

Paul van Heyningen
Department for Energy and Climate Change
3 Whitehall Place
London SW1A 2AW

11th March 2016

Dear Paul,

RE: Business Energy Tax Review and the CRC Energy Efficiency Scheme

You have asked, in the context of the Government consultation 'Reforming the business energy efficiency tax landscape' (September 2015), for the Committee's advice on the proposal to abolish the CRC Energy Efficiency Scheme and the repeal of the arrangements contained in the CRC Order 2013. Your request is initially in relation to a proposal for England only, but you have also asked our views if abolition were implemented UK-wide.

We have previously highlighted the overly complex nature of the policy landscape in relation to the commercial sector. It has a number of overlapping carbon price instruments and information requirements. Abolition of the CRC scheme could contribute to a worthwhile rationalisation of this landscape. However, the future of the CRC scheme should only be considered in the context of the set of policy measures and incentives overall.

Policy to-date has not delivered the reduction in emissions that would allow non-domestic buildings to make a contribution to meeting the carbon budgets. Our analysis suggests that, from current levels, these emissions could be reduced cost-effectively by 40% under the fourth carbon budget and by about 50% under the proposed fifth carbon budget. Any changes to the policy framework must be accompanied by evidence that they are compatible with achieving the statutory targets set out in the carbon budgets and for 2050.

The main aspects of the current CRC Scheme are the mandatory annual reporting of energy consumption, and the carbon pricing it provides through the requirement to hold allowances in respect of CO₂ emissions. Together these help to create incentives for energy efficiency and emission reduction. We have previously highlighted that these aspects of the CRC Scheme could be met through other means.

Carbon price

We have previously suggested that the carbon price signal should be uniform and consistent across firms and fuels. We have recommended that the carbon price aspect of the CRC Scheme be abolished and the Climate Change Levy (CCL) increased, providing that this does not weaken incentives.

The current CCL rates do not reflect the carbon content of the fuel. This creates a distortion in an organisation's energy consumption towards fuels with higher carbon content.

We recommend that if the CRC Scheme is abolished then the CCL should be increased correspondingly, and the new levy rates reflect the relative carbon content of the fuels.

Energy and emissions reporting

It is essential that organisations understand their energy consumption, and the scope to improve this, if they are to act to reduce consumption. We previously recommended that the source of this information should be regular energy and emissions audits. In addition, requiring board-level sign off raises the profile of energy costs and emissions, supporting energy managers to make the financial case for action.

We recommend that if the CRC Scheme is abolished then an alternative annual energy and emission reporting mechanism be introduced with board sign off, for example, enhanced in the ways we have previously advised as part of the Energy Savings Obligation Scheme.


Energy intensive SMEs

The CRC Scheme covers a range of large energy consuming organisations and energy intensive small- and medium-sized enterprises (SMEs). Evidence suggests that there is currently a gap in the overall policy framework to encourage energy efficiency and carbon reduction in SMEs, particularly in England. This is less of an issue in some other areas of the UK, for instance in Scotland where SMEs have access to interest-free loans for energy efficiency improvements.

We recommend that if the CRC Scheme is abolished then this should be accompanied by measures to enhance the policy landscape to stimulate energy efficiency and carbon reduction in SMEs.

Finally, the changes in the policy landscape outlined above would be advantageous even if confined to England. To further reduce the complexity of the policy landscape for organisations, and distortions across the countries of the UK, there would be advantages if the Devolved Administrations were able to adopt the same measures, possibly incorporating greater ambition where their climate change legislation suggests faster progress is needed. We advise the Governments of Scotland, Wales and Northern Ireland separately based on their particular circumstances and will investigate the extent to which any proposed changes are appropriate for them once they have been announced.

Yours sincerely,



Matthew Bell