



<TBODY>> Dear Sirs,

The Aluminium Federation Ltd welcomes the opportunity to submit comments regarding the Climate Change Regulations 2012 and the Scheme Administration Charges.

Prior to doing so, we wish to complement the Government for its decision to retain the Climate Change Agreements, CCA's, and confirm our full support to perpetuate the success of CCA's in reducing greenhouse gas emissions.

1. Regulations

We regret that, despite our previous submissions to the contrary, the regulations provide for the Environment Agency (EA) to act as the administrator for the new CCAs. The Government and DECC do not appear to appreciate the comprehensive experience that the Trade Associations, TA's, have gained in administering the current CCA's over ten years.

ALFED has dealt with a huge volume of queries from its members during the current agreements and prevented DECC having to deal with them, including queries from consultants. In fact, ALFED were told by DECC that they did not want to deal directly with queries from operators and consultants, and that in the first instance they should be addressed by the trade association. To provide an equivalent service, the EA will have to employ a large number of staff at considerable cost which will be passed on to participants.

The EA has already incurred cost in the initial specification of a new IT system for an electronic registry and reporting system. This cost will escalate as subcontractors are employed and EA staff take on the running of the system. Again, this cost will be passed on to participants despite the fact that the original CCA 10 reporting spread-sheet worked well. If our experience in using the EA's CRC computer system is repeated, the additional cost and level of frustration will be considerable.

The regulations provide for individual TU's to access the registry and, presumably, amend their agreement details. Likewise, DECC's intention is that individual TU's will have the option to report separately, with no obligation to inform the TA's. This can only

result in confusion, particularly with respect to target negotiation and review, together with the auditing of TA procedures.

ALFED has approximately [REDACTED] facilities in its climate change agreement. The total number of facilities in climate change agreements across all sectors must exceed [REDACTED]. ALFED has a huge amount of interaction with its members on CCA queries both relating to changes / queries regarding current agreements and reporting of data.

ALFED truly believes that the reporting of TU's autonomously would disjoint the representation role that the trade association provides and that it would be totally impracticable for the EA to deal directly with circa [REDACTED] plus facilities. This goes totally against the role of a trade association which is to represent its industry sector. The central premise of the previous, and still pertinent, consultation was simplification of the CCA Scheme. The present proposal adds to the complexity of the scheme.

The EA will be obliged to establish the eligibility of companies seeking to enter into CCAs. Our experience shows that, in the vast majority of applications, DECC relied on the TA to apply its technical understanding of industrial processes to determine eligibility. The proposed regulations will give rise to further confusion and frustration.

2. The Buy-out Mechanism

We regret that the Government has decided to close the UK ETR. This is equivalent to a market mechanism being replaced by a UK energy tax which may have no relationship to the European/World price of carbon. By imposing/fixing the price of carbon, in the first case for two years, the Government will distort the competitive position of UK industry.

The proposed mechanism provides for a 15 working day period, within which the Target Unit will need to pay the Buy-out fee in order to be recertified. This is too short to allow companies to work within normal financial procedures.

We understood that the administration of the new CCA would be light touch. This does not fit with termination for late payment of the buy-out fee.

By permitting overachievement to be transferred within a bubble gives groups of companies an advantage over single-entity companies. The UK ETR allowed all companies to trade on the same basis.

We see no reason why overachievement cannot be used for buy-out, post reconciliation.

3. Penalties

We welcome the proposal to soften the rules for infringements. However, the level of

penalty to be applied for Category 1, minor infringements, i.e., the greater of [REDACTED] or based upon [REDACTED] of the approximate value of the CCL discount is excessive and may well dissuade operators from remaining in the CCA. Further, the proposed method to calculate the approximate value of CCL discount is, again, counter to the principle of simplification.

With respect to Category 2 infringements, the regulations should provide a level of discretion on the part of the administrator. For example, it has been shown that inaccurate data can be the fault of the energy supplier, in which case, the operator should not be penalised.

4. Fees and Charges

We contend that DECC/EA have not taken account of the considerable amount of administrative work undertaken by the TA's in the existing CCA. Therefore, if the EA intend to assume responsibility for providing advice, guidance, help-lines, etc., the cost of administration is almost certain to increase at their first annual review of charges. This will greatly diminish the incentive and benefit of the CCA.

Our experience shows that operators have to make many changes to their CCA data/documents over time. We therefore believe that a fixed fee would encourage accuracy of information.

ALFED has undertaken a number of important roles in looking after the CCA for the ALFED participants.

These have included:

- Preparation of good quality energy surveys to ensure that base year data is collected accurately
- Preparation of good quality application paperwork for new agreements
- Q & A service to DECC with regards to queries on new applications
- A thorough understanding of who at each facility is looking after their climate change agreement, ensuring that we keep an accurate record of changeover of staff within the facility
- We work exceptionally hard in collating and checking data in preparation for audit and this ensures the minimum of errors to the facility
- A better target consultation with DECC as the trade association is more accurately able to collate sector data that is representative of the sector. Autonomous reporting would disjoint this process as the trade association would not have access to data from those facilities

The high changeover of staff in the CCA department of DECC has often meant a lack of understanding of the sectors processes and the trade association has played a vital role in the re-education of DECC staff to deal with new applications and existing queries

ALFED participates in the CLIMATE CHANGE AGREEMENT (CCA) CUSTOMER OPERATIONS LIASON GROUP.

We therefore wish to remind DECC of the comments that CCA Operations Liason Group have already made concerning the Climate Change Regulations 2012 and the Scheme Administration Charges.

We request that the minutes of the meeting held on 1st FEBRUARY 2012 be considered as an appendix to this email.

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