

Consultation on the proposed energy performance commitment



**Friends of
the Earth
Scotland**

A response from Friends of the Earth Scotland

30 January 2007

1. Introduction

Friends of the Earth Scotland is an independent member of the Friends of the Earth International network. We undertake research, advocacy and community development activities throughout Scotland in pursuit of environmental justice and sustainability. This response represents the views of Friends of the Earth Scotland.

Friends of the Earth Scotland welcomes the opportunity to comment on the proposals.

2. Summary of main points

- We warmly welcome proposals for a mandatory energy performance commitment.
- We believe the proposed carbon savings of 1.2 MtC per annum are entirely inadequate: the target should be in the order of 3 MtC per annum.
- While we support the principle of revenue recycling, we believe the proposals for doing this are flawed and will substantially reduce the incentive to reduce carbon emissions. Revenues should be recycled through a ring-fenced fund which finances specific energy saving measures.
- The alternative proposals for a voluntary benchmarking and reporting scheme would not deliver the required carbon reductions and are therefore unacceptable.

3. Response to specific consultation questions

We have not responded to all consultation questions: merely those where we have a view or a direct interest.

3.1. What do you see as the key drivers and barriers to the take up of cost-effective energy efficiency opportunities in the large non-energy intensive business and public sectors?

We broadly agree with the analysis of the Carbon Trust on the barriers to greater energy efficiency take-up:

- The small part that energy costs take of total costs means that they are overlooked;
- energy costs are often spread over several budget headings or hidden in premises costs;
- the financial costs of implementing changes to procedures and energy sources;

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- organisations tend to perceive environmental measures as separate to their main objectives; and
- the difficulties of engaging and mobilising employees into taking action.

Drivers include reduced fuel bills, increased staff awareness and better client relations flowing from a reputation for being an environmentally responsible organisation.

3.2. What is your view on the scope for large non-energy intensive organisations to improve their energy efficiency and contribute to the UK's climate change goals by 1.2 MtC by 2020? Do you agree that the sector should be defined by electricity use of more than 3,000 MWh? If not how should it be defined? What is your view on the need for any new instruments and are there other new instruments that could significantly improve energy efficiency in these organisations?

It is important that all organisations and individuals play their part in reducing emissions, and Government should provide the policy framework to help them do so.

We support the introduction of a mandatory Energy Performance Commitment, and believe that it should be as ambitious as possible, aiming to reduce emissions by at least 3MtC by 2020. This figure is 20% of current emissions from this sector, currently 15 MtC.

The threshold should be 3,000 MWh equivalent in total fuel use, not just electricity. This would mean that organisations participating would have fuel bills of around £250,000 each year, so each participant should be able to save around £50,000 p.a – 20% of fuel bills. Road transport fuel should also be included. This percentage has been consistently identified by government as the minimum cost-effective potential of savings which can be achieved by judicious energy efficiency investment.

For the EPC to be worth the trouble it should shock organisations with the perceived initial increase in costs – which will of course be reduced following the subsequent investment in energy efficiency measures and revenue recycling. This may be the only way to raise the profile of energy efficiency in some organisations. It is important that responsibility is taken at a level high enough to be able to implement changes and influence others.

A large EPC will also produce a large amount of revenue that must be recycled into grants to make improvements to energy efficiency.

3.3. Do you have views on the following options: (a) examining the scope for improving building regulations in the long term; (b) improving information and advice and (c) industry led agreements to reduce emissions. Are there other new options that could significantly improve energy efficiency in these organisations?

a) Friends of the Earth Scotland responded to the Scottish Executive's 2006 consultation on revision of section 6 of Scottish Building Regulations. We are very disappointed that our comments on the importance of ensuring compliance with energy standards in building regulations; and ensuring that building regulations apply to existing buildings through a process of consequential improvements; were not addressed in the final regulations. For building regulations to make a significant contribution to carbon reduction, these issues must be addressed.

Over the longer term, we welcome the Chancellor's recent announcement that all new homes will be zero-carbon from 2016. We believe there is scope for this to apply from 2011 in Scotland.

b) There is a large range of public and private organisations offering energy efficiency and renewables and CHP advice to businesses, public bodies and individuals. In order to ensure consistency of advice and information, we would like to see the Carbon Trust merged with the Energy Saving Trust, to create a single ‘doorway’ for energy saving grants and information.

c) Industry led agreements are an important mechanism for raising awareness of carbon reductions across a sector, and for sharing good practice in energy efficiency methods and for the development of sector specific training programmes in energy management

However, none of these three measures is a substitute for a mandatory energy performance commitment with ambitious carbon-reduction targets.

3.4. Would the proposed coverage of the scheme bring in the right organisations, striking an appropriate balance between including as many tonnes of carbon as possible while keeping administrative burdens to a minimum? In particular, should the sector be defined by electricity use through mandatory half-hourly meters or other means? If so, what is an appropriate threshold of mandatory half-hourly metered electricity use?

We understand there is a need to balance the reduction emissions that can be achieved with the administration costs in running and taking part in the scheme. Therefore the scheme must be raised from its current low target of 1.2MtC.

The EPC scheme should be as ambitious as possible and aim to reduce emissions by at least 3 MtC by 2020. This figure is 20% of current emissions from this sector, currently 15 MtC.

The threshold should be annual consumption on all fuels (not just electricity) of over 3,000 MWh equivalent. This equates broadly to annual fuel bills of £250,000 or over, leading to anticipated savings by each participant of at least £50,000 p.a – 20% of fuel bills;

A large EPC will also produce a large amount of revenue that can be recycled into grants to make improvements to carbon efficiency.

While some local authorities would be covered by the proposed scheme, others would not. We would argue against any distinction amongst local authorities, and would argue that all should be covered by the scheme, for the sake of fairness.

3.5. Does the proposed operation of the EPC provide a simple compliance procedure and minimise the regulatory burden on participant organisations? Could your organisation deal with these procedures with your existing skills base or would you need to acquire further expertise? Could the procedures be further simplified while maintaining the integrity of the proposal?

Our organisation is too small to be included in the scheme. However, we would be concerned if the scheme were simplified significantly from that laid out in the consultation document, since that may call into question the effectiveness of the scheme.

3.6. Do you consider the design elements of the proposed EPC scheme (including an introductory phase, the auction, revenue recycling, safety valve, and other features) to be consistent with the delivery of emissions reductions at least cost and what are your reasons? Are they practically achievable without imposing significant administrative burden?

We are concerned that a lengthy introductory phase could see organisations rewarded for delaying implementation of energy-saving measures. Given the urgent need to reduce

emissions, any such delay should be avoided at all costs. We would suggest that estimates for carbon emissions from the participating organisations could be measured in the years immediately preceding the scheme, allowing entry immediately into the scheme, and removing the need for an introductory phase altogether.

We also fail to see the need for any ‘safety valve’, since the market provides a built-in safety valve: if an organisation finds that it needs to emit more carbon than it initially estimated, it buys permits on the open market. Any safety valve would undermine the market mechanism, and should therefore not be introduced.

3.7. What is your view on the role of a voluntary benchmarking and reporting scheme to achieve the proposed emission reductions, or would you prefer a different voluntary approach?

A voluntary benchmarking scheme would not deliver sufficient emissions reductions, and is therefore completely unacceptable. No other voluntary approach is acceptable, since any voluntary approach risks having ‘free riders’ which would undermine the scheme as a whole.

3.8. What are your views on the effectiveness of these schemes in increasing management attention to reducing energy use? What would be the benefits? Could this aim be achieved through non-regulatory approaches or other means?

The Government has highlighted the importance of action to mitigate Climate Change and needs to enforce this view with strong legislation that will ensure that targets are met.

The mandatory EPC scheme provides a greater guarantee that organisations will participate and that the carbon savings will actually be met.

For the EPC to be worth the trouble it should shock organisations with the increase in costs. This may be the only way to raise the profile of energy efficiency in some organisations. It is important that responsibility is taken at a level high enough to be able to implement changes and influence others.

A large EPC will also produce a large amount of revenue that can be recycled into grants to make improvements to carbon efficiency.

3.9. What is your overall view on the best way to maximise emissions coverage whilst minimising regulatory burden?

Emissions coverage will be maximised by including as many organisations as possible in the scheme. Lack of suitable energy monitoring technology appears to be the main barrier to this, which can be overcome by government or private investment to encourage smart meter development and markets.

3.10. What threshold should be used to exempt organisations with relatively small energy use?

The threshold should be 3,000 MWh equivalent fuel use. Road transport fuel should be included.

3.11. Do you agree that all fuels used in the sites covered by mandatory half-hourly metered electricity should be included?

The EPC should cover all fuels that can be monitored by bills and self-certified meter readings. This should become less of an administrative burden when smart meters are more widely available for business use.

We believe that all local authorities should be included in the scheme, for the sake of clarity and fairness.

3.12. What is your view on the proposed EPC definition of the “organisation”?

The EPC definition of organisation must take into consideration possible loopholes, such as breaking down bills to separate sites of a single organisation resulting in a number of registered billing recipients that will no longer qualify for joining the EPC.

Care must also be taken to prevent organisations moving their business overseas and claiming credit for reduced consumption as a result.

3.13. Is a suitably designed auction the right approach to allowance allocation?

The proposed auction of allowances will enable a variety of organisations across all sectors to be included within the same scheme without the need for a complicated system to set allowances and caps centrally for each participant. It also reduces the risk of over-allocating allowances, as has been a problem in the EU ETS, and the opportunities for organisations to raise windfall profits from the sale of their excess allocated allowances when little or no effort has been made to reduce energy consumption.

The Government needs to ensure that adequate information and training has been provided so all organisations have the capacity to trade in the EPC at an equal level. A licensed broker scheme may be worthwhile for smaller firms.

3.14. Do you agree that there should be an introductory phase? What are your views on the proposed approach, including the length of an introductory phase, and the operation of the market during this phase?

No. For the reasons given above, we do not see why an introductory phase is needed. Certainly the urgency with which emissions reductions are required outweighs any argument that organisations need time to adjust to an unfamiliar scheme. Historical energy bill information can also help to provide baseline information for the scheme.

3.15. Do you agree that auction revenue should be recycled to participants?

Yes, although we strongly disagree with the mechanisms outlined in the consultation document, since they would significantly reduce any energy-saving incentive introduced by the scheme itself. Revenue recycling should be in the form of grants for specific projects, as set out in more detail in our answer to the next question.

3.16. How do you think revenues should be recycled to participants?

Revenue recycling should be indirect, in the form of grants available to participating organisations on application for specific energy-saving projects. This would avoid the danger that recycled revenue is hijacked by a finance manager for an entirely unrelated project. It would also reinforce the energy-saving incentive, rather than weakening it, which all three of the proposals set out in the consultation document would do. Any grant-giving fund should be

administratively simple, in order to reduce costs and maximise funds available to participants. We certainly agree that the scheme should be revenue-neutral to the Treasury.

3.17. What are your views on the proposed “light touch” approach to monitoring, reporting and audit?

A strong auditing regime is required to discourage cheating, with severe penalties and examples made. Apparently it will take 20 years to audit 5% of participating organisations a year. It would be more appropriate to have an initially high rate of audit. As well as helping to identify poor performers, this should also identify unforeseen problems or loopholes that can be addressed before subsequent phases.

3.18. How do you think the Government’s proposals for better billing and metering in the business sector would help reporting and compliance?

Reporting and compliance should become simpler if smart meters for electricity are introduced, and if the equivalent for gas and oil monitoring are developed. This could reduce the administrative cost sufficiently for smaller organisations to take part that would currently be excluded.

The Government should consider schemes to offer smart meters to participating organisations at a low cost. It is important that organisations are able to effectively analyse and use the information that can be provided by smart metering and other methods of monitoring energy consumption.

3.19. Do you think the EPC should include a voluntary or mandatory benchmarking scheme?

Mandatory benchmarking would be useful for the organisations as well consumers, so long as it did not significantly add to the administrative costs of the scheme as a whole.

4. Conclusion

The proposals for a mandatory energy performance commitment scheme set out in the consultation document are welcome, though the carbon reduction targets are insufficiently ambitious given the magnitude of the problem of climate change. We firmly believe that a mandatory cap and trade system, of the type outlined, could make a significant contribution to reducing emissions. We have no doubt that a voluntary benchmarking and reporting scheme would fail to deliver sufficient emissions reductions, and should therefore be discarded. We also believe that any revenue recycling must magnify, rather than diminish, the energy-saving incentive of the scheme.

We trust that you are able to take these comments into account.

For further information please contact:

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