

ENVIRONMENT CAPITAL SCRUTINY COMMITTEE	Agenda Item No. 7
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Report of the Executive Director of Operations

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REGISTRATION AS A PARTICIPANT IN THE CARBON REDUCTION COMMITMENT (CRC) ENERGY EFFICIENCY SCHEME

1. PURPOSE

- 1.1 The purpose of this report is to present details of the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, specifically the City Council's responsibility to register as a full participant in the scheme. The Committee are asked to consider and if deemed appropriate refer to the Cabinet Member for Environment Capital for decision.

2. RECOMMENDATIONS

- 2.1 That the Committee recommends to the Cabinet Member for Environment Capital that the Council should complete the registration process for the CRC in line with the organisations legal requirements under the Climate Change Act 2008 and CRC Energy Efficiency Scheme Order 2010.

3. LINKS TO THE SUSTAINABLE COMMUNITY STRATEGY AND LOCAL AREA AGREEMENT

- 3.1 This area of work relates directly to the Sustainable Communities Strategy, specifically the priority to create the UK's Environment Capital and deliver substantial and truly sustainable growth. PCC have a legal requirement to take part in the CRC scheme, this is in addition to the requirements within the National Indicator set, namely NI 185 – CO₂ reduction from Local Authority Operations. NI 185 is not included within the LAA because it was felt that the indicator was too specific to a single organisation and therefore not ideal for a partnership document. NI 186, per capita reduction in CO₂ emissions, is included.

4. BACKGROUND

4.1 Background to the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

The government's Carbon Reduction Commitment (CRC) Energy Efficiency Scheme is an obligatory emissions trading scheme covering non-energy intensive users in both public and private sectors. It is a central part of the UK's strategy to achieve the carbon emission reduction targets set in the Climate Change Act 2008. Organisations who consumed energy over a set threshold in 2008 are required to participate in the scheme and purchase allowance to cover their emissions.

The scheme consists of overlapping phases, each starting with a qualification year, a 'Footprint year' and Footprint report, and then Annual Reports, sales and surrender of allowances and revenue recycling.

Registration for the first phase of the scheme started in April and must be completed by the end of September 2010. The City Council is required to register for full participation in the scheme because it meets the qualification criteria.

4.2 Scope

The scheme covers all carbon dioxide emissions generated by an organisation's consumption of energy, namely electricity, gas and oil. Sources of emissions included within the scheme are administrative offices, schools, leisure centres, and day care homes, whilst transport related emissions, domestic emissions and emissions related to certain types of street lights (a recent amendment to a consultation) are excluded.

The organisation is defined as its individual listing, or listing of organisational type in the Freedom of Information Act. The extent of the organisation includes any mandatory grouping such as schools and legal entities such as fire authorities if the local authority is designated as a County Fire Authority. However if the local authority is a majority member in a company, i.e. holds majority voting right and is a member of or appoints members of the board of directors, then this company would have to participate in the scheme in its own right.

The CRC also requires that emissions from tenants are included where the landlord (PCC) is counterparty to the energy supply contract. This will include certain PFI and joint ventures where the City Council is counterparty to the energy contract or is the majority owner.

4.3 Reporting requirements and timescales

	Requirement	Deadline
Registration	<p>Steps required to register for the CRC scheme include:</p> <ul style="list-style-type: none"> Nominate the different contacts (see step 4) Obtain necessary security: digital certificates, certifications etc. Submit data for electricity consumed in 2008 through Half Hourly meters Submit our current organisational structure or 'universe' Pay registration charge and annual subsistence charge 	<p>Registration portal opens April 2010, and registration must be completed by September 2010.</p> <p>The City Council is recommended to complete registration by end of July 2010 as there are numerous required steps (see left) as well as checks by the scheme administrator (the Environment Agency) that could take a month.</p> <p>Outcome: once registration is complete and confirmed by the scheme administrator, a compliance account is created for participation in the trading scheme.</p>
Footprint report	<p>100% of emission data from the City Council's 'universe' for April 2010 to March 2011.</p> <p>This footprint report defines the totality of the City Council's emissions for the first introductory phase of the scheme.</p>	Submit in April 2011
Annual reports	As for the footprint year, except 10% of total footprint emission can be excluded, where they aren't from core sources, to reduce reporting burden.	Submit report for first annual reporting year (2010/11) in July 2011, and every subsequent year thereafter.

An evidence pack is required to be maintained throughout to support submissions, and for audit

purposes.

4.4 **Costs, Recycling Payments, the Early Action Metric and the League Table**

The costs of the scheme include:

- Registration fee: £950
- Annual subsistence charges: £1,290
- Allowances:

Phase 1: allowances are purchased from government at £12 per tonne of carbon dioxide emitted. This will cost the City Council around £300k p.a.

In subsequent phases of the scheme, allowances will be traded on a secondary market between participants, so the price will be subject to market variability.

The scheme is designed to be revenue neutral, with the money from the sale of allowance recycled back to participants. The proportion of participants initial spend that they will recover depends upon their proportion of the total CRC emissions of all participants. This recycling payment is then adjusted according to the participants position in the performance league table. Ranking in the league table depends on participants relative performance, based upon three metrics:

1. The Absolute Metric: percentage change in emissions compared to previous years.
2. The Growth Metric: designed to take into account organisational growth but reduction in emissions intensity. Calculated as percentage change in emissions per unit of revenue expenditure.
3. The Early Action Metric: the percentage of emissions covered by either Automated Meter Readers and/or the Carbon Trust Standard (a certification for carbon management and not to be confused with the Carbon Trust Programme that the City Council is currently undertaking), by the start of the first annual reporting year (April 2011). This metric is designed to reward early movers in carbon management, before the CRC starts.

The relative weighting of these metrics varies throughout the phases. The league table is published in the same year as the purchase of allowances, but is based upon emissions reports from the previous year. The position in the league table determines a further bonus or penalty rate, which is added to the recycling payment. The participant at the top of the league table will receive a 10% bonus and the participant at the bottom a 10% penalty with the rest graded in-between. The bonus/penalty rate will increase year on year to 50% by year five (2015).

The league table will also be published, adding a reputational risk to poor performance.

4.5 **Audit and penalties**

The scheme administrator will audit 20% of participants each year. This will centre on the evidence pack which backs up the emissions reports and provides justification for the organisation scope or 'universe'. Following the outcome of the NI 185 audit, it is likely PCC could be audited on the first compliance report, to check on our data quality. The CRC scheme carries substantial civil penalties for non-compliance with the scheme:

Reason	Financial penalty	Other
Failure to register	£5000 plus £500 per working day	Publication of non-compliance
Failure to submit footprint report	£5000 plus £0.05 per day per tonne of carbon dioxide emitted	Publication of non-compliance

Failure to submit annual report	£5000 plus £0.05 per day per tonne of carbon dioxide emitted	Publication of non-compliance Administrator will block transfer of allowances out of participants account Bottom ranking in Performance League Table
Incorrect reporting	Fine for £40 per tonne of carbon dioxide incorrectly reported where the margin of error is greater than 5%	Publication of non-compliance
Failure to surrender allowances (Performance Commitment)	Fine for £40 per allowance that should have been obtained and cancelled	Must obtain and surrender outstanding balance of allowances ASAP Publication of non-compliance Administrator will block transfer of allowances out of participants account
Failure to keep adequate records	Fine of £5 per tonne or carbon dioxide of total emissions reported in most recent annual report	Publication of non-compliance

In addition, there are criminal penalties, including imprisonment for up to 3 years and fines up to £50,000, for falsification of data or non-compliance with enforcements as detailed above.

5. KEY ISSUES

5.1 The following key issues should be considered by the Committee:

1. The City Council has a legal duty to participate in the scheme.
2. The scheme has significant potential financial and reputational risks for the City Council.

6. IMPLICATIONS

6.1 The implications for PCC not registering for the scheme include legal fees in excess of £5,000 for late registration and an addition £500 per day that the registration is delayed by. Alongside this there are significant reputational issues at risk.

Other implications including legal and financial implications are included in the body of the report.

7. CONSULTATION

7.1 The process for registration under the CRC has been developed by the officer level CRC Working Group and reported to the director level Carbon Management Programme Board.

8. NEXT STEPS

8.1 Following consideration from the Committee a Cabinet Member Decision will be taken by the Cabinet Member for Environment Capital. A draft decision notice is attached at Appendix A.

9. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

9.1 None

10. APPENDICES

- 10.1 Appendix A: Draft CMDN – CRC registration to be taken by the Cabinet Member for Environment Capital.

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