

Response to the CRC Energy Efficiency Scheme “Next Steps” Paper

The Confederation of Paper Industries (CPI) is the Trade Association for the paper industry in the UK and has within its membership paper manufacturers, corrugated packaging manufacturers and mill-owned and independent recovered paper merchants and exporters. The sector continues to be a major manufacturer and employer, producing slightly under 5,000,000 tonnes of paper each year in the UK, manufactured by more than fifty paper mills, with around 20,000 people directly employed by the sector.

Preamble

Many thanks for informally consulting those involved with CRC via the “Next Steps” paper on proposals to simplify the scheme in advance of a formal consultation early next year.

Firstly we must once again put on record industry concerns over the increasing amount of revenue being raised by Government through taxation of energy. While each element of taxation may be manageable when considered in isolation, cumulatively the impact on cost is a serious concern and there is a real risk that some companies will be taxed out of the UK.

These energy taxes are not zero impact – for our sector they increase manufacturing and supply chain costs with no guarantee that higher costs can be passed through to customers. The overall impact is to make the UK a less attractive place to manufacture – directly in opposition to Government intention to rebalance the economy and support manufacturing.

Clearly all organisations have concerns over the cost of energy, but it is a particular issue for those exposed to international competition. Higher energy taxation puts UK installations at a competitive disadvantage. Clearly this is a particular issue where the taxation (such as is the case with CRC) is UK specific, meaning competitors outside the UK are not affected.

Introduction

Certainly proposals to simplify the scheme are welcome. Our experience of assisting members with compliance is that the scheme rules are so inherently complex that understanding how to comply is difficult. This is made worse by the ad hoc way that guidance from DECC and the EA has developed, meaning that while guidance is generally good, it is not laid out in any logical way, nor does it always reflect changes already made to the scheme.

Comments on specific proposals

- **Reducing overlap with CCA and EU ETS**

The proposal to simplify the treatment of assessment for CRC liability is welcome. However retaining the 25% CCA exemption rule as well as simplifying the CRC qualification rules would have the benefit of focusing the scheme on low intensive high energy users (as originally intended) and excluding those organisations already regulated by CCA and EU ETS.

So;

- Liability for CRC should be based on half hourly settled electricity meters not covered by CCA or EU ETS.
- Any HH meters covered by CCA or EU ETS should simply be excluded from the assessment.
- If the remaining half hourly electricity meters records consumption below 6,000 MWh, the organisation should be excluded from CRC for that phase (the present limit for this exclusion being 1,000 MWh.)

Such a change would put assessment onto an equal basis for all organisations, as only emissions not covered by CCA or EU ETS would be considered for CRC. The exclusion should be simple to claim and manage.

Being required to accept CRC responsibility for each HH meter does not seem onerous and would assist the regulator in ensuring all meters are properly accounted for.

Because the exclusion is so simple, there should be no requirement to pay a CRC registration fee.

For organisations with parts remaining in CRC, the current 25% rule for CCA coverage should be retained. If this rule were to be removed, parts of organisations previously excluded from CRC would be included for the first time, greatly adding to the complexity and expense of CRC for these organisations and certainly not resulting in scheme simplification, nor the stated Government intention to reduce “Red Tape.” Indeed if the stated objective of CRC is to increase the attention of senior management on energy issues, then these organisations already have this focus thanks to their CCA membership. Certainly CRC would not bring further attention to energy efficiency in such organisations.

It should also be remembered that CRC was intended to cover emissions for large non intensive users of energy; these are not the type of companies operating Climate Change Agreements. Indeed the inclusion of some of these companies in CRC for the first time (if the 25% rule were to be removed) would add a further layer of complexity as they are already complying with CCA and often EU ETS. A third (and different) instrument with completely different rules is simply not required nor appropriate.

- **Reduction in the number of fuels covered by the scheme**

The proposal to reduce the number of fuels covered by CRC from 29 to 4 (electricity, gas, kerosene and diesel for heating) is welcome. We note the potential for confusion over the definition of ‘diesel’ and would question if this is

intended to include other types of heating oils. In particular there will continue to be an issue where fuel in one tank, or from one delivery, is used for different purposes and there should be some sort of de minimums rule.

- **Move to fixed price allowance sales**

Again this proposal is welcome as it removes the requirement to understand emissions trading for participants – such participants by definition not being intensive users of energy, otherwise they would be covered by CCA or EU ETS. If the Government intends to encourage participants to purchase allowances in advance, there should be a discount for advance purchases and allowances should be bankable between phases.

We note the current price of allowances is fixed at £12, but are concerned that the Budget Statement indicates an expectation that CRC revenue will quickly increase. Underlying costs of energy continue to increase and if the purpose of CRC is to draw additional senior level attention to energy issues, this is already being achieved by the current CRC price of £12 and the direct cost of energy – though we continue to dispute if more attention is actually required to these issues. If Government is now simply using CRC as a revenue scheme, we reiterate that large increases in CRC costs are not sustainable for sectors exposed to international competition.

- **Role of the league table**

Publication of a performance league table should be scrapped. We have always argued the table will serve no useful purpose and indeed for some participants the results will be completely misleading.

The key concern is that the table will be based on the relative performance of an organisation without taking into account the relative energy efficiency going into the baseline figures. So an energy efficient organisation at the start of a phase is likely to be ranked below an energy inefficient organisation, simply because it has less scope to improve energy efficiency.

- **Exemption for electricity produced within EU ETS installations**

CPI welcomes this proposal that removes an anomaly from the existing scheme. The input fuels used to generate the electricity have already been subject to EU ETS compliance and so have already been regulated by a Climate Change Instrument. Moreover from the start of Phase (2013 onwards) no free allocation will be provided for this fuel because no free allocation will be provided for electricity generation or use. This means that ETS allowances will have to be sourced to cover emissions arising from this input fuel.

In summary the simplification of CRC is welcome and should be within an overall review seeking to simplify regulation and reduce overlap between climate change policies. There should also be proper consideration of the cumulative impact of Government policies on UK energy prices and international competitiveness.

CPI will be pleased to provide further information on any of these issues.

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