



CARBON TRADING **PUBLIC SECTOR** **2010 - 2011**

WHY IS CARBON TRADING IMPORTANT?

A new, statutory carbon trading scheme is coming to the UK very soon.

From April 2010, around 20,000 organisations in the public and private sector will be required to take part in the CRC Energy Efficiency Scheme (CRC EES). If your organisation uses electricity supplied through a half hourly meter, settled on the half hourly market, or you are a mandated participant, then this scheme applies to you and you must take action to comply with the legislation.

If you meet the qualifying criteria (based on electricity use in 2008) then you must register as a full participant in the CRC scheme, which will include buying and surrendering carbon allowances. If your electricity use is below the threshold, you must still register and provide data including your total electricity use through half hourly meters, or make a simple information disclosure.

The CRC EES is a complex scheme requiring a good understanding of your organisation's legal structure, energy use, carbon reduction plans, financial risk management and more.

Many organisations are now realising the importance of preparing for the challenge of complying with this legislation, and to meet this demand the LGiU is continuing its highly acclaimed virtual carbon trading project.

HOW CAN I PREPARE?

Following the success of our earlier projects, *Carbon Trading Councils* and *Carbon Trading Public Sector*, the LGiU is now inviting all public sector organisations to join the new *Carbon Trading Public Sector 2010-2011* project.

When you join Carbon Trading Public Sector 2010-2011, your organisation will receive:

- Two free delegate places at a series of events throughout the project. Events are held in convenient locations around the UK, and include expert speakers, case studies, workshops and question and answer sessions. Additional delegate places may be available for a small charge.
- Written CRC guidance on the project website, including LGiU policy briefings, news of updated guidance from the government, regulators and other sources, case studies from participants, and more.
- A discussion forum on the website, where you can ask sector-specific or more general questions, and receive answers and comments from experts and colleagues.
- Opportunities to network with colleagues at events and online, where you can focus on the solutions to shared problems and learn how other public sector organisations are approaching the CRC.
- Advice, guidance and support throughout from LGiU staff. There are always at least two members of staff available to answer queries on the project itself or on the many and varied aspects of the CRC. If we don't know the answer, we are in close contact with the policy makers and regulators and can get a quick response.
- **Plus — new this year — one-to-one guidance on registration procedures, CRC compliance and financial risk management.**

OUR TRACK RECORD

The LGiU is a charity which has been working with the public sector for the past 25 years. The aim of this project is to ensure that public sector organisations manage the risks associated with carbon trading. We have run three successful virtual carbon trading schemes already.

Year 1: Carbon Trading Councils

The project started in April 2008 with 34 local authorities trading in the first year and a market value of £6.2 million.

Project participants identified a number of areas where they might need to develop to be ready for the CRC. The full project report, *Taking Stock*, is available online.

Year 2: Carbon Trading Public Sector

Our second project, running from July 2009 to June 2010, has more than 100 participants including local authorities, NHS trusts, police authorities, universities and central government departments.

The total carbon emissions baseline is almost two million tonnes of CO₂. The cap was set at five per cent, leaving 1.7 million tonnes of carbon allowances in the market. The sealed bid fixed price auction resulted in a clearing price of £14 per tonne. The overall market value is £24.6 million.

As well as considering the issues raised by Carbon Trading Councils, participants in Carbon Trading Public Sector are exploring more advanced elements of trading. Hot topics include:

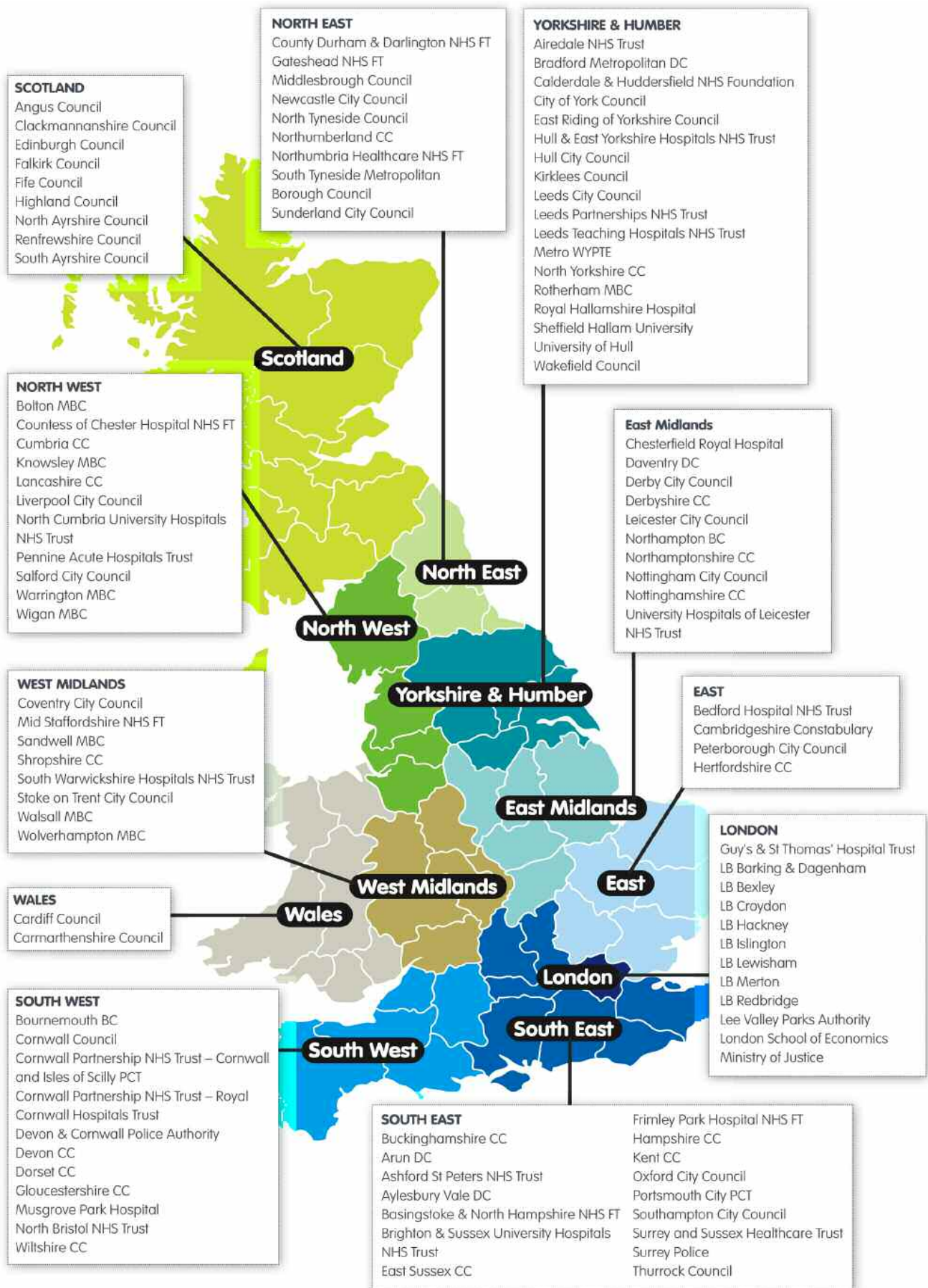
- compiling an accurate baseline data for all your buildings
- how to monitor data and forecast the amount of carbon allowances needed
- identifying the extent of your liability from outsourced services or PFI projects
- identifying who needs to be involved in carbon trading, from different teams across the organisation (such as finance, legal, energy, schools)
- how to identify the most cost-effective projects to reduce carbon emissions
- the effect of different trading strategies on financial risk, potential profit and cash flow, and how to manage the decision-making process for buying and selling carbon
- evaluating the options available to improve your position in the league table and maximise recycling payments.

Year 3: Carbon Trading Public Sector 2010-2011

Running alongside the first year of the CRC EES (a footprint and reporting year), this project gives you a final opportunity to practise the requirements of the scheme with no financial risk. You will learn to:

- determine your level of liability, define your organisational structure, register your organisation and submit reports
- put together a CRC team to monitor and manage carbon emissions, avoid penalties and communicate your actions both internally and externally
- implement a trading strategy to calculate the quantity of allowances required, purchase them at the best price and monitor and manage your changing requirements throughout a trading year to minimise financial risk
- identify carbon reduction projects that will reduce your CRC liability and make real emissions reductions throughout your estate and operations.

Map of Carbon Trading Public Sector current participants



TAKING PART

By joining, your organisation is committing to take part in trading for the year from April 2010. This will be a simulation of a year in the CRC — the timing will match the first compliance year of the CRC but, as well as basic footprinting and registration, participants will be able to practise virtual carbon trading, which will begin in 2011 for real. This will be balanced with opportunities to share learning with the other participants.

Stage 1: join

The deadline for agreeing to join Carbon Trading Public Sector 2010-2011 is 31 March 2010. The cost is £1,500 + VAT per organisation for full participants, or £750 + VAT for those required to make an information disclosure only. Please send a purchase order number with your joining request to barry.obrien@lgiu.org.uk or call 020 7554 2828.

Stage 2: provide baseline data

Your organisation must decide which carbon emissions will be included in the scheme. There are two options to consider:

1. At least one building will be included in the carbon budget. This building(s) should be representative of the estate that will be included in the CRC.
2. Include all of the organisation's estate that will be part of the CRC.

NB: In order to gain the most benefit from your participation in this project, we strongly recommend that you include all of the emissions that you will be including in the real CRC scheme.

The LGiU will provide a template for recording baseline energy data and this will be converted into carbon tonnes using standard figures set out in CRC guidance.

Stage 3: carbon reduction plans

It is important to have plans so that your organisation is clear about how it will contribute towards meeting carbon reduction targets. Your carbon reduction plans should be drawn up in parallel with discussions about your auction strategy.

Stage 4: auction of carbon allowances

Each organisation in Carbon Trading Public Sector 2010-2011 will enter an auction to purchase carbon allowances. This will follow the same methodology as proposed for the CRC, which will be a sealed bid at a uniform price. There will be a fixed, capped quantity of carbon allowances available for all organisations to bid for in the auction. The cap for the market will be set based on the original baseline data submitted. The LGiU will provide guidance on strategies for taking part in the auction.

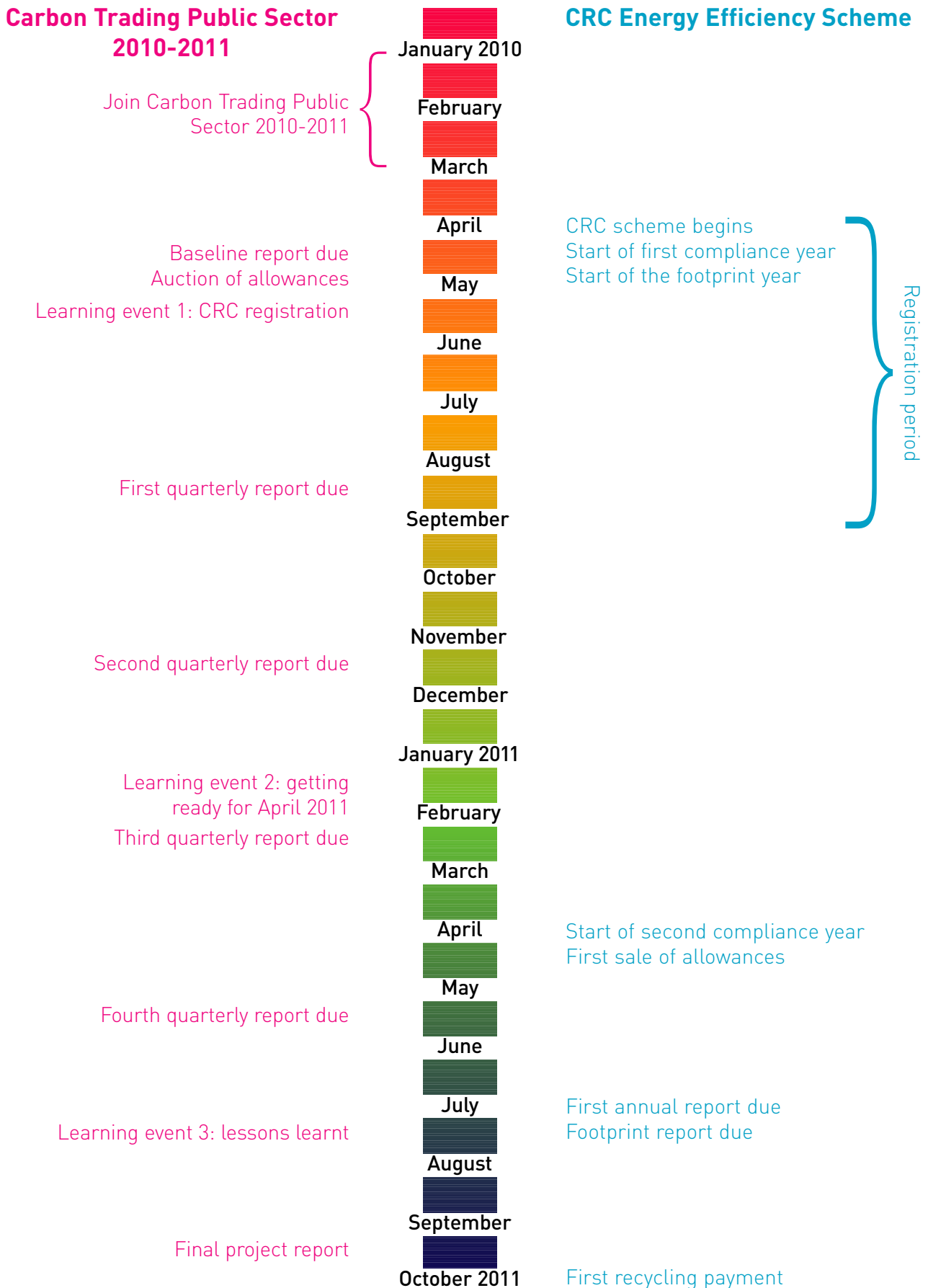
Stage 5: trade on the market

Your organisation may buy and sell carbon allowances on a virtual secondary market, where the price will be affected by supply and demand. Trading may take place on a monthly basis through the project website. This will not involve the transfer of money. Trading will be facilitated and monitored by the LGiU.

Stage 6: assessment

There will be ongoing assessment throughout the trading year so that your organisation can monitor its progress. On a quarterly basis organisations will report on a standardised template to the LGiU.

CRC Energy Efficiency Scheme and Carbon Trading Public Sector 2010-2011: what happens when?



How will Carbon Trading Public Sector 2010-2011 help me prepare for the CRC Energy Efficiency Scheme?

In January-April 2010, you will prepare and submit baseline data	You will need to do this for CRC registration by the end of September 2010
You will put together a CRC team to participate in the Carbon Trading Public Sector 2010-2011 project	The team will have defined roles, established lines of communication and valuable experience to take into the CRC scheme itself
You will identify the number of allowances you need to buy in the auction in April 2010	You will purchase your first real allowances in the CRC in April 2011
You will trade virtual allowances throughout the project and surrender the correct number in June 2011	You must surrender allowances for the first time in July 2012

WHAT IS CARBON TRADING?

Carbon trading is about putting a price on emitting carbon. In order to do this a carbon market must be created. The organisations involved in a carbon market must buy carbon allowances — this gives them their carbon budget, the amount they are allowed to emit. The amount of allowances available is limited and to drive carbon emissions down this limit or ‘cap’ on the market decreases annually. The cap on the market affects the availability of supply and therefore the price of carbon allowances.

Organisations within the carbon market can buy and sell allowances from and to one another. The aim is for the market as a whole to reduce emissions in a cost effective way, rather than having single organisations chasing hard targets with expensive solutions. On the other hand, as the supply of allowances reduces and the price of allowances increases, organisations should be encouraged to invest more resources in reducing their carbon emissions.

For instance, in a simple example, 10 organisations each have a baseline of 100 tonnes of carbon emissions per year. This means they would need 1,000 carbon allowances between them to carry on with business as usual. However, the carbon market is capped, allowing them to emit just 900 tonnes of carbon. Divided equally, each organisation would buy 90 allowances — this is their carbon budget for the year.

Organisation A may find this easy; with basic measures it makes many savings and only emits 80 tonnes of carbon. Organisation B, however, will have to put in more investment. It still reduces its emissions to 95 tonnes of carbon but to balance its emissions with its allowances, it decides it is more cost effective to trade with organisation A, purchasing five additional allowances to allow it to emit five additional tonnes of carbon.

The government aims to achieve savings of 1.2 million tonnes of carbon by 2020 from business and public sector organisations. The CRC Energy Efficiency Scheme will be a mandatory cap-and-trade scheme for large organisations in the private and public sector. The system aims to give organisations incentives to reduce carbon emissions by putting a price on carbon through trading carbon allowances.

The CRC begins on 1 April 2010 with an introductory phase lasting three years. During this phase carbon allowances will be sold at a fixed price of £12 each, equivalent to one tonne of carbon. Organisations must purchase enough carbon allowances to cover all of the emissions that are liable under the legislation. For councils, this also includes schools, which could be more than 60 per cent of the carbon emissions they are responsible for. If an organisation needs more allowances it will have to buy them from other organisations in the CRC carbon market. In 2013 the first capped phase will begin, with an auction for the carbon allowances.

Author: Karen Lawrence

The LGiU is the largest, most influential think-tank and representative body operating in the space between Town Hall, Whitehall, Westminster and communities. Now in its 27th year, the LGiU continues to make a significant impact on public policy.

Our mission is to strengthen local democracy. Four policy centres — Service Transformation, Local Sustainability, Local Democracy and Children's Services — ensure that the LGiU's focus is on how councils and partners can deliver positive results and genuine impact for empowered communities.

The LGiU's Centre for Local Sustainability helps councils to better manage local resources; these resources can be environmental, social or economic. The Centre provides briefings and advice on climate change, waste management, green space, biodiversity, water quality, air quality, transport, planning, rural sustainability and sustainable economic development. The Centre for Local Sustainability works in partnership with government agencies and the private sector to join up policy and ensure that local government fully contributes to the development and implementation of sustainability strategies.

Centre for Local Sustainability at

LGiU

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