

UK government moves from the CRC Energy Efficiency Scheme to Emissions Reporting

The Government confirmed in March 2016 that it would abolish the CRC Energy Efficiency Scheme (CRC) from the end of the 2018/19 compliance year. The relevant regulations (the CRC Energy Efficiency Scheme (Revocation and Savings) Order 2018) (the Regulations) have now been published and will enter into force on 1 October 2018.

What is (was) the CRC?

The CRC is a mandatory carbon emissions reduction scheme in the United Kingdom that aimed to incentivise energy efficiency and cut emissions in large energy users. Organisations which participate in the CRC are required to monitor their energy use, and report their energy supplies annually. Participants must also purchase and surrender allowances in respect of their emissions.

The CRC was divided into phases (1 April 2010 – 31 March 2014; 1 April 2014 – 31 March 2019), which are further divided into compliance years.

The CRC was never free from controversy. It was seen by many as complex and bureaucratic, and not an effective mechanism to achieve its policy objectives. Although it certainly focussed many organisations' minds on their energy use, it did not necessarily do so in a way that led to them becoming more energy efficient. The rules for participation were complex and caused headaches for a number of sectors. For example, special guidance was needed for franchises, public private partnerships and private finance initiatives, private equity funds and trusts.

When does the CRC close and what obligations remain?

The Regulation provides for the closure of the CRC... but not just yet. As already announced, the scheme will not close until the end of the 2018/19 compliance year, but some obligations continue for several years after that. Existing participants for the current or previous phases continue to be required to comply with their obligations. In practice this will mean reporting emissions and surrendering allowances until the end of the 2018/19 compliance year. Allowances must be surrendered by the last working day of October 2019.

The CRC registry will remain in place until the end of 2022. The administrator will continue to be able to monitor and enforce compliance, though will not be able to require the purchase and surrender of additional allowances after February 2022. Participants must maintain their records until the end of 2025 (or 2021 if they only participated in the 2010-2014 phase).

What comes next?

Though the CRC is being abolished, the government consulted on "Streamlined Energy and Carbon Reporting" (SECR) in October 2017. The outcome of that consultation has not yet been published, but numerous consultation responses have been made available. It is aimed to be in place by April 2019.

There are currently a number of emissions reporting frameworks in place. UK quoted companies are already required to disclose emissions data as part of their directors' report. The Government hopes that increased and more consistent disclosure of energy and carbon data will continue to raise awareness of energy efficiency and improve transparency for investors. The impacts of emissions on investor decisions have been highlighted by the Task Force on Climate-related Financial Disclosures (TCFD), which sets out recommendations on disclosure of:

- governance around climate- related risks and opportunities
- impacts of climate-related risks and opportunities
- identification, assessment and management of climate-related risks
- metrics and targets

The TCFD (whose recommendations were published in 2017) already seems to be having impacts on climate-related disclosure, and in many ways goes further than the SECR (though TCFD is a voluntary regime).

Who will SECR apply to and when?

This is being consulted on but the SECR proposes different reporting requirements for quoted companies and large unquoted companies, as well as Limited liability partnerships and some unregistered companies. The reporting requirements would not apply to the public sector. Reporting obligations will apply to financial years commencing on or after 1 April 2019. There are already a number of reporting methodologies available which companies will be able to use to report.

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