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Convenor

Rural Affairs, Climate Change and Environment Committee

Scottish Parliament

Edinburgh

EH99 1SP

18 February 2014



CRC ENERGY EFFICIENCY SCHEME (AMENDMENT) ORDER 2014

I am writing to inform you that I plan to lay the CRC Energy Efficiency Scheme (Amendment) Order 2014 (the "Amending Order") in the Scottish Parliament on 10 March 2014.

CRC scheme

The Carbon Reduction Commitment energy Efficiency Scheme has been set up by the four UK administrations by joint Order under the UK Climate Change Act 2008.

It is a cap and trade scheme first set up in 2010, and simplified in 2013. It seeks to reduce carbon dioxide emissions as result of the electricity and gas used by large non-energy intensive organisations in the public and the private sectors, and to that extent complements the EU emissions trading scheme

It will operate for a further five consecutive 5 year phases, and a final four year phase. The next phase – the first under the simplified scheme - starts on 1 April 2014.

The Amending Order

The Amending Order is expected to be made by the Privy Council on 5 March 2014, and requires to be laid before the Scottish Parliament, where it will be subject to negative procedure. The Order has UK extent and also requires to be laid on the same day before the UK Parliament and the Welsh and Northern Ireland Assemblies.

The Amending Order will, unless annulled by any UK legislature, come into force on 1 April 2014. The laying of the Order will on that basis break the 28 day rule.

The Amending Order is the final part of CRC simplification and brings new benefits to industry in terms of increased recognition of onsite, self-supplied renewables, and the removal of CRC liabilities that may occur as a result of changes being made to the treatment of metallurgical and mineralogical (met/min) sectors under the Climate Change Levy (CCL). It also clarifies some aspects of the Order for participants.

The timetable for the Amending Order has been and remains very tight, owing to the late addition by the UK Government of the CCL issue delaying the start of the process, and the 1 April start date for the next phase of the CRC imposing an end date. The result is that the earliest date on which the Privy Council can make the Order is 5 March 2014.

Any delay in making the changes beyond the start of the next phase of the CRC on 1 April 2014 would cause significant difficulties for the other UK administrations, and for undertakings that require to account for energy use under the Scheme. It is expected that the Amending Order would need to be re-drafted to include transitional arrangements, and that undertakings would need to account for emissions in phase 1 under two different accounting regimes. In policy terms, this would run counter to the core aims of simplification of the scheme, and effective use of resources.

I am very mindful of the need to ensure that the Parliament has a proper opportunity to scrutinise new legislation, and would only contemplate shortening the period for scrutiny where there is a compelling reason to do so. I consider that there are compelling reasons for breaking the rule in this case, including the need to align scrutiny of this instrument with the parallel processes of the other UK administrations, and the need to minimise the expected adverse impacts of delay on undertakings that participate in the Scheme.

Even so, it is right that I should let you know in advance that this issue has arisen, and of how I intend to deal with it.

I enclose a copy of the CRC Energy Efficiency Scheme (Amendment) Order 2014 at **Annex A**, Government's Response to the consultation at **Annex B**, the Policy Note at **Annex C** and the Impact Assessment at **Annex D**.

I have written in similar terms to the Convener of the Delegated Powers and Law Reform Committee.

Kindest regards



PAUL WHEELHOUSE

2014 No. 0000

CLIMATE CHANGE

The CRC Energy Efficiency Scheme (Amendment) Order 2014

<i>Made</i>	- - - -	<i>2014</i>
<i>Laid before Parliament</i>		<i>2014</i>
<i>Laid before the Scottish Parliament</i>		<i>2014</i>
<i>Laid before the National Assembly for Wales</i>		<i>2014</i>
<i>Laid before the Northern Ireland Assembly</i>		<i>2014</i>
<i>Coming into force</i>	- -	<i>1st April 2014</i>

At the Court at Buckingham Palace, the *** day of ***

Present,

The Queen's Most Excellent Majesty in Council

Whereas the Secretary of State, the Scottish Ministers, the Welsh Ministers and the Department of the Environment of Northern Ireland, have in accordance with section 48 of and paragraph 10 of Schedule 3 to the Climate Change Act 2008^(a)—

- (a) obtained and taken into account, the advice of the Committee on Climate Change in respect of this Order; and
- (b) consulted such persons likely to be affected by this Order as they considered appropriate,

Her Majesty, in exercise of the powers conferred by sections 44(1), 46(3), and 90(3)(a) of and Schedule 2 and paragraph 9 of Schedule 3 to the Climate Change Act 2008, is pleased, by and with the advice of Her Privy Council, to order as follows:

Citation, commencement and interpretation

1.—(1) This Order may be cited as the CRC Energy Efficiency Scheme (Amendment) Order 2014 and comes into force on 1st April 2014.

(2) In this Order, “the principal Order” means the CRC Energy Efficiency Scheme Order 2013^(b).

^(a) 2008 c.27.
^(b) S.I. 2013/1119.

Amendment to article 3 of the principal Order

2. In article 3 of the principal Order, after the definition of “maintained school” insert—
““metallurgical process” and “mineralogical process” have the meanings given by paragraph 29A of Schedule 1;”.

Time for applications

3.—(1) In article 12 of the principal Order, for “article 27(2)” substitute “articles 26(2)(b) and 27(2)”.

(2) Article 26(2) of the principal Order is amended as follows—

- (a) at the end of sub-paragraph (a), delete “and”;
- (b) in sub-paragraph (b), for “the following year.” substitute “any year of a phase; and”; and
- (c) after sub-paragraph (b) insert—
“(c) A notifies the administrator that A agrees that B may apply for registration as a separate participant.”.

Undertakings

4.—(1) In article 24(4) of the principal Order, for “in accordance with article 12”, substitute “on or before the last date for making an application for registration provided by article 12”.

(2) In article 25(3) of the principal Order, for “in accordance with article 12”, substitute “on or before the last date for making an application for registration provided by article 12”.

Failures in respect of annual reports

5. In article 74(3) of the principal Order, for “more than 40 days after the due date” substitute “after the last working day of October after the end of the annual reporting year”.

Amendments to Schedule 1 to the principal Order

6.—(1) Schedule 1 to the principal Order is amended as follows.

(2) In paragraph 1, for sub-paragraph (4)(b) substitute—

“(b) is connected to a distribution system of an electricity distributor within the meaning of—

- (i) in Great Britain, section 6 of the Electricity Act 1989(a); or
- (ii) in Northern Ireland, article 3 of the Electricity (Northern Ireland) Order 1992(b).”.

(3) For paragraph 4(2), substitute—

“(2) Sub-paragraph (1) does not apply to the extent that the electricity is used directly for—

- (a) the generation, transmission or distribution of electricity, or
- (b) the transport, supply or shipping of gas.”.

(4) In paragraph 14(3), after “paragraph 16(3)” insert “and (3A)”.

(5) In paragraph 15(3), after “paragraph 16(3)” insert “and (3A)”.

(6) In paragraph 16—

- (a) in sub-paragraph (2), for “sub-paragraph (3)” substitute “sub-paragraphs (3) and (3A)”;

(a) 1989 c.29.

(b) S.I. 1992/231 (N.I.1).

(b) after sub-paragraph (3), insert—

“(3A) Sub-paragraph (2) does not apply where the unconsumed supply is consumed by B on the premises occupied by B to operate—

- (a) an EU ETS installation;
- (b) a CCA facility;
- (c) a metallurgical process; or
- (d) a mineralogical process.”.

(7) After paragraph 29 insert—

“Metallurgical and mineralogical processes consumption

29A.—(1) Subject to sub-paragraph (2), A is not supplied with electricity or gas to the extent that that supply is consumed by A for the purposes of operating a mineralogical process or a metallurgical process.

(2) A is supplied with electricity or gas where A decides that such a supply is not consumed for the purposes of operating a mineralogical process or a metallurgical process.

(3) A decision made under sub-paragraph (2)—

- (a) may be made in respect of a phase where such a decision is made on or before the date the participant submits its first annual report for that phase; and
- (b) must not be altered during that phase.

(4) “Metallurgical process” means any of the following—

- (a) a process falling within Division 24 of NACE Rev 2 and Group 24.1 is to be taken to include the production of ingots and other primary forms from scrap but that production does not include the breaking up of scrap;
- (b) a process falling within Group 25.5 of NACE Rev 2, except a process involving sheet metal; or
- (c) a process falling within Group 25.6 of NACE Rev 2 which is—
 - (i) plating, anodising, or other similar processing of metals;
 - (ii) heat treatment of metals; or
 - (iii) deburring, sandblasting, tumbling and cleaning of metals.

(5) In sub-paragraph (4), “NACE Rev 2” has the same meaning as it has in Article 1(1) of Regulation (EC) No 1893/2006 of the European Parliament and of the Council establishing the statistical classification of economic activities NACE Revision 2(a) and a reference to “Division” and “Group” is to those matters as set out in Annex 1 to the Regulation.

(6) “Mineralogical process” has the same meaning as it has in Article 2(4)(b) of Council Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity(b).”.

(8) In paragraph 32—

(a) for sub-paragraph (1)(a), substitute—

“(a) A generates electricity using a source of energy or technology specified in section 41(5) of the Energy Act 2008(c) and which was commissioned on or after 1st January 2008;”;

(b) for sub-paragraph (1)(b) substitute—

(a) OJ No L 393, 30.12.06, p.1. Explanatory Notes to NACE Rev 2 have been published by the Statistical Office of the European Communities. The Explanatory Notes were last updated by Eurostat on 20 October 2009 and can be viewed at http://epp.eurostat.ec.europa.eu/portal/page/portal/nace_rev2/documents/NACE_rev2_explanatory_notes_EN.pdf.

(b) OJ No L 283, 31.10.03, p.51.

(c) 2008 c.32.

“(b) in respect of that generation A is eligible—

- (i) to be issued with a ROC; or
- (ii) to receive a financial incentive made by virtue of a scheme under section 41 of the Energy Act 2008; and”.

(9) For paragraph 34 substitute—

“**34.** In paragraph 33 “relevant conversion factor” means—

- (a) a factor of zero emissions where A—
 - (i) is not prohibited from being given a ROC or a financial incentive described in sub-paragraph (1)(b) of paragraph 32 in respect of electricity generated using a source of energy or technology referred to in sub-paragraph (1)(a) of that paragraph; and
 - (ii) has not at any time received such a ROC or a financial incentive; and
- (b) in all other cases a factor listed—
 - (i) in version 2 of the document named “CRC Energy Efficiency Scheme Order: table of conversion factors 2013/14” published by the Department of Energy and Climate Change in January 2014 and made available at the website address <https://www.gov.uk/crc-energy-efficiency-scheme>; or
 - (ii) in any replacement or revision of the document described in sub-paragraph (b)(i) which is published and made available in the same way as that document.”.

Amendments to Schedule 2 to the principal Order

7. In paragraph 2 of Schedule 2 to the principal Order, after sub-paragraph (4)(e) insert—

- “(f) A local authority in England, within the meaning of section 579 of the Education Act 1996(a), in respect of every school maintained by the authority.”.

Name
Clerk of the Privy Council

(a) 1996 c.56. Section 579 was amended by S.I. 2010/1158, article 3.

EXPLANATORY NOTE

(This note is not part of the Order)

This Order amends the CRC Energy Efficiency Scheme Order 2013 (S.I. 2013/1119) (“the principal Order”). This Order comes into force on 1st April 2014 so that the changes made operate from the beginning of the initial phase of the Scheme as defined in the principal Order.

Article 3 corrects the cross reference to exceptions to the date by which applications for registration must generally be made and extends the ability for undertakings which are part of a group to be a participant separate from the other members of the group.

Article 4 corrects cross references to the closing date for application for registration.

Article 5 amends the date (from 1st September to the last working day in October) on which certain penalties for failure to submit an annual return can apply.

Article 6 amends Schedule 1 to the principal Order including citing the relevant Northern Ireland Electricity Order. The amendments to paragraphs 14 to 16 of that Schedule apply to landlords of premises let to tenants who use those premises in the operation of an EU ETS installation, a CCA facility, a mineralogical process or a metallurgical process. The electricity or gas supplied by the landlord to the tenant for the operation of the installation, facility or process is not to be treated as a supply of energy to the landlord. Article 6 also inserts a new paragraph 29A such that a person may not be treated as supplied with electricity or gas where the supply is used to operate certain mineralogical or metallurgical processes as defined in that paragraph.

By article 7 an English local authority is not a public body for the purposes of the principal Order in respect of the schools which it maintains.

A regulatory impact assessment of the effect that this Order will have on the costs of business and the voluntary sector is available from the Climate Change Team, Department of Energy and Climate Change, 3 Whitehall Place, London, SW1A 2HH and is annexed to the Explanatory Memorandum which is available alongside this Order on the legislation.gov.uk website.

Finalising CRC simplification: treatment of renewable energy & the metallurgical and mineralogical sectors

Government Response

URN 14D/016 February 2014



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The document can be found on DECC's [website](#).

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Executive Summary

1. This document represents the Government response to the consultation “*Finalising CRC simplification: treatment of renewable energy & the metallurgical and mineralogical sectors*” which ran from 20 November 2013 to 17 December 2013.
2. The consultation sought views on two proposals:
 - **to incentivise the use of onsite self-supplied renewable electricity within the CRC through a zero rate conversion emissions factor where no ROC or FIT payments are claimed.**
 - **to include a provision to exclude energy supplies used for metallurgical and mineralogical (met/min) processes from the CRC.**
3. In addition, the consultation document proposed amendments to the drafting of the 2013 Order to ensure that the legislation delivers the Government policy intent on:
 - **avoiding the double counting of third party energy supplies under the CRC, Climate Change Agreements (CCA) and EU Emissions Trading System (EU ETS); and**
 - **allowing more flexible and greater organisational disaggregation by CRC participants.**
4. We received a total of 31 responses to the consultation, 23 from CRC participants, including the private and public sectors and 8 from non-CRC participants. As a result of the broadly positive feedback on the proposed amendments, Government intends to implement the proposals as set out in the consultation document. In addition, we have taken this opportunity to make a few technical improvements to the 2013 Order, which we hope will provide clarification for participants and are set out in Annex 1.
5. Together, these changes aim to deliver Government’s policy intent for the CRC on simplification and on promoting the uptake of renewable energy. They will facilitate the effective implementation of the Climate Change Levy (CCL) exemption for met/min processes in order to help protect the competitiveness of UK energy intensive businesses.
6. Government will make and lay an Order before Parliament, the Scottish Parliament, National Assembly for Wales and the Northern Ireland Assembly via the negative resolution process – with the Order coming into force on 1st April 2014, subject to Parliamentary approval.
7. In terms of the legislative change to reflect existing and on-going policy to avoid double-counting of CCA, CRC and EU ETS energy and emissions, the impact on registration to the next phase of the CRC is set out below at paragraphs 33-35, and in more detail by the joint scheme administrators in their [Regulatory Position Statement](#)¹ published on 23 December 2013. There is no impact on registration as a result of the other changes.

¹ <http://www.environment-agency.gov.uk/business/topics/pollution/146886.aspx>

Introduction

8. The CRC Energy Efficiency Scheme (CRC) is a mandatory UK-wide trading scheme introduced in April 2010 which targets emissions from large public and private sector organisations. It is designed to drive emissions reductions in the target sectors by incentivising the uptake of cost-effective energy efficiency opportunities through the application of a combination of drivers. Further information on the development of the scheme is available at: www.gov.uk/crc-energy-efficiency-scheme.
9. The Government announced its conclusions on the simplification of the CRC it had inherited in December 2012. These changes, enacted in May 2013 through the 2013 Order, delivered significant simplifications and consequent cost savings to CRC participants. In December 2013 Government consulted on proposals to amend the 2013 Order which were set out in the consultation document entitled: *"Finalising CRC simplification: treatment of renewable energy & the metallurgical and mineralogical sectors"*.

Purpose and scope of the consultation

10. The December 2013 consultation document sought stakeholders' views on two new policy proposals to:
 - Apply a zero rate emissions conversion factor (through changes to the supply rules) to all onsite self-supplied renewable electricity that has not been surrendered to claim ROC or FIT payments.
 - Exclude from the CRC the energy used in met/min processes via a new 'supply deduction' whereby the energy used for eligible met/min processes will not be considered a CRC supply.
11. And proposed amendments to CRC regulations to ensure they delivered Government's simplified CRC policy on:
 - Landlord-tenant situations where the tenant has a CCA facility or EU ETS installation. Here the landlord, who is a CRC participant, should be able to exclude the supplies under a CCA certificate or EU ETS permit to avoid double counting of supplies regulated by more than one scheme; and
 - Providing participants with greater flexibility to disaggregate at any point during a phase and with mutual consent between the highest parent of the subsidiary group and disaggregated participants for the disaggregation.
12. Government received 31 responses to the consultation from a range of stakeholders – business and industry, public sector organisations, environmental organisations, energy suppliers, advisory organisations and other interested parties. Government welcomes these responses and would like to thank the respondents for their time in preparing them.
13. Alongside the proposals in the consultation, Government published an economic assessment of the costs of implementing these proposals. This assessment will be updated following consideration of consultation responses and presented in the Impact Assessment to be published alongside the legislation.

14. In preparation for this consultation, Government took the opportunity to review the 2013 Order and as a result decided to make a small number of technical amendments to clarify the wording of the regulations for participants. These are explained at Annex 1.

Next Steps

15. In light of the broad support for the simplification package Government intends to deliver the proposals in the consultation. Government will therefore make and lay an Order before Parliament, the Scottish Parliament, National Assembly for Wales and the Northern Ireland Assembly - via the negative resolution process - with the Order coming into force on 1 April 2014.
16. For convenience, where this consultation refers to 'Government' it should be read as meaning, unless otherwise indicated, the Coalition Government, Scottish Government, Welsh Government and the Northern Ireland Executive.

Proposed amendments

This section takes each consultation question in turn, summarises the responses and sets out the Government intention.

Incentivising renewable self-supplied electricity within the CRC Scheme

Consultation Question	
1.	Do you agree with our proposals to deliver the Government's commitment to incentivise the use of onsite self-supplied renewable electricity within the CRC through a zero rate conversion emissions factor where no ROC or FIT payments are claimed?

Summary of consultation responses and Government response

17. The intention to incentivise self-supplied onsite renewables was supported by 64% of respondents.
18. Several respondents queried why the incentives offered under the Renewable Obligation (RO) and Feed-in Tariff (FIT) schemes would be a barrier to zero-rating all onsite self-supplied electricity from all eligible renewable technologies, and some felt the carbon impact associated with self-generated renewable energy should be recognised by excluding it from the CRC scheme altogether. This highlighted that the CRC is still viewed by some as a carbon reduction rather than energy efficiency scheme. Overall respondents accepted the Government position that removing the requirement for CRC allowances to be purchased for renewable self-supplied energy that could attract a Renewables Obligation Certificates (ROC) or FIT incentive would be double-counting. It would not provide an additional incentive for renewables deployment nor provide value for money. In addition, using an overarching zero rating emissions factor, rather than factors for each technology as some proposed, would minimise reporting burdens, which is in line with the goals of CRC simplification.
19. To further ensure value for money, the proposal does not apply to generating installations which have been financed through public funds, or where electricity from an installation has previously been surrendered to claim ROC or FIT payments. It will therefore not be possible to cease claiming ROCs or FITs in order to benefit from the zero rating in addition to ROCs or FITs received to date.
20. Government will therefore implement the proposal and review its progress in 2016. As noted in the recent CRC [Annual Report Publication](#)², Government will work with the Environment Agency, the Scheme Administrator and stakeholders to determine how the publication can incentivise the uptake of renewables. Views will be sought and considered over the coming months.

² <http://www.environment-agency.gov.uk/business/topics/pollution/146938.aspx>

Excluding energy from metallurgical and mineralogical processes from the CRC

Consultation Question

- | | |
|-----------|---|
| 2. | Do you agree with the Government's intention to include a provision to exclude supplies used for metallurgical and mineralogical processes from the CRC? |
|-----------|---|

Summary of consultation responses and Government response

21. The majority of respondents (89%) supported and welcomed this proposal, and Government intends to implement the new supply deduction for met/min processes from the start of the next CRC phase in April 2014.
22. One of the key issues raised during the consultation was whether this would impact on the requirement to register for the next phase of the CRC by 31 January 2014. As this will be a new policy coming into force (in April 2014) after the registration deadline, it will not impact on an organisation's requirement to register for the CRC by 31 January 2014, as set out below.
23. The scope of the proposed exclusion from the CRC is intended to mirror the scope of the Climate Change Levy (CCL) exemption for met/min processes, as will be determined by HMRC for the upcoming Finance Bill. The coming into force of CRC met/min policy therefore aims to coincide with the coming into effect of Finance Bill legislation for the CCL exemption for met/min processes (i.e. enacted in July 2014 but effective from 1 April 2014).
24. The new supply deductions will mean that no CRC reporting or allowance purchases, or qualification liabilities in later phases, will be required for eligible met/min supplies. Some respondents sought more clarity on the eligibility for their supply deduction and the scope of the CCL exemption. Eligibility for the supply deduction will be based on the NACE codes published in draft by HMRC in December 2013.
25. Some respondents raised questions about whether incentives for energy efficiency would remain following implementation of the CCL and corresponding CRC exemptions. Government is clear that a proportionate balance must be struck between regulation and incentives. The CCA and CRC schemes form part of a range of targeted Government policies designed to encourage industrial energy efficiency, including those that act through the carbon price, such as the EU ETS. We are keen to continue to work with energy intensive industries to explore ways in which we might support them to further deliver energy efficiency improvements, particularly in the light of the upcoming Energy Savings Opportunities Scheme (ESOS) and Electricity Demand Reduction policy pilots (EDR).

Economic analysis

Consultation Question

- | | |
|-----------|---|
| 3. | We welcome comments on the economic analysis and costs of implementing proposals on renewables and metallurgical and mineralogical energy processes. |
|-----------|---|

Summary of consultation responses and Government response

26. Government welcomes respondents' comments on the economic analysis and costs of implementing proposals on incentivising renewable self-supplied electricity and excluding met/min processes from the CRC scheme. Respondents' comments mainly related to the overall cost impact of the CRC Scheme. Although some responses questioned the assumptions, no specific data was provided that could be used to update the estimates presented in the consultation document.
27. Some respondents took the opportunity to clarify that there is a broader range of renewable technologies used by their sector than those set out in the assumptions for the economic analysis presented in the consultation document. Government accepts that this is indeed the case, and explored the possible impacts of the full range of eligible technologies used by CRC organisations through sensitivity analysis for the Impact Assessment. This made a negligible difference to the overall impact of the measure, and therefore confirmed the conclusions from the initial assessment were valid.
28. In addition to comments on economic analysis a number of responses suggested that incentives to invest in renewables faced by CRC participants do not go far enough. Government has been constrained in its ambition to incentivise the uptake of renewables under the CRC Scheme by the need to take into account the scope and legal and financial impacts of key DECC policies for promoting renewable energy generation across the wider economy.
29. In relation to the exclusion of met/min supplies, participants asked for a proportionate approach to accounting for energy currently covered by a CCA as a Directly Associated Activity or under the 70:30 rule where CCAs may be terminated as a result of the CCL exemption. Some respondents noted there would be a trade-off between the benefits of the new CRC supply deduction, and some non-excluded energy entering the CRC. Government is considering these issues as part of on-going work. DECC is working closely with HMRC, HMT and BIS to implement the CCL exclusion, managing both the CCA and CRC impacts and further information will be made published for CCA participants in due course.
30. Government has considered all these points and does not think they call for a revision of the estimates presented in the consultation document. However, they will be taken into account in setting out the assumptions in the Impact Assessment to be published alongside the final legislation.

Supplies used in a third party CCA facility or EU ETS installation and organisational disaggregation

31. The consultation notified respondents of proposals to amend existing CRC legislation to ensure the regulations gave effective force to CRC policies on third party supplies and organisational disaggregation. It did not seek views on these policies as they were part of the consultation on CRC simplification in 2012. The changes were welcomed, with clarification requested on a few points with respect to organisational disaggregation.
32. The Government can confirm that participants will have the opportunity to disaggregate subsidiaries on an annual basis within a compliance year of the scheme and by mutual consent. An application for registration as a disaggregated undertaking or group of undertakings should be completed and sent to the administrator by the last working day of April, in order to take effect for the upcoming compliance year. The disaggregated entity will participate in their own right for the remaining length of a phase and will be responsible for emissions for the upcoming year, whilst the parent group will be responsible for the emissions of the previous compliance year. At the start of the following phase they will re-aggregate for the purposes of qualification under the highest parent although they may choose to continue as a separate participant for the purpose of their registration.

Registration for the next phase of the CRC

33. A number of respondents asked for clarity on the regulatory position applying to landlords who presently qualify for the next phase of the CRC scheme under the drafting of the 2013 Order, but would not qualify if their supplies of electricity or gas to tenants' CCA facilities or EU ETS installations were excluded in line with *existing* Government policy intent, and the proposed amended legislation. The joint scheme administrators published on 23 December 2013 a [Regulatory Position Statement](#)³. This provides guidance on the issue with respect to enforcement action the current registration window, ahead of the CRC legislation coming into effect on 1 April 2014.
34. In summary, according to the Administrator's Statement, if a landlord organisation presently qualifies for the next phase of the scheme, but would not qualify under the proposed amendment to the scheme, the scheme administrators will not take action to enforce the registration requirement before 30 June 2014. Once the change is made to the CRC scheme and if such a landlord organisation still qualifies for the next phase, the scheme administrators will treat them as compliant with their registration obligation provided they receive a valid application for registration by 30 June 2014. An application is considered valid once the online registration has been completed and registration payment received. Further enquiries should be directed to CRCHelp@environment-agency.gov.uk.

³ <http://www.environment-agency.gov.uk/business/topics/pollution/146886.aspx>

35. In terms of the met/min exclusion, as a *new* policy coming into force (in April 2014) after the registration deadline, it will not alter the registration requirements (registration concluded 31 January 2014) or qualification assessment for the next phase of the scheme starting 1 April 2014. This change will however impact reporting and allowance purchase requirements for this next phase – met/min will be excluded supplies under the new supply deduction.
36. From the subsequent phase (commencing 1 April 2019) met/min supplies will also be excluded for qualification assessment.
37. If a CCA is voluntarily terminated during a CRC phase, any energy not covered within the new CRC met/min supply deduction would be in scope for CRC from the date of CCA withdrawal – i.e. the residual 30% under 70/30 rule not considered met/min will need to be reported for the balance of a compliance year.

Annex 1 - Technical amendments

The Government has identified a few additional technical amendments that need to be made to make clearer the policy intent of the wording of the CRC Order 2013. These are:

- The Electricity Act 1989 on defining unmetered supplies does not extend to Northern Ireland and to do so requires a reference to the Electricity (Northern Ireland) Order 1992. A reference to the definition of unmetered supplies in the 1992 Order has been included within Schedule 1, paragraph 1(4)(b) of the CRC 2013 Order to ensure that participants in Northern Ireland report these supplies within the CRC Scheme ;
- deletion of the words *“is supplied to the public body or undertaking in any year in the initial year”* in Schedule 1, paragraph 4(2)(b) to clarify the exclusion from the CRC scheme of self-supplies for the direct purposes of specific ‘licensed activities’ and ‘cross licensed activities’;
- amendment to Schedule 2, paragraph 2 to exclude English local authority maintained schools within the meaning ‘public authority’ within section 3(1)(a) of the Freedom of Information Act 2000 from being subject to the CRC scheme; and
- amendment to clarify when a penalty should arise in providing an annual report. Article 74 in the 2013 Order was drafted to reflect that the deadline for providing an annual report and the deadline for surrendering allowances were the same, i.e. the last working day in July. This is no longer the case because the deadline for surrendering allowances has been extended to the last working day in October. The amendment to Article 74 will provide clarity on when the penalty should arise – i.e. the last working day in October and not the deadline for providing an annual report.

Annex 2 - List of respondents

Blackburn with Darwen Borough Council
Bristol City Council
British Airways
British Ceramic Confederation
British Glass Manufacturers' Confederation
Calderdale Council
CEMEX UK
Committee on Climate Change
EEF/UK Steel
Financial Services Company
Guildford Borough Council
Gypsum Products Development Association
John Lewis Partnerships
Landmark Information Group Limited
Mineral Products Association
Ministry of Justice
Newcastle City Council
RA Shield Holdings Limited
Royal Borough of Kensington and Chelsea
RWE npower Ltd
Schneider Electric
Scotch Whisky Association
Scottish Water

Severn Trent Plc

Standard Chartered Bank

TEAM Energy Auditing Agency Ltd

Thames Water Utilities Ltd

Veolia Environmental Services

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URN 14D/016

POLICY NOTE

CRC ENERGY EFFICIENCY SCHEME (AMENDMENT) ORDER 2014

SSI 2014/

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 0.3MtCO₂ 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

February 2014

Title: Finalising CRC simplification: treatment of renewable energy & the metallurgical and mineralogical sectors IA No: DECC0157 Lead department or agency: Department of Energy and Climate Change (DECC) Other departments or agencies: Environment/climate change departments from Scottish Government, Welsh Government and Northern Ireland Executive.	Impact Assessment (IA)	
	Date: 10/2/2014	
	Stage: Enactment	
	Source of intervention: Domestic	
	Type of measure: Secondary legislation	
	Contact for enquiries: Kiko.Moraiz@decc.gsi.gov.uk	
Summary: Intervention and Options	RPC: Not Applicable	

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB in 2009 prices)	In scope of One-In, Two-Out?	Measure qualifies as
[-52]	[-40]	-3	No	N/A

What is the problem under consideration? Why is government intervention necessary?

This Impact Assessment focuses on assessing two measures: a) delivering a government commitment announced in December 2012 to consider how to incentivise onsite renewable self-supplied electricity in the CRC Scheme; and b) introducing an exclusion from the CRC for energy supplied to metallurgical and mineralogical (met/min) processes in response to changes to the Climate Change Levy (CCL) announced at Budget 2013. Government intervention is necessary to ensure that the CRC Scheme is delivering the original intentions of simplification and to avoid introducing unintended CRC liabilities as a result of changes to the CCL.

What are the policy objectives and the intended effects?

The policy objectives are a) to further incentivise deployment of onsite renewable self-supplied electricity generation within the CRC population of businesses, and b) to avoid unintended consequences of the proposed exclusion of met/min processes from the Climate Change Levy.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

In respect of measure a) a number of options to incentivise onsite renewable self-supplied electricity generation within the CRC population were explored but discarded as they would duplicate support provided by other DECC policies, resulting in poor value for money and carrying state aid risks. The measure presented in this IA represents the best balance between incentives and risks.

For the met/min sectors, the CCL exclusion would result in new financial liabilities under the CRC Scheme where their eligible energy is no longer covered by a Climate Change Agreement. In order to avoid this unintended consequence the only proposed measure is to introduce an exclusion from the CRC for relevant supplies. If do nothing was chosen, then met/min businesses would face additional CRC costs.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 2016

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro No	< 20 No	Small No	Medium No	Large Yes
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			Traded: [0.1]	Non-traded: [0.2]	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible
Minister:

Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description: This IA covers the impact of implementing measures to remove from the CRC Scheme, supplies from eligible renewable sources and to exclude emissions from metallurgical and mineralogical processes.

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2011	Time Period Years 20	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: [-52]

COSTS (£m)	Total Transition (Constant Price)		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate				[-6]

Description and scale of key monetised costs by 'main affected groups'

This option combines two measures A) incentivising onsite renewable self-supplied generation and B) excluding energy supplies for met/min processes. This option reduces administrative and capital costs to businesses by £6m as a number of participants would leave the CRC as a result of the met/min exclusion.

Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	Total Transition (Constant Price)		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate				[-58]

Description and scale of key monetised benefits by 'main affected groups'

These measures would result in a reduction of energy savings attributable to the CRC Scheme and an associated reduction in emissions covered by the Scheme. The reduction of energy savings would also impact on other ancillary benefits such as air quality. The loss of benefits is driven by a reduction of £44m in energy savings, £13m in Carbon savings and £1m in Air Quality benefits. This represents a decrease of £58m in the Present Value of benefits. CRC liability benefits for CRC participants have not been accounted for in this section as they represent a net transfer between participants and government but they have been included in calculating direct costs and benefits to business.

Other key non-monetised benefits by 'main affected groups'

Key assumptions/sensitivities/risks (%)	Discount rate	3.5
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Evidence Base (for summary sheets)

1. This Impact Assessment (IA) follows the completion of a consultation published in December 2013 entitled 'Finalising CRC simplification: treatment of renewable energy & the metallurgical and mineralogical sector'. It reflects an assessment of the measures that Government will introduce (i.e. the preferred option) having incorporated responses received from consultees.

Problem under consideration

2. The IA focuses on two main issues:
 - a. A measure to deliver the December 2012 commitment in the Government Response on simplifying the CRC Energy Efficiency Scheme, to consider how the CRC can incentivise the uptake of onsite renewable self-supplied electricity; and
 - b. A measure to introduce an exclusion from the CRC for energy supplied to metallurgical and mineralogical (met/min) processes, in response to changes to the Climate Change Levy (CCL) announced at Budget 2013.
3. The December 2013 consultation also proposed amendments to legislative text to ensure the CRC Order delivered on Government policy proposals on supplies used in a third party CCA facility or EU ETS installation and organisational disaggregation in a landlord-tenant situation. These two proposals were changes that Government introduced through CRC simplification, the impacts of which have been assessed in the Simplification Final Stage Impact Assessment of December 2012 (and updated in February 2013)¹ and no additional impacts are assessed in this IA.

Rationale for intervention

4. The rationale for introducing these two measures is twofold:

Delivering the CRC simplification package – incentivising renewable self-supplied electricity

5. The CRC Simplification conclusions published in December 2012 explained that whilst the focus of the CRC is on energy efficiency, Government recognises the importance of and potential for further incentivising the growth of renewable generation under the CRC. Government therefore committed to consider how the CRC could incentivise the uptake of onsite renewable self-supplied electricity.

Removing unintended CRC liabilities for metallurgical and mineralogical sectors

6. In addition, Government is introducing an energy supply exclusion from the CRC for met/min processes. This is because exclusion for these sectors from the

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Climate Change Levy (CCL), as announced in Budget 2013, may mean that former holders of Climate Change Agreements (which provide a discount from the CCL and exclusion from CRC) become liable for CRC costs. This is an unintended consequence of the CCL exemption. The CRC exclusion aims to protect Government's policy intention for the CCL exemption, to support the competitiveness of UK businesses that are energy intensive.

Description of options considered

Incentivising onsite renewable self-supplied electricity

7. The consideration of options for incentivising renewable energy in the CRC, was constrained by the need to take into account the scope and impact of DECC policies targeted at promoting renewable energy generation across the wider economy. In particular, the Renewable Obligation (RO) and Feed-in Tariff schemes (FIT). It is essential that any CRC approach does not lead to duplication of support which would represent poor value for money to the taxpayer.
8. Following the December 2013 consultation, Government has decided that the consumption of energy from supplies that meet the definition of self-supply renewable electricity generation will be reported against a zero emissions conversion factor, providing these supplies have not been surrendered to claim ROC or FIT payments. In effect, this means that CRC allowances will not need to be purchased for eligible renewable energy.
9. Crucially, this will apply to all eligible supplies from April 2014. Eligible supplies are those that meet the criteria for claiming ROCs or FITs, which are from installations commissioned from 1st January 2008 (the start of qualification for the CRC scheme) and which are eligible for but have **not** received payments under the Renewable Obligation and Feed-in Tariff schemes.

Excluding energy from metallurgical and mineralogical processes from the CRC

10. The Budget 2013 announcement to exclude from the CCL energy used in met/min processes aims to provide a tax relief to the most energy-intensive businesses as permitted under the Energy Tax Directive, and for whom energy makes up a significant proportion of total costs, and to help ensure that UK manufacturers in these sectors remain competitive with producers in other EU member states.
11. One consequence of the announcement is that where a CCA is withdrawn (as holders no longer need to benefit from the CCL discount that a CCA provides), former holders may become liable for CRC costs for the energy used in eligible met/min processes. In some cases, CCA coverage will have provided for a supply deduction for met/min process energy from the CRC to date.
12. Without further measures this supply deduction would cease to apply, and met/min process energy would no longer be excluded from the CRC. Allowing this to happen would contradict the original intention of the policy to provide a relief from energy costs for these sectors. Government is therefore going to introduce an exclusion from the CRC for eligible met/min process energy to remove this liability.

13. This will be done via a new 'supply deduction' whereby the energy used for specified met/min processes will not be considered a CRC supply for the purposes of both qualification and compliance. The existing provisions for the exclusion of CCA energy is delivered in an analogous way in the current CRC Order via a 'supply deduction' in Schedule 1 paragraph 29.
14. The detailed scope intended for the met/min and CCL exclusion, and so the detail of what the CRC supply deduction will need to cover to avoid the unintended consequences, has been published in a draft legislation paper for the Finance Bill 2014².

Summary of consultation responses and government response

15. The Government received a total of 31 responses to the consultation, 23 from CRC participants including the private and public sectors, and 8 from non-CRC participants. The majority of consultation respondents agreed that the proposed measures would deliver the Government's policy intent for the CRC on simplification and promoting the uptake of renewable energy, and support the effective implementation of the CCL exemption for met/min processes to help protect the competitiveness of UK energy intensive businesses.
16. A number of concerns were raised in relation to self-supplied onsite renewables. For instance:
- Proposals do not go far enough and a limited amount of large generators would face a disproportionate impact;
 - Feed-in-Tariffs do not reflect the return on investment faced by CRC participants;
 - There is no clear rationale to exclude renewable generation based on the start date of the CRC Scheme.
17. Prior to the consultation, a number of options to incentivise onsite renewable self-supplied electricity generation within the CRC population were explored but discarded as they would duplicate support provided by other DECC policies, resulting in poor value for money and state aid risks. Government has decided that the measure presented in this IA represents the best balance between incentives and risks.
18. In relation to the exclusion of met/min supplies, participants asked for a proportionate approach to accounting for energy covered by a CCA, such as the Directly Associated Activities or under the 70:30 rule, that would not be eligible for the met/min supply deduction.
19. However, there is still some uncertainty in accounting for what energy would not be eligible for the met/min supply deduction that cannot be resolved until DECC and the Environment Agency announce further details on the timing and process for withdrawal of CCAs. It is envisaged that this process will take place during the course of 2014.

²https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/264648/Draft_clauses_and_explanatory_notes_for_Finance_Bill_2014.pdf

20. Government also received comments on the economic analysis and costs of the two measures. These related mainly to the cost impact of the CRC Scheme overall rather than the two measures assessed in this IA. Whilst some respondents questioned the assumptions employed in the economic analysis, no specific data evidence was provided that would enable the estimates presented in the consultation document to be revised.

21. In conclusion, Government acknowledges the concerns raised, but does not think they call for a revision of the estimates presented in the consultation document. The issues mentioned above are within the acceptable limits of evidence and it would not be possible to improve the assessment presented in this IA that would be proportionate in terms of cost and additional burdens on CRC participants.

Option 0 – The current CRC Scheme (Business as Usual)

22. In this IA, the Business as Usual (BAU) option reflects the current Scheme following the implementation of the simplification changes enacted in May 2013 through the CRC Energy Efficiency Order 2013 (2013 Order) and the added emissions from the met/min sector as a result of the CCL exemption announced at Budget 2013 (See para 30-36 for details of the estimated relevant met/min emissions).

23. Costs and benefits of the BAU are presented in Table 1 below. Although these are consistent with the cost benefit assessment of the simplification measures in the December 2012 IA (updated in February 2013), values in this IA have been updated to reflect new energy demand trends and policy overlaps published in DECC's most recent Updated Emissions Projections (UEP) of October 2013³.

Table 1 Net Present Value of CRC BAU updated

			Net Present Value (£m, in 2012 prices, discounted to 2011)	Present Value of Costs (£2012m)		Present Value of Benefits (£2012m)			
	Lifetime Change in TRADED INDIRECT emissions (MtCO ₂ e)	Lifetime Change in NON-TRADED emissions (MtCO ₂ e)		Capital Cost	Admin Cost	Air Quality	Energy Savings	Non-traded sector savings	Traded sector savings
Option 0									
<i>Simplification package February 2013</i>	4.9	20.8	4096	318	228	63	3543	949	86
BAU	3.8	18.7	2809	346	228	43	2419	852	68

24. Comparing this updated baseline with the assessment of the values in the Simplification IA, there is a significant reduction in energy savings which is driven by lower energy demand projections in the public and industrial sectors in the latest UEP. A lower energy demand projection has resulted in a reduction of

³Updated energy and emissions projections: 2013, <https://www.gov.uk/government/publications/updated-energy-and-emissions-projections-2013>

total lifetime carbon savings in the CRC of 3.2MtCO₂ over the period 2011 to 2030, and a reduction in overall Net Present Value of the policy, although the policy remains net positive overall.

Option 1 - Measures to incentivise onsite renewable self-supplied electricity and exclude metallurgical and mineralogical processes (Preferred option).

25. Implementing measures to incentivise onsite renewable self-supplied electricity and excluding energy supplies from met/min processes that are eligible for the exemption from the CCL will impact on the value of the CRC via:

- A reduction in emissions covered by the CRC; and
- A reduction in the number of CRC participants

Estimated uptake of onsite self-supplied renewable generation

26. This measure provides a choice for participants between either claiming a subsidy for their renewable generation via a ROC or FIT, or reducing their CRC liability. While there is significant uncertainty associated with the uptake estimates (we have not undertaken primary research to ascertain companies' intentions), the relative value of the CRC relief when compared to existing incentives available through RO and FIT payments, suggests a small impact.

27. Some companies with existing onsite renewable generation capacity may wish to take advantage of the zero rating policy. However, the scope of this effect would be limited to generation capacity that was (a) installed after the start of the CRC (in 2008) and before the launch of FITs and the Renewables Obligation (RO); and (b) did not take advantage of the FITs and RO qualification window (available to all such generation).

28. Therefore, estimated uptake of this measure is based on existing and new generation but, in both cases, we believe this would be relatively small based on the following considerations:

- a. **Existing generation** would only cover onsite renewable installations commissioned during the lifetime of the Scheme since 2008, the first CRC qualification year. These installations would have been eligible for RO or FIT payments but did not claim, and would therefore qualify for zero rating in the CRC. The extent of the generation captured in this category would be reported in the CRC Annual Reports within existing onsite generation from Energy Generating Credits (EGC).

However, reporting data does not provide the relevant detail to enable us to distinguish (within EGC generation) between technologies that qualify for ROCs and FITs and those that do not. For simplicity, this IA assumes that the majority of EGCs are related to energy from waste facilities which do not qualify for ROCs (but see 'Risks and assumptions' below).

Furthermore, we have removed all self-supply EGC from waste and water companies on the assumption that these all generate energy from waste. Table 2 below shows that 10% of self-supply EGCs in 2012-13 relates to

non-waste/water companies. By excluding waste/water company supplies, the total amount of existing self-supplied generation in 2012-13 that could qualify for zero rating is 22,409 MWh (10,738 tCO₂). Whilst some consultation respondents indicated that not all their energy is generated from waste, they did not provide evidence that would enable us to revise this assumption. This estimate is subject to the further assumption that existing capacity in 2012-13 would continue unchanged throughout the period 2014-15 to 2016-17.

Table 2 CRC Annual Report Data – Self Supply Electricity⁴

Reporting Year	Self-Supply EGC (MWh) from Waste/Water	Self-Supply EGC (MWh) from Non Waste/Water	Percentage of Self-Supply EGC from Non Waste/Water
2011-12	224,502	82,867	37%
2012-13	231,341	22,409	10%

- b. **New generation** uptake is expected to be relatively small. The monetary value of zero rating CRC self-supplied onsite renewable generation is 0.76p/kWh (equivalent to £16/tCO₂⁵). This incentive is considerably lower than the support offered by FITs and ROCs, which ranges from 4.6p/kWh to 17.5p/kWh. Since ROCs and FITs pay at least five times more than CRC allowance zero rating, it is unlikely that CRC participants that qualify would choose CRC allowance zero rating over a ROC or FIT subsidy. There could be some isolated cases where participants would prefer the CRC zero rating but, in the absence of other information, we have not considered any additional uptake from new generation.

29. Overall, the total amount of take up this measure is estimated to result in and would qualify for CRC allowance zero rating is approximately 22.5 GWh or 11 KtCO₂.

Estimated CRC liabilities for metallurgical and mineralogical sectors

30. Estimating the impact of the measure to avoid met/min sectors falling into the CRC as a result of the CCL exclusion for met/min processes, has required us to identify emissions from two possible sources:

- a) CRC emissions from met/min processes not covered by CCAs or EU ETS – these will result in a reduction of emissions covered by the CRC; and
- b) CRC emissions from CCAs (as a result of the 70:30 rule or directly associated activities) that may not be covered by the met/min processes – these will result in an increase of emissions covered by the CRC.

⁴ Environment Agency

⁵ This figure is expressed in real terms and is equivalent to the average of £15.60 and £16.40 announced by HMT in the Autumn Statement 2013.

Source (a) - Emissions not covered by CCAs or EU ETS

31. We have identified the met/min sectors that do not have CCA agreements and extracted all the CRC emissions related to these sectors from the CRC database. A draft list⁶ of eligible met/min processes has been matched to SIC code classifications. The list was then matched against the corresponding SIC codes in CCAs. Finally, a number of SIC codes that do not correspond with a CCA sector were identified and are listed in Table 3 below.
32. Using data submitted by CRC participants in their annual reports for the sectors in Table 3 we estimate that the amount of CRC emissions related to organisations that fall within the met/min category and would now be excluded from the CRC, is 252KtCO₂. Assuming a constant level of emissions and a price of £16/tCO₂, the associated CRC allowance revenue impact would be £4m per year.

Table 3 Min-Met sectors with no CCA agreement

List of met/min sectors with no CCA agreement.	SIC Code
Processing of nuclear fuel	D.23.30
Manufacture of concrete products for construction purposes	D.26.61
Manufacture of ready-mixed concrete	D.26.63
Manufacture of mortars	D.26.64
Manufacture of fibre cement	D.26.65
Manufacture of other articles of concrete, plaster and cement	D.26.66
Cutting, shaping and finishing of stone	D.26.70
Production of abrasive products	D.26.81
Precious metals production	D.27.41
General mechanical engineering	D.28.52

Source (b) - CRC emissions from CCAs that may not be covered by the met/min processes

33. Eligibility for the CRC supply deduction is based on NACE codes for processes eligible for the CCL exemption published in draft legislation by HMRC in December 2013. Government is continuing to consider the list of eligible processes and is due to finalise this list in the Finance Bill 2014 after April.

⁶ A final list will be confirmed by HMT for the Finance Bill after 1 April 2014.

34. This new 'supply deduction' would not cover 100% of the emissions covered by the relevant CCAs. Some processes currently covered by a CCA as Directly Associated Activities (DAAs) or under the 70:30 rule, may not be eligible for the met/min supply deduction and so may become liable for CRC payments where the implementation of the CCL exemption leads to a CCA withdrawal. Engagement with industry will soon be undertaken setting out the implications of CCA withdrawal.
35. However, at present, DECC has not been able to quantify the impact of this measure owing to a lack of data at the level of disaggregation necessary to distinguish between supplies from core processes, DAAs and the 70:30 rule.
36. Having considered the possible range of impacts, we believe the emissions that would fall back into the CRC Scheme would be relatively small because:
- DECC consulted with industry on the impact of this measure as part of the CCA simplification consultation. The response to the consultation indicated that only a limited amount of energy would be captured by the 70:30 rule.
 - The majority of the energy captured by CCAs would also be within an EU ETS installation (given the new treatment of these installations in the CRC); and
 - Given the majority of emissions would be excluded, the remaining supplies might not meet the 6000 MWh qualification threshold for CRC participation.

Quantified impacts of the preferred option

37. The impacts of the measures included in the preferred option have been assessed relative to the BAU set out above in Option 0.
38. Figures in Table 4 present the joint impact of these measures on the CRC Scheme NPV. These have been calculated by adjusting the Simplification IA of December 2012 (updated in February 2013) to the changes in emissions coverage of the Scheme identified in the previous section i.e. a reduction in the emissions covered by the CRC of 11KtCO₂ and 252KtCO₂, from onsite self-supplied renewable energy and met/min exclusions respectively. This adjustment pro rates energy, carbon savings and capital costs to the change of emissions resulting from the two measures. At the same time, the change in administration cost has been adjusted to the number of CRC participants that would fall out of the scheme as a result of met/min exclusions (note only the met/min measure reduces administration costs driven by participants leaving the Scheme).
39. Reducing the number of participants reduces the emissions covered by the CRC by 0.3MtCO₂ overall, and a £44m reduction in energy savings. Additionally, fewer participants in the Scheme also results in a small reduction of £1m in administration costs. The net impact is a reduction of £52m or 2% of the Net Present Value over the period 2011 to 2030, although the Scheme overall remains net positive. Of the £52m reduction in NPV, this IA has estimated that the majority (£40m) would be associated with a loss to Business Net Present Value. This takes into account loss of energy, capital and administrative

savings⁷. Overall, these reductions are justified by providing wider policy coherence with renewables and by safeguarding the full benefits to the met/min sector from the CCL exemption.

Table 4 Cumulative Impact of proposals, 2011 -2030

			Net Present Value (£m, in 2012 prices, discounted to 2011)	Present Value of Costs (£2012m)		Present Value of Benefits (£2012m)			
Option	Lifetime Change in TRADED INDIRECT emissions (MtCO ₂ e)	Lifetime Change in NON-TRADED emissions (MtCO ₂ e)		Capital Cost	Admin Cost	Air Quality	Energy Savings	Non-traded sector savings	Traded sector savings
BAU	3.8	18.7	2809	346	228	43	2419	852	68
Option 1	3.7	18.4	2758	340	227	42	2375	841	66
Net Impact	-0.1	-0.2	-52	-6	-1	-1	-44	-11	-2

40. Note that the Net Present Value calculations treat the cost of allowances as a cost to business and a benefit to Government but with a neutral impact on the Net Present Value since it represents a net transfer between participants and Government⁸.

Direct costs and benefits to business

41. Direct costs to business of participation in the CRC Scheme are mainly driven by the cost of allowances. Other costs to businesses such as administrative and capital expenditure costs are considered to be negligible because the impact of these measures in energy savings is minimal (about 1% of carbon savings).
42. The net cost to business calculation applies to the non-public sector only. Some of the savings in CRC allowances cost from renewables could be attributed to local authorities and other public organisations. However, given the small coverage identified, this IA assumes that this would be minimal and they have not been deducted from the overall costs.

Benefits to businesses from incentivising onsite self-supplied renewable energy

43. This impact has been estimated by converting projected electricity generation from eligible supplies into CRC allowances using currently published emissions factors⁹. Our assessment takes into account the 22,409 MWh identified above that could qualify for zero rating and assumes this capacity remains constant. On this basis, the impact associated with the existing stock of onsite generation

⁷ Since there is no information on capital cost and administrative cost, this IA has adjusted Business Net Present Value by a scaling factor of 77%, which corresponds to the ratio of business to total emissions in the Simplification IA (February 2013). This results in a loss to Business Net Present Value of £40m.

⁸ This in accordance with appraisal guidance from: the Green Book published by HMT; IAG guidance on carbon appraisal by DECC; and the One in Two Out evaluation guidance published by BIS.

⁹ <https://www.gov.uk/crc-energy-efficiency-scheme>

would be £0.17 million per annum reduction in allowance liabilities for CRC participants.

Benefits to businesses from the metallurgical and mineralogical exclusion

44. Table 5 shows the projected emissions that would be covered by this exclusion in each annual report from 2014-15 to 2019-2020¹⁰, and the associated revenue impact (in real 2012 prices).

45. This impact has been estimated by:

- Identifying all CRC emissions in the CRC report that relate to met/min processes not covered by CCAs;
- Applying the CRC projected emissions trend for the period 2014-15 to 2019-20; and
- Multiplying projected emissions by the relevant price of allowances.

Table 5 Reduction of CRC allowance liabilities of the met/min exclusion

Min-Met sector with no CCA agreement.	Annual Report Emissions 2010-2011	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Total Emissions tCO₂	252,415	217,345	214,838	212,636	212,017	211,096	210,696
Total CRC Allowance Impact by year Real (2012) £m	2.7	3.4	3.4	3.5	3.6	3.8	3.8

Net cost to business per year

46. The net cost to business per year is a reduction of £3m (EANCB in 2009 prices)¹¹. It has been estimated by aggregating benefits from renewables up to 2030 and the met/min exclusion and transforming all revenues from 2012 to 2009 prices and discounting these by the annuity rate. Although the CRC is not in scope of One In Two Out, reporting benefits to business in EANCB in 2009 prices allows for comparison with other policies.

Risks and Assumptions

Onsite self-supplied renewables

47. Estimates of renewable uptake presented in this IA are subject to considerable uncertainty because in the first two years the CRC Scheme generated some

¹⁰ These values have been projected to 2030 to estimate the overall NPV but Table 5 only shows up to 2020.

¹¹ EANCB = Equivalent Annual Net Cost to Business

<http://www.bis.gov.uk/assets/biscore/better-regulation/docs/o/11-671-one-in-one-out-methodology.pdf>

unreliable EGC data due to the complexity of reporting. In the annual reports of 2010-11 and 2011-12, EGCs were subject to significant revisions. As a result, estimates of EGCs emissions are based in data reported for 2012-13 only.

48. In addition, this IA assumes that there are no eligible supplies from EGCs generated by waste treatment and water companies. Some consultation responses challenged this assumption, indicating that some of the generation from this sector could come from qualifying technologies. Although no evidence was submitted that would enable us to revise our estimate of onsite self-supplied renewables, this IA considers the relative impact on our results from alternative assumptions:

- 5% of the energy from these technologies that generate electricity from EGCs would qualify for the exemption
- 10% of the energy from these technologies that generate electricity from EGCs would qualify for the exemption

Table 6 Sensitivity of assumption on eligible EGCs from waste and water companies

Assumption	NPV of the CRC	Impact on Emissions covered CRC (MtCO ₂)	Impact on Annual Revenue (£m) at £16/tCO ₂
None	2758	0.01	0.17
5%	2757	0.02	0.26
10%	2752	0.02	0.35

49. Table 6 above shows the impact on the estimates presented in this IA from using alternative assumptions of eligible EGCs from waste and water companies. Although the impact on emissions doubles relative to the assumption in the IA, it is against a very low emissions impact base. There is a larger impact on revenues, double in the case of the 10% sensitivity. However, this too is set against a low base.

50. The impact of alternative assumptions is small and therefore our assumption in the preferred option is valid.

Mineralogical and metallurgical exclusion

51. The following assumptions and caveats apply to the calculation of the impacts of the met/min exclusion:

- In estimating the annual revenue impacts, it is assumed that emissions follow the CRC emissions trend.
- Reporting for the CRC is based on the SIC code of the parent organisation¹² but this does not mean that 100% of these emissions would be related to the

¹² Or Participant Equivalent

same sector. For example, an organisation could be classified as Precious Metals Production while owning a subsidiary in the hospitality sector.

- Met/min processes do not cover total energy reported by CRC participants. As a consequence, not all the energy used by these participants would qualify for exclusion.

52. It is likely that the impact of the last two assumptions will be negligible because removing energy from energy intensive processes may well result in an organisation falling below the CRC qualification threshold.

Wider impacts

53. This IA quantifies the direct impact on businesses of the proposed simplification measures. 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