

REPORT TO: POLICY AND RESOURCES COMMITTEE ON 5 AUG 2008

SUBJECT: CARBON REDUCTION COMMITMENT

BY: HEAD OF ESTATES SERVICES

1. REASON FOR REPORT

- 1.1 This report has been submitted to inform the Policy and Resources Committee on the possible implications of the Carbon Reduction Commitment and how it could affect the Council.
- 1.2 This report is submitted to Committee in terms of Section A (42) of the Council's Administrative Scheme relating to ensuring that the organisation, administrative and management processes of the Council are designed to make the most effective contribution to achieving the Council's objectives.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee note the position of the Council with regard to the Carbon Reduction Commitment and the possible future implications of exceeding the threshold.**

3. BACKGROUND

- 3.1 The Department for Environment, Food and Rural Affairs has issued guidance on the possible requirements, threshold level and implications of the Carbon Reduction Commitment. These requirements, threshold level and implications are not yet fully determined and this report details the requirements, etc as they currently stand. The Carbon Reduction Commitment, (formerly known as the Energy Performance Commitment) was announced in the Energy White Paper 2007. It aims to cut carbon emissions from large commercial and public sector organisations and will begin in January 2010 as part of the Climate Change Bill. It is designed to drive energy efficiency and deliver carbon savings through introducing a system of Carbon trading which would penalise organisations for exceeding baseline carbon emissions and reward those who do not use their full allocation of energy.
- 3.2 The threshold for inclusion in the Carbon trading arrangement is currently 6,000 Mega Watt hours (MWh). If the Council meets or exceeds the consumption threshold of 6,000 MWh, it will be responsible for reporting on the total energy use emissions, except transport (i.e. all electricity, gas, other fuels). Therefore there is an incentive to have an energy consumption which is below the 6,000 MWh threshold. The Government propose that the 6,000 MWh be measured using electricity consumption during 2008 for only buildings where half-hourly electricity meters are required.
- 3.3 If the Council exceeds 6,000 MWh it will be required to participate in the Carbon Reduction Commitment scheme and its total carbon emissions,

excluding transport, will be measured on entry to the scheme, this will provide a baseline measurement of energy and carbon use.

Implications

- 3.4 If the Council exceeds the 6,000 MWh consumption threshold by the end of 2008, it will have to buy enough permits to cover its anticipated annual CO₂ emissions. The initial cost of these permits will be £12 per tonne of CO₂. During the course of the year, it will have to report emissions and surrender sufficient permits to cover these emissions via an online registry. Surrendering these permits will be a legal requirement. At the end of the initial three-year trial period the cost of the baseline permits will be refunded to the Council if it emits no more than its baseline level. If the Council exceeds its emissions allocation, it will be required to buy at £12 per tonne of CO₂ more permits from another organisation that used less than anticipated.
- 3.5 After the three-year introductory period, controls on the cost of permits will be removed and market forces will take over. Over time the baseline allocation will be reduced, increasing the cost of carbon emissions and providing a financial incentive for organisations to reduce their emissions.
- 3.6 To provide a perspective, a baseline measurement for the year 2007 has been calculated for the half hourly consumption within the Council. The half-hourly measured consumption level for 2007 is 5,923 MWh. It is expected that the current energy reduction projects already in place will reduce this consumption level. There is a risk that energy usage in 2008 may exceed 6,000 MWh and that the Council may be required to participate in the Carbon Reduction Commitment scheme.

Conclusion

- 3.7 The Council is very close to the 6,000 MWh threshold where it would be compelled to participate in the Carbon Reduction Commitment, and there is a risk that it could exceed the threshold due to factors such as adverse weather conditions or indeed unmanaged use of energy in general. Other factors such as extending opening hours in buildings with major electricity usage could also push the Council over the threshold.
- 3.7 The financial consequences to the Council in exceeding its current consumption level by even 2-3% will be the purchase of carbon permits for its total energy consumption for the year. For example, the total energy consumption for 2006/7 amounted to 42,645 MWh with a CO₂ output of 11,624 tonnes. Based on the initial cost of £12 per tonne this would amount to £139, 488 per annum for the first 3 years to purchase the permits.

This total of £418,464 will be refunded to the Council if it does not exceed its baseline consumption over the 3 year period. There is a risk that if it exceeds the baseline during any of the 3 years then the total of £418,464 will be forfeited.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Development Plan/Community Plan/Service Improvement Plan

This report is consistent with the Service Improvement Plan in that it will provide an impetus to ensure that energy and carbon reduction is made an integral part of the core activities with the Council.

(b) Policy and Legal

This report is consistent with a number of Scottish Government initiatives including Scotland's Climate Change Programme, Local Authority Carbon Management Programme and the Local Government Act 2003.

(c) Resources (Financial, Risks, Staffing and Property)

There will be financial implications should the Council exceed the 6,000 MWh threshold. The purchase of carbon permits alone would cost in the region of £418,464 to cover the first three-year period.

There will also be staffing implications for administering the scheme and in organising the purchase and selling of these permits via an UK wide auction site.

Defra estimates that the managed commitment to be 57 person-days per year to undertake the primary activities of the scheme. A total of £55,736 is estimated to be the financial costs that will be incurred from the auction activities and the external verification of the data by an auditing organisation.

(d) Consultations

This report has been considered by The Chief Financial Officer, The Carbon Management Programme Operational Sponsor and Project Leaders and Aileen Scott, Principal Solicitor (Commercial and Conveyancing) and any comments incorporated.

5. CONCLUSION

- 5.1 Although the Council has not exceeded the threshold in 2007, it is possible that it could occur during 2008. Based on current guidance from the Department for Environment, Food and Rural Affairs this could**

impose a significant financial and administrative burden on the Council. The Council should continue to manage and reduce energy consumption to avoid breaching the Carbon Reduction Commitment threshold.

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Background Papers:

Ref: WA/JB/GEN/116(j)/Carbon Reduction Commitment Aug 08