

# PURCHASE OF CARBON ALLOWANCES 2012/13

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<b>Cabinet Portfolio</b>	Finance, Property and Business Services
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<b>Papers with report</b>	None

## 1. HEADLINE INFORMATION

<b>Summary</b>	To advise the Cabinet on the requirement to purchase allowances from the Department of Energy and Climate Change (DECC) to cover energy emissions (tonnes of carbon dioxide) regulated by the CRC (Carbon Reduction Commitment) Energy Efficiency Scheme Legislation.
<b>Contribution to our plans and strategies</b>	Fulfil the Council's statutory obligations under the CRC Energy Efficiency Scheme.
<b>Financial Cost</b>	This has been estimated to be in the range of £328,000 to £340,000, provision has been made in the accounts 2012/13.
<b>Relevant Policy Overview Committee</b>	Corporate Services & Partnerships
<b>Ward(s) affected</b>	All

## 2. RECOMMENDATION

That the Cabinet:

- 1) Approve the purchase of allowances (estimated to be in the range of £328,000 to £340,000) from the Department of Energy and Climate Change to cover energy emissions (tonnes of carbon dioxide tCO<sub>2</sub>) produced during the 2012/13 Financial Year and regulated by the CRC Energy Efficiency Scheme Legislation;
- 2) Agree that officers submit the Annual Report to the Environment Agency and;
- 3) Note that the final cost of allowances for 2012/13 and the Council's qualification status for Phase 2 of the CRC EES will be reported to Cabinet in September 2013.

### Reasons for recommendation

The purchase of such allowances ensures that the Council complies with the following UK Legislation:

- The CRC Energy Efficiency Scheme Order 2010
- The CRC Energy Efficiency Scheme (Amendment) Order 2011
- The CRC Energy Efficiency Scheme (Allocation of Allowances for Payment) Regulations 2012
- The CRC Energy Efficiency Scheme (Allocation of Allowances for Payment) (Amendment) Regulations 2013
- The CRC Energy Efficiency Scheme Order 2013

### **Alternative options considered / risk management**

The Council could decide not to purchase and surrender allowances for its energy emissions (tonnes of carbon dioxide) regulated by CRC EES but would then be in breach of the CRC Order and could face fines from the Environment Agency of £40 per tonne of carbon dioxide a potential fine of £1.1m. (CRC Order 2013 Article 77 'Failure to surrender allowances.')

### **Policy Overview Committee comments**

None at this stage.

## **3. INFORMATION**

### **Supporting Information**

The Government's CRC Energy Efficiency Scheme (CRC EES) aims to regulate and reduce the carbon emissions (tonnes of carbon dioxide) of large consumers of energy in both the private and public sectors. The background Legislation ('the CRC Order') relating to the scheme is detailed above. The Department of Energy and Climate Change (DECC) lead on CRC policy and the scheme is administered by the Environment Agency.

Participants in CRC EES are required to monitor and report on their energy consumption and incentivised to reduce their emissions primarily through a financial driver (the purchase of allowances to cover carbon emissions).

The London Borough of Hillingdon met the technical metering and consumption qualification criteria based on the 2008 calendar year. Consequently, the London Borough of Hillingdon is a full participant in Phase 1 of the CRC EES.

Phase 1 of the CRC EES commenced on 1<sup>st</sup> April 2010 and will end on 31<sup>st</sup> March 2014.

Participants are required to produce an Annual Report on their emissions coverage and from the 2011/12 compliance year purchase allowances.

Consumption data for the Annual Report is collated from Annual Supplier Statements. Officers request these statements in March and Energy suppliers have until mid May under the regulations to provide them.

London Borough of Hillingdon's emissions in the 2012/13 Annual Report will be based on gas and electricity supplies from the Council's Corporate Property Portfolio, Maintained Schools and Academies and qualifying HRA Properties (Emissions from Street Lighting (classed as passive unmetered supply), domestic and transport supplies are excluded from CRC.)

The Annual Report for 2012/13 is currently in preparation and must be submitted to the

Environment Agency by 31<sup>st</sup> July 2013. For 2012/13 the level of London Borough of Hillingdon's reported emissions is expected to increase from that of 2011/12 due to changes announced in the CRC Simplification as set out below.

## **CRC Simplification**

On 10<sup>th</sup> December 2012 the Government published its consultation response on simplification of the CRC Energy Efficiency Scheme. The majority of the changes will be implemented from commencement of Phase 2 in April 2014. The changes listed below will apply to the last two years of Phase 1 (2012/13 and 2013/14) and are those that will have the most impact on the level of London Borough of Hillingdon's emissions:

- Reduction of reportable fuels from 29 to 2 (Electricity and gas used for heating purposes);
- Ending of the 90% Rule (Previously up to 10% of emissions could be excluded from reporting if at least 90% of 'core' emissions were regulated by either the CRC EES, EU Emission Trading System and Climate Change Agreements);
- Exclusion of gas supplies below 73,200 kWh per annum;
- Exclusion of profile 01 and 02 electricity meters.

Modelling the impact of the CRC simplification changes based on data from the 2011-12 Annual Report suggests an increase in allowance costs for the 2012-13 compliance year of between 30K to 40K.

The CRC Simplification response revised the deadlines for the ordering, purchase and surrendering of Allowances. For 2013 the deadlines are as follows:

Allowances must be requested via the Environment Agency's secure website ('the CRC Registry') between 3<sup>rd</sup> June and 31<sup>st</sup> July 2013. Payment for allowances ordered can be made between 2<sup>nd</sup> September and 20<sup>th</sup> September 2013. The Environment Agency will allocate allowances to participants between 2<sup>nd</sup> September and 15<sup>th</sup> October 2013. Allowances must be 'surrendered' (reconciled to cover emissions in the Annual Report) by 31<sup>st</sup> October 2013.

Phase 2 of the CRC EES commences in April 2014 and ends on 31 March 2019. Officers will report to Cabinet in September 2013 on the Council's qualification status for Phase 2.

## **Financial Implications**

For the entirety of Phase 1 CRC allowances will cost £12 per tonne of carbon dioxide (tCO<sub>2</sub>). As reported to Cabinet on 27<sup>th</sup> September 2012 for the 2011-12 compliance year 24,905 allowances were purchased to the value of £298,860. Following modelling of the impact of the CRC simplification changes based on data from the 2011-12 Annual Report, it is expected that CRC allowances for 2012-13 will cost in the region of £328,000 to £340,000.

It should be noted that the provision in the accounts estimated as part of the closing process was £328,200. This was calculated at an earlier point in time and is at the lower end of the range recommended for approval.

The Annual Report for 2012/13 will be submitted to the Environment Agency by 31<sup>st</sup> July 2013 and the final cost of CRC allowances will be reported to Cabinet in September 2013.

#### **4. EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES**

##### **What will be the effect of the recommendation?**

The primary aim of the CRC EES is to promote energy efficiency and reduce CO2 emissions resulting in reduced fuel bills for the Council and reduced CRC allowances cost.

##### **Consultation Carried Out or Required**

None

#### **5. CORPORATE IMPLICATIONS**

##### **Corporate Finance**

Corporate Finance has reviewed this report and confirms the budgetary position set out above, noting that the final cost of purchasing allowances for 2012/13 is to be contained within the approved contingency budget of £350k. As noted within the financial implications above, the estimated cost of £328k - £340k is consistent with the level of provision to be included in the Council's 2012/13 Statement of Accounts.

##### **Legal**

As is indicated in the body of the report, Hillingdon is a full participant in the CRC Energy Efficiency Scheme. All participating organisations are required by law to purchase allowances for each tonne of CO2 they emit.

The Council is required to purchase allowances between 3<sup>rd</sup> June to 31<sup>st</sup> July 2013. It is also required to surrender allowances by 31<sup>st</sup> October 2013 equal to the quantity of CRC emissions for the energy supplies in its 2012/13 Annual Report.

If the Council fails to meet the above requirements, a very significant financial penalty can be imposed on it pursuant to Article 77 of the CRC Energy Efficiency Scheme Order 2013.

##### **Corporate Property and Construction**

There are no property implications resulting from the recommendations set out in this report.

#### **6. BACKGROUND PAPERS**

NIL