



Department
of Energy &
Climate Change

Government Response to the Climate Change Agreements Target Review 2016 Discussion Paper and Call for Evidence

URN: 15D/061 March 2015



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General information

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Executive summary

This document is the Government Response in respect of the paper: 'Climate Change Agreements Target Review 2016: Discussion Paper and Call for Evidence' published on 29 October 2014. The paper set out the Government's proposals for the 2016 Target Review and also invited stakeholders to submit evidence that could be used to inform the review.

A total of 30 responses were received, including 28 from or on behalf of CCA scheme participants and two from other industry groups. All 30 respondents provided input to the Call for Evidence.

Respondents were broadly content with the approach set out in the Discussion Paper which comprised four stages:

- 1) sift and select;
- 2) detailed review;
- 3) resetting of sector commitments;
- 4) cascading of targets.

Respondents were also broadly content with the methodology, although a significant number of respondents signalled a view that there has been no change in realistic potential available to their sectors since 2012 that would provide a basis for adjusting the 2020 sector commitments. Based on these responses, we are initiating preparatory work on sift and select. This will assess the extent of any changes since 2012 that could affect sector commitments for 2020. Decisions on the process to be followed after the initial sift and select will be taken after that stage is complete. Decisions will be clearly communicated to stakeholders.

In the Discussion Paper we also presented a number of policy and administrative issues. These included:

- review of buy-out;
- policy on amendment of absolute targets where throughput drops by more than 10%;
- changing an agreement.

We have noted the responses received on these issues and other scheme administration and policy issues raised, and will take a view on these in due course. We will communicate any decisions clearly to stakeholders.

In the Discussion Paper we signalled the proposal that the Environment Agency, as scheme administrator, would conduct the key technical and analytical aspects of the

review in support of DECC's decision-making role. Respondents did not raise any concerns about these arrangements.

We also indicated in the Discussion Paper that we were considering the option of recovering the costs of carrying out the Review through the charges paid by scheme participants. In the light of responses received, we are minded not to pursue this option.

We are very grateful for the time stakeholders have taken to engage in this discussion and for views and evidence presented.

1. Introduction

- 1.1. This document is the Government Response in respect of the paper: 'Climate Change Agreements Target Review 2016: Discussion Paper and Call for Evidence' published on 29 October 2014. The discussion paper set out the Government's proposals for the 2016 Target Review and invited views from stakeholders. The paper also invited stakeholders to submit evidence that could be used to inform the review of the Climate Change Agreements sector commitments. The period for stakeholder responses closed on 23rd January 2015.

2. Responses

- 2.1. A total of 30 responses were received, including 28 from or on behalf of CCA scheme participants and two from other industry groups. A list of respondents is provided at Annex A.

3. The Proposed Approach

- 3.1. The proposed approach for the review was outlined in the Discussion Paper, and comprised the following four stages:
 - 1) **sift and select** - an initial review of all sectors in the scheme, to identify areas where changes in realistic potential may have occurred since targets were agreed in 2012, and to select sectors for detailed review accordingly;
 - 2) **detailed review** of selected sectors to further quantify changes in realistic potential;
 - 3) **agreeing new sector level commitments** with relevant sector associations where changes in realistic potential have been identified;
 - 4) **cascading** revised sector commitments, through sector associations, to inform revised Target Unit targets.
- 3.2. Respondents were broadly content with the review methodology. Of 30 responses received, 19 respondents confirmed that they were content with the proposed approach and 7 did not comment on this point. However, a significant number of respondents signalled their view that there had been no change in the realistic potential available in their sectors since targets were set in 2012 and therefore no justification for revisiting the 2020 sector commitments.
- 3.3. One respondent suggested that all sector associations should be offered the opportunity to participate in thorough reviews of performance with the prospect of a reasoned assessment of future sector performance.

- 3.4. We confirm that it is our intention that the initial sift and select process will cover all sectors. We will take a decision in due course as to which sectors, if any, will be proposed for detailed review (based on outputs of the initial sift and select process). This will be clearly communicated to stakeholders.

Sift and Select

- 3.5. 15 respondents commented specifically on the proposals for sift and select. The key comments are summarised below:
- 4 sectors wished to be excluded from the review on the basis that there had been no changes in their sectors since 2012 to warrant an adjustment of their 2020 sector commitments.
 - 3 sectors wished to be excluded from the review on account of their eligibility for the mineralogical and metallurgical exemption. They suggested that resetting a sector commitment for a metallurgical or mineralogical sector after a number of Target Units have withdrawn from the scheme could result in a sector commitment no longer reflecting the sector as a whole. This could provide a disincentive for any Target Units having left the scheme to re-join the scheme in the future.
 - 3 respondents were concerned that the sift and select process would be “self-determining”. This was on the basis that the process would lead to the selection of only larger sectors and those that accepted their sector commitments in 2012 without submitting counterproposals supported by evidence templates.
 - 3 sectors raised concerns over the emphasis on Target Period 1 (TP1) data as a basis for setting new targets. They suggested that performance as reported for TP1 will have been influenced by variables driven by external factors such as economic recovery and may not be a reliable guide to industry performance over a longer period.
 - 6 sectors requested the option to opt in to the detailed review.
- 3.6. It is our intention that all sectors will be subject to the initial sift and select process. This is in line with the requirement for Government to review targets set under Climate Change Agreements every 7 years under Schedule 6 of the Finance Act (2000 as amended in 2012).
- 3.7. We confirm that it is not our intention to focus only on larger sectors and those that did not submit evidence templates in 2012. Decisions on next steps will be informed by findings on how much has changed since targets were set in 2012 that could influence expectations of potential realisable by 2020. This could be informed by evidence from a variety of sources including from templates from 2012 (where submitted) and Target Period 1 (TP1) data when reported. In this context, interpretation of TP1 data would take account of the influence of variables driven by externalities such as wider economic trends.

- 3.8. Regarding metallurgical and mineralogical sectors, we note the point regarding resetting a sector commitment where there have been or are likely to be significant changes to the number and type of Target Units from this sector participating in the scheme. We also note that 6 sectors have asked to be included in a detailed review.

Detailed review

- 3.9. The majority of respondents were content with, or raised no objections to the detailed review process as outlined. However, a number of respondents commented on the proposals:
- 1 sector made a request for the detailed review to be undertaken by a sector specialist;
 - 9 sectors expressed concerns about submitting any additional evidence having submitted their evidence templates in 2012;
 - 1 sector requested that time is made available for sectors to collect evidence;
 - 2 sectors wished to provide information from their ESOS audits;
 - 2 sectors were content for DECC to use information provided for the Roadmaps¹ 2050 Project for the purposes of the review.
- 3.10. We note the above responses and will take a view on detailed review in due course. We will then communicate our decisions to stakeholders.

Agreeing new sector level commitments

- 3.11. No additional comments were received on the process outlined for agreeing new sector commitments.

Adjudication

- 3.12. In the Discussion Paper we noted that if the Sector Association and the Secretary of State fail to agree on a variation of the sector commitment, either party may refer any dispute over facts to an adjudicator for adjudication. In the Discussion Paper we set out our proposal that, were it necessary to appoint an adjudicator, an independent expert in the relevant technical area, agreeable to both parties, would be selected. No comments were received.

¹ The Roadmaps 2050 project led by DECC, BIS and Industry aims to provide a practical, independent and objective analysis of pathways to achieve a low-carbon economy in Europe, in line with the energy security, environmental and economic goals of the European Union.

Cascading targets

- 3.13. There were 17 responses on cascading of targets:
- 16 respondents sought clarification on the role of the Environment Agency in cascading the targets and how the proposed approach differed from the process in 2012;
 - 1 sector requested further information on how to cascade targets to TUs.
- 3.14. We clarify that the intention as set out in the Discussion Paper was that the process of cascading sector commitments to Target Units would be the same as was used in Target Setting 2012. i.e. sectors would be responsible for cascading sector targets among their operators and, as before, would be expected to work with their operators to ensure this process were completed to schedule.
- 3.15. The Environment Agency role would be administrative only, such as the issuing of agreements with revised targets for assent. As previously, the Environment Agency would only decline the sectors' proposed distribution if there was something incorrect in administrative terms, for example, if the sum of the target unit targets did not deliver the sector commitment.

Conclusion on Proposed Approach

- 3.16. We are grateful for and note all the responses received on the proposed review process. Final decisions on the process to be followed after the initial sift and select will be taken after that stage is complete and will be clearly communicated to stakeholders.

4. Additional administrative and policy issues

- 4.1. In the Discussion Paper we set out the current position on a number of administrative and policy matters relating to the Scheme.

Buy-out price

- 4.2. In the Discussion Paper we noted that the Government response to the Consultation on simplification (2012) stated that the buy-out price would be reviewed at the target review scheduled for 2016. In the Discussion Paper we signalled our intention that, as part of the Target Review, we would examine the extent of buyout use in TP1 once this data becomes available to inform any review of buy-out for TP3 and TP4. We indicated that we have no plans to adjust the buy-

out price for the first two reporting periods of the Scheme i.e. before the end of 2016.

- 4.3. 20 respondents commented more broadly on the issue of review of buy-out price:
- 16 were not in favour of a future change to the price. A number of reasons were cited. Respondents said that: the current Climate Change Underlying Agreements price of £12 per tonne has brought certainty to businesses; any changes would deter future investments; and incentives for participation would be eroded;
 - 1 sector asked that participants have the opportunity to buy and sell their surplus;
 - 2 respondents indicated they would like to be consulted on any changes to the buy-out price;
 - 1 respondent questioned why TP1 data has a bearing on buy-out price.

Amendment of absolute targets where throughput drops by more than 10%

- 4.4. In the current CCA scheme, TUs which have absolute targets have their targets tightened when their throughput falls by more than 10%. In the Discussion Paper we signalled a view that this mechanism should be retained in its current form, for scheme stability and predictability. 16 respondents commented on this:
- 13 supported the proposal to retain the mechanism in its current form;
 - 2 respondents requested that the mechanism is changed to include degree days;
 - 1 respondent supported the proposal to retain the mechanism but wanted the tolerance to be widened to 20%.

Changing an Agreement

- 4.5. In the Discussion Paper we noted that the Operations Manual states that: “To maintain stability within the scheme, a number of areas of an agreement cannot be changed. The next opportunity to review these for a target unit may be during the 2016 target review”. This applies to:
- Target unit target (% value) unless there is a relevant variation
 - Target type (absolute/relative)
 - Throughput currency
 - The 12 month base year period

4.6. We stated in the discussion paper that in order to preserve scheme stability and policy intent it is not our intention to allow individual TUs to request changes. 20 responses were received on this matter:

- 2 respondents requested the ability to redistribute sector commitments in the light of new information;
- 19 respondents requested the ability to change target type;
- 13 respondents requested the ability to un-bubble/bubble a TU.

12 respondents requested the ability to change their 12 month base year period where a structural change has occurred or following a transfer of ownership.

Further items

4.7. In addition to the issues above, we noted in the Discussion Paper a number of other scheme matters that have been raised during TP1 on which we were happy to receive views.

Carbon Factors

4.8. We noted that fixed carbon factors were set for the duration of the scheme in 2012 and underpin the 2008 baselines and are integral to setting the commitments. Respondents did not comment on this.

Adding new sectors

4.9. In the Discussion Paper, we referred to the previous policy statement that no new sectors will be permitted to enter into new agreements after the new scheme has commenced and that this would be reviewed in 2020.

4.10. No responses were received on the topic of adding new sectors, although 2 responses were received which made a request to add new processes.

Allowing movement of Target Units between sectors

- 4.11. In the Discussion paper we restated DECC's intention that to avoid "target shopping"², the policy that Target Units should not be permitted to move between sectors should remain. We indicated that there are currently no plans to review this settled position.
- 4.12. 2 respondents requested that Government revisit the restriction of movement of TUs between sectors.

Additional topics raised by respondents

Renewables

- 4.13. 5 respondents raised the issue of the treatment of renewables in the scheme and highlighted the point that renewable electricity is treated differently to renewable heat. The issue was also raised of the lack of an incentive for on-site renewable electricity generation within the scheme.

Conclusion on Administrative and Policy Issues

- 4.14. With regard to the additional scheme administration and policy issues above, we have noted the responses received and we will take a view in due course. We will then communicate any decisions clearly to stakeholders.

5. Carrying out the Review - roles and responsibilities

- 5.1. In the Discussion Paper we signalled the proposal that the Environment Agency, as scheme administrator would conduct the key technical and analytical aspects of the review in support of DECC's decision-making role. Respondents did not raise any concerns about this proposal.

6. Funding for the Review

- 6.1. We indicated in the Discussion Paper that we were considering the option of recovering the costs of the Review through the charges paid by scheme participants. We received 23 responses on the subject of funding for the review. All 23 responses were against this option.

² 'Target shopping' is the term given to the selective movement of Target Units between CCA sectors in search of a lower sector commitment.

- 6.2. In light of these responses we are minded not to pursue the option of recovering the costs of the review through the charges paid by scheme participants.

7. Call for evidence

- 7.1. All 30 respondents contributed to the call for evidence. They provided the following inputs:
- 23 respondents said that they believed there were minimal or no changes since 2012 in techno-economic potential realisable by 2020.
 - 14 said that the economic climate continues to be challenging.
 - 15 respondents provided information on technologies and processes specific to sectors, including information on deployment.
 - 11 pointed to other EU or UK Government policies and their impacts.

We will take these inputs into account in our analysis.

8. Next Steps

- 8.1. Based on responses, we are initiating preparatory work for sift and select. This preparatory work will assess the extent of any changes since 2012 that could affect sector commitments for 2020. This will be based on analysis of:
- evidence provided through the Call for Evidence;
 - other information held by technical consultants to the Scheme (R-AEA);
 - other publicly available information.

We will take account of Target Period 1 data when this becomes available later in the year.

We are very grateful for the time stakeholders have taken to engage in this discussion and for the views and evidence presented.

Annex A

Responses were received from or on behalf of the following organisations³:

Aerospace Defence Security and Space Industries (ADS)

Agricultural Industries Confederation (AIC)

Aluminium Federation (ALFED)

British Calcium Carbonate Federation (BCCF)

British Ceramic Confederation (BCC)

British Compressed Gases Association (BCGA)

British Glass Manufacturers' Confederation (BGMC)

British Lime Association (BLA)

British Meat Processors Association (BMPA)

British Poultry Council's (BPC)

Chemical Industries Association (CIA)

Confederation of Forest Industries (Confor)

Craft Bakers Association (NAMB)

Food and Drink Federation (FDF)

Food Storage and Distribution Federation (FSDF)

Kaolin and Ball Clay Association (KaBCA)

Malsters' Association of Great Britain (MAGB)

Metal Packaging Manufacturers Association (MPMA)

Mineral Products Association (MPA)

National Farmers' Union (NFU)

Plastics and Film Association (PAFA)

Schneider Electric

Spirits Energy Efficiency Company (SEEC)

Textile Services Association (TSA)

The Association for Decentralised Energy (ADE)

British Non-Woven Manufacturers' Association (BNMA)

³ A number of responses were co-ordinated by consultants Jacobs and Farm Energy Centre on behalf of sectors in the Climate Change Agreements scheme. The Manufacturers' Climate Change Group (MCCG) also provided a response on behalf of its members, some of whom are listed above.

The Confederation of Paper Industries (CPI)

The Society of Motor Manufacturers and Traders Limited (SMMT)

United Kingdom Renderers Association (UKRA)

Wood Panel Industries Federation (WPIF)

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