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Introduction

1 What is your name?

Name:

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2 What is your email address?

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3 What is your organisation?

Organisation:

Association for the Conservation of Energy

Simplifying and improving the effectiveness of policy instruments

4 Do you agree with the principle of moving away from the current system of overlapping policies towards a system where a single business/organisation faces one tax and one reporting scheme? Please provide evidence on level and types of benefits of an approach like this.

Yes

Your response :

When there is a high level of complexity, it is possible that businesses spend a disproportionate amount of time on compliance rather than on delivering energy saving projects, and this should be avoided. Therefore the move to reduce complexity is to be welcomed.

Simplification is not only about the number of policies faced by any given business, it is also about the data required for compliance. Hence it will be important to make best use of any data already collected by businesses.

It is important that the new policy landscape is designed carefully so that it is at least as effective at reducing energy use as the old system. The net benefit of changes needs to be considered, not just their impact on the level of bureaucracy involved. In addition, the reform should lead to policy designed with the long term in mind and linked to the UK's carbon budget requirements: frequent and unpredictable changes to policy reduce investor confidence and hence would reduce the effectiveness of the policy in stimulating investment in improved energy productivity.

Reporting

5 Do you agree that mandatory reporting should remain as an important element of the landscape in driving the uptake of low carbon and energy efficiency measures? If not, why not?

Yes

Respond here:

Mandatory reporting should be at the heart of the new landscape. It underpins the effectiveness of the system as a whole, ensuring that the required information is made available to those who need to see it. The effectiveness of reporting programmes is evidenced by the views of participants in existing voluntary schemes (for example, the SHIFT programme for social landlords - <http://www.sustainablehomes.co.uk/shift>).

It is important that this reporting is required frequently enough to keep the issue in the minds of decision-makers and also to enable progress tracking: we would suggest that annual reporting on key data is necessary (although full ESOS-style audits can be less frequent).

6 Should such reports require board level sign-off and should reported data be made publically available? Please give your reasons.

Yes

Respond here:

Embedding energy efficiency as a core element of an organisation's decision-making culture requires board-level engagement, and sign-off of mandatory reports is a key element in this engagement. If the reporting is based on data gathered for energy management purposes, the reporting process should not be onerous.

We support the idea that the data should be made publically available. This will help to ensure that board-level sign-off involves appropriate scrutiny of the information and will also provide access to the information required for robust tracking of policy effectiveness at the national level.

7 Do you agree that government should develop a single reporting scheme requiring all ESOS participants (and potentially the public sector - see final page) to report regularly at board level?

Yes

Respond here:

And we do think that this should also cover the public sector, which should be leading by example in this area.

The data and analysis in the report should include: energy use; its cost and any taxes paid in connection with this; opportunities for reducing this that were identified in the most recent audit; which of these have already been acted upon and which remain; incentives accessed as a result of actions taken and incentives available for those not yet taken; and recommendations for action over the next 12 months, together with potential sources of investment finance.

8 The government recognises the importance of ensuring market actors have access to transparent, reliable and comparable information to support financing and investment in energy efficiency and low carbon measures. How best can a streamlined report achieve this? To what extent does your response apply to other large companies (as defined in the Companies Act) that are not listed companies?

respond here:

Shareholders and investors can influence energy efficiency investment decisions if they are supplied with information about the energy productivity of companies. Hence, annual energy use is a key metric that should be used within a streamlined report.

The report's recommendations for action should include estimated paybacks for the investments proposed. These could be based on robust, well-maintained national datasets and hence would be seen as credible enough to drive further examination of proposals seen as cost-effective. A national programme offering information on the range of options for investment (similar to an Energy Efficiency Best Practice Programme) would support the production of this type of report.

This response is applicable to all businesses, not just those that are listed: the existing CRC scheme applies to large, private sector organisations and hence any successor scheme should at the very least apply to this group also.

Taxes and price signals

9 Do you agree that moving to a single tax would simplify the tax system for business?

Yes, moving to a single tax would simplify the tax system for business

Not Answered

Respond here:

We agree that there is sense in moving to a single tax. However, it is important to recognise that, for many businesses, energy costs are a relatively minor proportion of overall costs and hence a tax alone will not be particularly effective. Therefore, it is vital that any move to a single tax is accompanied by strengthened and mandatory reporting requirements, as discussed above, and incentives, discussed below.

Any single system should be designed so that the extent to which the tax is visible to business decision-makers is not reduced: CRC involves separate billing whereas the CCL is simply a separate item on an energy bill. Therefore, if the CCL is used as the model, careful consideration will need to be given to ensuring that the visibility afforded by separate billing is replaced with some other mechanism to promote decision-maker engagement.

10 How should a single tax be designed to improve its effectiveness in incentivising energy efficiency and carbon reduction?

Respond here:

The key point here is ensuring that the cost of the tax and the opportunities for reducing this (through lower energy bills and through any incentives offered) are made very clear to board level decision-makers.

Setting a trajectory for increasing the tax over time can also stimulate the desired investments, as illustrated by the landfill tax escalator.

11 Should all participants pay the same rates (before any incentives/reliefs are applied) or should the rates vary across different businesses? For example, do you think that smaller consumers and at risk Energy Intensive Industries (EII) should pay lower rates?

No, not all participants should pay the same rates

Respond here:

Any truly energy intensive business has a natural incentive to invest in energy efficiency and it is likely that a tax would be ineffective in providing any additional incentive; hence an exemption may be appropriate.

Smaller consumers are very likely to have highly cost-effective opportunities to invest in energy efficiency improvements, with short payback times. With appropriate support, they should be able to react to the tax and improve their energy productivity. Hence an exemption does not seem appropriate in this case. If this would result in a significant change in the tax burden for smaller consumers, then perhaps gradual harmonisation with the rates for larger consumers could be considered.

Any steps that are taken to protect smaller businesses and those at risk of carbon leakage should not leave those organisations without clear incentives to invest in cost-effective energy efficiency improvements.

12 Do we currently have the right balance between gas and electricity tax rates? What are the implications of rebalancing the tax rate ratio between electricity and gas? What is the right ratio between gas and electricity rates?

No

Respond here:

We support the principle that the total carbon tax applied to a fuel should reflect its carbon content. Assuming that the primary aim of the new tax is to reduce carbon emissions, then the CCL, or its successor, should be adjusted to take into account any other carbon related taxes that are applied to the fuel, in particular the EU ETS. However, if the aim of the new tax system is to encourage energy productivity improvements, consideration should be given to the potential for adjustments to encourage fuel switching rather than energy efficiency improvements, and this potential avoided wherever possible.

It is also possible that previous imbalances in the tax rates have encouraged investment in processes and equipment that use fuels that will now be more heavily taxed. If this is the case, and if there are companies that will therefore be significantly disadvantaged, it may be appropriate for the rates to be harmonised gradually to enable the affected organisations to react.

Protecting the competitiveness of Energy Intensive Industries

13 Do you believe that the CCA scheme (or any new scheme giving a discount on the CCL or on any new tax based on the model of the CCL) eligibility should only focus on industries needing protection from competitive disadvantage? If so, how should government determine which sectors are in need of protection?

Not Answered

Respond here:

No comment.

14 Do you believe that the CCA scheme (or new scheme) eligibility should focus only on providing protection to those EIs exposed to international competition and at risk of carbon leakage? If so, how should the government assess which CCA sectors are at risk of carbon leakage?

Yes

Respond here:

We believe that the risk of carbon leakage is reducing, as more countries commit to carbon emissions reductions. The extent to which this remains a problem will only become clear after COP21.

15 Do you believe that the targets set by the current CCA scheme are effective at incentivising energy efficiency?

Yes, the targets set by the current CCA scheme are effective at incentivising energy efficiency

Not Answered

Respond here:

This question is very difficult to answer, as the additionality of the existing mechanism has not been robustly evaluated. However, we would suggest that the most effective mechanism would be to link exemptions or rebates to the implementation of measures recommended by energy audits.

Incentivising energy efficiency and carbon reduction

16 Do you believe that incentives could help drive additional investment in energy efficiency and carbon reduction? Please explain your reasons.

Yes

Respond here:

Energy costs for many businesses are relatively low compared with other controllable costs and hence energy efficiency investment proposals may not be given high priority. In addition, the multiple benefits of energy efficiency investments (for example, improved productivity) are often difficult to quantify. Hence the response to a tax alone would be sub-optimal.

17 What is the best mechanism to deliver incentives for investment in energy efficiency and carbon reduction (e.g. tax reliefs, supplier obligations, grants, funding based on competitive bidding)? Are different approaches needed for different types of business? If so, which approaches work for which business types? What approaches should be avoided?

Respond here:

To maximise investor confidence and hence the effectiveness of the incentive to invest, the structure of the incentive needs to be systemic and not subject to fluctuation resulting from political decisions. Hence both supplier obligations and grant schemes are problematic.

Competitive bidding will only incentivise those with very large gains to make, because for all others the transaction costs will be too high. As such, competitive bidding could be given consideration to accelerate the development of the market for large energy performance contracts by companies who would specialise in delivering these and would not consider the bidding process a high transaction cost.

It is important that all types of investment in energy efficiency improvement are incentivised: systems and operational practices as well as individual technologies.

Tax relief therefore seems to be the best option for most. It is also the most likely to be brought to the attention of the Finance Director, particularly if details of the available reliefs are included in mandatory reporting. It could be linked to certification to ISO50001 standards, since this embeds a culture of continuous

improvement.

Impact of proposals on the public sector and third sector

18 What impact would moving to a single tax have on the public sector and charities?

Respond here:

In the absence of other actions, a simple move to a single tax based on the CCL model will reduce incentives for action in charities and the public sector. This is not a desirable outcome, since both sectors can and should demonstrate leadership in the efficient use of resources.

Hence, any such move increases the importance of reporting requirements and additional incentives for action.

19 How should the merged tax be designed to improve its effectiveness in driving energy and carbon savings from the public sector and charities?

Respond here:

The non-business actions of charities are still actions taken by organisations rather than households, and hence there is a rationale for including them within the same policy framework. We suggest that these activities should not be exempt from the merged tax.

See our answer to question 17 for the public sector.

20 Should a new reporting framework also require reporting by the public sector?

Yes

Respond here:

The public sector should be taking a lead in improving energy productivity. A reporting requirement will not only help to deliver this, but also enable the sector to demonstrate this leadership.

Assessment of impacts