



Department for
Business, Energy
& Industrial Strategy

Climate Change Agreements: proposals for a future scheme

Closing date: 11 March 2022



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Introduction

The Climate Change Agreements (CCA) scheme, first established in 2001, serves the dual purpose of making energy and carbon savings through energy efficiency targets whilst also helping to reduce energy costs in eligible industrial sectors by providing a significant discount to participating businesses on the Climate Change Levy (CCL) paid. The targets provide a basis on which organisations can make improvements to the energy efficiency of their facilities over a set period, ensuring their contribution to UK-wide goals, in return for reduced rates worth in total an estimated £255m annually on their Climate Change Levy bills¹. Participants can also see significant energy bill savings from the energy efficiency improvements they make towards these targets.

Between 1990 and 2019, the UK cut emissions faster than any other G7 country, a 44% reduction whilst growing our economy by 78%. Incentivising energy efficiency is proving to be a proactive way to drive the gains in carbon reduction and reaching net zero. This year we have published our Net Zero Strategy², which sets out policies and proposals for decarbonising all sectors of the UK economy to meet our net zero target by 2050, as well as our Industrial Decarbonisation Strategy³, which sets out how industry can decarbonise in line with net zero while remaining competitive and without pushing emissions abroad.

Since its establishment, the CCA scheme has helped businesses become more energy efficient and there was strong support for a future scheme published in a recent evaluation⁴.

The current scheme will end on 31 December 2022 with reduced CCL rates until 31 March 2025 for those who meet targets and other obligations under the scheme. Our Industrial Decarbonisation Strategy committed to further assessment of the purpose and targeting of a long-term CCA scheme following the extension. The Government is seeking views on a new scheme, with this consultation focussing on key strategic and fundamental aspects of the scheme, including scheme purpose, eligibility and targeting.

¹ <https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs>

² <https://www.gov.uk/government/publications/net-zero-strategy>

³ <https://www.gov.uk/government/publications/industrial-decarbonisation-strategy>

⁴ <https://www.gov.uk/government/publications/second-climate-change-agreements-scheme-evaluation>

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General information

Why we are consulting

This consultation seeks views on potential reforms proposed for a future CCA scheme to follow from the end of the current scheme.

Consultation details

Issued: 17 December 2021

Respond by: 11 March 2022

Enquiries to:

Email: cca@beis.gov.uk

Consultation reference: Climate Change Agreements: proposals for a future scheme

Audiences:

In particular, we are seeking views from: sector associations and business which participate in the scheme; operators of facilities not currently in the scheme that may be eligible; and organisations such as trade associations, NGOs, consultants, energy suppliers, academia and other stakeholders who have an interest in the scheme

Territorial extent:

The CCA scheme operates on a UK-wide basis

How to respond

When responding, please state whether you are responding as an individual or representing the views of an organisation.

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.

Respond online at: <https://beisgovuk.citizenspace.com/climate-change/future-climate-change-agreements>

or

Email to: cca@beis.gov.uk

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The 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 [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Background

The Climate Change Agreements (CCA) scheme is a voluntary scheme that encourages businesses in a wide range of industrial sectors with energy-intensive processes, such as chemicals, paper and ceramics to agricultural businesses such as intensive pig and poultry farming (see Appendix 1 for complete list of sectors), to invest in energy efficiency measures in return for reduced rates of Climate Change Levy (CCL). It directly supports an energy efficient, low-carbon future.

The first CCA scheme was introduced in 2001, alongside the CCL, in recognition of the fact that the CCL would increase the cost of energy for energy intensive industry. The present scheme started on 1 April 2013 and is currently scheduled to run until 31 March 2025.

The former Department of Energy and Climate Change (DECC) and industry sectors negotiated climate change umbrella agreements in 2012. Together they agreed the energy efficiency or carbon reduction targets for a sector – the sector commitment. The agreement is then held between the sector association and the Environment Agency - the administrator of the CCA scheme. Umbrella agreements also list the processes that are eligible for a CCA, while underlying agreements are held by a site, or group of sites, owned by individual operators within a sector, and sets out the energy or carbon efficiency targets appropriate for their type of operation.

When first established, the current scheme had four, 2-year target periods, with targets ending on 31 December 2020 and reduced rates of CCL until 31 March 2023. In Spring Budget 2020, the Government announced that the current CCA scheme would be reopened to new entrants for a set period and extended for a further two years until March 2025 through the addition of a fifth target period ending on 31 December 2022. Prior to the extension, stakeholders were consulted on the proposed changes, such as a new baseline year of 2018 for the added Target Period 5 and an increase of the buy-out price from £14 to £18 per tonne carbon dioxide equivalent. Target Period 5 targets were negotiated between BEIS and sectors. New entrants were able to apply to join the scheme at certain times through to 30 November 2020.

The final target period currently in place ('Target Period 5') ends on 31 December 2022, with operators who meet obligations for Target Period 5 being eligible for certification for CCL discount from 1 July 2023 to 31 March 2025 ('Certification Period 6').

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Target Period (TP)	TP1: 1 Jan 2013 to 31 Dec 2014		TP2: 1 Jan 2015 to 31 Dec 2016		TP3: 1 Jan 2017 to 31 Dec 2018		TP4: 1 Jan 2019 to 31 Dec 2020		TP5: 1 Jan 2021 to 31 Dec 2022				
Certification period (CP)	CP1: 1 Apr 2023 to 30 Jun 2015		CP2: 1 Jul 2015 to 30 Jun 2017		CP3: 1 Jul 2017 to 30 Jun 2019		CP4: 1 Jul 2019 to 30 Jun 2021		CP5: 1 Jul 2021 to 30 Jun 2023		CP6: 1 Jul 2023 to 31 Mar 2025		

Figure 1 Current CCA scheme Target and Certification Periods

Climate Change Agreements Scheme Evaluation

The Government committed in the 2017 Clean Growth Strategy to undertake an evaluation of the scheme to inform any successor scheme from 2023. That evaluation was published in 2020, and the final report can be found here – www.gov.uk/government/publications/second-climate-change-agreements-scheme-evaluation

The evaluation showed that there is strong support from existing participants for a future CCA-style policy and provides evidence that the CCA has contributed to both energy efficiency and competitiveness objectives. The evaluation also suggests that the cost-effectiveness of the scheme could be improved if it was targeted more closely at sectors that are at risk from carbon leakage (i.e. that are both energy intensive and trade intensive), and adds that the success of any future policy to support clean growth will be strongly influenced by the targeting of the scheme and the stringency of the targets set for participants.

Slightly more than half of target units (TUs) achieved their targets without using buy-out or banked surplus⁵ in each target period (TP)⁶, with little variation between TPs despite changes in the cost of buy-out. The average level of underperformance⁷ was low (4-6.5% of total emissions for the scheme). The level of overachievement⁸ of targets was greater (8.7%-13.5% of total emissions), exceeding the level of underperformance in each of the first three target periods. Almost all CCA participants had taken some action on energy efficiency since the start of the scheme. However, about half of firms reported that the scheme did not influence their energy efficiency action.

Findings from the evaluation, as well as input from stakeholder bodies, such as the UK Emissions Trading Group, have informed the Government of the strengths of the scheme and shown where there are opportunities to improve it. While some of the considerations were included in the recent extension, as a short extension it was not possible to make more significant reforms in response to the recommendations from the evaluation.

Climate Change Levy

The scope of this consultation does not include the Climate Change Levy policy itself or the level of reduction to CCL rates accessed through participation in a CCA scheme, as this is an HM Treasury policy. All tax rates are kept under review by HM Treasury and will be set for this at future fiscal events. Government has set out rates and reduced rates through to 31 March 2024⁹.

⁵ TUs can carry forward or 'bank' surplus accumulated by exceeding their targets in a previous target period.

⁶ The evaluation reviewed data from Target Periods 1-3

⁷ Underperformance means the buy-out plus banked surplus that a TU needed to use to meet its target for a given TP, as a proportion of total reported emissions for the relevant TP.

⁸ Overperformance means the surplus generated by a TU relative to its target, as a proportion of total reported emissions for the relevant TP.

⁹ <https://www.gov.uk/government/publications/changes-to-rates-for-the-climate-change-levy-for-2022-to-2023-and-2023-to-2024/changes-to-rates-for-the-climate-change-levy-for-2022-to-2023-and-2023-to-2024>

Wider Policy Landscape

The CCA scheme operates within a broader set of existing policies which are part of our strategy for business energy efficiency and industrial decarbonisation. Other policies in this space include:

- Combined Heat and Power Quality Assurance - <https://www.gov.uk/guidance/combined-heat-power-quality-assurance-programme>
- Energy Savings Opportunity Scheme - <https://www.gov.uk/guidance/energy-savings-opportunity-scheme-esos>
- Energy Technology List - <https://www.gov.uk/guidance/energy-technology-list>
- Industrial Energy Transformation Fund - <https://www.gov.uk/government/collections/industrial-energy-transformation-fund>
- Streamlined Energy and Carbon Reporting scheme - <https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance>
- UK Emissions Trading Scheme - <https://www.gov.uk/government/publications/participating-in-the-uk-ets/participating-in-the-uk-ets>

Considerations for synergies with some of these policies are set out in this consultation.

Proposal

As a long standing, well understood scheme which is supported by industry and has proven to be effective in delivering energy savings, we believe that there continues to be a place for a voluntary agreement scheme as a part of how we reach net zero emissions for UK industry. We are therefore consulting on following the current CCA scheme with a new, reformed scheme after the end of the current targets (31 December 2022) and reduced rates of Climate Change Levy (31 March 2025).

We will be taking this opportunity to undertake reforms to the scheme. While we believe many aspects of the scheme operate well, the UK Government's commitment to reach net zero by 2050 means we must ensure the contribution made by this scheme to that goal is maximised, and we believe that key reform is required to do this. While we are not setting out the complete detailed design for the scheme in this consultation, we are making clear our strategic intentions for this reform and the initial proposals. We expect to undertake further consultation on the scheme in 2022, which will confirm our proposals for the full scheme design. This will include final decisions on the aspects of the scheme on which we are seeking views in this consultation, as well as more technical elements of the scheme design.

Scheme length

At this stage we are not making a proposal on what the scheme length will be. The current scheme, as shown in Figure 1 earlier in this document, is a 10-year one including the 2-year extension. We want to seek views from respondents on what the length of a new scheme should be, in particular whether this should be longer term, as with the current scheme, or a shorter one.

A benefit of a longer scheme would be to allow the setting of long-term, ambitious targets which align with our expectations of what is required from UK industry over the next decade to meet net zero. This would allow participants to better plan for more significant investment required over that period to meet those targets. However, we must also consider that with potential for ongoing changes in the energy and taxation landscape that may occur during a longer scheme, and the need to remain flexible in how a scheme operates, a shorter-term scheme may be more suitable.

We would also like views from respondents on the appropriate length of target periods in a new scheme. The current 2-year target periods allow participants longer to implement measures between points where performance is measured, but still maintain a reasonable period within which to ensure sufficient progress is being made. These are followed by 2-year certification periods during which operators would receive reduced rates of Climate Change Levy where targets have been met or, where necessary, buy-out paid.

While it is the reporting at the end of a target period that will be used to determine if targets have been met and any buy-out cost to remain certified, we set out later in this consultation our

proposals to require additional reporting annually during each target period to align with a number of schemes that operate on an annual basis.

Mid-scheme review

We will want to ensure that there is an opportunity to assess whether a future scheme continues to function as intended as the scheme progresses. We would therefore undertake a mid-scheme review for any scheme of significant length, as was the case in the current CCA scheme. This review may include eligibility, targets and other aspects of the scheme to ensure that it remains effective and would help ensure that consideration can be made for any changes to the wider taxation, business energy efficiency and industrial decarbonisation policy landscapes. We welcome views on this review and what the scope should be for this.

- 1. What are your views on the proposal to follow the current CCA scheme with a new, reformed CCA scheme?**
- 2. What is your view on the appropriate length for a new scheme?**
- 3. What would be the appropriate length for target periods?**
- 4. When a mid-scheme review is undertaken, what aspects of the scheme do you think should be under evaluation?**

Eligibility

Several questions were asked on eligibility for a future scheme in the consultation on the scheme extension in 2020, and a summary of responses to these can be found in the Government response¹⁰.

We are not at this time proposing the specific eligibility criteria for a future CCA scheme, but instead are using this consultation to set out our views on how eligibility would be reviewed going forward, the key criteria we intend to use and to begin the process of engaging with industry to gather sufficient evidence to make a final determination of eligibility criteria in 2022.

When the first CCA scheme began in 2001, eligibility was determined based on the Pollution Prevention Control Regulations 2000 (now the Environmental Permitting (England and Wales) Regulations 2016 (EPR Regulations)). These set out “regulated facilities” which could harm the environment or human health and so were required to obtain a permit or to register some activities. Eligibility based on these regulations are set out in Schedule 6 to the Finance Act 2000 (as amended). As this is an environmental permitting regime, this does not make any confirmation of the extent to which these sectors have any specific need to be shielded from the full rate of CCL, or that there are sufficient energy efficiency projects which will be incentivised to be undertaken by providing these reduced rates.

¹⁰ <https://www.gov.uk/government/consultations/climate-change-agreements-scheme-extension-and-reforms-for-any-future-scheme>

In 2006, eligibility was expanded using set energy intensity and import penetration metrics – sectors/processes where energy intensity was greater than 10% were eligible to join, as well as those with energy intensity over 3% and import penetration over 50%. This added a further 13 sectors to the scheme, with the final two of these new entrant sectors added in 2014. Some sectors also added additional processes following the 2006 review. Current eligibility on this basis is set out in The Climate Change Agreements (Eligible Facilities) Regulations 2012 (as amended).

$$\text{Energy Intensity} = \left(\frac{\text{Annual energy costs}}{\text{Annual production value}} \right)$$

Figure 2 Energy Intensity calculation

$$\text{Import Penetration Ratio} = \left(\frac{\text{Imports}}{\text{Total sales in the UK}} \right)$$

Figure 3 Import Penetration Ratio calculation

The result of these two entry methods means there is no single consistent methodology by which sectors/processes have been assessed to determine whether there is (1) a need to be shielded from the full rates of the CCL, or (2) whether participation in the scheme will drive the required energy and carbon reduction outcomes. One of the key learning points from the CCA evaluation, published in April 2020, was that the eligibility of CCA sectors should be reviewed to improve the targeting of the scheme at sectors that are both energy intensive and open to international competition. Analysis showed a greater impact (11.4% reduction compared to 4.1%) was found for electricity use on CCA sites that were admitted to the CCA scheme because they met energy-intensity and trade-intensity criteria, compared to non-CCA sites with equivalent energy-intensity, which indicates that the scheme had greater impact at sites proven to be energy and/or trade-intensive. The evaluation also considered other characteristics of organisations, such as size and other policy drivers, which influence on energy efficiency or competitiveness from the CCA scheme.

We believe that any future CCA scheme should have a consistent set of eligibility criteria to ensure the scheme is both supporting those businesses which should be shielded from the full rate of CCL while also delivering value for money in terms of the expected energy and carbon saving outcomes.

We therefore do not consider that facilities currently in the scheme should be automatically eligible to join a future CCA scheme; and, as a result, all sectors will need to be re-tested against the finalised eligibility criteria. We will explore ways in which administrative burden associated with the transition from the existing scheme to the new scheme can be lessened.

We are not proposing the specific eligibility criteria at this stage, however we believe that both energy intensity and trade intensity metrics should be key components of the criteria. Outside of this consultation, we will shortly begin a process of engagement with sector associations to gather the necessary data to make final decisions of eligibility criteria and any thresholds.

New criteria will also allow any new sectors or sub-sectors not currently in the scheme an opportunity to join provided they meet the final requirements.

Trade intensity measure

Trade openness can be measured in several ways, two of which are trade intensity and import penetration ratio. Trade intensity is the value of imports and exports to foreign countries in relation to the domestic market (imports plus exports ÷ turnover plus imports), while import penetration ratio is the value of imports as a percentage of the value of total sales in the UK.

Import penetration ratio has previously been used as part of the eligibility criteria to add new sectors to the current CCA scheme, and so is a recognised aspect of the scheme's eligibility criteria. However, trade intensity is a more widely used measure of trade openness in the policy space, and it is included in the eligibility criteria for the Energy Intensive Industries compensation and exemptions schemes and the UK Emissions Trading Scheme (ETS) carbon leakage list.

$$\text{Trade Intensity} = \frac{\text{Imports} + \text{Exports}}{\text{Turnover} + \text{Imports}}$$

Figure 4 Trade Intensity calculation

We are considering which will be the appropriate measure to use as part of eligibility criteria and will be using data gathered from sector associations to aid us in making this decision.

Process definitions

Currently the scheme uses process definitions to determine which facilities will be eligible to join under a given sector. These definitions were either adopted from the EPR Regulations or were agreed when sectors joined through the added energy intensity and import penetration criteria.

As part of our review of eligibility for a future scheme, we also want to ensure that the method of determining which facilities within a sector will be eligible remains appropriate. In the first instance, we will be reviewing the process definitions to determine if these are still suitable and that the facilities covered meet the principles for the scheme in line with our proposals above. We are aware that in some instances the definitions are sufficiently broad such that some very low energy intensity facilities manufacturing products subject to low levels of international competition would still meet this definition. Making appropriate amendments to the definitions

may also allow administrative simplifications, making it easier to determine which facilities meet the definitions.

- 5. Do you agree with the proposal to review sector and facility eligibility for any future CCA scheme?**
- 6. Do you agree that energy intensity and trade intensity metrics should be used as part of this criteria?**
- 7. What are your views of the options for measuring trade openness (trade intensity and import penetration ratio) and which do you believe would be most appropriate for determining scheme eligibility?**
- 8. Are there any specific considerations you believe should be made in reviewing existing process definitions?**
- 9. Are there any other criteria that should be considered?**

Continued scheme focus on energy efficiency

The scheme is currently based primarily on encouraging energy efficiency. While these efficiency savings will generally result in carbon savings, the targets are not primarily driven by the level of carbon reductions that result (recognising that the scheme does already have a small number of sectors with targets expressed in carbon terms). As a scheme where the incentive (reduced rates of CCL) is linked to the energy consumption, it follows that targets should primarily require participants to become more energy efficient.

In response to our questions on the target and technology focus of a future CCA scheme included in the 2020 consultation, many respondents asked that the scheme support the incorporation of low-carbon technologies, renewable energy, and on-site renewables. We have considered this, and we are of the view that the scheme should remain primarily focused on driving further adoption of energy efficiency technologies.

Energy efficiency has the potential to abate 3.2 MtCO₂e (Mega-tonnes of Carbon Dioxide equivalent) above business as usual by 2030, and we believe that CCA targets can play a key role in realising these savings. By maximising energy and resource efficiency in the 2020s, the total cost of decarbonisation will be reduced as the level of emissions needing to be abated through expensive deep decarbonisation measures will be lower.

We do recognise, however, that adoption of some key carbon reduction technologies may influence performance on pure energy efficiency targets for eligible CCA facilities. This is something that we will engage with sectors on when it comes to agreeing targets, however fundamentally our focus will remain on agreeing stretching targets for industry that will require them to go above and beyond business-as-usual implementation of energy efficiency technologies to receive the substantial reductions in the CCL rates.

Other support mechanisms are and will be in place to support investment in low carbon technologies, including the Industrial Energy Transformation Fund (IETF)¹¹, the Industrial Decarbonisation and Hydrogen Revenue Support (IDHRS) and Contracts for Difference (CfD)¹². The government also recently announced new business rates reliefs and exemptions to support low carbon investment¹³.

10. Do you agree that targets should remain primarily focused on energy efficiency?

11. How could the impacts of implementing decarbonisation technologies on energy efficiency targets be managed in the scheme?

Increasing uptake of energy efficiency technologies & transparency of action taken

In the current scheme, each target unit has a specific target to meet for each Target Period, but there is no requirement for how those targets should be met. Improvements could be made by making investments in technologies which improve energy efficiency, or they could be made through other business changes which will affect energy use, such as variations to product mixes or production levels. In many cases the latter may result in an improvement which is likely to be a side effect of broader business decisions, and as such may not provide lasting improvements, whereas investment in energy efficiency technologies should provide savings for the lifetime of that technology. This is the type of investment we expect to justify the reduced rates of CCL, however a survey of CCA participants undertaken as part of the recent evaluation found that almost half (49%) of participants that took action on energy efficiency reported they would have taken all of the same actions (on the same scale and timeframe), if they had instead been exposed to the full CCL. For a future scheme, we will take steps in reforming how agreements and reporting work to improve transparency in action being taken and to ensure that more action is being taken that will result in energy efficiency improvements beyond what would be undertaken in the absence of the scheme. Below are some of the key reforms under consideration.

Energy Management Systems

In the Government's Industrial Decarbonisation Strategy, we set out that as one method of reducing industrial energy use, we will encourage sites to adhere to the requirements set by international energy management standards such as ISO 50001. This enables companies to follow a systematic approach to improve their energy performance, and they allow for improved visibility of energy consumption, enabling simpler identification of ways to save on energy, associated carbon emissions and bills. It is also currently an alternative compliance route for a number of large businesses under the Energy Savings Opportunity Scheme (ESOS). We believe that making an energy management system mandatory for participation in the scheme could be an effective way of ensuring that participants are employing effective energy

¹¹ <https://www.gov.uk/government/collections/industrial-energy-transformation-fund>

¹² <https://www.gov.uk/government/publications/contracts-for-difference/contract-for-difference>

¹³ <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

management to meet scheme targets, and as a way of increasing general uptake of this practice and to support the uptake of high standards in energy management systems across industry. This is an approach taken in other countries, particularly for high energy users.

12. What are your views on making compliance with a recognised energy management system a mandatory part of the scheme?

13. Should such a requirement be applied to all participants or a subset? If the latter, what would be appropriate criteria for this?

14. How long do you expect it would take participants who do not currently have an energy management system to adopt one?

Reporting of action taken & annual energy reporting

Reporting currently occurs following the end of each two-year target period. This is primarily energy and throughput data that is required to measure performance against targets and contains no information about action taken to improve energy performance. Operators are required to keep “records of energy saving actions and measures implemented during each target period” under rule 14.2.2 of the underlying agreements¹⁴. To further increase transparency of actions taken and to understand how participants are going further than business as usual, we are proposing to make disclosure of action taken and action planned to the scheme administrator mandatory. This may also include reporting of any other Government funding or reliefs used to support implementation of measures so that we can better understand how these schemes are helping support performance against targets.

We are also considering requiring reporting of the same data energy and throughput data required at the end of a target period on an annual basis. The aim of this would be to enhance data collection practices by operators, encouraging them to maintain awareness of progress against targets and would give an opportunity to provide an estimate of any potential costs in relation to underperformance against targets, giving businesses time to make improvements to improve performance or to improve preparedness to pay these costs. We note that some sectors are already collecting this data annually or even more frequently for a small number of sectors.

15. Do you agree that additional reporting mechanisms should be introduced to monitor action taken and action planned?

16. Do you agree that reporting of energy and throughput data should be reported annually?

¹⁴ An agreement between the operator of a target unit and the Scheme Administrator that governs the obligations of the Administrator and the target unit (and its constituent eligible facilities) within the CCA scheme <https://www.gov.uk/government/publications/climate-change-agreements-scheme-revised-templates-for-umbrella-and-underlying-agreements>

Synergy with auditing and disclosure schemes

We recognise that some scheme participants will already be covered by schemes such as the Energy Savings Opportunity Scheme ('ESOS') and Streamlined Energy and Carbon Reporting ('SECR') or will be making disclosures under the Task Force on Climate-related Financial Disclosures ('TCFD'). These require action to be taken and/or reporting in varying ways. In the case of ESOS, Government is considering options for strengthening the scheme which include enhanced reporting and disclosure. The cohort of businesses currently eligible for CCA and ESOS are not identical, with CCA including many smaller businesses which do not fall under ESOS or SECR. In addition, CCA participation is at facility level, whereas schemes like ESOS and SECR operate at an organisational level, meaning a CCA may only cover a subset of overall organisational level energy use/emissions. Reporting periods also differ, with SECR requiring annual disclosure and ESOS requiring confirmation of compliance every 4 years.

For those required to report under both CCA and ESOS, we want to ensure any potential synergies are maximised. In the negotiations for the Target Period 5 targets, a number of sector associations have used the ESOS audits undertaken for CCA participants to, in part, determine the potential measures which could still be implemented - and we expect these audits to be useful again in determining targets for the new scheme. Some of the strengthened ESOS requirements for reporting and disclosure currently being considered include requiring participants to set targets or action plans, and collection of additional data that overlaps with what the CCA already does or what we are proposing to do. We will continue to consider where appropriate efficiencies can be implemented between the other schemes, and welcome views from respondents on this.

17. What are your views on potential synergies and efficiencies that should be considered between a future CCA scheme and other auditing and reporting schemes?

Disclosure of Climate Change Levy benefit received

We also want to increase transparency of the scale of financial benefit that operators receive by participating in the scheme. As such, we will also ask that participants disclose to the CCA scheme administrator in their target period reporting the annual financial benefit of the claimed CCL reduction during the Target Period. This will ensure organisations are aware of the financial value of participating in the scheme, and this disclosure of the financial benefit may help with senior management engagement to help strengthen internal support for implementing further measures to continue receiving the financial benefits. This may also require that this be signed off by a finance director or equivalent to ensure this is accurate and to further strengthen internal recognition of the benefit of participation and ongoing performance against targets in the scheme.

18. Do you agree that mandatory disclosure of the annual financial benefit from reduced rates of CCL should form part of a new CCA scheme?

19. Would this disclosure be helpful in business decision making on energy efficiency investment?

Target types & product mixes

We are considering making ratio relative (or 'novem') targets the default relative target type in the scheme. In target units where there are number of products being made with varying energy intensities, changes to the product mix may affect target performance – positively or negatively. Novem targets consider the ratio of products being produced in a Target Period against the base period and corrects for any distortions created by a changing mix of throughput. By making this the default target type, we hope to minimise distortions created by changing product mixes.

This will also be an opportunity to review the throughput measure used for a given sector/product type (e.g. units/kg of item product manufactured) to ensure these remain appropriate and accurately reflect the level of efficiency for a given facility. We expect this to be something to be discussed and agreed between Department for Business, Energy and Industrial Strategy (BEIS) and sectors directly, but we welcome any views from respondents on this.

20. Do you agree that the ratio relative/'novem' target type should be the only relative target type in a future scheme?

21. Do you have any specific views on potential changes required regarding throughput measures used within any CCA?

Surplus and buy-out

In the current scheme, where a target unit does not meet a Target Period target, that underperformance can be covered in two ways to remain compliant and certified to receive reduced rates of CCL. While most agreements in the scheme use energy-based targets, over or underperformance is converted into tonnes of carbon dioxide equivalent (tCO₂e) to give a common currency to manage this.

The first mechanism is the use of 'surplus' accumulated by overperforming in prior target periods. Any banked carbon overperformance is automatically used to cover any underperformance in subsequent target periods. If a target unit has no or insufficient surplus to cover the underperformance, they may pay a 'buy-out' fee. This is a cost per tonne of carbon of underperformance. In the current scheme, this cost was £12 for Target Period 1 and 2, £14 for Target Period 3 and 4 and £18 for Target Period 5.

Surplus is intended to ensure that participants are not discouraged from taking early action, however we also must ensure that any efficiency gains made are sustained, as it is the final targets that will be set that will be critical in how this scheme contributes to our net-zero commitments. We are therefore considering whether any reforms are required for the surplus mechanism in the future scheme.

With regards to buy-out, we recognise that in some cases target units may come close to but not quite reach their targets, and that there remains a need for a financial mechanism to maintain certification for the reduced rates of CCL. While we are not setting out a buy-out price

at this stage, we do intend to maintain a buy-out mechanism, and this will be set at an appropriate level to encourage participants to meet targets rather than simply paying buy-out. This will potentially mean an increase on the current buy-out price paid to ensure an effective deterrent from paying buy-out, rather than meeting the agreed targets to remain certified to receive the reduced rates of CCL.

Currently both surplus and buy-out are converted to tonnes of carbon dioxide equivalent. This is regardless of whether a target is set in energy (as the vast majority are) or tCO₂e. Setting a cost per tCO₂e invites comparisons with other carbon pricing mechanisms, however the scheme currently has locked in carbon emissions factors which make these comparisons misleading. We are considering whether this is still an appropriate conversion to make. One option for this would be to instead consider surplus and buy-out in kWh without converting to tCO₂e. This would better reflect both the types of targets and to make it more transparent how the buy-out price links to the CCL and reduced rates costs, rather than being compared to other carbon prices used elsewhere.

22. Should the scheme continue to have a surplus mechanism to allow overperformance to offset underperformance in future Target Periods?

23. What reforms should be considered for the surplus mechanism?

24. What reforms should be considered for the buy-out mechanism?

25. Has the pricing for buy-out in the current scheme been effective at discouraging underperformance?

26. Do you agree that any buy-out calculation should be based on kWh rather than tonnes of carbon dioxide equivalent of underperformance?

Mechanism for claiming relief

Businesses eligible for CCL relief as a result of their participation in the CCA scheme claim that relief through their energy supplier. The claims process involves the CCA participant sending a formal notification (a 'PP11' form) to their energy supplier. The supplier then applies the appropriate amount of relief to future bills. There is a requirement on the CCA participant to reconcile relief claimed against eventual actual entitlement. Reconciliation may show that the CCA participant either owes additional CCL or is due a refund and processes are in place to ensure that the customer is put in the right position.

In parallel with submitting a PP11 form to their energy supplier, the CCA participant must submit a supporting calculation document (a 'PP10' form) to HM Revenue & Customs (HMRC).

This is a long-established process and while there is no strong or immediate driver for change, this consultation provides an opportunity to ask for feedback on the process. It would be helpful to hear views on administration burdens and customer experience from the perspective of both CCA participants and the energy suppliers who apply relief to bills.

- CCA participants - we would welcome comments on the extent to which it is simple and straightforward for you to ensure you receive the right entitlement.
- Energy suppliers – we would be particularly interested to understand issues or problems you have encountered and the extent to which they have added to your administrative burden.

27. Please provide any views in respect of the mechanism for claiming the CCL relief

Other aspects of scheme design

There are many other technical aspects of the scheme where we are not making any proposals in this current consultation. In many cases we expect scheme rules will remain static where these are well understood and are functioning as expected, in other cases we require more time to consider the evidence on appropriate reforms to make, for example the 70% rule¹⁵, secondary reporting¹⁶, the rationalisation rule¹⁷, the stringency test¹⁸, bubbled agreements¹⁹ and financial penalties²⁰.

We will consult on the final proposals for the detailed scheme design in 2022, however at this time we welcome views from respondents on any specific aspects of the scheme they believe should remain or any reforms that we should consider.

28. Please outline any specific aspects of the scheme not covered in the proposals above where reform should be considered

¹⁵ Rule allowing for all the energy consumed at a site to be included in the CCA eligible facility if 70% or more of the site's energy is consumed within the installation.

¹⁶ A reporting amendment carried out after the close of the reporting window and the issue of a Memorandum of Accounts.

¹⁷ Where a facility leaves a target unit as a result of closure and is not part of a change of ownership.

¹⁸ A test applied by the scheme administrator to determine if a target should be adjusted when an operator adds or removes facilities from their TUs, which may change the likelihood of the target being met.

¹⁹ The grouping together of two or more eligible facilities into a single target unit with one target.

²⁰ A civil financial penalty issued under the CCA scheme by the Administrator to the operator of a target unit due to an infringement of the CCA rules and agreements.

Timing & new entrants window for current scheme

Following this initial consultation, we expect to undertake further consultation in 2022 on the final proposals and detailed scheme design. Given the time required to review scheme eligibility, agree future targets and to establish a robust scheme design which considers both the outcome of the current scheme evaluation as well as feedback from this initial consultation, we expect that new legislation and agreements for the scheme will be finalised in 2023. The timing of the new scheme will be dependent on scheme design finalisation and legislative timing, with consideration for continuity for the end of the current Target Period 5 on 31 December 2022.

Below are some indicative dates for key milestones in taking forward this scheme.

Action	Date
Engagement with sectors on eligibility related data begins	January 2022
Window for new entrants to current scheme closes	31 March 2022
Consultation closes	11 March 2022
Consultation response to be published	June 2022
Final future scheme consultation published	Second half 2022
Target negotiations with sectors begin	Second half 2022
Final consultation response published	First half 2023
New legislation laid	2023
New targets and agreements in place	2023

29. Please provide any comments on the indicative timeline set out above

New entrants window for current CCA scheme

As we do not currently expect to have new agreements in place for any future scheme until 2023, which is the point at which all eligible facilities will be added to the scheme and therefore eligible to receive the reduced rates of CCL, we want to ensure eligible facilities not currently in the scheme have an opportunity to join and benefit from the reduced rates of CCL without a protracted gap. We are therefore opening the current scheme, based on existing eligibility rules, to new entrants during a short window which will end on 31 March 2022. New entrants will be eligible to receive the reduced rates of CCL through to 31 March 2025 provided they meet the agreed targets. Entrance to any future CCA scheme will be dependent on eligibility requirements for that scheme. The process for new entrants through to March 2022 will be as per previous periods for new entrants, as set out in the scheme operations manual²¹.

²¹ <https://www.gov.uk/government/publications/climate-change-agreements-operations-manual--2>

Next steps

This consultation will run for 12 weeks. The responses will be analysed, and a government response is expected to be published by June 2022. Alongside this consultation, we will engage with industry directly through sector associations to gather data required to make decisions on eligibility criteria and thresholds.

We intend to publish a further consultation which will set out or proposed final scheme design later in 2022.

Consultation questions

- 1 What are your views on the proposal to follow the current CCA scheme with a new, reformed CCA scheme?
- 2 What is your view on the appropriate length for a new scheme?
- 3 What would be the appropriate length for target periods?
- 4 When a mid-scheme review is undertaken, what aspects of the scheme do you think should be under evaluation?
- 5 Do you agree with the proposal to review sector and facility eligibility for any future CCA scheme?
- 6 Do you agree that energy intensity and trade intensity metrics should be used as part of this criteria?
- 7 What are your views of the options for measuring trade openness (trade intensity and import penetration ratio) and which do you believe would be most appropriate for determining scheme eligibility?
- 8 Are there any specific considerations you believe should be made in reviewing existing process definitions?
- 9 Are there any other criteria that should be considered?
- 10 Do you agree that targets should remain primarily focused on energy efficiency?
- 11 How could the impacts of implementing decarbonisation technologies on energy efficiency targets be managed in the scheme?
- 12 What are your views on making compliance with a recognised energy management system a mandatory part of the scheme?
- 13 Should such a requirement be applied to all participants or a subset? If the latter, what would be appropriate criteria for this?
- 14 How long do you expect it would take participants who do not currently have an energy management system to adopt one?
- 15 Do you agree that additional reporting mechanisms should be introduced to monitor action taken and action planned?
- 16 Do you agree that reporting of energy and throughput data should be reported annually?
- 17 What are your views on potential synergies and efficiencies that should be considered between a future CCA scheme and other auditing and reporting schemes?
- 18 Do you agree that mandatory disclosure of the annual financial benefit from reduced rates of CCL should form part of a new CCA scheme?
- 19 Would this disclosure be helpful in business decision making on energy efficiency investment?

- 20 Do you agree that the ratio relative/'novem' target type should be the only relative target type in a future scheme?
- 21 Do you have any specific views on potential changes required regarding throughput measures used within any CCA?
- 22 Should the scheme continue to have a surplus mechanism to allow overperformance to offset underperformance in future Target Periods?
- 23 What reforms should be considered for the surplus mechanism?
- 24 What reforms should be considered for the buy-out mechanism?
- 25 Has the pricing for buy-out in the current scheme been effective at discouraging underperformance?
- 26 Do you agree that any buy-out calculation should be based on kWh rather than tonnes of carbon dioxide equivalent of underperformance?
- 27 Please provide any views in respect of the mechanism for claiming the CCL relief
- 28 Please outline any specific aspects of the scheme not covered in the proposals above where reform should be considered
- 29 Please provide any comments on the indicative timeline set out above

Appendix 1 – Sectors holding umbrella agreements

Sector name	Number of facilities (as of November 2021)	Number of Target Units (as of November 2021)
Aerospace	29	19
Agricultural Supply	130	97
Aluminium	17	14
Bakers	2002	101
Brewing	44	31
Calcium Carbonate	10	6
Cement	2	2
Ceramics	43	24
Chemicals	205	181
Cold Storage	432	262
Compressed Gases	13	4
Dairy	86	66
Data Centres	182	100
Egg Processing	3	3
Eggs & Poultry Meat	209	104
Eurisol / Mineral Wool	0	0
Food and Drink	771	632
Foundries	0	0
Geosynthetics Non-Woven	4	3
Glass	5	5

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Gypsum products	0	0
Horticulture	146	110
Kaolin and Ball Clay	12	3
Laundries	124	60
Leather	8	5
Lime	0	0
Malting	26	10
Meat	136	104
Metal Packaging	23	16
Metalfforming	55	47
Motor Manufacturing	38	34
Non-Ferrous Metals	12	12
Packaging & Industrial Films	74	66
Paper	46	36
Pigs	102	55
Plastics	444	390
Poultry Meat Processing	54	48
Poultry Meat Rearing	647	75
Printing	328	311
Rendering	18	15
Sawmills	23	17
Semiconductors	22	21
Slag grinding	0	0
Spirits	83	28
Steel	12	6

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Supermarkets	2083	6
Surface Engineering	172	159
Surface Engineering Heat Treatment	18	16
Textiles	56	56
Textiles Energy Intensive	67	63
Tyres	4	3
Wallcoverings	10	10
Wood Panels	6	3

This consultation is available from: www.gov.uk/government/consultations/climate-change-agreements-ccas-proposals-for-a-future-scheme

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