



At last. An emissions trading scheme to give help to a long-neglected sector

For the first time the UK will have a policy instrument in place aimed at those industrial and commercial energy users with electricity bills over £15,000. But can this potentially cumbersome experiment be made to work?

In last year's Energy Review, the government announced it was considering a new, mandatory, UK-only emissions trading scheme. It would apply to fuel use by around 5,000 large organisations, whose activities are not energy intensive. Although between them, they burn rather a lot of fuel.

Traditionally, energy-saving policies have concentrated on just two groups of consumers. Either the very large energy intensive sectors (steel, cement, non-ferrous metals, glass): think EU emissions trading schemes. Or the 24m households: think the Energy Efficiency Commitment. But nothing much in between.

If the new scheme goes ahead, it will mean that for the first time there will be a policy instrument in place aimed at many of the in-between energy customers. Hurrah!

The working title is the distinctly unmemorable Energy Performance Commitment. Or in Whitehall-ese, the "EPC". This vacuous phrase does have the merit, if you examine it closely, of vaguely describing what the initiative is about.

Scheme to save 1.2m tonnes of carbon

Entry qualification for the scheme will concentrate exclusively upon sites that have half-hour electricity meters installed. Such sites have a typical electricity bill of £15,000 a year, and are reckoned to be about 27,000 in number. The entire scheme is currently predicted to save 1.2m tonnes of carbon by 2015.

But while the use of half-hour meters has been chosen as a convenient administrative yardstick to evaluate inclusion, it could yet turn out to be as misleading as was the original means of deciding which industrial sectors could qualify to enter into negotiated agreements to cut their Climate Change Levy rates by 80 per cent. Restricting qualifiers only to those companies involved with Integrated Pollution Prevention & Control (IPPC) requirements produced a whole swathe of anomalies that it took the Treasury years to correct.

The "EPC" might yet work out rather similarly. Especially as officials have now conceded that the scheme will also cover direct consumption of gas, oil and solid



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fuel by participants – indeed any energy use outside transport. This absence could create perverse incentives: switching out of gas and into bio-fuels will necessitate your fuel arriving not by pipeline, but by a flood of wood-carrying trucks, none of which would be covered under the scheme.

The concept is that, at the start of each year, participants will bid for the number of energy permits they think they will need to burn that year. To aid cash-flow, no money will be collected at this stage. Come December, the participant will self-declare how much has actually been consumed. A grand settlement procedure will follow. Resulting in participants either paying less or more than the initial "bid", depending on relative frugality. Revenues

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received by the government are supposed to be 100 per cent recycled, via reductions to the Climate Change Levy or something similar. It will be recalled that the Levy was originally sold to us all on precisely the same premise – although it has subsequently turned into a nice little earner, netting upwards of £600m a year for the Treasury, even after the Carbon Trust's costs.

Financial incentives constrained

The Environment Agency will spot-check around 1 in 20 submissions for honesty. As yet, there is no sign as to how cheats will be dealt with.

The financial incentives offered by the scheme will be inevitably constrained, because energy expenditure represents so small a share of the affected organisation's costs. One of the main justifications for creating the "EPC" is to focus management attention on energy consumption. The argument is that this will work better than simply increasing the size of the Climate Change Levy, because such consumers are notoriously oblivious to price increases.

But there is no question that serious new public policies are urgently needed for this neglected sector. This one is due to start in 2012, after three years of trials where government will set any auction prices itself.

This sector currently emits 15m tonnes a year of carbon. For years, it has been acknowledged that there are at a minimum 20 per cent savings to be made in such fuel bills cost-effectively. The participants— each spending at least £250,000 a year on fuel—should therefore be able to save cost-effectively a minimum of £50,000 a year each.

If such an ambitious—and potentially cumbersome—experiment is to be launched, those are the figures its designers should concentrate upon. Consequently, we need to be certain that by 2020 this sector will be emitting not 1.2, but 3m, less tonnes of carbon than today. That is the only acceptable target for new public policies.

FURTHER INFORMATION

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