

## The Autumn Statement

### Bad News for Business – The CRC Gets a Reprieve

Contrary to expectation within the business community, the Chancellor has announced in his Autumn Statement that the CRC has been granted a reprieve. At the time of the Budget in the spring, he said that the CRC would be abolished unless ways could be found to simplify the scheme which resulted in significant savings for business.

The CRC works by requiring qualifying organisations to register as CRC participants and to purchase annual carbon allowances to cover their emissions during each reporting year running from 1 April to 31 March. The CRC scheme applies to organisations whose total annual half hourly metered electricity use in the qualification year was above the qualification threshold of 6,000MWh; this roughly equates to an annual electricity bill of more than £500,000.

The CRC simplification agenda has been on-going since the current Government took office. The latest proposals for simplification were published in March. The CBI has described the proposals as “tinkering around the edges”.

The view has clearly been taken by the Chancellor that this is case of “better the devil you know”, rather than risk starting over with an entirely new scheme which would be fraught with difficulty. And the Government may have found it easier to come to that conclusion because of the £1 billion a year the CRC is expected to raise for HM Treasury.

That said, there’s no getting away from it: the CRC is a very bad law. That’s because the qualification criteria and rules about attributing responsibility for energy supply or consumption – the Order seems confused about which – remain ill-defined, even as proposed in the current consultation document.

The truth is the CRC rules are utterly impenetrable to most. And that goes for the proposed changes. If anyone doubts that, we recommend they open the DECC consultation document at p.21 and explain what the new unconsumed supply rules now amount to.

Aside from the administrative burden of simply working out whether you qualify for the scheme, there are all sorts of other complications that cause businesses costs: what happens on the sale of properties or businesses? Who pays in the case of leased premises?

Working out how to answer these, and a whole host of other, questions costs businesses a vast amount of money.

Worse, the CRC doesn’t even guarantee emissions reductions, it punishes growth and anecdotal evidence suggests that serious questions need to be asked about the level of compliance.

Anyway it looks like business is stuck with the CRC at least until 2016, when it will be reviewed again. The Chancellor says it will be a “high priority” for removal when public finances allow. In practical terms, two key things arise from that: first, 2012 is the qualification year for Phase 2 of the scheme which starts in April 2013. Businesses are going to need to start to work out how the changes to the CRC (especially those involving funds or businesses covered by other regimes, such as Climate Change Agreements) will affect them in Phase 2 and what, if anything, can be done to mitigate the adverse impacts of the CRC.

Secondly, landlords and tenants should, if they haven’t already done so, work out how they are going to allocate the costs of the CRC going forward. This should be tackled now. The price of carbon is highly likely to rise in the spring Budget, so kicking this issue into the long grass is not going to help anybody.

We have been advising on the CRC since 2009 and we have one of the leading practices in this area. If you have any questions on the proposed changes to the scheme or the CRC more generally, please contact:

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