

Climate Change Agreements: Government Response to the September 2011 Consultation

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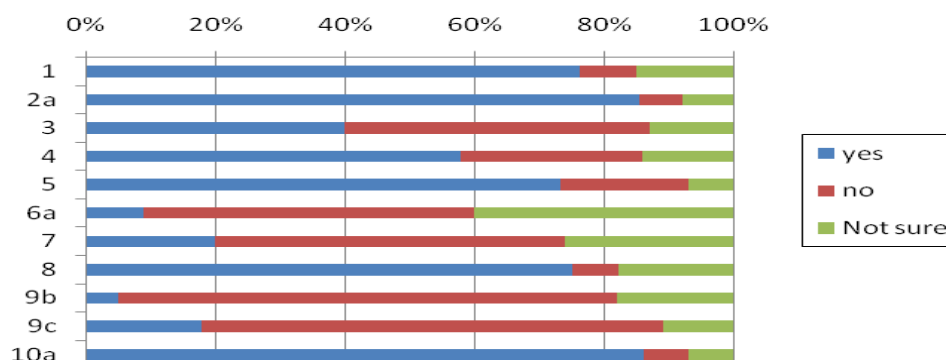
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Introduction

1. Climate Change Agreements (CCAs) were 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%¹ 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 CCA programme 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 to ensure delivery of significant improvements in energy efficiency with minimal complexity and policy overlap. The Budget Statement in March 2011² 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. There have been a series of earlier consultations into a scheme to replace the existing agreements. They have taken place in March and December 2009 and March 2010. This is the Government response to the most recent consultation which took place in September 2011. The September consultation contained both new proposals together with a summary of decisions from the earlier consultations.
4. This document contains the responses to the September 2011 consultation. The associated Analysis of consultation Responses contains a detailed analysis of consultee responses. It is published alongside the draft Regulations appointing the Administrator. A summary of the decisions is presented in Table 1 overleaf.
5. There were 99 people or organisations who responded to the consultation. There were 43 responses from sector associations already involved in the scheme, 37 from companies which hold CCAs and 19 from other organisations and individuals.
6. The consultation asked for responses to 11 specific questions. The **Figure below** shows the responses for those questions (or parts thereof) that required a yes/no response.

Figure: Summary of responses for Yes/No questions



¹ Increasing to 90% on electricity supplies from April 2013.

² <http://www.hmrc.gov.uk/budget2011/tiin6125.pdf>

Table 1: Summary of decisions on **only** the proposals presented in the September 2011 Consultation

Issue	Current Scheme	Decision
Eligibility for Climate Change Agreements	Eligibility based on the Pollution Prevention and Control Regulations 2000 (as amended by Environmental Permitting Regulations EPR) or Energy Intensity criteria	The eligibility for CCAs will be based on EPR and as defined in existing secondary legislation for other sectors. New sectors will be ineligible to join the new scheme after it has commenced.
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.	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.
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.	All target periods will commence on 1 January. To establish 2008 as the common date from which savings attributed to the scheme can be assessed.
Target Reviews	The current scheme provided for target reviews in 2004 and 2008.	Target review to take place in 2016.
Target Negotiations	Target negotiations carried out on a sector by sector basis.	Streamline the process of negotiating and reviewing targets by offering voluntary sector amalgamation for target setting and reporting purposes.
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.	Administrator to publish emissions data submitted at Reconciliations. Other confidentiality provisions to remain broadly the same.

Risk Management Tools	Risk management tools currently are carbon trading, relevant constraints and disrupted power supply available to target units. CCA participants able to bank, trade and retire UK Emissions Trading System allowances to assist with the achievement of targets.	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 over-achievement against targets for a later date. Independent verification will not be required. The buy-out price will be fixed at £12/tCO ₂ and reviewed alongside the targets in 2016.
Penalties	None. De-certification or termination of CCAs are the only sanctions to encourage compliance.	To introduce a system of financial penalties for minor infringements that do not warrant decertification or termination of CCAs.
Scheme Administration	Administrative procedures undertaken by DECC at no cost to scheme participants.	Scheme delivery will be transferred to the Environment Agency and the administrative costs will be recovered via a charging scheme.

Section 2: Responses to Consultation Questions

2.1 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?

7. The majority of respondents agreed that defining in legislation the eligible processes covering the current 54 sectors, provides a worthwhile administrative simplification over reassessing eligibility for all sectors. Thirty respondents said that defining eligible processes in legislation would provide certainty and assurance, which they considered a benefit when planning investment decisions. However, 15 respondents made the comment that they were not in favour of new sectors being excluded from the new agreements.
8. Government has considered practicality of defining eligibility of the current 54 sectors in secondary legislation in particular in dialogue with the sectors, with a view to ensuring that the currently eligible processes remain in scope; that no new processes are included inadvertently; and that certainty over the scope of the scheme remains for industry. We have concluded that in order to meet these objectives we will continue with the existing legislative basis, with certain sectors eligibility based on the Environmental Permitting Regulations and the Energy Intensive

(EI) sectors set out in secondary legislation. We will not require re-assessment of currently eligible EI sectors.

9. The Government has been asked by some respondents to consider extending eligibility to include new processes. These requests will be considered on an individual basis and decisions taken before negotiations commence. Government is also considering representations from the data centre sector association that data centres should to be eligible for CCAs. We will continue to consider this in dialogue with Intellect. No new sectors will be permitted to enter into new agreements after the new scheme has commenced. This will be reviewed in 2020.

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

10. In responding to question 2a, all types of respondents were largely in favour of reporting targets at the end of the 2 year milestone period. Overall, the majority of those respondents who answered this question agreed that this proposal strikes an appropriate balance between reducing administrative burden and providing industry with a further incentive to make efficiency improvements. The general view of those who gave positive reasons in support this proposal was that it was less burdensome than moving to annual reporting which was proposed in the March 2009 Consultation, that a two year milestone (i.e. reporting 2 years' data) is beneficial for reasons such as: simplification; providing more focus on energy efficiency; minimising the effect of short term impacts on performance; in line with other reporting requirements such as those under the EU Emissions Trading System (EU ETS).
11. However, seven respondents said that further clarification was required on how performance will be measured over the 2 year period. Government confirms that performance will be measured using the full 2 years' of data.
12. There were 78 responses to this question. Of these, 41 said that the cost would be minimal and only 25 provided quantified data; within this, a wide range of costs was presented and the basis of the figures is not known or it varies from respondent to respondent. This means that the evidence provided is not reliable enough to update our cost estimates. For sites, the estimate varied from £0 - £10k (one company quoted £65k, but the rationale for this included increased compliance costs based on the expected buy out mechanism, rather than purely the admin costs associated with reporting). For Sector Associations, the estimate ranged from a one off cost of £1500 up to £180k.
13. Government has decided to proceed with the proposal to have reporting at the end of two-year milestone periods with reporting of performance over the 24 month period. This would result in a manageable administrative burden for the administrator, sectors and operators and would encourage greater efforts at energy efficiency throughout a target period. Some respondents asked whether there is merit with the idea of allowing sites with absolute targets to report the average annual performance over the 24 months period or the full 24 months performance. Should the target be missed, this would result in the need to pay the buy-out fee associated with an underperformance only for 12 months, rather than the full 24 month period. This is counter to the policy intent, whereby performance is scrutinised for the full period over which participants receive the CCL discount, and is therefore not pursued.

14. The wide range of responses to question 2b provided a mixed picture as to costs of reporting for the full 24 month period but the majority of respondents thought that cost of the reporting change would be small. Therefore, it is expected that administrative costs for the new reporting arrangement should be similar to those for the current scheme reporting arrangement and the final impact assessment has been updated to reflect this.

2.3 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?

15. Both Sector Associations and companies with CCAs reported a roughly even view on whether there were likely to be any problems with this proposal. However, analyses of the points for and against the proposal indicate that the main issue is with the time allowed between the end of the target period and the proposed reconciliation deadline of 1 April, and in particular the overlap with EU ETS reporting requirements.

16. The Government has decided to proceed with reporting periods commencing on 1 January. However, in light of the comments relating to the deadline for submission of data at reconciliation this deadline will now be extended to 1 May, rather than 1 April as previously proposed in order to spread reporting burdens across different schemes.

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

17. Over half of all respondents answering this question said they considered that 2008 would be the most appropriate year to use as a common baseline year start date.

18. In previous consultations (2009/10³) which proposed 2010 as the baseline year, concerns were raised that 2010 may be atypical given the economic downturn and could present a false picture of the impact of the new scheme. Given these concerns, Government considered that 2008 could be the most recent representative to use. Consequently, the September 2011 consultation⁴ proposed 2008 as the baseline year. The majority of respondents agreed with this proposal. Therefore, Government has decided to establish 2008 as the common baseline year for all sectors for the new scheme. We will use the 2008 Milestone 4 data where possible but note there will need to be some deviations from this for some of the newer sectors and to accommodate any practical issues resulting from any changes to energy accounting.

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

19. Ninety-one respondents answered this question and the majority of respondents agreed that the new CCA scheme should include a target review in 2016 to ensure targets remain

³ [Second consultation on the form and content of Climate Change Agreements, December 2009](#)

⁴ http://www.decc.gov.uk/en/content/cms/consultations/cca_simp_cons/cca_simp_cons.aspx

challenging. Eight respondents stated that having one review, unlike the two reviews under the former scheme, would reduce the administrative burden for the new scheme.

20. Government has decided to proceed with the proposal to have a target review in 2016 (which can lead in targets getting tightened or eased) in 2016 on the basis that conducting a review at this point during the lifetime of the new agreements is the most appropriate. Government is clear that the review will be thorough and is intended to make sure that targets are challenging but achievable for operators.

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

21. Eighty-seven respondents answered question 6a and only 9% of respondents who answered this question supported this proposal outright. Respondents indicated that sectors who wished to amalgamate should be allowed to do so, but this should be done on a purely voluntary basis. Whilst many respondents highlighted that amalgamation could be possible for sectors with technical and market similarities, which would have similar energy savings potential, the majority of respondents stated that they could not see any benefit, or that it was not possible for their own sector.

22. Only 25% of respondents provided a response to question 6b. The main suggestion was for DECC to more directly open up dialogue with sectors by sharing their existing ideas and to invite volunteer sectors.

23. Government has decided to proceed with the proposal for the amalgamation of sectors, but only on a voluntary basis. Sectors should consider if it would be suitable to amalgamate with others and, if they agree, approach Government to take the proposal forward. Government will consider how to proceed with target negotiations in a way which reduces administrative burdens for all parties.

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

24. Ninety-three respondents answered this question. Of those, both Sector Associations and companies reported a majority view against the proposal to publish total emissions data (tCO₂) at Target Unit (TU) level.

25. Those in favour considered the proposal to be consistent with the approach followed by the CRC Energy Efficiency scheme and the EU ETS 'CITL', where emissions are already reported. Total emissions data are already published elsewhere for example by the Environment Agency (EA) for PPC-regulated sites. However, this argument was seen by other respondents as a point against the proposal. Some respondents believed publishing the data would increase transparency, but only a few believed the proposal would improve energy efficiency. Other respondents referred to the potential for confusion if data from different schemes, such as EU ETS are released in different formats.

26. The Government has decided to proceed with the publication of emissions data after reconciliation at a target unit level. Government believes that release of emissions data can provide greater transparency of CCA participant performance, and a publication scheme will have lower administrative overhead than a response to individual queries. In turn this will

establish trust between public bodies, stakeholders and the wider public. This requirement also provides consistency with other schemes, such as EU ETS and is information that would have to be released under the Environmental Information Regulations (2004). This proposal has been endorsed by the Information Commissioner's Office (ICO).

27. Accompanying the publication of the CO₂ emissions of participants will be an explanatory note setting out the basis on which the CO₂ figures are derived and their limitations, for example the fact that they may not cover all of the emissions at a particular site because some of the site's emissions may be incurred at EU ETS installation or may at activities at the site not covered within the CCA eligible facility.

2.8 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?

28. Ninety-one respondents answered this question. Both Sector Associations and companies with CCAs reported a clear majority view in favour of a buy-out mechanism as a simplified alternative approach to the UK Emissions Trading Scheme (UK ETS). A small number of respondents were in favour of retaining emissions trading in the new CCAs, but in the absence of this option some stated they were in favour of the buy-out mechanism as the 'next-best' option for risk management. Analysis of points against indicates a number of respondents are concerned that the mechanism will significantly increase costs for CCA participants.

29. A number of respondents proposed that banked over-performance should be transferable between: i) un-bubbled Target Units belonging to the same company across different CCA sectors; and ii) different company Target Units within the same sector. Also, some respondents proposed that revenue from the buy-out mechanism could be used to meet the scheme administration costs and could be used as a source of investment for sectors to improve their energy efficiency.

30. The Government has decided to establish a buy-out mechanism to replace UK ETS which is scheduled to close in 2012. Government sees the proposal for a buy-out mechanism as an effective way of managing the risk of not meeting targets whilst providing price certainty and predictability. Government will ensure that the price of the buy-out mechanism will be published in advance of the target period. Monies raised from the use of the buy-out mechanism will not be hypothecated but will be paid to the Consolidated Fund. A Target unit that overachieves against its target will be able to ring fence the surplus, but only for its own use. This is consistent with the principle of Target Units being required to meet their own target and not being able to rely on the sector passing its target or trading with other Target Units who over-perform. Target units can be made up of more than one facility (i.e. bubbling will continue to be allowed but only across sites in the same sector owned by the same company). Government believes that participants should be able to meet their targets by implementing energy efficiency measures, and, should they choose to do so, there would be limited use of the buy-out mechanism and cost to industry. The proposed price of the buy-out is dealt with below. Further details on the operation of the mechanism are in the accompanying document 'Climate Change Regulations 2012 and the Scheme Administration Charges: opportunity to comment'.

2.9 Question 9: 9a: Which price option do you think would be the most appropriate for the buy-out mechanism? 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?
9c: Do you agree that the buy-out price should be reviewed before each reconciliation?**

31. In question 9a, respondents were shown three options for the buy-out price. These were option A which consisted of an initial price of £12 based on the phase 1 CRC allowance price; option B which is a price linked to a CO₂ equivalent based on the current CCL rate for electricity; option C which is a price linked to the EU ETS allowance price. There was a fourth 'Other' option which invited respondents to make their own suggestions. Seventy-eight respondents selected one of the four prescribed answers to this question.
32. Of the three explicitly defined options presented (A, B or C), Option B was slightly favoured over Option A and then Option C. Responses against options A, B and C focussed on the fact that they all represent a significant increase in the unit cost of CO₂ in compliance compared to what operators have been accustomed to from participating in the UK ETS. Respondents also stated that it was not clear how the price would be calculated in each of the options
33. There were eighty-eight respondents to question 9b. The majority of respondents rejected the proposal that the highest carbon price would lead to greatest abatement. A number of respondents suggested that investment decisions leading to abatement were made on the basis of a number of other considerations, not just on the price of each unit of CO₂ avoided. These other considerations include: cost of energy, availability of capital and replacement recycles. Where companies have operations with CCAs and operations covered by other climate change policies, such as EU ETS and CRC, investment decisions made at company level can become quite complex and will involve considering many more factors than the CO₂ price in CCAs.
34. Of those who answered question 9c, the majority of respondents disagreed that the price should be reviewed before each reconciliation. It should be noted that many respondents interpreted the question to mean that the buy-out price would be set after the relevant milestone had ended, but before reporting for that milestone was carried out. There was widespread disagreement with this idea on the grounds that it made investment decisions very difficult. According to the comments directly related to this, the unanimous view was that the buy-out price, at the very least, should be set before the start of each target period. However, there was also a significant body of opinion that visibility of the price over a longer term than this was necessary.
35. The purpose of CCAs is to act as a driver for energy efficiency or emissions reduction. By ensuring that there is a known and higher than the historic UK-ETR price for the buy-out mechanism, there will be an incentive for Target Units to meet targets by improved performance rather than by paying a buy-out fee. It should be noted that this mechanism allows target units who miss targets to pay a fee very roughly equivalent to the value of the CCL discount received on the energy they consumed *above* their target (i.e. not on the full consumption), in exchange for continuing to get the CCL discount on all of the target unit's eligible energy consumption. There is currently little evidence of any abatement potential in CCA sectors above £12/tCO₂. We have therefore chosen £12/tCO₂ because a higher price would not result in greater abatement. It is clear from responses to the consultation that most participants prefer a fixed price as they prefer price certainty and predictability to greater flexibility. Greater certainty would also incentivise future investment on energy efficiency.

36. The Government appreciates that the buy-out price needs to be known as far in advance as possible to aid investment decisions and should be reviewed once, at the same time as the target reviews. The Government has decided on a fixed price of £12 per tonne CO₂ for the first two target periods. The price will be set out in the secondary legislation published alongside the Government response. The price will be reviewed at the target review scheduled for 2016.

2.10 Question 10: 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? 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?

37. There was good support for the introduction of a penalty scheme for some lesser types of non-compliance. For example, 28 respondents agreed that the present arrangement where decertification for 2 years was the only available penalty was very constraining. Forty-six respondents felt penalties would allow simple errors to be dealt with proportionately. 24 respondents said that penalties for inadequate record keeping were not warranted and corrective action should be required prior to imposing a penalty. Any penalty system should, in their view, be as simple as possible.

38. There were twenty-four respondents to question 10b who stated that they agreed with penalties for missing the reporting deadline. Three respondents recommended that there should be an appeal process within the penalty structure. As in question 10a, a number of respondents recommended that inadequate record keeping should not result in a penalty.

39. As mentioned by some respondents, decertification or termination of agreements has been considered a punitive penalty. Therefore Government has decided to proceed with introducing a penalty regime as a proportionate measure for minor infringements. The proposed penalty regime is presented in more detail in paragraph 15 of the draft secondary legislation published alongside this Government response, and in the associated explanatory document. An appeals process, to the independent First Tier Tribunal, will also cover the imposition of penalties as well as termination.

40. During the period of comment of the draft Regulations, we will consider further with CCA participants whether the current regime of decertification needs to be continued with the introduction of the buy-out mechanism.

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

41. Only a small number of respondents (22%) provided quantitative figures in response to this question. The range of figures supplied in response to the proposals varied significantly and there was a general lack of detail on how the figures have been arrived at. It should also be noted that respondents have not necessarily answered this question on a common basis. For example, some SAs report costs for the SA only, while some have included the estimated costs for companies. Similarly, for the information supplied by companies, some report by site and some by TU. As a result of the varied responses, it is difficult for Government to identify the potential costs for CCA participants. The IA has been updated where possible and can be found on the DECC website, accompanying this document on the [Consultations](#) page.

Section 3: Additional comments arising from the Consultation

42. The analysis of responses showed that respondents took the opportunity to provide their views on additional issues. This section looks at the key comments and includes the Government's response.

3.1 Appointment of a new administrator and retaining the role of Sector Associations

43. Government has decided to appoint a new administrator for the new agreements, namely the EA. Forty-one respondents expressed some concern at this appointment. The reasons given were around EA having other roles that may conflict with the CCA role, uncertainty over the administration in the devolved administrations, EA's lack of understanding and experience with the details of the CCAs, EA potentially adding additional cost to CCA administration (the comparative costs of administration under CCAs and CRC, the latter administered by EA, were cited).

44. Government has decided that the EA should administer CCAs as this provides a synergy with their regulation of the EU Emissions Trading System and CRC. Government will ensure that its officials, the EA and representatives from CCA participants will work closely to ensure the new agreements are run efficiently and fairly. Taxation in the UK, including Climate Change Levy (CCL) and the reduced rate paid by CCA participants, is reserved and as such administration of CCAs will be carried out by the EA across the UK. Government will ensure that EA are fully prepared to administer the new agreements. The EA will charge Sectors and Target Units to participate in agreements as administration costs will be transferred from the taxpayer to participants. Proposals for Charging are included in a separate consultation on the draft Climate Change Agreements Regulations which appoint the administrator and set out the procedures for the administration of the climate change agreements.

45. A large number of respondents (22) were keen to stress that the government should keep the key role of the SA between Target Units and the scheme administrator. A number of respondents argued strongly that the sector associations brought far more to their role in the agreements than just administration. It was argued that they provided a well informed brokering role whereby they delivered a smooth and informed service to both government and their company members, allowing the agreements to be delivered in a cost effective manner, avoiding many potential problems.

46. Government appreciates the work carried out by sector representatives and how they have contributed to the smooth running of the current agreements and the success of the scheme. Their contribution will be important to the implementation of the new agreements and it is expected that they will be closely involved in their administration. This will be of particular significance in the short and medium term as the EA commence administration of the scheme in 2013.

3.2 Administration costs Impact

47. Around 30 respondents felt that scheme administration could be streamlined and administration costs must be minimised and that this was best delivered through an additional consultation. It was argued that the impact assessment linked to the present consultation had not included all the costs of the proposed revised scheme administration and did not fully take

into account the benefits of the informed, 'intelligent' SA role in delivering cost effective and 'no surprises' scheme administration for government.

48. The Impact Assessment accompanying the government response has not assessed the impact of the administration cost because it is not included in its remit. HMT's Green Book⁵ provides general guidance on appraisal of net economic cost and benefits to society net of any transfers. The cost charging is not included in the IA as it represents a transfer of cost (in this case from the general taxpayer to those benefitting from the scheme.) The methodology for assessing regulatory burdens on businesses is provided by Better Regulation Executive guidance on the One In One Out (OIOO) methodology. The underlying methodology builds on the Green Book and the Impact Assessment (IA) Toolkit. Fees and charges guidance exclusion is based on paragraph 16 point x page no 5 of this guidance which can be accessed through this link : <http://www.bis.gov.uk/assets/biscore/better-regulation/docs/o/11-671-one-in-one-out-methodology.pdf>.
49. Government has carefully considered costs to CCA participants and considered proposals on sectors taking a leading role in CCA administration. However it was decided that there would be a conflict of interest in sectors deciding on enabling their Target Units to claim eligibility for payment of the reduced rate of CCL. Additionally, it is unlikely that this arrangement would be acceptable under State Aid approval requirements. The 'Climate Change Regulations 2012 and the Scheme Administration Charges: opportunity to comment' document published alongside the Government Response outlines a charging regime for the new agreements and views on this regime are requested.

3.3 The role of the CCA D08 (CCA 16) rules in the new agreements

50. Under the current CCAs, Target Units which have absolute targets have their targets tightened when their throughput falls by more than 10%. This is carried out under the "CCA D08 rule" (formerly CCA 16). Two respondents suggested that the Government reconsider the CCA D08 rule and that the tightening of absolute targets for sites with throughputs that fall by 10% or more from the reference value is discontinued.
51. Unless there is accurate prior knowledge of future throughput levels available, which would allow appropriate, challenging future targets to be set for absolute Target Units, the "CCAD08" mechanism is necessary to ensure that targets remain challenging and conducive to the installation of energy efficiency measures. Experience shows that it is easier to arrive at a suitable target after the actual throughput is known (via a CCA D08 mechanism) than to set one by forecasting what the throughput will be at a future target period.
52. The fundamental aim of CCAs is to provide an incentive to businesses to improve their energy efficiency, whilst providing a discount on energy taxation. Tightening targets means that they remain demanding and the requirement to improve energy efficiency is maintained. Government has decided to retain CCA D08 which is consistent with that goal but its use will be reviewed alongside the targets in 2016. In addition participants will only be allowed to use methods 1 or 2, as described in the current scheme's guidance paper CCA-D08, for the adjustment of the target. Government will continue to consider adjustments to the

⁵ http://www.hm-treasury.gov.uk/data_greenbook_index.htm

energy/throughput reference curve used in Method 2 to reflect significant structural change occurring between the reference period and any future milestone where a CCA D08 adjustment is required.

3.4 Use of overachievement across Target Units that are within the same company

53. Under the present scheme, Target Units are permitted to trade their overachievement against targets, in the form of carbon allowances via UK ETS, with other Target Units. The September consultation contained a decision that Target Units could retain their overachievement for own use only. Three respondents stated that they would like to see the ability to use the overachievement across target units that are within the same company.

54. As stated in the September consultation, Government wishes to ensure value for money for the taxpayer by ensuring that target units have to meet their own targets and earn their CCA discount. The current arrangements allow target units to benefit from a tax reduction despite not having met their individual targets. Government also intends that the new CCAs will increase individual responsibility at target unit level, and thereby increase attention to energy management and technical energy efficiency opportunities at target units that may previously not have been as active in meeting their individual targets as other target units. Therefore, the decision to restrict overachievement to future use only by the overachieving target unit remains unchanged. We note however, that a company can choose to 'bubble' its sites which would have a similar effect as requested here, provided those sites are in the same CCA sector.

3.5 Energy Accounting

55. A number of respondents stated that Government needed to decide how emissions factors will be defined and how CHP and renewables will be treated under the new scheme. Government is currently reviewing the accounting of energy under the new scheme and will discuss its proposals with the sectors, including that all renewable heat will be reported in the new scheme. Government will ensure that decisions are taken on time to allow for the target setting negotiations.

3.6 Final milestone in 2021/2

56. One respondent asked for the possibility of adding another target period in 2021/22 to be clarified and for any consequences of this on target negotiations etc made clear. The new agreements are scheduled to have four target periods. A fifth target period in 2021 to 2022 would result in the CCL discount being extended beyond 2023, which is beyond the current commitment. Therefore targets will be set against 4 milestones and not 5.

Annex 1: List of consultation Respondents to the 'Consultation on Simplifying CCAs', September 2011

Sector Associations

Agricultural Industries Confederation
Aluminium Federation
British Beer and Pub Association
British Calcium Carbonates Federation
British Ceramic Confederation
British Coatings Federation
British Compressed Gases Association
British Glass Manufacturers' Confederation
British Lime Association
British Meat Processors Association
British Non-Woven Manufacturers Association
British Poultry Council
British Printing Industries Federation
British Tyre Manufacturers' Association
Chemicals Industry Association
Cleveland Potash Ltd
Confederation of British Metalforming
Confederation of Paper Industries
Dairy UK
EEF/ UK Steel
FEC Services Ltd
Food and Drink Federation
Food and Drink Sectors (Joint Response from Agricultural Industries Confederation, British Beer and Pub Association, Dairy UK, Food and Drink Federation, Maltsters' Association of Great Britain, National Farmers' Union and Scotch Whisky Association)
Food Storage and Distribution Federation
Gypsum Products Development Association
Maltsters' Association of Great Britain
Metal Packaging Manufacturers Association
Mineral Products Association
Mineral Wool Energy Savings Company (MINESCO)
Non-Ferrous Alliance
Packaging and Films Association
SKM Enviros
Slag Grinders Sector Ltd
Society of Motor Manufacturers and Traders
Spirits Energy Efficiency Company
Surface Engineering Association
Target 2010
Textile Services Association
The British Plastics Federation
UK Fashion and Textile Association
UK Leather Federation
UK Renderers' Association
Wood Panel Industries Federation

Companies with CCAs

3M UK Plc
Alfaplas Ltd
Amcor Flexibles Cumbria

AstraZeneca UK Ltd
Bischof + Klein UK Ltd
CeDo Ltd
CEMEX UK Operations Ltd
Duo Plastics and Moorgreen Flexible Packaging
Elite Plastics Ltd
Eurofilms Extrusion Ltd
Flexipol Packaging Ltd
Flextrus Ltd
Formica Ltd
Goonvean Ltd
Hanson Building Products
Hanson Cement
Hexcel Composites
Huhtamaki UK Ltd
Imerys Minerals Ltd
Interfloor
Jiffy Packaging Company Ltd
Knauf UK GmbH
Lafarge Plasterboard
Manuli Packaging UK Ltd
Moy Park Ltd
NSG Group
Polestar UK Print Limited
SABIC UK Petrochemicals Ltd
Sanders Polyfilms Ltd
Springfields Fuels Ltd
Tarmac Buxton Lime and Cement
Tata Steel UK Ltd
Techfolien
Toyota Motor Manufacturing UK Ltd
Vale Europe Ltd
Wallwork Heat Treatment Ltd
Wedge Group Galvanizing Ltd

Other

Agriculture and Horticulture Development Board
Bandvulc Group Ltd
British Frozen Food Federation
British Soft Drinks Association
CBI
CEP, LSE/ Imperial College
Chilled Food Association
E2 Services
Information Commissioner's Office
Intellect
Retread Manufacturers Association
Scottish Natural Heritage
Scottish Water
South West Water
SSE
The Coefficient Company
UK Emissions Trading Group Ltd
Water UK

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