

## Review of the CRC qualification criteria

### Introductory Notes

- In the light of feedback about the operation of the CRC scheme, the Government is considering simplification of the CRC. In doing so, Government will take into account feedback from stakeholders including:
  1. The effectiveness of the framework for driving energy efficiency in large private and public sector organisations, in the light of wider policy developments in other areas such as the implementation of a carbon price floor<sup>1</sup>, electricity market reform<sup>2</sup>, implementation of a Green Deal for business<sup>3</sup> and the review of Climate Change Agreements<sup>4</sup>, and company reporting of greenhouse gas emissions<sup>5</sup>.
  2. The perceived complexity of the CRC scheme and hence the need to reduce the administrative burden on:
    - those organisations which are subject to the scheme
    - the administrators of the scheme (Environment Agency, Scottish Environment Protection Agency, Northern Ireland Environment Agency).
  3. Optimising the projected emissions savings attributable to the CRC scheme<sup>6</sup> due to an increased focus on energy efficiency by the target sectors.
- This is one of a series of discussion papers which aim to stimulate an informal dialogue between Government and participants about the simplification of the CRC Energy Efficiency Scheme. As such, this paper is not a statement of Government policy.
- These papers have been developed on the basis of feedback from participants about the operation of the scheme since April 2010. Ideas for simplification arising from this dialogue process will help inform consideration for amendment to the current legislation underpinning the scheme. Any formal legislative proposals would be subject to public consultation with the intention that they would come into force through affirmative Orders in Council before registration for the second phase of the scheme begins in

<sup>1</sup> [http://www.hm-treasury.gov.uk/consult\\_carbon\\_price\\_support.htm](http://www.hm-treasury.gov.uk/consult_carbon_price_support.htm)

<sup>2</sup> <http://www.decc.gov.uk/en/content/cms/consultations/emr/emr.aspx>

<sup>3</sup> [http://www.decc.gov.uk/en/content/cms/legislation/energy\\_bill/energy\\_bill.aspx](http://www.decc.gov.uk/en/content/cms/legislation/energy_bill/energy_bill.aspx)

<sup>4</sup> [http://www.decc.gov.uk/en/content/cms/what\\_we\\_do/lc\\_uk/ccas/ccas\\_policy/ccas\\_policy.aspx](http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/ccas/ccas_policy/ccas_policy.aspx)

<sup>5</sup> <http://ww2.defra.gov.uk/environment/economy/business-efficiency/reporting/>

<sup>6</sup> Projected savings attributable to the CRC are outlined in Annex G of the June 2010 DECC energy and emissions projections

April 2013.

- It is essential that all participants continue to comply with the existing scheme, in full, as set out in the current legislation. The CRC remains a mandatory scheme, and the Environment Agency and other administrators continue to provide support to participants with their CRC compliance. Organisations who fail to comply may be subject to enforcement action and civil penalties. Participants should continue to fully comply with the scheme and use the introductory phase to gain experience on reporting, complying and surrendering allowances in CRC. For advice and support on compliance with the first phase of the CRC scheme participants should refer to the CRC Energy Efficiency Scheme Order 2010<sup>7</sup> and Environment Agency guidance.<sup>8</sup>

### **Issue**

1. Organisations must currently assess their status against two criteria in order to determine whether they qualify for CRC participation. Stakeholder representation has indicated confusion resulting from the slightly different scope of the two criteria. Government is also aware of a perverse incentive for organisations not to install Smart meters on account of such meters contributing towards their CRC qualifying supplies. Government is therefore considering simplifying the criteria to reduce the complexity surrounding qualification assessment and registration and to address the unintended consequence surrounding Smart meters.

### **Background**

2. There are currently c. 111k settled half hourly electricity meters (HHMs) in the UK. Such meters are defined in the CRC as performing two functions; measuring electricity supplied to a customer on a half hourly basis for billing purposes and measuring electricity for the purposes of balancing the loads on the grid in respect of the wholesale electricity market.
3. These meters are mandatory in Great Britain where the average peak electricity demand over the three months of highest consumption within a year exceeds 100kW over the previous 12 months. However these meters have also been installed on a voluntary basis where the owners wish to collect data on its electricity consumption for energy management purposes before the existence of Automatic Meter Reading (AMR) meters.

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<sup>7</sup> [http://www.opsi.gov.uk/si/si2010/draft/ukdsi\\_9780111491232\\_en\\_1](http://www.opsi.gov.uk/si/si2010/draft/ukdsi_9780111491232_en_1)

<sup>8</sup> <http://www.environment-agency.gov.uk/business/topics/pollution/98263.aspx>

4. In Northern Ireland the meters have been mandatory since November 2007 where a site's Maximum Import Capacity exceeds 70kVA. Before this date no meters in NI were fitted on a mandatory basis.
5. There are two qualification criteria for determining CRC participation. Those organisations meeting both criteria must register for participation in the scheme.
  - I. Presence of one or more half hourly electricity meters (HHMs) settled on the half hourly market (includes both mandatory and voluntarily installed meters)
  - II. Total half hourly metered electricity of at least 6,000MWh in the qualification year.
6. The first criterion is restricted to settled half hourly electricity meters (as defined by paragraph 2, Schedule 2, of the CRC Energy Efficiency Scheme Order 2010) and is a subset of the second, which is focused on all half hourly metered electricity supplies, i.e. settled half hourly meters, non-settled half hourly meters or a dynamic supply (as described in paragraphs 2, 3 and 5 of Schedule 2).
7. This two-stage approach was designed to provide a balance between easily verifiable information (ownership details of settled HHMs) and setting an appropriate qualification threshold for the target sector based on suitably accurate data. However this has introduced a level of complexity that has resulted in confusion amongst some participants.
8. It has been brought to Government's attention that some organisations are delaying the installation of Smart meters on the grounds that supplies through such meters would contribute to their CRC qualifying supplies. This is an unintended consequence which Government intends to readdress through the options contained within this paper.

### **Options for simplification**

9. In light of experience gained through the phase one registration period, Government is considering aligning the scope of both qualification criteria to focus on settled half hourly meters only. The draft criteria are shown below:
  - I. Presence of one or more half hourly electricity meters (HHMs) settled on the half hourly market; and

- II. Total **settled** half hourly metered electricity of at least **xxx** MWh in the qualification year.
10. Government believes that this would simplify the process for assessing qualification and enhance the administrator's ability to verify registration accuracy. As with the current definition, there would be no distinction between settled half hourly meters installed on either a mandatory or voluntary basis, avoiding additional administrative complexity for organisations distinguishing between both types.
11. When assessing CRC qualification, organisations would only need to consider the settled half hourly meters they are responsible for, in terms of presence and amount of supply during the qualification year. Organisations would no longer have to calculate or report at registration electricity supplied through a non-settled half hourly meter (e.g. Automatic Meter Reading (AMR) meters) or which is a dynamic supply. They would however still be required to report on such supplies for footprint and annual reporting purposes.
12. Government considers that this approach would need to be supported by a reduction in the 6,000MWh qualification threshold to ensure the emissions coverage and number of participants remained broadly constant with the current approach. Without such a reduction the number of participants would fall as fewer organisations would reach the 6,000MWh figure through settled half hourly metered supplies alone. Government is therefore considering reducing the threshold so that the number of participants and emissions coverage were **not significantly different from the current levels.** This option is not intended to overly extend the scheme to a new class of organisation. Stakeholders' views are welcomed on the concept of the reduction and on a potential threshold.
13. Such an amendment would enable the administrators to access accurate settlement data from settled half hourly meters. This would facilitate the checking of registration data and support the proposed removal of the Information Disclosure provision; consulted on in November 2010. It would also incentivise the installation of Smart meters, which currently contribute towards an organisation's qualification status but would cease to do so under this option.

Alternative options include:

14. Restricting both qualification criteria to **mandatory** settled half hourly meters only, previously discounted due to the difficulty in distinguishing between mandatory and voluntarily installed settled HHMs, especially where a property has changed ownership over time.
15. Restricting the second criterion to all electricity supplied, rather than simply electricity supplied through HHMs, and raising the 6,000MWh threshold to avoid expanding the scope of the scheme to smaller organisations. There would also be an increased administrative burden on organisations when assessing their qualification status, given the need to consider all electricity supplies. There would be a similar increased burden on the scheme's administrators when validating qualification and registration. However such an approach would incentivise the installation of AMRs and their upgrade to settlement status in order to reduce this increased administrative burden.

#### **Contributing to the dialogue**

16. If you would like to submit written views on simplifying this aspect of the CRC scheme, or if you would like to make wider comments and suggestions about the scheme as a whole, please send your comments to [crc@decc.gsi.gov.uk](mailto:crc@decc.gsi.gov.uk) or CRC Team, National Carbon Markets, Department of Energy and Climate Change, 3 Whitehall Place, London, SW1A 2AW) **by 11th March 2011**.