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[www.decc.gov.uk](http://www.decc.gov.uk)

17 October 2011

Dear Sir/Madam,

**Expected use of the EU Emissions Trading System Phase II New Entrants Reserve NER**

This letter seeks information from businesses in relation to the EU Emissions Trading System (EU ETS); specifically the expected use of the Phase II New Entrant Reserve (NER) for the remainder of the Phase up to the end of 2012.

If you are planning to commence new activities, or extend existing ones, covered under the EU ETS before the 31<sup>st</sup> December 2012, you may be eligible to receive free allowances from the NER. These allowances can be used to account for the emissions resulting from these new activities. In order to help us plan for the final stages of phase II, in particular the potential auctioning of any surplus allowances from the NER, we would welcome an indication of the estimated allowances potentially required for, and the timing of, any new EU ETS activities foreseen before the end of next year.

Further background information and specific questions can be found below. **Responses are requested by 12 December 2011.**

**Background:**

The EU ETS is designed to incentivise emission reductions through the use of a cap and trade mechanism. The system primarily covers the power sector and energy intensive industries; about 50% of the UK's carbon dioxide (CO<sub>2</sub>) emissions.

In Phase II (2008-2012) of the ETS, there is a New Entrants' Reserve (NER). The NER is a set-aside of allowances available for new installations and incumbent installations that have extended their activities. The size of the NER at the start of the phase was approximately 81m allowances, of which around 22m was ring-fenced for use by good quality combined heat and power (CHP) installations.

Allocations from the NER work on a queue basis. An applicant will submit an application in which they request a number of allowances. This application is determined, and the applicant is informed as to the level of determined allowances. As for incumbent installations, actual allocations from the NER are made on an annual basis. This means that an installation's NER allocation for future years of Phase II will be reserved, but it will not have been allocated from the NER.

As at 7 July 2011, there were 18,886,301 allowances available to apply for in the UK's NER. The Environment Agency manage the NER queue on behalf of all the UK regulators. They publish regular reports on the status of the queue at:

[http://www.environment-agency.gov.uk/static/documents/Business/Phase\\_II\\_NER\\_Report.pdf](http://www.environment-agency.gov.uk/static/documents/Business/Phase_II_NER_Report.pdf)

The UK National Allocation Plan<sup>1</sup> (NAP) for Phase II of the EU ETS commits the UK to auction, or otherwise sell, 7% of allowances in Phase II. The NAP also states that allowances from

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<sup>1</sup> The NAP is available at:

<http://www.decc.gov.uk/assets/decc/what%20we%20do/global%20climate%20change%20and>

closures and surplus allowances from the NER will be auctioned or sold in addition to this and up to the 10% limit as set in the Emissions Trading Directive 2003/87/EC. As we near the end of Phase II, and the likely surplus in the NER becomes clearer, decisions are needed on how to implement the commitments made in the NAP.

#### **Information from business:**

In order to inform these decisions, we are seeking information from business on the following issues:

- Whether any incumbent EU ETS installations will be making applications to the Phase II NER before the end of 2012?
- Whether any new installations will be making applications to the Phase II NER before the end of 2012?

For those businesses that indicate they will be making applications to the NER, we would be grateful for further information on:

- An estimate as to the amount of allowances likely to be requested from the NER?
- Whether any allowances will be requested from the CHP ring fence within the NER?
- An estimate as to the latest date in 2012 an application to the NER will be made?

#### **How Information will be used:**

The information provided will be used internally to inform estimates as to the level of surplus in the NER. This information will help ensure that the NER is better able to meet business needs whilst also enabling us to have a more evenly spread schedule of auctions over 2012.

Information provided in response to this request, 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.

Your data will be processed in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

#### **Next steps**

Please email your response to [eu.ets@decc.gsi.gov.uk](mailto:eu.ets@decc.gsi.gov.uk) titling your email – 'Phase II NER estimates' by **12 December 2011**.

Yours faithfully,

EU ETS Team

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