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## Policy Note on the Draft Allocation regulations for the CRC Energy Efficiency Scheme

19<sup>th</sup> February 2010

The allocation regulations will [make provision for the sale of CRC allowances](#), and [as such it](#) must come into force by April 2011 as this is when the first sale will be held. Two types of allowances sale are provided for, an annual Government sale (main allocation) and monthly safety valve sales (additional allocations).

During the month long Government sale allowances will be available for £12/tCO<sub>2</sub>, and this is where the majority of participants will buy most, if not all, of their allowances. Once the Government sale is over, allowances will only be available from other participants on the secondary market or from the administrator through the safety valve. For each new CRC allowance issued through the safety valve the administrator will cancel an EU Emissions Trading System allowance (EUA), and so the price of safety valve allowances will be linked to the market price of EUAs.

In October 2009, Government published its response to the Consultation on the Draft Order to Implement the CRC Energy Efficiency Scheme (CRC), which also included policy areas covered by the Draft Allocation of Allowances for Payment Regulations. It has since worked to finalise these Regulations. As part of this process it was recognised that the minimum safety valve price was set at a level that might not deliver the policy intent stated in the Government Response to the consultation.

The majority of respondents to the consultation supported a minimum safety valve price of £12 and Government, at the time, agreed that this was an appropriate level to deter participants from choosing to use the safety valve as their primary source of allowances.

Government has since reviewed its position and concluded that the minimum price needs to be higher than £12 to counter the cash flow benefits that participants could realise by postponing buying all their allowances until the last possible moment, should the EUA price remain around the £12 level.

Using a discount rate of 12% Government has modelled the opportunity cost of buying allowances 15 months before they are to be surrendered compared to just one month before they are surrendered. It has been concluded that the minimum price must be at least £14 in order to help avoid the safety valve offering better value for money should the EUA price remain relatively low.

Raising the minimum safety valve price does not increase the overall costs of the scheme because Government anticipates there being very little use of the safety valve, and so the slightly higher price does not have a significant impact on the overall costs of the scheme to participants.



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Excessive use of the safety valve will disbenefit the participants as a whole as the funds used to purchase EUAs will not be available for recycling. These changes will ensure that the scheme will function in the best interests of the participants as well as achieving our policy objectives.

A comprehensive outline of the CRC scheme can be found in the revised User Guide which is available on the DECC website [www.decc.gov.uk/crc](http://www.decc.gov.uk/crc). Detailed guidance for Participants is also being produced and can be found on the Environment Agency website [www.environment-agency/crc](http://www.environment-agency/crc).