

CARBON REDUCTION COMMITMENT – UPDATE REPORT

1.0 EXECUTIVE SUMMARY

1.1 This report updates Members on changes to the Carbon Reduction Commitment (CRC) made by the Government, since the previous report to this Committee on the 15 January 2008. The main changes include the inclusion of all State Schools, a change to the reporting period from the calendar year to the financial year, the rescheduling of a number of dates and a significant increase (of 50%) in the fixed cost of allowances in the first three years to £12\tonne. The report also suggests a way forward for the Council as current calculations now put the likely first year outlay to the Council at £510,000 in April 2011. At least 90% of the outlay will be recycled to the Council in October 2011 dependant on our position in the CRC league table.

2.0 BACKGROUND

2.1 The Government have recently introduced the CRC Programme, a new statutory climate change and energy saving scheme.

2.2 The CRC is due to begin in April 2010 but important actions are required in advance of the start date, refer to Appendix A – CRC Timeline. The CRC is a carbon trading scheme covering large business and public sector organisations with an annual half-hourly metered electricity consumption above 6000 Mega Watt hours. Organisations above this threshold must include emissions from all energy consumed from non-transport use i.e. Electricity (including Street Lighting), Gas and Heating Oil from buildings.

2.3 Schools are now included in the scheme and their emissions will be included under the Local Authority's "carbon footprint". The Local Authority will be the organisation legally required to calculate emissions, purchase allowances, monitor and report annual consumption and keep an evidence pack for audit purposes.

2.4 CO₂ allowances have to be purchased according to the organisation's emissions and initially the price will be set by the Government at £12\tonne for the first 3 years.

2.5 All revenues the Government collects nationally will be recycled using a league table to determine the value of return. A bonus\penalty will be applied to the base element according to our league table position (+\ - 10% in year 1, +\ - 20% in year 2 and so on to +\ -50%).

2.6 Wirral Council has been invited to, and taken part in the Defra CRC workshops and consultation process over the last two years.

3.0 IMPORTANT POLICY AMENDMENTS ANNOUNCED

- 3.1 Significant amendments to the forthcoming CRC were put forward by the newly formed Department of Energy and Climate Change (DECC) in December 2008. The DECC, which is now responsible for all UK energy supply policy and climate change, has proposed two major changes to the CRC.
- 3.2 The third consultation on the CRC, which had initially been planned for Autumn 2008, is now set to take place in February 2009. This consultation will focus on establishing 'comprehensive and accurate' regulations for the legally binding scheme, which will affect approximately 5,000 public and private sector organisations across the UK. In light of the re-scheduled regulations consultation, two further dates in the scheme have also been revised, please refer to Appendix A – CRC Timeline.
- 3.3 The registration period, which had been due to commence early in 2009, will now run concurrently with the first six months of the scheme, from 1st April 2010 to 30th September 2010. Registration packs will now be issued to all organisations affected by the CRC in July 2009. As such, the first year of the scheme (1st April 2010 – 31st March 2011) will be considered a preliminary period, or 'Footprint Year'. Throughout this period, organisations will need to monitor consumption information from all energy sources. Collected data will then be used to prepare a comprehensive 'Footprint Report', which will need to be submitted by July 2011.
- 3.4 At present, qualification criteria for the Carbon Reduction Commitment scheme remains unchanged: The CRC will apply to all organisations using half hourly meters, whose total electricity consumption is greater than 6,000 MWh between 1st January and 31st December 2008. As a general rule, the CRC will only affect organisations (including any parent company or subsidiaries) which consume in excess of £500,000 worth of electricity a year in the UK via half-hourly meters.

4.0 OUTLINE DETAILS

4.1 Emissions Trading Principles

- One CO₂ allowance corresponds to one tonne CO₂ emitted.
- Emissions are reported annually and participants buy and surrender allowances equal to their emissions.
- Allowances are issued and surrendered through the regulator.

4.2 Features of the Scheme

- It starts in April 2010 and it is estimated that there will be approximately 5000 participants. It is anticipated that the CRC will effect the majority of Local Authorities in England and Wales.
- Participants must buy all the allowances they require.
- All revenues government gets from selling allowances will be recycled according to a league table.
- Allowances will be fixed at £12\tonne CO₂ for the first 3 years.

- From 2013 prices will be determined by demand and allowances will be traded on the open market similar to stocks and shares.

4.3 Who is Covered

- Organisations will be responsible not individual sites.
- State schools will be included as the responsibility of the Local Authority.
- Organisations with half hourly electricity consumption > 6,000 MWh per year.
- All consumption for non transport will be included i.e. electricity, gas and heating oil.

4.4 Annual Reporting

- Reporting will now be based on financial years; the first will be April 2010 to March 2011, the footprint year.
- Each year all energy consumption must be reported by July after the year end.
- Submissions and evidence packs may be audited.

4.5 Allowance Trading

- Allowances will not be sold in the first year; participants will buy allowances in April 2011 to cover 2010- 2011 years' emissions.
- The price of allowances will be fixed at £12\tonne CO₂ for the first three years (increased from the £8\tonne of CO₂ which was initially proposed in 2007).
- In year four, 2013, allowances will be traded on the open market.
- The government will recycle all revenue back to participants according to a league table. There will be three weighted factors that will affect the ranking of participants:
- Percentage emissions reduction (60%)
- Percentage reduction in emissions versus revenue, which takes into account business growth (20%)
- Early action prior to April 2011 (20%)
- A bonus\penalty will be applied to the base element according to league table position (+\ - 10% in year 1, +\ - 20% in year 2 and so on to +\ -50%).
- Performance will be assessed against a 5 year rolling average.
- For ease of calculation the first years performance league table will only be based on "early action" metrics (refer to section 5.7).

4.6 League Table

The carbon reduction commitment league tables will rank participants in the scheme in terms of performance on the following:

- Absolute Emissions - percentage reduction in carbon emissions compared to the previous year.

- Growth - percentage reduction in other carbon emissions per unit of turnover
- Early Action Metric – early action initiatives made by the organisation to reduce their carbon emissions prior to April 2013, including being assessed for coverage of the carbon trust standard and automatic meter readings. The first league table will be based solely on the early action metric.

5.0 THE WAY FORWARD FOR WIRRAL COUNCIL

5.1 Wirral Council is well above the qualifying threshold of consumption. Therefore it is essential that the financial implications of this scheme are taken into account in the future financial planning for the Council.

5.2 To do well in the CRC, participants will need to:

- Implement automatic meter reading systems before March 2011.
- Sign up to the Carbon Trust Standard.
- Establish comprehensive monitoring and targeting mechanisms.
- Collect and record procedures.
- Assign responsibilities and ownership for energy reduction tasks.
- Carry out regular reviews of data collection.
- Reduce emissions within the scheme.
- Proactively develop a strategy to identify and implement future energy savings.

5.3 The Carbon Reduction Commitment programme includes the performance of schools. The quantity of emissions from schools accounts for approximately 40% of this Council's total emissions. At current emission levels it is estimated that the average outlay to a Primary School will be £1,000 per year and £5,800 for a Secondary School. Based on these figures, the maximum actual cost to a Primary School would be £100 and £580 for a Secondary School. The remaining outlay, £900 and £5220 respectively, would be recycled back to the school. Therefore improving energy efficiency in schools is paramount to the success of the scheme in Wirral. This can be achieved in part through the Schools Energy Support Service provided by the Energy Section but it will also require capital investment by Schools, this not only has a direct beneficial effect on their running costs and carbon emissions it also affects the Council's overall position within the CRC league table together with any resulting bonuses or penalties incurred.

5.4 Continue to implement the Council's Carbon Reduction Plan which was appended to 'Reducing The Council's Carbon Footprint' – Progress Report presented to the Environment Overview & Scrutiny Committee – 24 September 2008. As well as reduced CRC payments, one of the direct benefits from improving our CRC performance is lower energy bills now.

5.5 Over the last two years the Council has invested in a number energy efficiency initiatives. The Energy Section has, amongst other things, implemented the BEMS system, the installation of Burner Management

Units, Heat Recovery Systems in Leisure Centres, kick started the Boiler Replacement Programme and most recently successfully introduced Energy Awareness Raising Officers to the Council. These, together with other projects within the Investment in Energy Efficiency Programme, will ensure that we gain an early financial advantage through continued emission reductions.

- 5.6 Had the Council not taken these pro-active steps, to date, based on our 2003-04 CO₂ emission figures, we could have expected to incur an additional CRC outlay of £142,000. Although investing in early actions now, with their current and future benefits, will make it more difficult to provide significant continual year on year improvements throughout the life of the CRC.
- 5.7 To gain a further financial advantage, the early action league table weighting mentioned previously will be implemented. The approved actions are the installation of Automatic Meter Reading Systems (included within the IEEP, phase 3) and gaining accreditation to The Carbon Trusts - Carbon Management Standard (as detailed in the Councils Energy and Water Conservation Policy).
- 5.8 The implementation of the Council's Strategic Asset Review will further assist in reducing Wirral's CRC burden by removing aging and energy inefficient buildings.
- 5.9 It is vital to the effectiveness of the CRC scheme that the value of bonus or penalties should be apportioned across all of the authorities buildings including Schools to encourage all sites to actively participate.
- 5.10 The mechanism for this should be to use the energy consumption data recorded on the Energy Conservation Sections energy management database to allow the Department of Finance to apportion the value of these allowances to individual cost codes. The same method should be used to apply any bonus or penalties.

6.0 EQUAL OPPORTUNITIES

- 6.1 There are no Equal Opportunities implications arising from this report.

7.0 BACKGROUND PAPERS

- 7.1 Background papers used in the preparation of this report include the Environment Overview and Scrutiny Committee Report : 15 January 2008 – "Report On The Introduction Of The Government's Carbon Reduction Commitment".

8.0 LOCAL MEMBER SUPPORT IMPLICATIONS

- 8.1 There are no local Member implications arising from this report

9.0 HUMAN RIGHTS IMPLICATIONS

- 9.1 There are no local Human Rights implications arising from this report.

10.0 ENVIRONMENTAL IMPACT STATEMENT/LOCAL AGENDA 21 IMPLICATIONS

- 10.1 Emissions saving from the purchase of certified green electricity as currently bought by the Council are not taken into consideration by the CRC, because of the significant financial implication of taking part in the CRC programme, serious financial considerations will have to be given to the future purchase of green electricity from 2010 onwards.
- 10.2 Technically, we are unable to claim the CO₂ savings gained from the purchase of green electricity as the Electricity Generators are obliged to make and claim the saving as part of their licensing agreement. However, if the Council did not purchase the green electricity, we would be responsible for indirectly producing significant quantities of CO₂.
- 10.3 It is the aim of the CRC to encourage organisations to reduce emissions through the efficient use of energy. It is therefore expected that the Council will continue to make reductions in CO₂ emissions although not on the same scale as those made by the purchase of green electricity.

11.0 PLANNING IMPLICATIONS

- 11.1 There are no planning implications in this report.

12.0 ANTI-POVERTY IMPLICATIONS

- 12.1 There are no anti-poverty implications in this report.

13.0 SOCIAL INCLUSION IMPLICATIONS

- 13.1 There are no social inclusion implications in this report.

14.0 COMMUNITY SAFETY IMPLICATIONS

- 14.1 There are no crime and disorder strategy implications in this report.

15.0 FINANCIAL AND STAFFING IMPLICATIONS

- 15.1 At present there are no direct staffing implications arising from this report.
- 15.2 Based on our CO₂ emissions in 2007 it is estimated that Wirral Council would have to purchase £510,000 of allowances for the first year of operation. This outlay includes Schools and Street Lighting. Although for a period of six months we would be required to outlay double that amount for the proposed "Double Sale" in April 2011, which will cover the 2010-11 emissions and the forecast 2011-12 emissions an outlay of £1.2 million with the 2010-11 recycling payment being made in October 2011.
- 15.3 Based on the above example the maximum the Council would pay in CRC costs in the first year would be £51,000. On a £510,000 outlay and based on the penalty or bonus scheme we could receive a minimum of £459,000 in recycled payments although this payment could also be as high as £561,000 dependent on our position in the CRC league table.

15.4 The aim of the bonus and penalty scheme is to act as an incentive for organisations to reduce their emissions. Therefore, if organisations perform well, the money they get back should exceed the cost of buying allowances. The bonus\penalty system will be applied to the base element according to the league table position (+\ 10% in year 1, +\ 20% in year 2 and so on to +\50%). Performance will be assessed against a 5 year rolling average. For ease of calculation the first year's performance league table will only be based on "early action" metrics (refer to section 5.6).

16.0 RECOMMENDATIONS

That

- (1) as a financial incentive the value of any bonus or penalty incurred collectively should be apportioned across all sites to encourage each site to actively participate.
- (2) to ensure that these costs are not absorbed into utility budgets, and due to its complexity, the CRC scheme be identified as a separate expenditure item.
- (3) the details and financial implications of the CRC scheme be included in the future financial planning for the Council.
- (4) the proposals detailed in sections 5.3, 5.4, 5.7, 5.9 and 5.10 be implemented; and
- (5) further reports be presented to Cabinet and the Environment Overview and Scrutiny Committee as more detailed information on the question of the CRC scheme becomes available.

**DAVID GREEN, DIRECTOR
TECHNICAL SERVICES**

This report was compiled by **Tony Dodd**, Energy Manager, who can be contacted on 606 2354

Appendix A – CRC Timeline for the Introductory Phase

CRC Timeline – Introductory Phase



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Environment
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Department of Energy
and Climate Change



The Scottish
Government

