scheme is designed to strengthen financial and reputational incentives for these organisations to make energy efficiency improvements.

The sectors covered by the scheme produce 10% of the UK's total greenhouse gas emissions. Today's report finds that by 2017, the scheme could reduce these emissions by 30% compared to 2008, helping the UK to meet carbon budgets.

The current intention is that a cap is set from 2013 with a fixed number of allowances made available to organisations through an auctioning system. However, the Committee's analysis suggests that the scheme is already complex, and would become more so if a cap and auction were to be introduced, with no apparent benefits.

The Committee's main recommendations are that:

- The **sale of an unlimited number of allowances at fixed price** should be extended from the first phase into the second phase, rather than introducing a second phase cap and complex auctioning scheme.
- Separate league tables and revenue recycling should be established for the **public and private sectors**, and public sector financial budgets should be set to allow upfront investments in energy efficiency improvements – this will

allow for the fairer treatment of the two sectors, as the current scheme is at risk of transferring funds from public to private sector organisations.

- Participants should have to purchase CRC allowances to cover **renewable energy generation**, including heat. This is a departure from the current scheme whereby companies could receive double incentives for use of renewable energy. Financial incentives for renewable heat are important but should be introduced through the renewable heat incentive. League tables should be extended to cover renewable heat and renewable electricity, thereby providing additional reputational incentives for businesses.

Chief Executive of the Committee on Climate Change, David Kennedy said:

“The CRC scheme has the potential to make an important contribution towards meeting carbon budgets. However, current proposals risk making the scheme unnecessarily complex. We are therefore proposing that Government modifies its design to make participation in the scheme easier to for companies and public sector organisations”.

The Committee also set out options for a more fundamental redesign of the scheme, that Government could consider in the context of a strengthened carbon price. These included; reviewing the wider regulatory system and reforming the current method of revenue recycling and, dropping the requirement to purchase allowances.

If the design of the 2nd phase was simplified, the Committee said that Government could consider lowering the threshold of the scheme to include smaller businesses.

ENDS

Notes to Editors

Committee on Climate Change (CCC)

The Committee on Climate Change (CCC) is an independent statutory body that advises Government on tackling and preparing for climate change: www.theccc.org.uk/.

- The Committee's advice is published on the [CCC website](#). The Committee was asked by Government and the Devolved Administrations to provide advice on the level of the cap for the 2nd phase of the CRC energy efficiency scheme in January 2010.
- The [CRC Energy Efficiency Scheme](#) was introduced in April 2010. It captures emissions from large non-energy intensive companies, public sector buildings and the emissions of industry that are not covered by the EU ETS and Climate Change Agreements (CCA).
- The Environment Agency estimates that between 3,000 – 4,000 organisations will be covered by the scheme, with two-thirds of these from the private, and one-third from the public sector.
- Inclusion in the scheme is a legal requirement for organisations that consumed at least 6,000 MWh of electricity in 2008, equating to an annual energy bill of around £750,000.
- The current intent is that the scheme will move to cap and trade from April 2013 onwards, with the number of allowances limited to reflect emissions targets for sectors in the CRC.

For further information/ media bids please contact:

Emily Towers, Communications Manager, emily.towers@theccc.gsi.gov.uk, 07766 366 577