

REPORT FROM  
CABINET – 26 SEPTEMBER 2013

## PURCHASE OF CARBON ALLOWANCES 2012/13 AND CRC PHASE II

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<b>Cabinet Portfolio</b>	Finance, Property and Business Services
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<b>Papers with report</b>	Annual Report Summary

### 1. HEADLINE INFORMATION

<b>Summary</b>	To advise the Cabinet on the final cost of allowances purchased 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 and advise the Cabinet on the Council's qualification status for Phase II of the CRC Scheme.
<b>Contribution to our plans and strategies</b>	Fulfil the Council's statutory obligations under the CRC Energy Efficiency Scheme.
<b>Financial Cost</b>	£356,952 CRC Allowances for 2012-13
<b>Relevant Policy Overview Committee</b>	Corporate Services & Partnerships
<b>Ward(s) affected</b>	All

### 2. RECOMMENDATION

That Cabinet:

- (1) **Notes the cost of £356,952 for the purchase of CRC allowances following submission of the 2012-13 CRC Annual Report to the Environment Agency.**
- (2) **Authorises Officers to register for Phase II of the CRC Energy Efficiency Scheme (CRC EES).**

#### Reasons for recommendation

The purchase of Carbon Reduction Commitment (CRC) allowances and registration for Phase II of the CRC Energy Efficiency Scheme (CRC EES) ensures that the Council complies with the following UK Legislation:

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- 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.’)

The Council could decide not to register for Phase II of the CRC EES but would then be in breach of the CRC Order and could face fines from the Environment (CRC Order 2013 Article 73 “Failures in respect of registration.”)

### Policy Overview Committee comments

None at this stage.

## 3. INFORMATION

### Supporting Information

In June 2013 Cabinet authorised Officers to purchase CRC allowances following submission of the 2012-13 CRC Annual Report. Officers were required to report back to Cabinet on the final cost of allowances and the Council’s qualification status for Phase II of the CRC EES.

London Borough of Hillingdon submitted its CRC Annual Report to the Environment Agency on 30<sup>th</sup> July 2013.

The table below summarises the data submitted into the CRC Registry (The Environment Agency’s online portal to manage the CRC).

**Table 1.0 CRC Annual Report Data 2012-13 in kWhs (kilowatt hours) and tCO2 (tonnes of carbon dioxide)**

Fuel	KWh Actual	KWh Estimated	KWh Total
Electricity	26,869,631	6,977,856	33,847,487
Gas	33,636,524	25,392,698	59,029,222
<b>Total</b>	<b>60,506,155</b>	<b>32,370,554</b>	<b>92,876,709</b>

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Fuel	tCO <sub>2</sub> Actual	tCO <sub>2</sub> Estimated	tCO <sub>2</sub> Total
Electricity	14,536	3,775	18,311
Gas	6,176	4,662	10,838
<b>Total</b>	<b>20,712</b>	<b>8,437</b>	<b>29,149</b>

Electricity accounts for 63% of total emissions (tonnes of carbon dioxide) and gas 37%. Electricity generates more CO<sub>2</sub> than gas due to losses in distribution across the network.

The table below sets out the emissions in tonnes of carbon dioxide across the energy portfolio.

**Table 1.1 CRC Emissions 2012-13 (tCO<sub>2</sub>) by Energy Portfolio Group**

Fuel	tCO <sub>2</sub> Academies	tCO <sub>2</sub> General Fund (GF)	tCO <sub>2</sub> Housing Revenue Account (HRA)	tCO <sub>2</sub> Maintained Schools	tCO <sub>2</sub> Total
<b>All</b>	<b>10,941</b>	<b>9,023</b>	<b>237</b>	<b>8,949</b>	<b>29,149</b>

The CRC Registry applies an uplift of 10% to consumption that is defined as “estimated.” In the 2012-13 reporting year 8,437 tCO<sub>2</sub> were classed as estimated (29% of reported emissions).

The CRC Registry makes a deduction to reported emissions for certain forms of renewable energy generation termed EGCs (Electricity Generation Credits). The solar panels at the Civic Centre generated 10,692 kWh of electricity in 2012-13 resulting in an EGC of 5 tCO<sub>2</sub>. The table below sets out the emissions as calculated in the CRC Registry.

**Table 1.2 CRC Emissions 2012-13 Calculated in CRC Registry**

Emission Type	Emissions Tonnes CO <sub>2</sub> (tCO <sub>2</sub> )
Electricity	18,688
Gas	11,303
Electricity Generation Credits (EGCs)	-5
<b>Total</b>	<b>29,986</b>

**London Borough of Hillingdon's emissions for 2012-13 as calculated in the CRC Registry are therefore 29,986 tonnes of carbon dioxide (tCO<sub>2</sub>).**

**CRC Allowances**

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Table 1.3 summarises the CRC Allowances ordered from the Department of Energy and Climate Change (DECC) on 31<sup>st</sup> July 2013. For the remainder of Phase 1 of the CRC EES allowances will cost £12 per tonne of CO<sub>2</sub>.

**Table 1.3 CRC Allowances 2012-13**

Allowance Type	Number Allowances	£ CRC Allowances
CRC Emissions 2012-13	29,986	£359,832
Minus 50% of Contingency	-240	-£2,880
<b>Total</b>	<b>29,746</b>	<b>£356,952</b>

As detailed in the September 2012 Cabinet Report an additional 480 CRC Allowances with a value of £5,760 were purchased as a contingency and held in the CRC Registry. To reduce the cost of 2012-13 emissions 50% of this contingency (240 allowances) has been utilised.

**For 2012-13 therefore, 29,746 allowances with a value of £356,952 were ordered from DECC to cover London Borough of Hillingdon's emissions.**

The payment window for CRC allowances is between 2<sup>nd</sup> September 2013 and 20<sup>th</sup> September 2013. Payment for allowances will be made on 2<sup>nd</sup> September 2013. CRC allowances will need to be surrendered on the CRC registry by 31<sup>st</sup> October 2013.

### **CRC Phase II Registration**

Phase II of the CRC Energy Efficiency Scheme commences on 1st April 2014 and ends on 31<sup>st</sup> March 2019. Qualification for Phase II of the scheme is based on electricity consumption from specific half hourly meters during the CRC reporting year 1<sup>st</sup> April 2012 to 31<sup>st</sup> March 2013. Organisations will qualify for the next phase of CRC if they have at least one settled half hourly electricity meter and total consumption from these half hourly meters is above the 6,000 MWhs (Mega Watt hours) threshold. London Borough of Hillingdon's consumption from relevant half hourly meters in 2012/13 was 8,419 MWhs.

**London Borough of Hillingdon will qualify for Phase II of the CRC Energy Efficiency Scheme and will need to register as a participant on the Environment Agency's website (The CRC Registry) between 4<sup>th</sup> November 2013 and 31<sup>st</sup> January 2014.**

### **Financial Implications**

For 2012-13 29,746 allowances with a value of £356,952 were ordered from DECC to cover London Borough of Hillingdon's emissions in the 2012-13 Annual report. 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 was at the lower end of the range recommended for approval at the June Cabinet. The increase over the 2012/13 provision is £28,752, less the 50% surrender of the contingency of 240 allowances with a value of £2880 gives a net increase £25,872 greater than the provision. This will be a cost chargeable to the 2013/14 budget. The

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current year forecast for CRC is £37,000 favourable against a contingency budget of £402,000, so the current year's budget should contain this cost.

Phase II of the CRC EES commences on 1st April 2014 and ends on 31st March 2019. As in previous years participants will be required to purchase CRC Allowances on an annual basis for each of the reporting years within the Phase.

The Government's response to the CRC simplification published in December 2012 announced further changes to the scheme that would come into effect from the commencement of Phase II on 1<sup>st</sup> April 2014.

The most significant change will be the removal of Schools and Academies from the scheme. The School/Academy sector currently accounts for 68% of Hillingdon's emissions (or £238,680 in CRC Allowances). This has been charged to the Dedicated Schools Grant and has not been a burden on Council resources. However the un-metered supplies (UMS) for street lighting previously excluded from the scheme will now be included from Phase II (5,387 tCO<sub>2</sub> in 2012-13). This is chargeable against the General Fund.

The pricing for Phase II of the scheme has been revised and the calculation will be made more complicated by the introduction of two options to purchase allowances. The first option "Lower Priced Advance" allows the ordering and purchase in advance of the compliance year at the recently announced £16 per tonne of CO<sub>2</sub> i.e. 33% increase. Alternatively the allowances can be purchased at an even higher price which has yet to be announced retrospectively after the compliance year. This option is described as a "buy to comply" option and operates similar to Phase 1 of the scheme.

**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 CO<sub>2</sub> 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 the financial implications set out above, noting that the cost of CRC allowances for 2012/13 is broadly consistent with earlier estimates. Future reports to Cabinet will address the retrospective purchase of allowances to cover 2013/14 emissions and any purchase in advance of allowances for 2014/15.

**Legal**

The Climate Change Act 2008 provides for the introduction of domestic emissions trading schemes through secondary legislation. The CRC Scheme was brought in by the CRC Energy

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Efficiency Scheme Order 2010 and Phase II (and all subsequent phases) is governed by the CRC Energy Efficiency Scheme Order 2013. Participation in the CRC is mandatory for all public sector bodies and large businesses who meet the qualifying energy usage criteria, which as stated in this report includes the Council for the purposes of Phase II. The Council is required to measure and report its electricity and gas related carbon emissions annually, following a specific set of measurement rules. Following that measurement and reporting the Council is required to buy allowances for every tonne of carbon they emit (relating to electricity and gas), the purchase of those allowances for the year 2012-13 being the subject of recommendation 1 of this report. A reduction in the Council's consumption of electricity and gas could decrease the level of spending on the CRC in Phase II and later phases.

**Corporate Property and Construction**

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

**6. BACKGROUND PAPERS**

NIL