

Response by the UK Business Council for Sustainable Energy

Initial consultation by Defra

Measures to reduce carbon emissions in the large non-energy intensive business and public sector organisations

“We believe there is a particular need for Government to focus on the large, non-energy intensive users of energy in the commercial and public sectors. Strong new policy instruments, and a lead by Government in its own estate, will be needed if we are to truly tackle energy demand in this area”

Letter from the UKBCSE CEOs to Ministers at H. M. Treasury, DEFRA and DTI, June 2006

INTRODUCTION

The Council was established to support the fastest transition to a sustainable energy economy consistent with the delivery of a secure, reliable and affordable energy infrastructure.

Members of the Council include Centrica, EDF Energy, E.ON UK, National Grid, RWE npower, Scottish and Southern Energy, Scottish Power, and United Utilities.

The Council welcomes this initial consultation by DEFRA on “Measures to reduce carbon emissions in the large non-energy intensive business and public sector organisations.”

KEY POINTS

The Council supports further Government action in the non energy-intensive public and private sectors to drive energy savings and greenhouse gas abatement.

To maximise the effectiveness of any activity in this area, it is critical that the Government is clear about what it is aiming to deliver, and the rationale behind the detailed scheme design.

The Council believes that the Government could and should set a target for greenhouse gas abatement in the non energy-intensive public and private sectors that, when combined with the suite of greenhouse gas abatement activity, is consistent with its target of reducing greenhouse gas emissions in the UK by 60% by 2050.

It is important that the scheme is designed to coordinate with, and complement the effectiveness of other greenhouse gas abatement activity, such as the EU Emissions Trading Scheme.

To be effective, any scheme must be either mandatory, or contain sufficient incentive to stimulate action across the majority of the target sector. It is the Council's view that a voluntary benchmarking scheme could only have a minimal effect on the carbon footprint of this sector.

The Council believes that Government, as a significant consumer of energy, should lead by example by using such a trading mechanism to reduce energy demand in its own estate.

The Council supports the principle of a market-based approach to delivering carbon abatement across the economy and to bear down on sustained growth in primary energy demand.

The Council believes that the development of a robust measure that delivers real greenhouse gas abatement in this sector will require further consideration and analysis in terms of fundamental scheme design.

The Council is keen to continue to work closely with Government in the next phase of the design of a measure to drive greenhouse gas abatement in the non-energy intensive sector.

CONSIDERATIONS

Clarity of objectives

To maximise the effectiveness of Government action in this area, the Council supports further work on clarifying the objectives of the measure, and the rationale behind the fundamental design of the scheme.

At the moment, it is not clear if the main objective of the proposed measures is to:

- reduce greenhouse gas emissions across the sector;
- reduce greenhouse gas emissions across the sector through energy efficiency;
or
- build capacity in the large non-energy intensive sector to manage carbon.

Depending on the objective of the measure, this will have an impact on the scheme design and its outcomes.

For example, designing the initiative to bring more companies into a system to reduce greenhouse gas emissions through energy efficiency could impact on investment in renewable energy by this sector.

Level of ambition

The Council believes that the Government could and should set a target for greenhouse gas abatement in the non energy-intensive public and private sectors that, when combined with the suite of greenhouse gas abatement activity, is consistent with its target of reducing greenhouse gas emissions in the UK by 60% by 2050.

Also, as a significant consumer of energy, the Government has a particularly important role in setting challenging and ambitious targets for its own estate, and demonstrating energy saving activities that can be replicated more broadly.

The overall contribution of the proposed scheme to carbon reduction will depend on the carbon intensity of electricity generation in the future.

Co-ordination with current and proposed activity in the sector

There are already a number of Government initiatives that target greenhouse gas abatement in the non-energy intensive sector. These include building regulations, the Climate Change Levy, voluntary reporting and access to advice and expertise through organisations like the Carbon Trust.

The Council recognises that these initiatives will not deliver the levels of greenhouse gas abatement that the Government is seeking. However, it is important that further intervention in this area is coordinated with current initiatives and other planned activity including the proposed development of a supplier obligation beyond 2011 in the domestic market and the planned review of the future role of the Climate Change Agreements.

It is also important that the interaction between the energy saving regime created by other initiatives, such as those set by the Environment Agency through the Pollution Prevention and Control (PPC) regime is clearly defined.

Coordination with the EU Emissions Trading Scheme

Participation in the EU Emissions Trading Scheme is a major component of the UK's overall greenhouse gas abatement strategy. The initial phase of the EU ETS covers the power sector and energy-intensive industrial sectors. This includes electricity generators. This means that the electricity consumption in the non-energy intensive sector in the UK is already covered to some extent by the EU ETS.

The interaction between the EU ETS and an Energy Performance Commitment must be carefully considered to ensure that additional carbon savings are guaranteed, and that savings are not overestimated.

Minimal administration burden

It is important that any scheme is designed to minimise the administrative burden on participants. This will also help ensure broad engagement across a sector where the majority of participants are unlikely to have experience in participating in carbon trading schemes, and where energy saving may not have been a big focus previously.

In looking at ways to reduce the administrative burden, significant further work needs to be done to address both auctioning and recycling - this could include consideration of alternatives to recycling revenue directly to participants.

In addition, energy companies are keen to work with Government to identify ways to simplify data management and identification of participant organisations.

Pathway

A clear pathway of activity needs to be developed that ensures a smooth transition to an emissions trading scheme.

The Council believes the proposed introductory phase is essential, and looks forward to more information about the broader timeline of activity, and how it relates to the Government's overall greenhouse gas abatement strategy.

Role of energy companies

Energy companies are keen to explore the commercial opportunities associated with energy saving and renewable energy in the non energy-intensive public and private sectors.

As participants in the existing upstream EU ETS and as providers of energy commodities and services to the commercial sector we have a wealth of relevant experience that we can offer to the Government during the design of the scheme.

The Council would like to continue to work closely with Government on the design and implementation of an Energy Performance Commitment.

Energy companies are also keen to clarify their role as participants in the scheme. Indeed, we also assume that the energy use associated with transmission and distribution will not come within the purview of an EPC scheme

CONCLUSION

The Council welcomes the Government's commitment to delivering greenhouse gas abatement in the large non-energy intensive sector.

It is critical that the Government takes the time to ensure that the scheme design and operation will deliver the Government's objectives.

The Council looks forward to working with Government in the next phase of designing the measure.

UK Business Council for Sustainable Energy
February 2007

The views expressed in this paper cannot be taken to represent the views of all parts of all the companies in the UK BCSE. However, they do reflect a general consensus.