

New CRC Simplification Consultation

28 November 2013

On 20th November DECC launched a new CRC consultation exercise concerned with further simplification of the CRC.

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

Consultation Deadline: 17 December 2013

Length of Consultation: Three questions

This short consultation period is necessary in order for the new CRC Amendment Order to be in force at the beginning of April when Phase 2 of the CRC commences.

Does this Concern Your Organisation?

We recommend that you **read the consultation paper**, and consider responding if your organisation/group is required to register for Phase 2 based on the current rules, plus one or more of the following points applies.

1. You generate renewable electricity on site, or plan to do so, particularly if no ROC/FiT payments are claimed
2. You expect not to have a CCA after the introduction of the exemption from the CCL for certain metallurgical and mineralogical processes next April
3. You supply energy to a tenanted CCA facility or EU ETS installation
4. You might be interested in disaggregation part way through a phase
5. You are a subsidiary or group of subsidiaries that wishes to disaggregate contrary to the wishes of the parent company

This consultation covers two principal issues.

Issue 1

The need to incentivise the uptake of on-site renewable electricity generation. The proposal is that self-supplied renewable electricity will carry a zero rate emissions conversion factor where it is eligible for payments under the Renewables Obligation Certificate (ROC) or Feed-in Tariff (FiT) schemes but none are claimed.

Participants will be able to choose whether to claim a subsidy for their generated electricity via ROCs/FiTs or to reduce their CRC liability, but it is probable that the latter option will only be available for generating capacity installed after 31st December 2007. Some existing generation will be eligible for the zero rate emissions conversion factor because ROCs/FiTs have never been claimed, but few if any participants are likely to choose that option for new generating plant as the financial benefit from ROCs/FiTs is much greater.

Issue 2

This follows on from an announcement in this year's Budget that emissions from certain energy-intensive metallurgical and mineralogical facilities needed to be excluded from the CRC as a result of changes to the Climate Change Levy (CCL). From 1st April 2014 such facilities will be exempt from the CCL and so no longer require a Climate Change Agreement (CCA), with the result that the CCA exclusion will cease to apply to their emissions for CRC purposes. Hence a new, specific exclusion is required.

Additional Issues

DECC has included in the consultation a couple of further issues where the wording of the current CRC legislation needs amending to achieve the outcome that was originally intended.

- a) Ending the double counting of third party energy supplies under the CRC and CCAs or the EU Emissions Trading System (EU ETS).
- b) Allowing disaggregation at any time in a phase instead of requiring applications to disaggregate to be lodged by the last working day of April in the year after registration. In addition, DECC intends that disaggregation will in future need the consent of both parties (highest parent and disaggregating subsidiary or group of subsidiaries). The current wording of the relevant provisions in the CRC legislation does not require the parent organisation to agree to disaggregation.

Timing

A Government response to the consultation submissions is unlikely to appear before late January, shortly before the Phase 2 registration deadline at the end of that month. This presents a difficulty for organisations/groups with operations in the affected metallurgical and mineralogical sectors, because some that currently expect to be Phase 2 participants will fall under the qualification threshold of 6,000 MWh when the changes that are subject to consultation come into force in April. Such organisations should, strictly speaking, register for Phase 2 because the qualification rules will be unchanged at that point, but this will almost certainly turn out to have been a waste of time and effort. However, until the detail of the changes has been finalised, undergone ministerial scrutiny and then been approved by Parliament and the devolved administrations, nothing is certain.

Recognising this difficulty, an Environment Agency representative informed a working group of the UK Emissions Trading Group last week of the Agency's intention to publish a guidance document that should help potential Phase 2 participants faced with a dilemma as to whether to register or not.

He added that he could not envisage the Environment Agency taking enforcement action for non-registration against an organisation that, once the amended legislation comes into force in April, is no longer a participant. Nevertheless, it appears that some organisations will have to make a judgement in late January based on their best guess as to how the CRC will be amended and decide whether to risk not registering.

We urge you to follow this guidance closely to reduce the risk of enforcement action if that judgement turns out to have been wrong. There will be some processes that are no longer covered by a CCA from April but are not eligible for the new CRC exclusion because they are 'directly associated activities' rather than being themselves engaged in energy-intensive metallurgical and mineralogical activities. The same applies to some processes that are currently covered under the '70:30 rule'. Further information on the metallurgical and mineralogical CCL exemption is expected to be published by DECC with the Chancellor's Autumn Statement in early December and this will be required reading for those trying to understand how the proposed CRC exclusion will affect their organisation.

Landlords' Qualifying Supplies

A similar difficulty over Phase 2 registration applies to any landlords who are only over the qualification threshold as a result of energy they supply to tenants who operate a CCA facility or an EU ETS installation. The consultation paper does not explicitly state whether such supplies will in future fall outside the scope of the CRC for the purpose of qualification as well as compliance, but we assume so since it does say that the proposed change will ensure fair treatment regardless of any landlord-tenant relationships. Last May's simplification changes already provide that supplies made to the operator for the purpose of operating a CCA facility or an EU ETS installation are totally excluded from the CRC.

—
Victoria Joy
Consultant

Landmark Information Group
28 November 2013



An industry accredited sustainability platform, **Sustainability Sure** is used in over 100,000 buildings in all 7 continents. This platform meets the full requirements of the new (October 2013) mandatory carbon reporting for all UK incorporated and stock exchange listed companies. The management information derived from **Sustainability Sure** delivers benefits beyond simply legislative compliance. Uniquely, this platform combines energy meter analytics, CRC compliance & reporting, GHG reporting and CSR in a single platform. It also conveniently enables companies to automate the data collection and data entry without any IT implementation. Ultimately **Sustainability Sure** is a comprehensive and highly intuitive sustainability platform.