

Consultation on simplifying the Climate Change Agreements Scheme

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The consultation [and Impact Assessment] can be found on DECC's [Consultation on the Simplification of the Climate Change Agreements Scheme](#) web page

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Ministerial Foreword

A streamlined Climate Change Agreements Scheme

- i. Maintaining the international competitiveness of the UK's energy intensive industries while reducing their greenhouse gas emissions is a key objective of the Coalition Government. If we are to meet our target of 80% reduction in UK emissions by 2050 and grow the UK economy it is imperative we help businesses reduce their emissions and improve their energy efficiency. Such steps will reduce costs to business and improve competitiveness.
- ii. Climate Change Agreements (CCAs) reduce the impact of the Climate Change Levy on energy intensive industries by providing a 65%¹ discount from the levy in return for agreement holders meeting challenging energy efficiency targets.
- iii. The policy landscape has changed since CCAs were introduced in 2001. Other programmes and policies have been introduced over the following 10 years, including the EU Emissions Trading System and the CRC Energy Efficiency Scheme. As promised in our first Annual Energy Statement, the Coalition Government has reviewed the policy landscape to ensure businesses are incentivised to improve their energy efficiency and Government reduces policy overlap in line with our Lean Regulation agenda.
- iv. We announced in Budget 2011 that the CCA scheme will be extended to 2023 with the existing 54 sectors continuing to be eligible. This extension will provide industry with long term regulatory certainty and enable participants to invest in energy efficiency measures with longer payback periods.
- v. This consultation document sets out our plans for the new CCA scheme to run, subject to State Aid approval, from April 2013. This consultation builds on industry's responses to the consultations of the previous Administration and takes a further step in setting out simplification proposals on streamlining the scheme.
- vi. These proposals will provide financial benefits to business in the range of £2.4M to £3.4M during the life of the scheme². I am keen to ensure that a revitalised CCA scheme provides industry with the space in which to build on the energy efficiency improvements of the past 10

¹ Increasing to 80% on electricity supplies from April 2013.

² Impact Assessment No. DECC0040 – Proposals on the future of Climate Change Agreements

years and create world beating energy efficient industries which can form a core part of our growing low carbon economy.

GREGORY BARKER MP

Minister of State for Climate Change

Contents

Details of the Consultation.....	6
Executive Summary.....	10
Introduction.....	12
1. Proposals for a simplified CCA Scheme.....	17
1.1 Eligibility for Climate Change Agreements.....	17
1.2 Streamlining reporting and scheme participation	18
1.2.1 Target and Milestone Periods.....	18
1.2.2 Choice of Target Currency	19
1.2.3 Harmonising Reporting Periods & baseline years	19
1.2.4 Target Reviews	20
1.2.5 Target Negotiations	21
1.2.6 Techniques to allow relative targets across diverse products	22
1.2.7 Types of Underlying Agreement.....	23
1.2.8 Contents of the Agreements.....	23
1.3 Increasing fairness and transparency	24
1.3.1 Targets to be met at target unit, rather than sector level.....	24
1.3.2 Data requirements at Reconciliation.....	25
1.3.3 Release of information to third parties.....	26
1.4 Effective and proportionate incentives for energy efficiency	26
1.4.1 Risk management tools.....	26
1.4.2 Penalties	30
1.5 Reducing Overlap with other schemes	31
1.5.1 Removing EU ETS Overlap.....	31
1.5.2 Increasing allowable site coverage and reducing overlap with CRC	33
1.6 Scheme Administration	34
1.7 Call for Evidence on Participants' Administration Costs.....	34
Annex 1 - List of Consultation Questions.....	37

Details of the Consultation

This consultation is seeking views on a number of proposals to simplify the Climate Change Agreements (CCAs) scheme.

The consultation is mainly aimed at the CCAs sectors and participants. We would welcome suggestions of others who may wish to be involved in this consultation process.

Issued: 2 September 2011

Respond by: 28 October 2011

Enquiries to:

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Consultation reference: URN 11D/829 - Consultation on Simplifying the Climate Change Agreements Scheme

Territorial extent:

The CCAs scheme is UK-wide. The administration of the scheme is a DECC policy. The CCL relief is administered by HMRC.

Consultation Process:

This consultation exercise is the latest part of the consultation process by DECC. The process began in March 2008 when DECC explored initial ideas with sector associations at a Plenary Meeting. Subsequently DECC has received written comments from some sector associations and has participated in a number of other meetings with groups of sector association representatives at which issues related to the new Climate Change Agreements have been considered. In parallel with this written consultation DECC plans to hold additional meetings with sector associations and interested parties to analyse further the options and develop the new climate change agreements. Subsequently a consultation on the rules and agreements of the scheme will be published later in 2011.

This written consultation will run for an 8 week period, commencing on 2 September 2011 and will close on 28 October 2011.

Please refer to the Impact Assessment that accompanies this consultation document for information on the costs and benefits of the options identified.

How to respond:

Direct responses to the questions posed will be most useful, though comments are welcome on any aspect of the proposals set out in Table 1. **Evidence** to support your answers will be particularly helpful, but if including any long reports as part of your response, please identify the relevant sections.

Responses are welcome by email or post to the address above.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

You are requested, where possible, to use the [electronic version of the consultation response form](#).

Please forward your reply to: ccaconsultation@decc.gsi.gov.uk.

Alternatively, please complete a paper copy of the consultation response form and forward by post to:

Department of Energy and Climate Change
Climate Change Agreements
Area 1A
3 Whitehall Place
London
SW1A 2AW

For any enquiries, please telephone 0300 068 5301 or 0300 068 5188.

Respondents in Scotland, Wales and Northern Ireland are invited to copy their submission to the appropriate Devolved Administration:

Scotland

By email: James.Simpson@scotland.gsi.gov.uk

By Post: James Simpson
Energy Efficiency & Low Carbon Economy Unit
The Scottish Government
4th Floor, 5 Atlantic Quay
150 Broomielaw
Glasgow G2 8LU

Enquiries: 0300 244 1068

Wales

By email: Richard.Williams2@wales.gsi.gov.uk

By Post: Richard Williams
Climate Change and Water Division
Welsh Assembly Government
Cathay Park
Cardiff, CF10 3NQ

Enquiries: 029 2082 3948

Northern Ireland

By email: Keith.Brown@doeni.gsi.gov.uk

By Post: Keith Brown
Climate Change Unit
Environmental Policy Division
Department of the Environment (Northern Ireland)
6th Floor, Goodwood House
44-58 May Street
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Enquiries: 028 9025 4780

This consultation is in line with the Code of Practice on Consultation. This can be found at <http://www.berr.gov.uk/bre/>.

When this consultation ends, a copy of response will be made available to the public. Members of the public may ask for a copy of responses under the freedom of information legislation.

If you do not want your response – including your name, contact details and any other personal information – to be publicly available, please say so clearly in writing when you send your response to the consultation. Please note, if your computer automatically includes a confidentiality disclaimer, that will not count as a confidentiality request.

Please explain why you need to keep details confidential. Your reasons will be taken into account if someone asks for this information under the freedom of information legislation. But, because of the law, it will not always be possible to keep those details confidential.

All responses will be summarised and the summary placed on the DECC website at <http://www.decc.gov.uk/consultations>. This summary will include a list of names of organisations that responded but not people's personal names, addresses or other contact details.

To see consultation responses and summaries, please contact:

Department of Energy and Climate Change
Climate Change Agreements
First Floor
3 Whitehall Place
London
SW1A 2HD

Telephone: 0300 068 5188

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Please allow 24 hours' notice. There may be a charge for photocopying and postage.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found on the [Consultation on the simplification of the Climate Change Agreements Scheme](#) web

page.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on our website at www.decc.gov.uk/en/content/cms/consultations/. This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance:

This consultation has been carried out in accordance with the Government's Code of Practice on consultation, which can be found here:

<http://www.bis.gov.uk/files/file47158.pdf>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator
3 Whitehall Place
London SW1A 2AW
Email: consultation.coordinator@decc.gsi.gov.uk

Executive Summary

1. The Climate Change Agreements (CCAs) Scheme was introduced in 2001 in response to the Marshall Report on 'Economic Instruments and the Business use of Energy' and the introduction of the Climate Change Levy (CCL) which is charged on non-domestic energy supplies. The Agreements were introduced as it was recognised that the Levy could impact on the competitiveness of energy intensive industry. CCAs enable energy intensive industry to benefit from a 65%³ reduction in the CCL in return for meeting demanding energy efficiency targets. The Agreements offset competitive disadvantage and reduce energy use across participating sectors.
2. The first CCAs Scheme expires in March 2013. Government committed in the Annual Energy Statement in July 2010 to consider the future of CCAs in tandem with a review of the CRC Energy Efficiency Scheme (CRC) to ensure delivery of significant improvements in energy efficiency with minimal complexity and policy overlap. The Budget Statement in March 2011⁴ announced that a replacement Scheme will be implemented and is scheduled to commence in April 2013, subject to State Aid approval. The new Scheme will run until 2023 which will provide certainty for industry and encourage long-term investment in energy-saving strategies.
3. The previous Administration consulted on changes to CCAs in March and December 2009 and March 2010⁵. These consultations included proposed changes to simplify and streamline the operation of the new scheme.
4. The proposals in this consultation document include a review of those included in the previous consultations. The Coalition Government has reviewed the proposals and decisions and this document presents our conclusions and revised proposals. Additionally, as part of Government's drive to reduce the administrative burden on business, new proposals have been identified which are also included in this consultation document.
5. These proposals aim to simplify and improve the operation of the scheme as well as increase transparency and accountability. In summary these proposals will:
 - Amend legislation to **guarantee the rights of the existing 54 sectors** to remain within CCAs. This action has been taken in order to reduce administrative burdens on both industrial sectors and Government and to provide certainty for industry.

³ Increasing to 80% on electricity supplies from April 2013.

⁴ <http://www.hmrc.gov.uk/budget2011/tiin6125.pdf>

⁵ [Consultation on form and content of new Climate Change Agreements, March 2009; Second consultation on the form and content of Climate Change Agreements, December 2009; Government Response to the second Consultation on the Form and Content of New Climate Agreements, March 2010; Climate Change Agreements: consultation on draft revised Agreements and Scheme Rules, March 2010; Plenary Report DECC December 2010.](#)

- **Lower the current threshold from 90% to 70% of the minimum eligible energy use of a site based on which the CCL discount can be granted for the whole site.** This means that around 450 more participants who currently claim CCAs will be able to get the CCL discount for the whole of their site
 - **Reduce the burden on industry** by retaining the biennial performance assessments, aligning the reporting year for the scheme into the calendar year already used by the EU Emissions Trading System, simplifying the scheme's agreements and introducing rules so that the Scheme is simpler to administer
 - **Remove the overlap with the EU Emissions Trading System** by splitting the CCA targets into two elements: (a) emissions within a CCA and covered by the EU Emissions Trading System (EU ETS) (not subject to a CCA target and eligible for the CCL discount), and (b) a negotiated CCA target covering non-EU ETS emissions and electricity. This will reduce the admin burden for the target units which are also in the EU ETS by not having to apply a complicated rule to adjust their target for the overlap before their performance gets assessed at reconciliation.
 - Close the UK Emissions Trading Scheme (UK ETS) and replace it with a simpler system **to enable risk management by participants when meeting targets without jeopardising their levy discount.** This will save participants the costs of maintaining trading accounts, verifying allowances and trading.
 - Introduce a **voluntary financial penalty system** which will avoid businesses losing the CCL discount for minor infringements
6. In the Impact Assessment accompanying this consultation, the net benefit to business of the proposed changes from 2012-2020 is estimated to be in the range of £2.4M to £3.4M.

Introduction

1. Government committed in the Annual Energy Statement in July 2010 to consider the future of Climate Change Agreements (CCAs), alongside a review of the CRC Energy Efficiency Scheme (CRC) to ensure delivery of significant improvements in energy efficiency with minimal complexity and policy overlap. The current CCAs will end on 31 March 2013 and the 2011 Budget⁶ announced that Scheme will be extended to 2023. Government has considered a range of options, in discussion with stakeholders. This consultation seeks views on the proposed approach for CCAs.
2. The Climate Change Levy (CCL) is the UK's energy tax and was introduced in 2001 to drive an increase in energy efficiency. It is a tax on supplies of electricity, gas, solid fuel and liquefied petroleum gas payable by business and public sector organisations. Prior to its introduction, the potential impact of the CCL on international competition of energy intensive industries was noted⁷. Therefore, CCAs were introduced to reduce this impact on industry by giving them a CCL discount but for meeting challenging negotiated energy efficiency targets.
3. The aim of these negotiated targets (set out in CCAs agreed with Government) was to mitigate the impact of the CCL on energy intensive industry and to deliver energy efficiency improvements at least equivalent to the savings that would have been achieved were sectors required to pay the full rates of the CCL.
4. Since CCAs were first introduced in 2001, the policy landscape has evolved significantly, resulting in a mix of legislation and policy which contribute to a complex environment within which industry and Government must operate. In particular the EU Emissions Trading System (2005), the Climate Change Act 2008 and the CRC Energy Efficiency Scheme (2010) have been introduced. The Climate Change Act 2008 has also introduced a requirement on Government to set and meet legally binding Carbon Budgets.
5. This consultation document makes proposals for the future simplified CCA scheme. In doing so, Government has considered proposals made by the previous Administration and industry's responses together with discussions this Administration has had with industry, including the CCA stakeholder event in December 2010. Where evidence has already been provided by stakeholders to the proposals, Government has set out its decisions in this document. In addition, there are also a number of new proposals, on which views are sought. All the proposals and decisions are summarised in **Table 1** below and reviewed in detail in Section 1. Government will consult stakeholders on the details of the revised scheme rules and agreements later in the year. All questions relating to the proposals set out in **Table 1** are listed within **Annex 1** of this document.

⁶ <http://www.hmrc.gov.uk/budget2011/tiin6125.pdf>

⁷ [Marshall Report on "Economic Instruments and the Business Use of Energy" October 1998.](#)

6. The proposals can be divided into a number of key areas. The first area proposes that eligibility for existing sectors will be unchanged, but no new sectors will be included. Government will review this proposal in 2020. The second area relates to streamlining administration and reporting and includes changes to reporting periods, target currencies and contents of agreements. The next sets of proposals relate to increasing fairness and transparency of the Scheme; the introduction of effective incentives for energy efficiency, including the introduction of a penalty regime, reducing overlap with the EU Emissions Trading System and changes to the 90/10 rule. The final area addresses Scheme administration where Government proposes to appoint a Scheme administrator.
7. **In responding to the questions raised in this consultation, you are requested to provide as much evidence as possible in support of your views and opinions.** In particular, Government is keen to receive more evidence on the impact that all the proposals will have on the administration costs for industry. The Impact Assessment accompanying this consultation has assessed the total administration cost savings to industry and Question 11 specifically asks you to estimate the impact of each proposal on your administration costs.
8. The Government's intention is that the new Agreements should be in place at the beginning of 2013 and, subject to EU State Aid approval, provide eligibility for Levy discount from 1 April 2013. This will ensure continuity of CCL discount for those current Scheme participants that enter into new Agreements.

Table 1: Summary of proposed changes and decisions

Issue (including section number)	Current Scheme	Proposal /Decision
1.1 Eligibility for Climate Change Agreements	Eligibility based on the Integrated Pollution Prevention and Control Regulations 2000 or Energy Intensity criteria.	<p>Proposal: The existing 54 sectors will be defined in secondary legislation and will continue to be eligible for CCAs.</p> <p>Proposal: New sectors will be ineligible to join the new scheme. Government will review alongside the future of the scheme in 2020.</p>
1.2.1 Target Periods, Milestone Periods and Reconciliation	Target periods run for two years. Milestone Periods run for the second year of the Target Period. Reconciliation takes place at the end of each target period.	<p>Proposal: Target periods to start in 2013, 2015, 2017 and 2019. Reconciliation to take place at the end of each target period and cover performance over the two years of the target period.</p>

1.2.2 Choice of target currency	Sectors and target units able to choose between absolute and relative targets	Decision: Sectors will be able to continue to choose absolute or relative targets. (No change from current scheme)
1.2.3 Reporting Periods and harmonising baseline years	Sectors can choose target periods beginning on 1 October, 1 November, 1 December, or 1 January. Sectors could select a baseline from 1990 onwards.	Decision: All target periods will commence on 1 January. Decision: To establish one common date from which savings attributed to the scheme can be assessed. Proposal: To establish 2008 as the common date from which savings attributed to the scheme can be assessed.
1.2.4 Target Reviews	The current scheme provided for target reviews in 2004 and 2008.	Proposal: Target review to take place in 2016.
1.2.5 Target Negotiations	Target negotiations carried out on a sector by sector basis.	Proposal: Streamline the process of negotiating and reviewing targets by amalgamating sectors for negotiation purposes.
1.2.6 Techniques to allow relative targets across diverse products	The Novem procedure could optionally be applied to relevant sectors and target units for target setting and measuring performance.	Decision: The Novem methodology should continue to be applied, but in an obligatory way, for relevant sectors and target units, irrespective of whether the result is advantageous or disadvantageous to the sector or target unit concerned.
1.2.7 Types of Umbrella and Underlying Agreements	Until 2006 sectors could choose between two types of underlying agreement: (i) between the target unit and the Secretary of State, or (ii) between the target unit and the sector association with approval from the Secretary of State.	Decision: All Underlying agreements will be between the Administrator and Target Units. Umbrella agreements will be between the Administrator and Sector Associations.

1.2.8 Contents of the agreements	Agreements contain all the rules relating to the functioning of the scheme.	Decision: To simplify the administration of the scheme there will be a shortened form of agreement with the rules relating to the functioning of the scheme set out in separate documents.
1.3.1 Targets to be met at target unit, not at sector level	Target units are deemed to have met their targets if their sector has met its target.	Decision: In order to qualify for levy discount, target units will be required to each meet their own target, regardless of whether the sector has met its target.
1.3.2 Data requirements at Reconciliation	Different data are required at Reconciliation depending on whether a sector has passed its target.	Decision: All target units will be required to submit the same data regardless of whether or not a sector has achieved its target. The data requirements will be the same as those that currently apply to sectors failing their targets.
1.3.3 Release of information to third parties	Confidentiality provisions do not permit the release of any information except in very limited circumstances including compliance with legislation including FOI and EIR or with the consent of the operator.	Proposal: Administrator to publish emissions data submitted at Reconciliations. Other confidentiality provisions to remain the same.
1.4.1 Risk Management Tools	<p>Risk management tools currently are carbon trading, relevant constraints and disrupted power supply available to target units.</p> <p>CCA participants able to, bank, trade and retire UK Emissions Trading System allowances to assist with the achievement of targets.</p>	<p>Decision: The facility to handle disrupted power supply will be retained. The relevant constraints tool will be discontinued. Trading of UK ETS allowances and the UK emission trading registry will be discontinued.</p> <p>Proposal: In place of the UK emissions trading registry, a buy-out mechanism will be introduced for scheme participants to account for any shortfall against targets. There will be an opportunity for participants to 'bank' any overachievement against targets for a later date and verification will not be required.</p> <p>There are also 3 price options for the new buy-out mechanism on which views are sought: 1) an initial price of £12 set by DECC, 2) a price linked to a CO₂ equivalent based on the current CCL price for electricity or 3) a price linked to</p>

		<p>EU-ETS price.</p> <p>The buy-out price will be reviewed before each reconciliation.</p>
1.4.2 Penalties	<p>None. De-certification or termination of CCAs are the only sanctions to encourage compliance.</p>	<p>Proposal: To introduce a system of financial penalties for minor infractions that do not warrant decertification or termination of CCAs. Therefore ensuring continued receipt of CCA discount.</p>
1.5.1 EU ETS Overlap	<p>A double counting mechanism is applied where there is an overlap between CCAs and EU ETS.</p>	<p>Decision: To reduce previous policy complexity; all of the energy use within a CCA and covered by the EU ETS will continue to be eligible for a CCL discount. However, the component of these emissions that are covered by the EU ETS will be excluded from CCA targets.</p>
1.5.2 Site Coverage	<p>Installations where the eligible energy use is equal to or greater than 90% of the total energy consumption on the site are eligible to claim CCL discount on 100% of their energy use.</p> <p>Installations where the eligible energy use is less than 90% of the total energy consumption on the site can claim the CCL discount on an extra 1/9th of their eligible energy use.</p>	<p>Decision: The 90/10 rule will be replaced with a 70/30 rule. This will entitle more installations where the eligible energy use is equal to or greater than 70% of the total energy consumption on the site to claim CCL discount on 100% of their energy use. This also removes the requirement for sub metering.</p> <p>The 1/9th provision will be retained.</p>
1.6 Scheme Administration	<p>Administrative procedures undertaken by DECC at no cost to scheme participants.</p>	<p>Decision: Scheme delivery will be transferred to third party administrators and the administrative costs will be recovered via a charging scheme in line with other schemes.</p>

1 Proposals for a simplified CCA Scheme

1.1 Eligibility for Climate Change Agreements

9. From 2001 eligibility for the current scheme has been determined by applying part A1 or A2, in Part 1 of Schedule 1 of the Integrated Pollution Prevention and Control (England and Wales) Regulations 2000 (IPPC). Sites situated in Scotland and Northern Ireland and smaller sites in England and Wales that did not meet the size thresholds of the IPPC, but otherwise would qualify, were also eligible for a CCA. The exception to this is combustion plants with more than 50 MW capacity and the 3 MW limit for burning waste oil, recovered oil or fuel manufactured from or comprising waste.
10. In 2006 the eligibility criteria were extended to include certain energy intensive sectors carrying out the eligible processes set out in the Schedule to the Climate Change Agreements (Eligible Facilities) Regulations 2006⁸. The energy intensity eligibility criteria are as follows:
- Either:
- energy intensity (EI) of 10 per cent or more of the production value for the installation, the site or the sector; or
 - energy intensity (EI) of 3 per cent or more but less than 10 per cent of the production value for the installation, the site or the sector so long as there is an import penetration ratio of 50 per cent or more.
11. The approaches set out above have led to the current participation of 54 sectors in CCAs.
12. Government announced in the 2011 Budget⁹, an extension of the CCA scheme until 2023 with the existing 54 sectors continuing to be eligible. It also announced an increase in the CCL discount CCA participants receive on electricity, from 65 to 80 per cent with effect from April 2013.
13. Rather than reviewing the existing 54 sectors against the eligibility criteria to ensure they remain eligible to enter into new agreements, the Government decided to guarantee rights to the scheme to the current 54 sectors and will set this out in legislation. This action has been taken in order to reduce administrative burdens on both industrial sectors and Government and to provide certainty for industry.
14. We propose to maintain our current policy not to accept new entrant sites to the existing CCA scheme until the end of the existing scheme in March 2013 as there will be no opportunity for

⁸ [As amended by S.I.2006/1931 and S.I. 2009/2458](#)

⁹ <http://www.hmrc.gov.uk/budget2011/tiin6125.pdf>

such sites to meet energy efficiency targets in that time period. New entrant sites will be eligible to join the new scheme in time to receive the CCL discount from 1 April 2013.

15. Government does not intend to include any new sectors in CCAs but will review eligibility alongside the future of the Scheme in 2020.

Consultation Question 1

Question 1: Do you agree that defining in legislation the eligible processes covering the current 54 sectors, provides a worthwhile administrative simplification over reassessing eligibility for all sectors?

Please explain your reasoning.

1.2 Streamlining reporting and scheme participation

1.2.1 Target and Milestone Periods

16. Under the current Scheme target periods run for two years, with milestone periods covering the final year in each two year period. During Reconciliation, target units must prepare and submit data on performance to sector associations for the milestone year. The sector associations then collate and forward this information to DECC.
17. Following the introduction of CCAs in 2001, there has been a greater expectation that business should continuously monitor its energy use and carbon emissions (e.g. EU ETS, CRC). Government therefore proposes to ensure that every year is covered by a target. This corresponds to good energy management, and is also more transparent. To achieve this, Government proposes to extend the milestone period to cover the two year target period. Target and milestone periods will then be identical. This will ensure that performance against targets is measured continuously, and will provide a further incentive to make efficiency improvements.
18. The target periods for the new Scheme would start in 2013, 2015, 2017 and 2019. At present, facilities can move in and out of target units during the first 12 months of a target period, but not during the milestone period. We will work with industry to develop arrangements on how to handle structural change during the development of CCA guidance in 2012.

Consultation Question 2

a) Do you agree that reporting targets at the end of the 2 year milestone period strikes an appropriate balance between reducing administrative burden and providing industry with a further incentive to make efficiency improvements?

b) What are the additional costs of reporting energy use for the year?

Please explain your reasoning, including what the impact would be on your business.

1.2.2 Choice of Target Currency

19. Under the current Scheme, target units can choose between absolute and relative targets. Sectors then select the currency of the largest energy use in the sector. Around 94 per cent of target units and 49 out of 54 sectors currently have relative targets. Sectors which are subject to relative targets are required to meet targets based on energy consumption or carbon emissions. Absolute sectors are subject to targets based on limited carbon emissions or energy usage. Industry has previously¹⁰ presented a number of arguments against setting absolute targets for all, including the potential risks of carbon leakage and the difficulty of setting absolute targets as the country emerges from recession.
20. Government has reviewed this evidence and does not intend to restrict target units' choice of target currencies under the new Scheme.

1.2.3 Harmonising Reporting Periods & baseline years

21. Current CCAs have a variable 12-month monitoring and reporting milestone year. When the agreements were established, sector associations were able to select a starting date for the milestone year: 1 October, 1 November, 1 December or 1 January. Thirty-six sectors use October; one uses November; five use December; and ten use January. This varied approach is burdensome for Government, does not ensure alignment with EU ETS reporting cycles which are relevant for some CCA target units and hampers clear assessment of sectors' relative performance on energy efficiency.
22. Government has decided to introduce a streamlined approach whereby all target periods for all sectors would commence on 1 January. This will ensure alignment with EU ETS reporting, which also takes place on a calendar year basis. 98 per cent of respondents (100 per cent of sectors) to a previous consultation¹¹ supported this approach. It is our intention that the deadline for data submission for Reconciliation will be 1 April and the new certification period

¹⁰ [The analysis on the consultation on the form and content of the New Climate Change Agreements in March 2009](#)

¹¹ [Second Consultation on the Form and Content of New Climate Change Agreements, December 2009](#)

will commence on 1 June which will result in a shortened certification period following the final milestone in 2019.

Consultation Question 3

It is planned that reporting periods will commence on 1 January and data will be submitted for Reconciliation on or around 1 April. Do you foresee any problems with this arrangement?

Please explain your reasoning.

23. The Government has decided to establish a common baseline year for the purpose of measuring the impact of the scheme. Industry responses to previous consultations held in 2009/10¹² demonstrated support for this proposal. Concerns were raised that the chosen year may be atypical (e.g. a year of recession) which could present a false picture of the impact of the scheme. However, Government considers that 2008 would be the most appropriate baseline year because it is the most recent year where emissions have not been influenced by the recession. The Government therefore proposes to establish 2008 as the common baseline year for all sectors for the new scheme.

Consultation Question 4

Do you consider that 2008 would be the most appropriate year to use as a common baseline year start date?

Please explain your reasoning.

1.2.4 Target Reviews

24. In order to ensure that targets remain fair but challenging in the light of new evidence and developments, Government will periodically review the targets during the lifetime of the scheme. Target reviews provide an opportunity to ensure that targets continue to reflect the full potential for energy efficiency improvements or carbon savings. Sector targets were previously reviewed in 2004 and 2008.

25. For the new Scheme (2013—2023) it is proposed that a full target review will take place in 2016.

¹² [Second consultation on the form and content of Climate Change Agreements, December 2009](#)

26. For target reviews under current CCAs the agreements provide that “any such review shall be to ensure that the sector targets being reviewed continue to represent the potential for cost effective savings taking account of any changes in technical or market circumstances”. In making this assessment, Government will take the following into account:

- the performance of sectors in previous target periods
- structure and commercial position of the sector
- impact of any legislative changes
- implementation of efficiency measures with longer payback periods than previously covered by targets, to secure long term energy efficiency improvements and energy savings that will enhance profitability and support the UK in its environmental commitments.
- sector growth or contraction
- any new or developing abatement technology and potential for improvement in energy management systems.

Consultation Question 5

Do you agree that the new CCA scheme should include a target review in 2016 to ensure targets remain challenging?

Please explain your reasoning.

1.2.5 Target Negotiations

27. The standard target negotiation process is for the Government to make a proposal to each sector which is either accepted or rejected. If rejected, the sector concerned must make a counter proposal and submit supporting evidence. Negotiations then follow. In the past, these negotiations generally resulted in targets that can be delivered through the adoption of measures that have payback periods of up to two years.

28. For the new CCA Scheme, the Government is keen to reduce the administrative burden associated with the target setting process, while ensuring it delivers challenging but realistic targets.

29. An option to reduce the administrative burden of the target negotiations is to amalgamate some of the sectors. This would not affect the number of target units covered by the Scheme, but it would significantly reduce the number of targets that needed to be negotiated with Government. This has the potential to reduce burdens on both Government and business.

30. There are currently 54 sectors under the Scheme, many of which, for administrative purposes, could be amalgamated. For example, it might be possible to amalgamate all the food and drink sectors (FDF, Egg Processing, Poultry, Meat Processing, Brewers, Meat Processing, Dairy, Maltsters, Bakers, Rendering, Spirits), all the agricultural sectors (including the 4 NFU sectors: Poultry and Meat Rearing, Egg Production and Agricultural Supply) and all the plastics sectors (Plastics, Plastic Film, Geosynthetics). It may also be possible to amalgamate linked processes such as cement and slag grinding; and chemicals and industrial gases.
31. The Government recognises that this may create additional pressures on sector associations but some sectors already work together successfully; the Ceramics sectors agreed to bring together their current 5 sectors into one single umbrella agreement under the current Scheme. Government would welcome proposals for ways in which the number of negotiating sectors can be reduced effectively in order to reduce overall burden and energy efficiency standards can be improved.

Consultation Question 6

Do you agree there is benefit in amalgamating some sectors into a smaller number of sectors for negotiation purposes under the new CCA Scheme?

Do you have any suggestions for how this can be done?

Please explain your reasoning.

1.2.6 Techniques to allow relative targets across diverse products

32. The Novem procedure was originally adopted to allow targets to be set for target units in sectors where it was difficult to establish a common throughput measure due to the production of a variety of products (e.g. a company that manufactures paint by the litre and coated products by the square metre). Under the current Scheme, sectors and target units can choose to apply the Novem methodology when setting targets, or develop and agree with DECC a bespoke algorithm.
33. 91 per cent of respondents (91 per cent of sector associations) to the previous consultation¹³ agreed with the proposal that the Novem methodology should continue to be applied, but in an obligatory way, for relevant sectors and target units.
34. The Government has decided that the use of the Novem procedure will be compulsory for those target units and sectors where it would be appropriate for it to apply (i.e. those target

¹³ [Second Consultation on the Form and Content of New Climate Change Agreements, December 2009](#)

units that do not have one common throughput measure that accurately represents all their production), regardless of whether the result is advantageous or disadvantageous to the sector or target unit concerned. The type of Novem method used for the new Scheme will be agreed with the sectors during the development of the scheme's guidance papers.

1.2.7 Types of Umbrella and Underlying Agreement

35. CCAs have a two-tier structure consisting of sector-level agreements between DECC's Secretary of State and the Sector Associations, known as umbrella agreements, and individual agreements between the operator of a facility and either the Secretary of State or Sector Association, known as underlying agreements.
36. There are currently two different types of underlying agreement in existence for CCAs, which differ in terms of parties to the agreements. There are agreements where the agreement is between the target unit and the Secretary of State ("option 2"), and those where the agreement is between the target unit and the sector association, approved by the Secretary of State ("Option 3"). The terms of the agreements are otherwise very similar.
37. Only 6 sectors out of 54 currently operate Option 3 agreements and, since 2006, DECC has restricted agreements for all new sectors to Option 2 only. To simplify the arrangements, the Government has decided to issue only one type of underlying agreement under the new scheme. The previous consultation¹⁴ demonstrated that 93 per cent of respondents agreed with the proposal to limit the underlying agreements to one type of agreement – that between the target units and the Secretary of State. There is proposal to appoint a third party Administrator to perform the day to day running of the scheme (see section 1.1), therefore as part of the administrative change, the underlying agreements will be entered into between the Administrator and the target unit.
38. Umbrella agreements will be entered into between the Administrator and the sector association.

1.2.8 Contents of the Agreements

39. Under the current CCAs, umbrella and underlying agreements are stand-alone (other than linkages between the two levels of agreement) and contain all the detail necessary to implement the agreements. Any changes to the scheme therefore need to be reflected in changes to each agreement, requiring the approval of all target units (around 4,400 in all). Consequently, making changes to the Scheme is administratively burdensome and can be difficult if a minority of parties disagree with a change. This makes the agreements inflexible and means that potential improvements, that could benefit industry and Government, are not

¹⁴ [Government Response to the second Consultation on the Form and Content of New Climate Agreements](#)

being pursued. The result of this has been that, in the lifetime of the current agreements, only one change has been made.

40. To overcome this inflexibility, the Government has decided to establish separate Scheme rules which will operate alongside the new CCAs.

- a) Firstly, agreements will be implemented between the Administrator and Sector Association and between the Administrator) and the target unit (see previous section). This would deal with specific details purely relevant to the legal relationship between those parties. As now, any amendment to the agreement would need to be agreed between each of the specific parties, as provided for in the agreement.
- b) Secondly, Scheme rules will be implemented which deal with wider provisions of general relevance to the operation of CCAs. These rules would be consistently applied and amended as required and would be given force in relation to each participant through the terms of their agreements. Any amendment would be made by the Secretary of State, following consultation (save in urgent cases) with target units and sector associations and take into account the balance of their views.

41. Industry have previously expressed unanimous support of this approach¹⁵. Government intends to hold a separate consultation on the content of the rules and agreements later this year.

1.3 Increasing fairness and transparency

1.3.1 Targets to be met at target unit, rather than sector level

42. Under current CCAs, targets are set at the sector level and sector associations are responsible for allocating a target to their member target units. When performance is assessed for a target period, if a sector as a whole meets its target, all target units within that sector are deemed to have met theirs, irrespective of the fact that some target units may not have met their individual targets. Where a sector does not meet its target, target units within that sector that have not met their individual targets risk loss of CCL discount.

43. 79 per cent of respondents to the previous consultation¹⁶ agreed that all target units should be required to meet their targets, and the practice stopped whereby some target units are able to rely on the sector meeting its target in order to be recertified.

¹⁵ [Government Response to the second Consultation on the Form and Content of New Climate Agreements](#)

¹⁶ [Second Consultation on the Form and Content of New Climate Change Agreements, December 2009](#)

44. The Government has decided that under the new scheme, all target units must meet their targets in order to receive the CCL discount. In addition to increasing fairness and transparency, this approach will:

- ensure value for money for the taxpayer, in that the current arrangements allow target units to benefit from a tax reduction despite not having met their individual targets;
- increase individual responsibility at target unit level, and thereby increase attention to energy management in some units that may previously not have been as active in meeting their individual targets.

1.3.2 Data requirements at Reconciliation

45. Under the current CCA Scheme, all sector associations require full data reporting from the target units in their sector. At the end of each target period, sectors that meet their targets are not currently required to provide DECC with the same level of information as those that fail to meet their targets. Additionally, sectors that operate “model 3”¹⁷ trading groups report any trading activities on a group basis only, and do not report data at the individual target unit level.

46. In operating the agreements, DECC has found it necessary to request considerable additional information during Reconciliation to test if sectors and target units have met their targets. For example, it is not possible for DECC to confirm correct reporting by “model 3” trading groups during Reconciliation without a full sector audit. This ad hoc and iterative approach is burdensome for both Government and industry.

47. Government has decided to collect this data in a single transaction for all target units. As all the data has already been collected by the target units, this will not represent additional burden on the target units. This approach will streamline data collection to provide the necessary robustness of audit that is required for a fair scheme. Government has also decided that individual target units will be assessed on their own merits. It follows that there will be no distinction between sectors which meet the overall targets, and sectors which fail for the purposes of reconciliation data reporting requirements.

48. In response to previous consultations 77 per cent of respondents agreed with the proposal that all sector associations should be required to provide full milestone reporting data. Therefore, Government (or its Administrator, acting on its behalf) will seek the same information from all target units. All target units currently provide this data to their Sector Associations, so it does not represent an additional burden.

¹⁷ Under “model 3” trading groups, members voluntarily surrender the right to participate as individuals in the UK ETS, the sector association assumes full responsibility for any emissions trading for the members of the group.

1.3.3 Release of information to third parties

49. In order to increase transparency and accountability, and to use public scrutiny to increase energy efficiency and reduction in carbon emissions, Government proposes that emissions data submitted to support a CCA will be published at the end of each target period. Some sectors have previously expressed concern over the release of commercially confidential information to third parties. However, the Environmental Information Regulations 2004 requires the disclosure of information relating to emissions in response to a request regardless of whether it is commercially confidential or not.
50. Government therefore proposes to proactively publish this data rather than provide a reactive response to requests. The emissions data will not be split by fuel type, but will provide only the total emissions data by target unit. The proposed approach accords with the Government's approach to public scrutiny of open data, as well as the approach adopted under EU ETS.
51. With regard to other information, both the Freedom of Information Act 2000 and the Environmental Information Regulations 2004 contain provisions requiring the disclosure of certain information on request. DECC is required to adhere to the provisions of this legislation as well as other legislation requiring disclosure in certain circumstances. Other than publication as mentioned above, confidentiality provisions along the lines of the provisions in the current agreements will be included in the scheme rules.
52. Our proposal on how to best publish the data will be developed in line with a Government decision on whether company Green House Gas reporting should become mandatory.

Consultation Question 7

Do you agree with Government's proposal to publish emissions data?

Please explain your reasoning.

1.4 Effective and proportionate incentives for energy efficiency

1.4.1 Risk management tools

53. The current CCA Scheme has three risk management strategies available to CCA holders during Reconciliation where they have missed targets. These are:

- **Carbon Trading** – Agreement holders are able to purchase carbon allowances via the UK Emissions Trading Registry.

- **Fuel Supply Disruption** – Agreement holders are recertified in cases of unforeseen disrupted power supply and failure to meet targets.
- **Relevant Constraints** – Agreement holders are recertified in cases where legislative changes resulted in an increase of energy use or carbon emissions and targets were missed.

54. Although the fuel disruption and relevant constraints tools have been used very few times, industry has highlighted¹⁸ that a fuel supply disruption would make absolute targets easier to achieve, but could make the achievement of relative targets more difficult, and could increase the costs for the target units concerned.

55. Consequently, in the interests of fairness, Government has decided to retain the provisions on fuel supply disruption. However, the relevant constraints tool will not be continued, as the target review in 2016 will provide opportunities to take into account any changes to legislation which could impact on target achievement.

56. Under the current Scheme Agreement holders are able to purchase and surrender carbon allowances under the UK Emissions Trading System (UK ETS) to make up for any underachievement against their targets. The allowances can result from verified overachievement on the part of Agreement holders, where overachievement is the amount by which an Agreement holder reduces emissions below their target.

57. Maintaining the UK ETS would perpetuate the existence of an additional scheme for tradable CO₂ permits which would exist alongside EU ETS and the CRC, as well as other international systems of tradable permits. Maintaining UK ETS would, therefore, not help simplify the climate change policy landscape, nor streamline fiscal and trading instruments. In addition, when combined with the proposal to remove the overlap with EU ETS scheme, the potential market size for UK ETS would be relatively small, with emissions coverage being reduced by 53%¹⁹. Such a market is not expected to be very liquid. Such a market would therefore be an administrative burden and would not represent a useful risk management tool. In light of these considerations, Government therefore intends to close the UK Emissions Trading Registry (UK ETR), and cancel all remaining allowances, as soon as practicable.

58. The previous Administration proposed²⁰ to replace UK ETS with Certified Emission Reduction (CERs) units to make up for under achievement against CCA targets.

59. The Government has looked at the advantages and disadvantages of using CERs as a risk management tool for meeting targets. Some of these are:

¹⁸ [Government Response to First Consultation on the Form and Content of New Climate Change Agreements, March 2010](#)

¹⁹ This is based on the split of electricity emissions, direct traded emissions and direct non-traded emissions observed at MS5.

²⁰ [Consultation on the Form and Content of New Climate Change Agreements, March 2009](#)

Pros:

- Would ensure the global environmental integrity of the scheme – although emissions reductions would not take place in the UK.
- Could be built on the back of the established EU ETS, although would require a system to ensure Agreement holders had retired the correct number of allowances.

Cons:

- Administrative burdens associated with purchasing small volumes of allowances can be high.
- Would require Agreement holders to pay for and open an account in the EU ETS registry.
- Would require the putting in place of a system to ensure Agreement holders had retired the correct number of allowances.
- Would represent no benefit to the UK in terms of actual UK emissions reductions.
- Perpetuate uncertainty in price of compliance due to uncertainty in the supply of CERs to 2023.

60. In light of the disadvantages, especially to small business outside the EU ETS, Government proposes instead to introduce a buy-out mechanism. The buy-out mechanism would involve a payment to the Government, through a simple process run by the Administrator on behalf of Government. The fee would be payable for each tonne of carbon dioxide that a target unit had underachieved against its target with the income generated being paid into the Consolidated Fund. Any overachievement of targets under the new scheme may be banked by the target unit. Although trading of this overachievement would not be permitted, a target unit will have the ability to bank overachievement for its own use. In addition, this banked overachievement will not have to be independently verified. Self-verification should apply, subject to normal audit procedures.

61. Government believes that the advantages of this approach are:

- Simple for industry, as it would not involve opening additional registry accounts nor would there be the complications associated with trying to buy small volumes of carbon allowances.
- Simple to administer for Government.
- Would provide an effective and certain relief valve, providing greater certainty for business in negotiations, when compared with UK ETS and CERs whose prices are more uncertain (the former is itself dependent on the final negotiated agreements with all sectors, and their effectiveness in achieving them).
- Would provide a proportionate incentive to meet targets.

Consultation Question 8

Do you agree that the introduction of a buy-out mechanism would provide a simplified, effective and flexible way for scheme participants to account for under achievement against targets?

Please explain your reasoning and suggest any alternatives, if relevant.

62. Government needs to decide the best approach for setting the price of the new buy-out mechanism. The objective is to strike a balance between having a strong incentive to abate and the financial impact on participants. The following factors need to be taken into account in deciding the best approach:

- The buy-out price would only apply to emissions above a target unit's target and we expect that most of the abatement potential incentivised by targets is cost-effective.
- Given uncertainty about abatement potential, a very low price for the buyout mechanism would result in many target units failing to take up some of the potential.

63. Government is interested in whether CCA participants think that they would undertake significantly greater carbon abatement with a higher price. It is important to give the right price signal required to deliver further carbon abatement and incentivise early investments that will help participants to meet long term reduction targets. In order to achieve this objective, Government is suggesting that the buy-out price should be reviewed before every reconciliation (assessment of performance against targets) under all of the options discussed in the following paragraph.

64. Government invites views on the following options for a buy-out price:

- A. An initial price of £12 which is based on a study²¹ comparing interim prices for phase I of the CRC, which followed the same principles outlined in the paragraphs above. This price is also close to the current CCL rate for electricity.
- B. A price linked to a CO₂ equivalent based on the current CCL rate for electricity which is currently set for the first year at £12 which will be fixed on 1 January following the target period or

²¹ Implementation proposals for the Carbon Reduction Commitment (formerly the Energy Performance Commitment) Report on the public consultation (June 2007) and Government's policy decisions March 2008:

<http://www.decc.gov.uk/assets/decc/what%20we%20do/a%20low%20carbon%20uk/crc/policy/crc-implement-govresponse-0803.pdf>

C. A price linked to EU-ETS price which will be fixed on the 1 January following the target period.

65. Government will consult on the operational details of the buy-out mechanism during a separate consultation on the content of the rules and agreements later this year.

Consultation Question 9

- a) Which price option do you think would be most appropriate for the buy-out mechanism?**
- b) Do you think that CCA participants would undertake significantly greater carbon abatement under the option with the highest carbon price? If not, why not?**
- c) Do you agree that the buy-out price should be reviewed before each reconciliation?**

1.4.2 Penalties

66. Current CCAs provide that where a target unit fails to meet its target or fails to purchase the required number of allowances to make up for any under achievement, it will be decertified and cannot claim the CCL discount for the next two years, or until the next target period. There are no force majeure provisions. This has proved a successful incentive for target units to meet targets, and the Government does not want this incentive to be eroded.

67. However, a number of failures to meet targets under the current Scheme have resulted from oversight or genuine mistakes in calculations; for example where the number of carbon allowances have not been bought by the due date. In such circumstances decertification may be an overly severe penalty. There are other circumstances which may currently lead to a target unit being decertified or having its agreement terminated, for which penalties could be introduced. These include failure to comply with an audit, failure to keep proper records, failure to report errors, failure to supply information requested by the Secretary of State and failure to inform the Secretary of State that a facility is no longer eligible for a CCA.

68. The introduction of an explicit civil financial penalty system could provide a more proportionate and flexible response, which could account for the severity of the non-compliance rather than loss of CCL relief.

69. The penalties would be set at two levels; operator and sector. Government has identified the following areas where penalties for non-compliance could be introduced:

Operator

- Failure to report emissions in the target period by specified date
- Late notification of ineligibility
- Failure to supply by the set deadline any information requested by the Secretary of State / Administrator / Auditor
- Inadequate record keeping
- Failure to report errors
- Failure to comply with other obligations in the rules

Sector Association

- Failure to comply with current Umbrella agreement obligations, such as the obligation to comply with audit requirements and maintain proper records.

70. We propose to include provisions in the next Finance Bill to allow DECC to implement a system of financial penalties in the rules accompanying the Climate Change Agreements. Failure to pay the penalty would result in termination of the agreement. Repeated failures to comply and payment of penalties may also result in termination of the agreement. A consultation on the rules and agreements of the Scheme will be published later in the Autumn.

Consultation Questions 10 a and b

10a: Do you agree that the introduction of a system of penalties would provide a more proportionate and effective alternative for some situations of non-compliance than the loss of Levy discount for two years?

Please explain your reasoning.

10b: Are there any additional examples (to those listed above) of non-compliance that could be introduced to provide a more proportionate way of dealing with situations of non-compliance?

Please set out what these additional penalties might be.

1.5 Reducing Overlap with other schemes

1.5.1 Removing EU ETS Overlap

71. Since its introduction in 2005, the EU ETS has become a significant tool to drive emission reductions for facilities covered by the Scheme. A complication arises because the EU ETS and CCAs can cover the same emissions on some sites. To address this overlap, a rule was introduced in CCAs. This so-called “double counting” rule ensures that the impact of under or overachievement of a target on a CCA site covered by the EU ETS is not rewarded or penalised in both Schemes (e.g. underachievement on an EU ETS site could result in a requirement to purchase allowances under both schemes).

72. However, the double counting mechanism has proved complex and administratively burdensome, and industry has suggested²² that it be replaced by splitting CCA targets, provided that this does not result in any change in eligibility for CCL reduction.

73. Previous proposals²³ were to establish two elements to the CCA target. The first element would consist of emissions covered by the EU ETS, including the direct and process emissions of the facility and any emissions resulting from Combined Heat and Power (CHP) plant covered by EU ETS that supplied the facility (whether or not located on the same site or owned by a third party). The second element would comprise a residual CCA target, which would be made up of any indirect, direct or process emissions not covered by the EU ETS and emissions related to any CHP plant that supplied the facility that was not subject to EU ETS.

74. Responses to the proposals highlighted some concerns in relation to CHP. Concern was expressed that where supply from an EU ETS CHP plant failed and energy had to be taken from utility companies, the performance of a facility in relation to its CCA target would appear to deteriorate. However, Government expects that the availability of CHP plant is guaranteed contractually and that users anticipate some downtime and have arrangements in place to deal with this. If the failure of the CHP plant is due to wider issues then the disruption of supply rules may apply.

75. The Government will develop proposals for the treatment of CHP for the new CCA scheme. The approach will seek to align with those in CRC and EU ETS. DECC will discuss any proposed changes to the current approach with industry before a decision is taken. The details of these arrangements will be covered in guidance.

76. On the basis of the responses to previous consultations, Government has decided to proceed with split targets. The new Scheme will therefore establish two elements:

- Emissions within a CCA and covered by the EU ETS (not subject to a CCA target), and
- A negotiated CCA target covering non-EU ETS emissions and electricity.

Operators will need to meet both their obligations under EU ETS as well as meet their CCA target in order to receive the CCL discount. The CCL discount will apply to both EU ETS and non-EU ETS fuels.

²² [Government Response to the 2009 consultations on the form and content of the new Climate Change Agreements, March 2010](#)

²³ [Consultation on the Form and Content of New Climate Change Agreements, March 2009; Second consultation on the form and content of Climate Change Agreements, December 2009](#)

1.5.2 Increasing allowable site coverage and reducing overlap with CRC Energy Efficiency Scheme

77. Under the current CCA Scheme, where the energy use of the eligible processes and directly associated activities is equal to 90 per cent or more of the total energy of the site, the whole site is deemed to be an eligible facility. Where the total energy use is less than 90 per cent, permanent sub-metering is required to measure all energy use within the eligible facility. The 90/10 calculation must be reviewed annually by the operator.
78. The 90/10 rule was originally introduced to reduce administrative burden and associated costs for both industry and Government. For example, it allows eligible facilities to avoid the need to install separate meters for a small fraction of their overall energy use. Industry has previously expressed the view that the 90 per cent threshold should be lowered to extend the benefit of reduced administrative effort and cost to a larger number of businesses.
79. In addition, Government has also been considering how to reduce the overlap between CRC (an organisational based scheme) and CCAs (a site-based scheme). As part of the continuing CRC simplification dialogue, Government is looking at removing the complex set of CCA exemptions and replacing them with a simple rule that energy supplied to a CCA facility does not count either towards qualification or to the requirements to report or purchase allowances under CRC. Government has found that the CCA exemption regime in the CRC scheme has been poorly understood. Government therefore proposes this much simpler approach but recognises that, as with any change of rules, a few organisations which has previously been exempted may now be subject to the CRC for a small fraction of their emissions.
80. Government has therefore decided that, if the energy use of an installation is equal to 70 per cent or more of the total energy of the site, the whole site is deemed to be an eligible facility (i.e. the replacement of the 90/10 rule with a 70/30 rule). Where the total energy use is less than 70 per cent, permanent sub-metering will be required to measure all energy use within the eligible facility. There will be a requirement for the 70/30 calculation to be reviewed annually by the operator. 96 per cent of respondents agreed with lowering the threshold to 70 per cent in a previous consultation²⁴.
81. In light of the decision to change the 90/10 rule to a lower threshold of 70 per cent, the Government has also considered the benefits of continuing to offer the 1/9th provision. Currently, where an installation fails to meet the 90/10 test, the eligible facility may be extended to cover non-eligible activities up to an additional 1/9th of its eligible energy use, provided that the activities are discrete, e.g. an air compressor, and are separately sub-metered. However, for those that claim an additional 1/9th, the attendant record keeping to comply with this provision may add to the administrative burden, which could reduce or even outweigh the value of the additional 1/9th.

²⁴ [Government Response to the second Consultation on the Form and Content of New Climate Agreements, March 2010](#)

82. The Government has considered the evidence for removing the 1/9th provision but, on balance, has decided to retain it for the future Scheme. Industry previously²⁵ highlighted that the removal of this provision could result in the creation of competitive distortions. Therefore, where an energy intensive installation fails to meet the 70/30 test, the eligible facility may be extended to cover non-eligible activities up to an additional 1/9th of its eligible energy use, provided that the activities are discrete and are separately sub-metered.

1.6 Scheme Administration

83. CCAs are currently delivered by DECC officials with support from technical consultants. It is our intention that the Scheme will in future be administered by a Scheme Administrator with the Environment Agency (EA) as our preferred choice for England. This would ensure synergy with the EU ETS and the CRC which are already administered by the EA. This will give industry a single administrator for all three energy efficiency schemes. The Devolved Administrations are also considering the appointment of administrators for the scheme.

84. The administrative costs to Government of delivering CCAs will be recovered via a charging regime which is in line with Government's general policy of seeking cost recovery. Government will propose a charging system based around the existing CRC charging regime.²⁶ Government will liaise with the Scheme Administrator and will consult on the level of charging in a separate, focused consultation later in the year. DECC will take steps to ensure that the charging regime will be fair and proportionate and recover the costs of administering the CCA scheme. The charges will allow the Administrator to undertake and manage key elements of the scheme including:

- Registration of participants
- Variations to Agreements
- Reconciliations (assessment of performance against targets)
- Audits programme
- Penalties regime
- Participant Guidance and Help Desk provision

1.7 Call for Evidence on Participants' Administration Costs

85. Estimates of current administration costs of CCAs have been derived from a number of sources. The administration cost to government has been estimated using data kept on past administration of CCAs, whilst administration cost estimates for participants and sector associations have been obtained from:

²⁵ [Second consultation on the form and content of Climate Change Agreements, December 2010](#)

²⁶ CRC Energy Efficiency Scheme - Charging Scheme and Guidance document
http://www.environment-agency.gov.uk/static/documents/CRC_scheme_and_guidance_2011-12.pdf

- A full public consultation on the structure of CCA which took place in March 2009. This produced estimates of aggregate costs for participants and sector associations.²⁷
- Data provided by AEA Technology (DECC’s technical consultants for the CCAs Scheme) on the running of CCAs containing detailed statistics on the number of target units, size, sector structure and energy consumption.²⁸
- An estimation of unit costs associated with each of the activities in current CCAs. This estimation was based on a consultation with AEA Technology and a further consultation with some sector association representatives.²⁹

86. These estimates combine unit cost with descriptive statistics about the size of sector associations and target units. **Table 2** below shows the results of this analysis for each main activity in the current CCA Scheme. These figures represent the Net Present Value (NPV) of administration costs associated with the current CCA Scheme from 2012 to 2020 if there were no changes made. The cost for industry would be around £43m (Further detail on costs and benefits is set out in the accompanying Impact Assessment).

Table 2: Current CCA Scheme Administration Costs

	£(000) (2009 figures)
Sector Association	4,235
Operator	31,573
Total Admin Cost Industry	43,740
Cost to Government	7,933

87. Overall we believe this package of measures will deliver a number of benefits by simplifying and streamlining the administration of the Scheme, and by increasing the fairness and transparency of the Scheme. These savings are estimated to deliver a net benefit to business in the range of £2.4M to £3.4M over the 2012-2020 period against the baseline (current scheme) administration costs of £43M. However, it is difficult to fully estimate the impacts of this package as there are a number of gaps in our evidence of the administration costs to participants and sector associations.

88. Government is therefore eager to obtain more evidence on the impact that all the proposals will have on the administration costs for industry.

²⁷ [DECC consultation on form and content of new climate change agreements](#)

²⁸ [Internal Report by AEA based on MS4 and MS5 periods. April 2011.](#)

²⁹ CCA Stakeholders and Tasks. Analysis of admin cost of CCAs by SKM Enviro for the Food and Drink Federation. Internal Report. April 2011.

Consultation Question 11

For each measure proposed in this document, can you estimate what the impact will be on your administration costs?

Please provide a full explanation for your reasoning and calculations.

Annex 1: List of Consultation Questions

Question 1: Do you agree that defining in legislation the eligible processes covering the current 54 sectors, provides a worthwhile administrative simplification over reassessing eligibility for all sectors?

Question 2a: Do you agree that reporting targets at the end of the 2 year milestone period strikes an appropriate balance between reducing administrative burden and providing industry with a further incentive to make efficiency improvements?

Question 2b: What are the additional costs of reporting energy use for the year?

Question 3: It is planned that reporting periods will commence on 1 January and data will be submitted for Reconciliation on or around 1 April. Do you foresee any problems with this arrangement?

Question 4: Do you consider that 2008 would be the most appropriate year to use as a common baseline year start date?

Question 5: Do you agree that the new CCA scheme should include a target review in 2016 to ensure targets remain challenging?

Question 6: Do you agree there is benefit in amalgamating some sectors into a smaller number of sectors for negotiation purposes under the new CCA Scheme? Do you have any suggestions for how this can be done?

Question 7: Do you agree with Government's proposal to publish emissions data?

Question 8: Do you agree that the introduction of a buy-out mechanism would provide a simplified, effective and flexible way for scheme participants to account for under achievement against targets?

Question 9a: Which price option do you think would be most appropriate for the buy-out mechanism?

Question 9b: Do you think that CCA participants would undertake significantly greater carbon abatement under the option with the highest carbon price? If not, why not?

Question 9c: Do you agree that the buy-out price should be reviewed before each reconciliation?

Question 10a: Do you agree that the introduction of a system of penalties would provide a more proportionate and effective alternative for some situations of non-compliance than the loss of Levy discount for two years?

Question 10b: Are there any additional examples (to those listed above) of non-compliance that could be introduced to provide a more proportionate way of dealing with situations of non-compliance?

Question 11: For each measure proposed in this document, can you estimate what the impact will be on your administration costs?

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