

PERTH AND KINROSS COUNCIL

Special Property Sub-Committee – 14 August 2012

ENERGY MANAGEMENT AND CONSERVATION – CARBON REDUCTION COMMITMENT ENERGY EFFICIENCY SCHEME UPDATE

Report by the Depute Director (Environment)

Update on changes to the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) and measures to comply with scheme including details of Primary and Secondary Contacts responsible for Perth and Kinross Council's participation in the scheme.

1. RECOMMENDATIONS

1.1 Committee is asked to:

- i) Note implications of changes to the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) for Perth and Kinross Council.
- ii) Approve nomination of Senior Officer, Primary and Secondary Contacts responsible for Perth and Kinross Council's participation in CRCEES.
- iii) Agree to the Property Sub-Committee acting as guardian of the CRCEES.

2. BACKGROUND

- 2.1 The CRCEES is a mandatory UK wide emissions trading scheme brought into law via the CRC Energy Efficiency Scheme Order 2010 (SI 2010/768) (the "CRC Order"). The original scheme is described in 18 August 2010 Property Sub-Committee report 10/411 Energy Management and Conservation – Carbon Reduction Commitment Energy Efficiency Scheme. A briefing note on CRCEES is attached as Appendix 1.
- 2.2 In the October 2010 Spending Review the UK Government announced changes to the CRCEES: "The CRC Energy Efficiency Scheme will be simplified to reduce the burden on businesses, with the first allowances sales for 2011-12 emissions now taking place in 2012 rather than 2011. Revenues from allowance sales totalling £1 billion by 2014-15 will be used to support the public finances, including spending on the environment, rather than recycled to participants. Further decisions on allowance sales are a matter for the budget process."
- 2.3 In January 2012 the UK Government published an updated version of the draft CRC Energy Efficiency Scheme (Allocation of Allowances for Payment) Regulations 2012. The Allocation Regulations, laid by HM Treasury under the Finance Act 2008, make provision for the sale of allowances in the first phase of the scheme (1st April 2010 to 31st March 2014). The Environment Agency confirmed the main allocation of allowances will be in July/August of each

year. Confirmation was made of the allowance price of £12 per tonne of carbon dioxide for 2011/12 emissions (as announced in UK Government's Budget 2011) only, with future prices a matter for the UK Government's Budget process.

- 2.4 Changes to CRCEES are for Phase 1 of the scheme with Phase 2 (beginning 1st April 2014) operation still to be confirmed. Phase 2 is currently subject to a consultation process with updated guidance to be published in September 2012.

3. PROPOSALS

- 3.1 The Environment Service, Property Division to continue to have responsibility for the administration of the CRCEES for Perth and Kinross Council.
- 3.2 During the registration procedure for CRCEES named personnel were nominated as Perth and Kinross Council's contacts:
Senior Officer Contact – Jim Valentine, Executive Director (Environment)
Primary Contact – Gordon Dick, PM Officer - Property
Secondary Contact – Steve Frew, PM Assistant - Property
Invoice Contact – Gillian Strachan, CRC Assistant - Property
- 3.3 The Property Sub-Committee act as guardian of the CRCEES.
- 3.4 Due to complex and ever changing procedures for participation in the CRCEES a dedicated software application (Carbon Counter) is utilised. This application reduces the risk of non-compliance which could result in civil and financial penalties. A single database is thus established that conforms exactly to the requirements of CRCEES, both for reporting and for use as evidence of compliance. CRCEES procedure for purchasing and surrendering of allowances is attached as Appendix 2.

4. CONSULTATION

- 4.1 Head of Legal Services, the Head of Technical Services and Head of Finance have been consulted in the preparation of this report.

5. RESOURCE IMPLICATION

5.1 Revenue

- 5.1.1 The overall cost of this scheme is £270,000. An allowance of £250,000 is included in the Property Division budget with a further £20,000 included within other Service budgets.
- 5.1.2 There will no longer be any recycling payment to offset costs. Future costs will only be available when allowance price is determined by the UK Government's Budget process (only 2011/12 at £12 per tonne confirmed).

- 5.1.3 The software licence for Carbon Counter has an annual cost of £1,000 which is included in Property Division budget.

5.2 Capital

- 5.2.1 There are no Capital resource implications arising directly from the recommendations in this report.

6. **COUNCIL CORPORATE PLAN OBJECTIVES 2009-2012**

- 6.1 The Council's Corporate Plan 2009-2012 lays out five Objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. This report impacts on the following:

A Prosperous, Sustainable and Inclusive Economy

7. **EQUALITIES IMPACT ASSESSMENT (EqIA)**

- 7.1 An equality impact assessment needs to be carried out for functions, policies, procedures or strategies in relation to race, gender and disability and other relevant protected characteristics. This supports the Council's legal requirement to comply with the duty to assess and consult on relevant new and existing policies.
- 7.2 The function, policy, procedure or strategy presented in this report was considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:

i) Assessed as **not relevant** for the purposes of EqIA

8. **STRATEGIC ENVIRONMENTAL ASSESSMENT**

- 8.1 Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all qualifying plans, programmes and strategies, including policies (PPS).
- 8.2. The matters presented in the report were considered under the Environmental Assessment (Scotland) Act 2005 and no further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

9. **CONCLUSION**

- 9.1 The CRCEES presents a major challenge to Perth and Kinross Council. The approach of this report is to advise committee of the ongoing changes to the scheme and the consequences to the Council.
- 9.2 Future reports to be presented to the Property Sub-Committee.

BARBARA RENTON
DEPUTE DIRECTOR (ENVIRONMENT)

NOTE

No background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

The following background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (and not containing confidential or exempt information) were relied on to a material extent in preparing the above Report; (list papers concerned)

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Date of Report	2 August 2012

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Council Text Phone Number 01738 442573

Appendix 1

BRIEFING NOTE ON THE CARBON REDUCTION COMMITMENT

The Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) is a mandatory emission trading scheme that aims to improve energy efficiency and reduce the amount of carbon dioxide (CO₂) emitted in the UK. This is vital to achieving the UK Government's overall targets of reducing greenhouse gas emissions by 2050 by at least 80% compared to the 1990 baseline.

The CRCEES requires participating organisations (those organisations having electrical consumption in excess of 6,000MWh established through half hourly metering in 2008) to purchase carbon allowances to cover their carbon emissions generated from energy use. The UK Government has launched the scheme with a three year introductory phase (2010/11 – 2013/14) during which there would be a simple fixed-price sale of allowances (one allowance is equal to one tonne of Carbon Emission). This is intended to allow participants to become accustomed to the scheme and to allow the UK Government to collect accurate data for setting a cap on allowances in subsequent phases.

The Government's Spending Review Report, published on 20th October 2010, announced that the CRC Energy Efficiency Scheme ("CRC") will be simplified so that revenues raised from allowances sales will be retained by the Treasury rather than being re-cycled back to CRC participants.

In the first year, 2010 – 2011, a footprint and annual report was submitted to the Environment Agency to identify a baseline. For 2011 and 2012, the Council is required to purchase carbon allowances, relative to its emissions, at a preset rate of £12/tonne. It is estimated that this will cost approximately £250,000. In phase 2, the rate for purchasing allowances will become variable, influenced by a number of factors, eg, government policy, carbon markets and futures trading.

The legislation has introduced a Performance League table to allow participating organisations to be rated on their performance against other participants creating a competitive aspect to this process.

As Perth & Kinross Council is a qualifying organisation, processes have been put in place to implement the scheme, adhering to strict security and internal governance. The Energy Unit within Property was tasked with this process with Jim Valentine, Executive Director (Environment), acting as the Senior Officer. The legislation is under the jurisdiction of the Environment Agency (EA) with the Scottish Environment Protection Agency (SEPA) appointed to oversee Scotland. SEPA have invested powers to instigate financial and civil penalties for non-compliance of the legislation.

The guidance for Phase 2, which commences from 2014/15 will be published in September 2012.

Appendix 2

Procedure for Purchase of Carbon Credits

This procedure provides details for the purchase and surrender of Carbon Allowances on behalf of Perth & Kinross Council for the financial year 2011/12. Subject to the recommendations from a consultation being undertaken at present, for future years this procedure may require amendments to conform to revised legislation.

Item	Activity	Responsibility
1	After collecting and verifying data from Suppliers and the organisation's Monitoring & Targeting data-base, the information is inputted into Carbon Counter, a bespoke Carbon Reduction Commitment (CRC) software package. This will produce an Annual CRC Report which indicates the quantity of CRC allowances to be purchased. This activity must be completed by the 15 th July 2012	Energy Unit
2	Based on the Annual CRC report, the Account Representative has to request the allocation of allowances to cover the organisation's responsibility through the Environment Agency (EA) web portal. Initially the AR orders allowances under the 'Comply to Buy Allowances'.	Account Representative (AR)
3	Once the AR has confirmed that the administrative rules have been read and understood, the total quantity of allowances can be ordered for that financial year. A new web page summarises the value and amount of allowances for that time period. By confirming these details, the AR has committed to purchase the allowances and the transaction cannot be retracted. A unique reference code is allocated to this transaction which must be quoted on any documentation regarding the payment of the allowances. Once the fixed price allowance order is complete, an order reference will be emailed to the Senior Officer and the AR for their records.	Account Representative (AR)

4	In response to purchasing allowances, a Memorandum of Account (MoA) will be issued to the organisation for payment. This MoA will include all information required to proceed with the payment.	Environment Agency
5	The MoA will be passed to TES Finance Team (Property) to be processed for payment via Integra. The MoA will be authorised for payment by an appropriate TES Authorised Signatory and payment processed electronically by BACs. The unique Allowance Payment Reference Code as detailed on the MoA has to be quoted on the electronic transfer. For the financial year 2011/12, allowances cannot be allocated unless the EA has received payment of cleared funds by 31 July 2012. Failure to comply may incur civil and financial penalties.	Senior Officer
6	Once the organisation has received confirmation of their allowance allocation, the organisation has until 28 September 2012 to surrender sufficient number of allowances covering the organisation's emissions. To surrender the allowances, the AR has to select the "Surrender Allowances" option on the EA web-portal and select the commitment year. A new window confirms the number of allowances you need to surrender by the deadline to ensure compliance and also the number of allowances that have been purchased according to the EA records. The AR then inserts the quantity of allowances that has to be surrendered and confirms this figure. Once the AR has surrendered the allowances, the organisation will be provided with an allowance surrender reference for their records and an email will be sent to the Senior Officer and AR confirming the number of allowances surrendered.	Account Representative
7	Any excess allowances may be carried over to the next year only in Phase 1.	Account Representative