

# Informal submission to Cabinet Office Burdenome Climate Change Legislation



17<sup>th</sup> September 2015

We are grateful for the opportunity to contribute to this important exercise. We have identified five areas within the climate change policy landscape that are unduly burdensome for our businesses. The first is a broad issue and the others relate to specific policy instruments. In turn we cover:

1. Multiple reporting requirements
2. GHG reporting
3. ESOS
4. EUETS implementation
5. CRC

We are more than happy to engage in further dialogue or provide additional evidence on any of the points below or on the wider policy agenda.

## 1 Multiple reporting requirements

On a broad note there is no doubt that the UK climate change taxation and policy landscape needs very urgent simplification. A proliferation of complex policy tools requires the same energy to be reported multiple times for different purposes, with different reporting timescales, different schemes, different administrative processes and fees and different prices for CO<sub>2</sub>. For example, many of our larger member companies are obliged to report energy through EUETS, CRC, ESOS and GHG reporting and are also subject to CCL and CFP. This needs to change. Companies frequently report that so much resource is tied up with compliance that this severely compromises their ability to focus on emissions reduction activities. The following quote from a member is typical *“We are desperate for simpler reporting. Trying to keep abreast of what is required for each different piece of legislation is almost impossible and aggregating information in different formats for each submission is laborious and time-consuming”*.

### **Action needed**

**Simplification of the policy landscape and at the very least a more streamlined approach to reporting.**

## 2 Mandatory Carbon Accounting

The key issues here are duplication, coverage and consistency

1. **Duplication:** Why do we need Mandatory Carbon Accounting? The current situation creates duplication because companies are accounting for the same energy streams for different reasons – in the first case for energy efficiency and in the second case for CO<sub>2e</sub> emissions. CO<sub>2e</sub> emissions are being published for EU ETS, CRC and CCAs and hence creating much

confusion on what is being conveyed. Each amount of CO<sub>2e</sub> under the different schemes refers to different sources for different time periods. In simplistic terms, the only extra requirement that Mandatory Carbon Accounting requires beyond the existing policies is to account for emissions from a company's own transport and supply chain. ESOS now requires that the energy use of a company's own transport is accounted for and that can easily be converted into CO<sub>2e</sub> emissions. Accounting for Scope 3 emissions is not the highest priority for the majority of businesses and action to reduce emissions in the supply chain is usually delivered through existing procurement negotiations. Mandatory Carbon Accounting is creating extra work for minimal reward.

2. **Coverage:** In view of the small cohort of obliged companies for GHG reporting, many of whom are already reporting carbon through voluntary schemes like CDP, mandatory carbon accounting is unlikely to be making a large contribution to achieving policy objectives and seems to be an unnecessary unilateral addition.
3. **Consistency:** members report that there are no carbon conversion metrics with common validity published which means that companies with operations in multiple countries are unlikely to be able to produce data that can be compared meaningfully between nation states.

#### Action needed

**We would like to see a review to evaluate the actual contribution that mandatory carbon accounting is making to policy outcomes.**

### 3 ESOS

Our issues are:

- a. **Lily-gilding** (more onerous implementation in the UK than elsewhere): Why are UK compliance requirements more burdensome than European counterparts?
  - In the UK, an organisation is captured if one company within that organisation was a large enterprise at the end of Dec 2014. In other countries the equivalent to ESOS focuses on just the large entities and hence do not bring smaller entities within a broader organisation into the picture.
  - UK endorses a very limited number of methods to meet the requirements – eg other member states include ISO14001, GHG permit as acceptable routes which do not appear on the UK's list.
  - UK appears to have the highest de-minimus at 90% (e.g. Ireland has 70%).
- b. **Design issues**
  - All countries should learn the lesson for future phases about proportionality: a large number (we believe at least 1,000 companies in the UK) will make ESOS declarations where their energy use is miniscule and the effort to comply is disproportionate. While reports are varied, companies are quoting compliance costs in the region of £10,000 per site.
  - The implementation is fragmented: participants with multiple operations across Europe must ensure that their certified energy auditors (i.e. Lead Assessors in ESOS) are registered in each country they have to comply in. This invariably means that

they need a different person/company in each nation state, rather than having an energy auditor who can handle the legal requirement at group or organisational level. The recognition of a pan-European accreditation for energy auditors - like the "Certified Energy Manager – International" qualification is needed and thus prevents the requirement for certification against local standards.

#### **Action needed**

**While we understand the objectives, we would very much like to see a review of ESOS that invites observations from industry on how it can be made fit for purpose in terms of both design and implementation. We would also welcome a review at the EU level on the implementation of Article 8 of the Energy Efficiency Directive to achieve productivity improvements for pan European businesses.**

## **4 UK implementation of EUETS**

EUETS is rather a complicated problem so we have presented the issue rather differently. More information is available if needed since the approach has necessitated a degree of simplification.

#### **Summary of the issue**

EUETS presents a very specific problem for those operating data centres. This is because most data centres maintain gas-oil fired generators to provide standby capacity in the event of mains power failure. Large facilities, with standby capacity of around 7MVA and above, are captured by EUETS despite the fact that they have negligible scope 1 emissions and are clearly not the intended target of the legislation (which is squarely aimed at large emitters i.e. those who burn primary fuel like oil, gas, coal, etc). While these generators do need to be test fired from time to time, they are hardly ever deployed and for all practical purposes cannot be used simultaneously with the primary power source (grid electricity). The UK interpretation of the Directive states that standby generation is included in EUETS if a) units of 3MW thermal and above add up to 20MWth and b) it is technically capable of being operated simultaneously with the main power supply.

#### **Administration costs are 100 times carbon costs**

Sites that are captured in this way tend to be liable for between £20 and £1,000 in EU ETS allowances (gas oil use at sites for this purpose can be as little as 5 tonnes pa) but each site will have a paperwork bill from the EA and from the validating service providers that could easily exceed £10,000 – **excluding** any internal resource or additional consultancy costs. Most companies are reporting compliance costs between £50,000 and £75,000 against allowance costs of between £500 and £5,000. In a number of cases the cost of paperwork is around 100 times the cost of allowances.

#### **Perverse incentives**

In addition to the obvious problem that the administrative cost of compliance dwarfs the carbon cost, application of EUETS in this way will actually create perverse incentives and reduce efficiency:

- Firstly, if companies wished to avoid EUETS they would restructure their generator array – replacing few large generators with many small generators, which will inevitably be less efficient.
- Secondly EUETS discourages the consolidation of computing resource into large purpose-built facilities and instead encourages a distributed model which is far less energy efficient and in which energy use is far less transparent or accountable.

- Thirdly EUETS will discourage data centres from participating in STOR or other demand response programmes that allow periods where peak demand exceeds supply to be managed without having to invest in additional generating capacity.

### **Action needed**

**While we understand the UK interpretation to be correct and accept our legal obligations regarding compliance, we believe that:**

- a. There should be scope for more pragmatism regarding implementation in line with other EU nation states.**
- b. The low emitters option (a less onerous approach) should have been made available to those entering in Phase III (when standby capacity was explicitly included for the first time).**
- c. The UK should be making the case to the Commission for a more enlightened arrangement for small emitters in Phase IV.**

## **5 CRC**

CRC has been a thorn in the side of business since it was a twinkle in DECC's eye back in 2008. However, we will reiterate the issues.

- Although originally intended as a cap and trade, revenue neutral, scheme that can encourage reductions to be made at least possible cost, CRC is just an unnecessarily complex tax.
- It is costly and burdensome for participants to administer and adds a significant non commodity cost to energy prices that makes energy intensive businesses uncompetitive compared to counterparts overseas. Moreover it has been continually tinkered with so participants have had to accommodate repeated changes.
- It fails to accommodate modern business structures, where outsourcing and global operations are now the norm. As a result CRC encourages offshoring of carbon intensive activities and carbon leakage.
- CRC does not differentiate between displacing carbon intensive activities through outsourcing and delivering overall reductions, so it is not possible to measure policy outcomes objectively.
- CRC, as a polluter-pays mechanism, requires operators to set aside money to pay the tax and tie up funding that could be used to make investments in energy efficiency – a frustrating paradox.
- CRC effectively discourages growth because it is based on absolute emissions.
- CRC compares poorly with CCAs: although both schemes aim to incentivise energy savings, CRC, by simply adding to the cost burden, fails to take business psychology into account. This is in contrast to CCAs. CRC takes the view that increasing energy costs forces people to take steps to improve efficiency – the basis of all “polluter pays” policy instruments. CCAs however provide compelling incentives to improve efficiency through a simultaneous stick and carrot – tough targets while providing companies with the means to invest in efficiency measures. While this runs contrary to perceived wisdom the approach is clearly effective.

### **Action needed**

**We think that CRC is largely redundant as a policy tool and should be discontinued as soon as possible. For most companies CRC is purely an administrative exercise and so defeats the objective of the policy's intention.**

## **Contacts**

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