

# **Achieving Sustainable Water and the Carbon Agenda - Legal Issues and Complications**

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# Overview

- Sustainable water – role of climate change and the carbon agenda
- Current position
- Possible future changes/ direction
- Consider:
  - EU Emissions Trading System (EU ETS) and Carbon Price Support
  - Carbon Reduction Commitment Energy Efficiency Scheme (CRC Energy Efficiency Scheme)

# Sustainable water

- A sustainable water sector
- *“A sustainable water cycle in which we are able to meet our needs for water and sewerage services while enabling future generations to meet their own needs”* (Ofwat, *Delivering sustainable water – Ofwat’s strategy*, March 2010)
- Water and sewerage sectors use a lot of energy and produce a lot of emissions
  - “The operational activities of the [water and sewerage] sectors contribute about 1% of the UK’s GHG emissions, which shows the scale of the challenge”*  
(Ofwat, Climate Change Policy Statement ‘Preparing for the Future’)
- Companies have a role in reducing their impact

# “The Carbon Agenda” – Current Carbon Initiatives

- Ambitious UK targets on low carbon and renewable energy
- CRC
- Carbon price support
- Electricity Market Reform
- Green Deal
- EU ETS: UK proposals for opting out those emitting less than 25,000t CO<sub>2</sub><sup>e</sup>
- CRC/EU ETS: Review of interactions between the different policies

# The EU ETS and Carbon Price Support

# EU ETS and Reason for Carbon Price Support

- Europe wide cap and trade scheme
- Some water companies participate
- Cost of carbon set on EU ETS for power generation and energy intensive sectors.
  - EU allowances represent one tonne carbon dioxide.
  - Annual emissions determined by calculations of fossil fuels burnt and monitoring atmospheric emissions and allowances surrendered.
  - Cost abatement curve
- Carbon price affects investment decisions
- Greater investment in electricity generation required to meet carbon reduction targets and ensure security of supply
- EU ETS carbon price not stable, certain or high enough to encourage investment in nuclear and renewables (low carbon) industry

# Timing

- Government commitment to reduce GHG Emissions 80% by 2050 + 15% of UK energy from renewable sources by 2020
- Supporting carbon price is one of broader reforms to electricity market
- Part of coalition commitments
  - Consultation on CPS ran from 16 December 2010 – 11 February 2011
  - Government consultation response released March 2011
  - Primary legislation introduced in 2011 Finance Bill (31 March 2011), to be followed by other legislation
  - Carbon price support mechanism due to take effect from April 2013

# Carbon Price Proposal

- CCL on fuel duty will be levied on fossil fuels supplied to all types of UK electricity generators at rates based upon fuel's carbon content by:
  - Removing existing CCL exemptions relating to fossil fuels used in UK electricity generation.
  - Reducing amount of fuel duty that can be reclaimed when oil used to generate electricity.
- Will affect anyone supplying fossil fuels to UK generator of electricity incl, power stations, CHP stations and auto-generators.
- Use of average carbon content of each fossil fuel will create direct relationship between carbon price support rate on fuel used to generate electricity and emissions produced

Note: Renewable fuels e.g. water, solar, biomass used to generate electricity and uranium used in nuclear power station will be exempt from CCL and fuel duty

# Implications for the water sector

- Significant cost impact on energy purchasers with energy intensive operations eg. water sector
- Affect profit margins
- Affect household electricity bills – knock-on effect for utility affordability issues as a whole

# **CRC Energy Efficiency Scheme**

# CRC Energy Efficiency Scheme

- Water companies are participants
- Initial Compliance – Qualification & Registration
- Qualification year – for second phase
- Qualification threshold = electricity consumption of at least 6000 MWh through half hourly meters
- Supply rules
- CRC Registry
- Disaggregation of SGUs – by 30 July 2010
- Registration information – by 3 September 2010

## CRC – Key Steps

- Footprint report submission
- Purchasing sufficient allowances
- Measuring emissions and consolidating evidence
- Annual report submission
- Surrendering sufficient allowances

# CRC Proposed Alterations – Part 1 of 2

- The Committee on Climate Change Report (September 2010)
- Spending Review (October 2010) – no revenue recycling
- DECC Consultation (November/December 2010) – announcement of further structural changes
- DECC Discussion Papers published on 25 January 2011 – simplification and informal consultation

# CRC Proposed Alterations – Part 2 of 2

- First sale of allowances – was April 2011 and now in 2012
- First capped phase – was April 2013 and now in 2014
- Options for the sale of allowances in Phase 2 and beyond
- Will there be a CRC at all?
  - Monitoring and reporting
  - Performance league table
  - Carbon tax?

# Implications for water sector

- Cost implications
- Reputation implications
- Interaction with adoption of private sewers – October 2011

# Conclusions

- Water and sewerage sectors - energy and emissions intensive
- Companies have a role in reducing their impact
- Current Initiatives eg. EU ETS and Carbon Price Support, CRC Energy Efficiency Scheme
- Subject to change – watch for developments

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