Opinion: Consultation IA
Origin: Domestic
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Regulatory Policy Committee

# Simplified energy and carbon reporting framework

## Department of Energy and Climate Change

## RPC rating: fit for purpose

## Description of proposal

The Government is consulting on a set of proposals to simplify the policy landscape for business energy efficiency. This will involve:

- the closure of the Carbon Reduction Commitment Energy Efficiency Scheme (CRC). This scheme requires larger companies to report their energy consumption and purchase $CO_2$ allowances accordingly;
- an increase in Climate Change Levy (CCL) rates; and
- introducing an energy and carbon reporting framework that is simpler than the reporting requirements under the CRC.

The Department is consulting on a range of options for the new reporting framework, including on the type of energy use reported and how information is published. The Department believes that, in the absence of regulation, a number of market failures exist that create barriers to investment in cost-effective energy efficiency measures. As such, the IA states that a new reporting framework will drive those companies covered by the scheme to implement energy saving measures that they otherwise would not introduce. The IA discusses why a voluntary reporting option would not work, citing studies to explain how such schemes have not provided the clarity and consistency of information required to affect organisational behaviour.

## Impacts of proposal

The Department explains that, as the CRC and CCL are taxes, the impact of changes to these schemes, including the associated administrative burdens are not in scope of the business impact target.

The proposal to introduce a reporting framework will require all large organisations to report on their energy spend, scale of energy efficiency opportunities and the progress made against these. The Department estimates that the requirement will cover 11,900 individual large organisations (10,700 in the private and third sectors). The Department has used survey data to estimate an administrative cost resulting from the new reporting requirements of £4,500 per business in the first year for organisations currently covered by the CRC. Organisations not currently in the CRC would incur costs of £1,000 in the first year. The Department expects these costs to

fall by around one third in subsequent years. Only the administrative burden of the reporting framework is a direct cost to business. The Department, therefore, estimates that the proposal will result in an equivalent annual net direct cost to business of £13.9 million.

The Department estimates that the proposal will generate a benefit to society of nearly £2 billion in net present value terms over the period of 2019 to 2035. The main benefits are the resulting energy and carbon savings. At this stage, in relation to energy savings from the new reporting framework, the Department explains that there is a large uncertainty with limited evidence to quantify the impact.

The Department has explained that some of the organisations to be covered by the new framework are already required to report some of their energy use through other energy related policies. In particular, the IA cites the Energy Savings Opportunity Scheme (ESOS), which requires an energy audit every four years. This compares with the proposed requirements of the new framework for annual reporting. The Department has, at this stage, provided an indicative estimate of overlap between the schemes of 25% of businesses who will be already measuring their energy use via ESOS.

The proposal appears to be a qualifying regulatory provision that will score under the business impact target.

## Quality of submission

The IA, for completeness, discusses all three elements of the proposed simplification of the energy efficiency landscape. However, the focus of this IA is on the new framework. The IA provides a range of options for delivering energy efficiency, mostly being variations on the Department's preference of large organisations reporting publicly on energy use, energy spend and progress against energy efficiency opportunities. The variations focus on not including some of these elements. This appears a reasonable explanation and is supported by stakeholders.

The Department believes that a mandatory reporting system will drive organisations to implement energy efficiency measures, and, therefore, generate energy savings and reduce their energy bills. It cites evidence that supports the view that mandatory reporting and publication of standardised data, with accompanying senior sign-off can be a key driver of energy savings. The IA also states that the majority of stakeholders in a previous consultation believed that mandatory reporting is an important element in driving the uptake of energy efficiency measures.

However, the rationale for the need to regulate to achieve the objectives could have been stronger and the assumed energy savings are highly speculative. The

Department should use the consultation to test and strengthen the assumptions supporting the range of options provided. In particular, the Department should test the stated "*combination of illustrative assumptions and evidence*" provided in the IA.

In addition, the Department should strengthen the evidence supporting the quantified administrative burdens, in particular the number of businesses included in the reporting requirements and the administration costs of the new reporting regime imposed on those businesses not currently covered by the CRC. It should also confirm whether familiarisation costs are included. The Department also needs to provide further evidence that the proposals lead to a net reduction in administrative burden compared to the current arrangements. Finally, the Department should test the indicative overlap of ESOS with the proposed requirements of the framework in order to provide a clearer picture of how these schemes align with each other.

At final stage, this measure should be scored in accordance with the new better regulation framework. The RPC is awaiting further guidance on how to score this type of measure against the BIT i.e. measures that are not regulatory provisions that are replaced by a new regulatory measure.

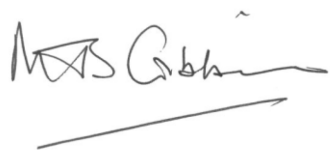
The proposal is of domestic origin. A small and micro business assessment (SaMBA) is, therefore, required. The IA states that the proposed framework will apply only to large organisations and, therefore, not bite on small and micro business.

**Departmental assessment**

| Classification | Qualifying regulatory provision (IN) |
|---|---|
| Equivalent annual net direct cost to business (EANDCB) | £13.9 million (initial estimate) |
| Business net present value | -£190 million |
| Societal net present value | £1,859 million |

**RPC assessment**

| Classification | Qualifying regulatory provision (IN) |
|---|---|
| Small and micro business assessment | Sufficient |



**Michael Gibbons CBE,** Chairman