

**DECC Consultation on Simplifying CCAs:**

**Analysis of Consultation Responses, Nov 2011**

Authors: Jessica World, Sarah Young, Richard Hodges, Alex Townend, Chris Naish, AEA

**Contents**

- 1) Overview of Responses ..... 1
- 2) Responses to Each Consultation Question..... 2
  - 2.1. Question 1 ..... 2
  - 2.2: Question2 ..... 4
  - 2.3: Question 3 ..... 9
  - 2.4: Question 4 ..... 11
  - 2.5: Question 5 ..... 15
  - 2.6: Question 6 ..... 17
  - 2.7: Question 7 ..... 21
  - 2.8: Question 8 ..... 24
  - 2.9: Question 9 ..... 26
  - 2.10: Question 10 ..... 36
  - 2.11 Question 11 ..... 39
- 3) Summary of other Comments ..... 41
- Annex 1: List of Organisations That Responded to the ‘Consultation on Simplifying CCAs’, October 2011 ..... 44
- Annex 2: Consultation questions and overall responses ..... 46

## Executive Summary

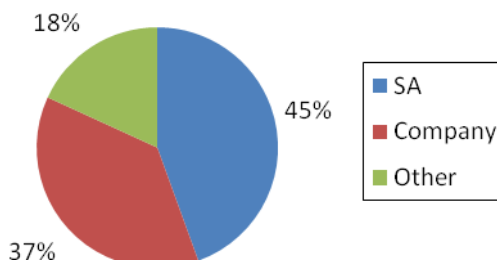
This report summarises the responses received to the DECC 'Consultation on Simplifying CCAs', which closed on 28 October 2011.

The aim of this document is to present AEA's analysis of the responses. The views raised are those of the stakeholders that responded to the consultation, rather than those of AEA or DECC. This analysis will be used to inform the Government Response.

### 1) Overview of Responses

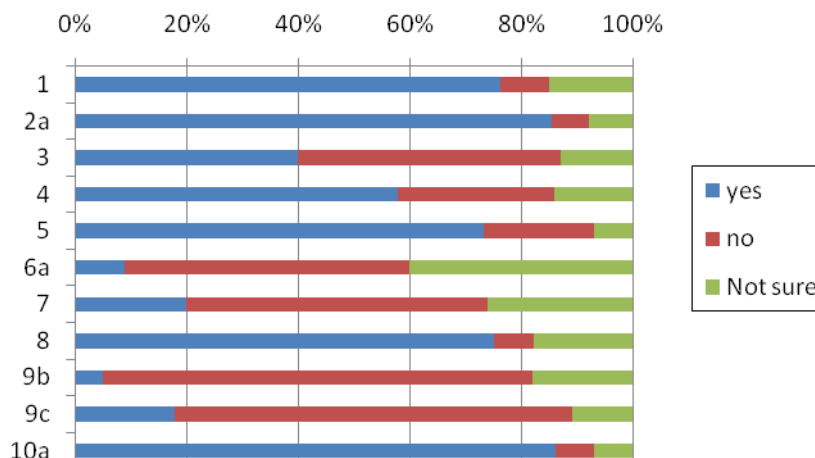
There were 99 respondents to the consultation. **Figure 1** illustrates the breakdown by respondent type. The largest number of responses (45%) came from Sector Associations (SAs, i.e. the organisations which represent the sectors which are in CCAs); 37% from individual companies with CCAs; and 18% from other stakeholders. A full list of respondents is given in **Annex 1**.

**Figure 1:** Total respondents by type



The consultation asked for responses to 11 specific questions; the full list of questions is given in **Annex 2**. **Figure 2** shows the responses for those questions (or parts thereof) that required a yes/no response.

**Figure 2:** Summary of responses for Yes/No questions



A summary of the responses to each of these questions is given in **Section 2**; this includes the main points raised for and against each proposal. In addition, 53 respondents took the opportunity to

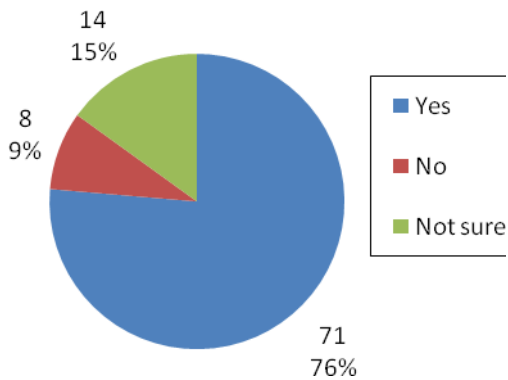
comment on other issues relating to the CCAs and **Section 3** of this report summarises the generic themes that were raised.

## 2) Responses to Each Consultation Question

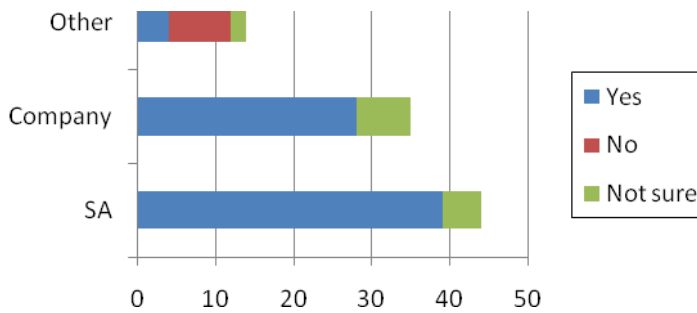
### 2.1. Question 1

*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?*

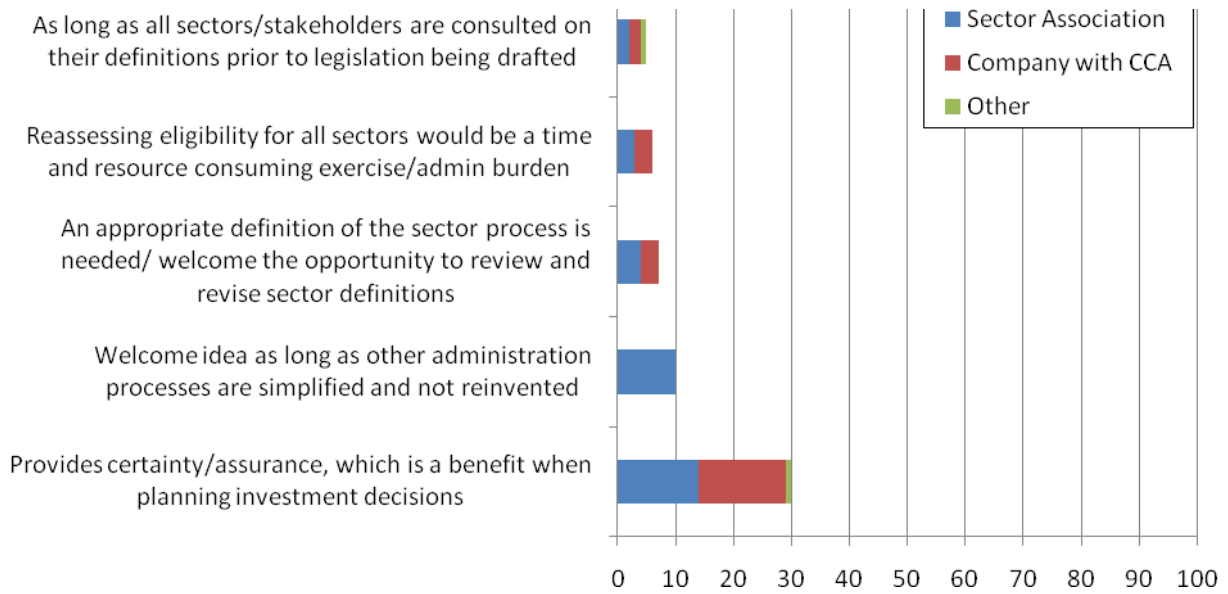
**Figure 3:** Question 1 showing number and % of respondents (of those who answered this question) by response



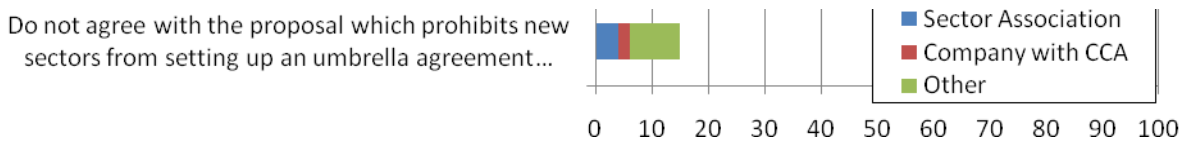
**Figure 4:** Question 1 responses by type of respondent



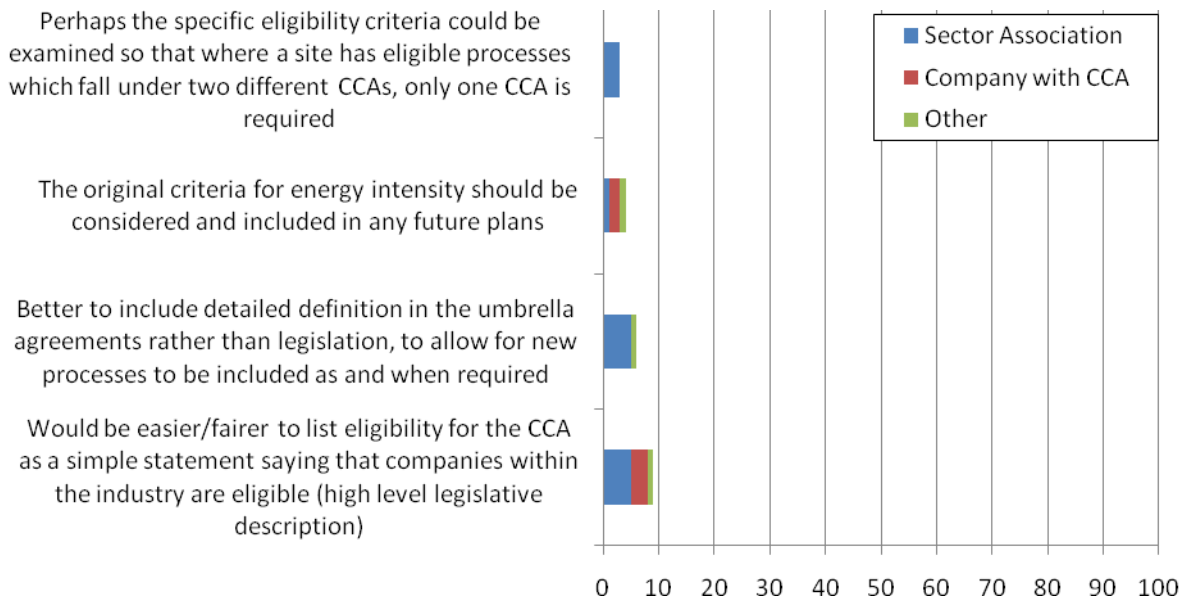
**Figure 5: Question 1: Points for, and number of respondents raising these points**



**Figure 6: Question 1: Points against, and number of respondents raising these points**



**Figure 7: Question 1: Other points and number of respondents raising these points**



**Question 1: Commentary**

93 respondents answered this question; 6 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

The majority of respondents (76% of those who answered the question) agreed that defining in legislation the eligible processes covering the current 54 sectors, provides a worthwhile administrative simplification over reassessing eligibility for all sectors. 9% did not agree and 15% were not sure. Of the respondents in agreement, these were 89% of Sector Associations, 80% of companies with CCAs and 29% of 'other' respondents. However, 15 respondents (e.g. Emissions Trading Group, Intellect, SKM Enviros, Water Companies and CBI) made the comment that they were not in favour of new entrants being excluded from the new agreements.

30 respondents said that defining the eligible processes in legislation would provide certainty and assurance, which they considered a benefit when planning investment decisions. 10 Sector Association respondents said that they welcomed the proposal providing that other administration processes are simplified and not reinvented. 7 respondents welcomed the chance to review the sector and process definitions and 5 (e.g. CBI) said that this should be done in consultation with sectors and stakeholders prior to any legislation being drafted.

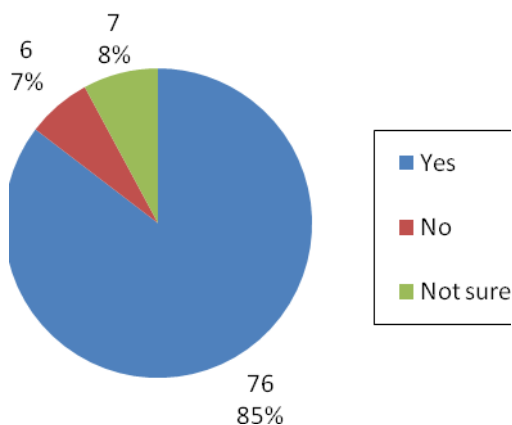
9 respondents stated that it would be simpler to have a high level statement of eligibility within legislation and 6 respondents (mainly Sector Associations) said that the detailed process descriptions would be best included under umbrella agreements rather than legislation (which they stated may make it difficult to make subsequent changes). 4 respondents made the point that energy intensity as the main criteria for eligibility should be considered in future discussions. 3 Sector Association respondents (EEF, DIF, SEA) raised the point as to whether specific eligibility criteria could be examined so that where a site has eligible processes which fall under two different CCAs, only one CCA is required.

## 2.2: Question2

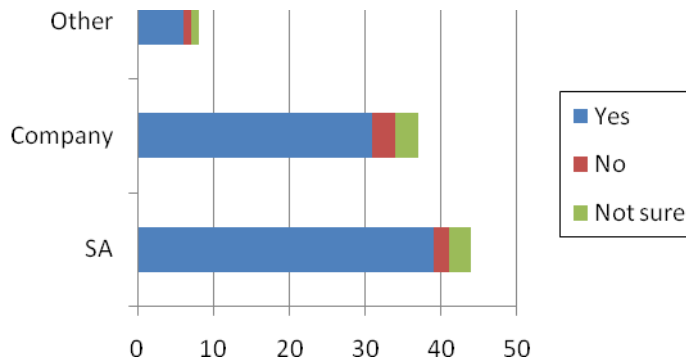
**2a:** Do you agree that reporting targets at the end of the 2 year milestone period strikes an appropriate balance between reducing administrative burden and providing industry with a further incentive to make efficiency improvements? **2b:** What are the additional costs of reporting energy use for the year?

### Question 2a

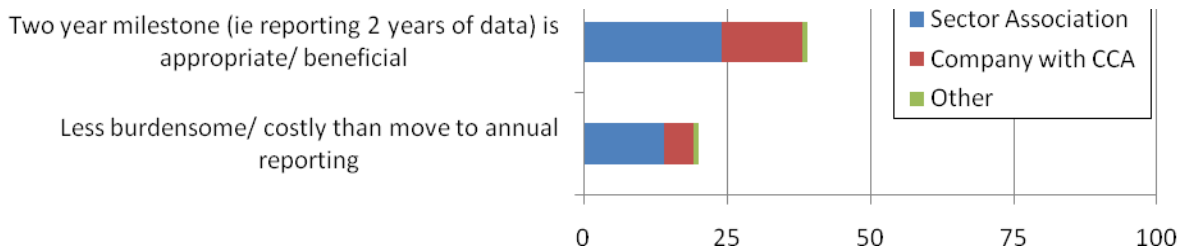
**Figure 8:** Question 2a showing number and % of respondents (of those who answered this question) by response



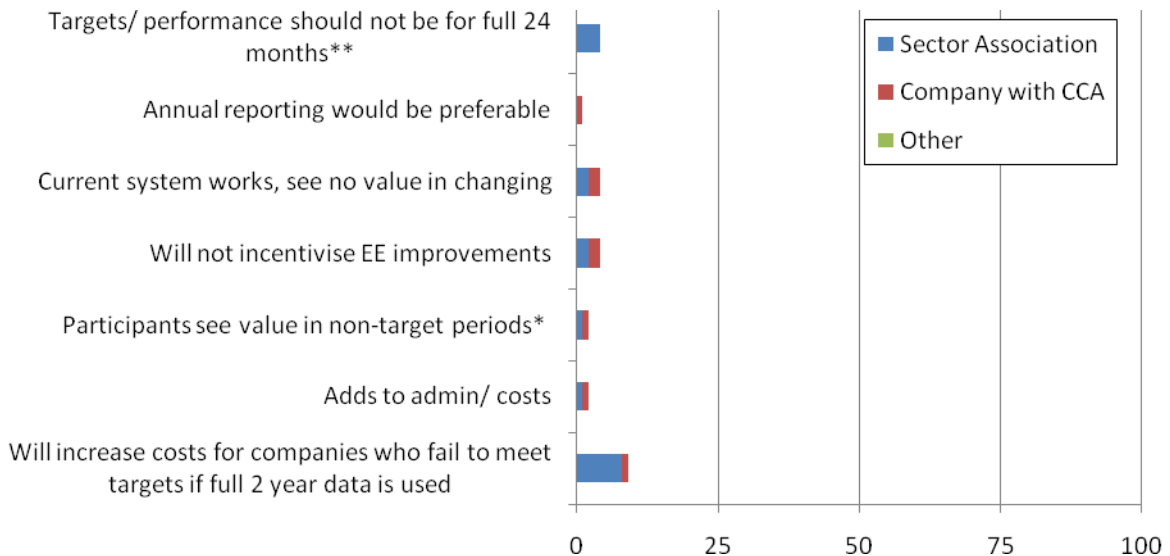
**Figure 9:** Question 2a responses by type of respondent



**Figure 10:** Question 2a: Points for, and number of respondents raising these points



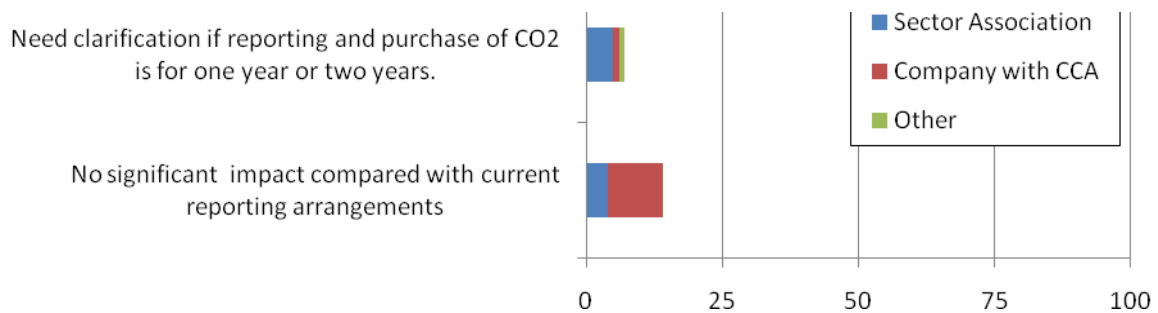
**Figure 11:** Question 2a: Points against, and number of respondents raising these points



\* e.g. for scheduling energy saving projects which use more energy in commissioning, or for managing other issues such as mothballing

\*\* Respondents suggested that instead of performance and targets covering the full 24 months, another mechanism could be used such as taking a 12 month average over the 24 month period



**Figure 12:** Question 2a: Other points and number of respondents raising these points**Question 2a: Commentary**

89 respondents answered this question; 10 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

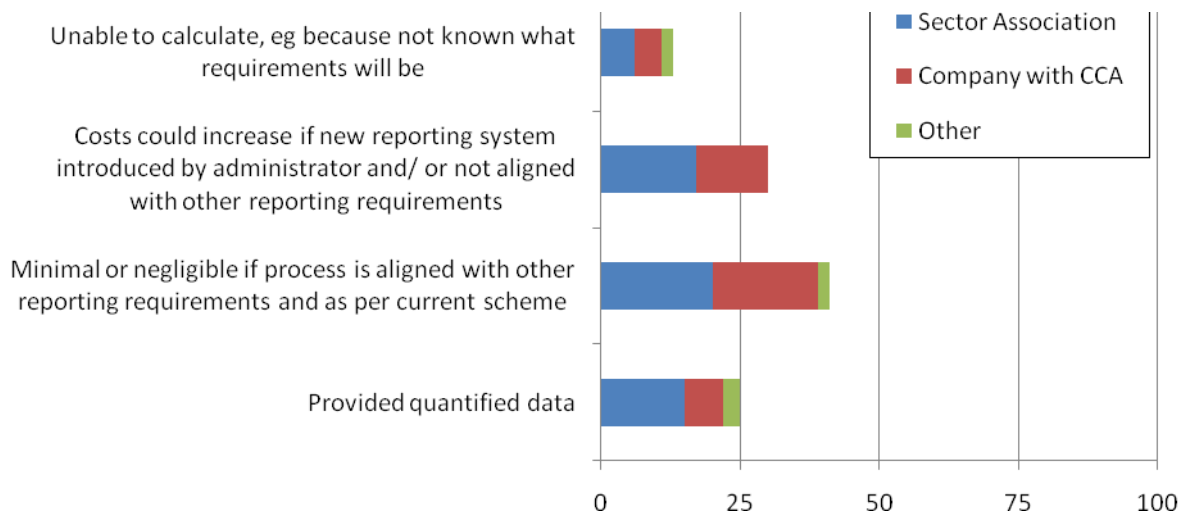
All types of respondents (Sector Associations, companies with CCAs, and other organisations) were largely in favour of reporting targets at the end of the 2 year milestone period. Overall, 85% of those respondents who answered this question agreed that this proposal strikes an appropriate balance between 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 (20 respondents) and that a two year milestone (i.e. reporting 2 years' of data) is appropriate/ beneficial (39 respondents) 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 EU ETS. However, a number of respondents (7), including the UK ETG, said that further clarification was required on how performance will be measured over the 2 year period as it was not clear that it would be 2 years of data.

The main points against this proposal (9 respondents) were that it would significantly increase costs for companies who failed to meet their targets, if the targets and performance were on a 2 year aggregated basis (i.e. double benefit or double penalty compared with a 12 month target period). Some Sector Associations proposed instead that a 12 month average should be taken within the 24 month target period (e.g. EEF, SGS), or that one year's data only be used (NFA) to avoid the double benefit/ penalty.

Some respondents (14) highlighted that this proposal did not have a significant impact compared with current reporting arrangements; this was presented as both a positive and a negative point (the latter due to the fact that the proposal does not reduce administrative burden compared with current scheme). A small number of respondents (2) expressed a view that it would increase administration costs.



**Question 2b****Figure 13:** Question 2b: Summary of responses

There were 78 responses to this question. Of these, only 25 provided quantified data; within this, a wide range of costs was presented. 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. It should be noted that respondents have not necessarily answered this question on a common basis; some Sector Associations report costs for the Sector Association only, some have included the estimated costs for the companies and some do not state the basis for the figures. Similarly, for the information supplied by companies, some report by site and some by Target Unit.

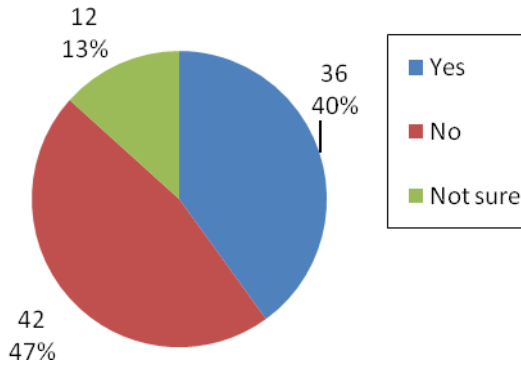
Over half of the respondents (41) commented that they felt that the cost impact would be minimal or negligible, though most caveated this to say that this was only if the process was aligned with other reporting requirements and as per the current scheme. In addition, many of these respondents (30) said that costs could increase depending upon the complexity of any new reporting system introduced by the scheme administrator and/ or if the process was not aligned with other reporting requirements.

A further 13 respondents said that they were unable to calculate the costs at this time. The main reason stated for this was again the uncertainty around what the exact requirements/ process were going to be.

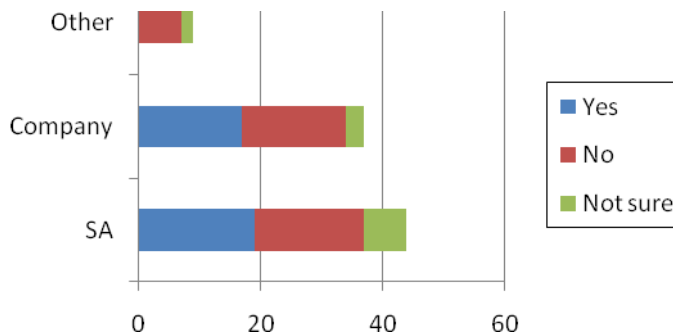
**2.3: Question 3**

*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?*

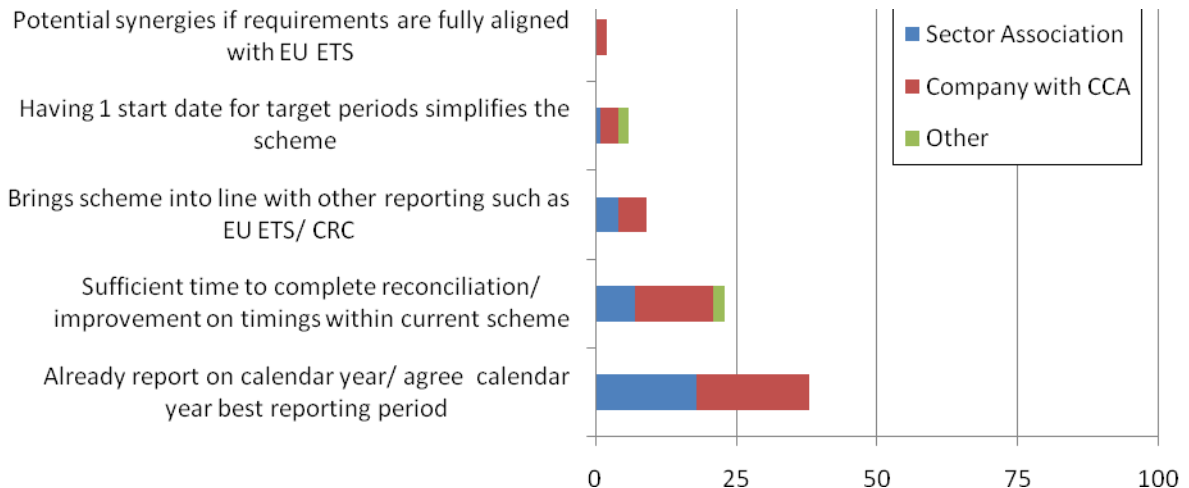
**Figure 14:** Question 3 showing number and % of respondents (of those who answered this question) by response

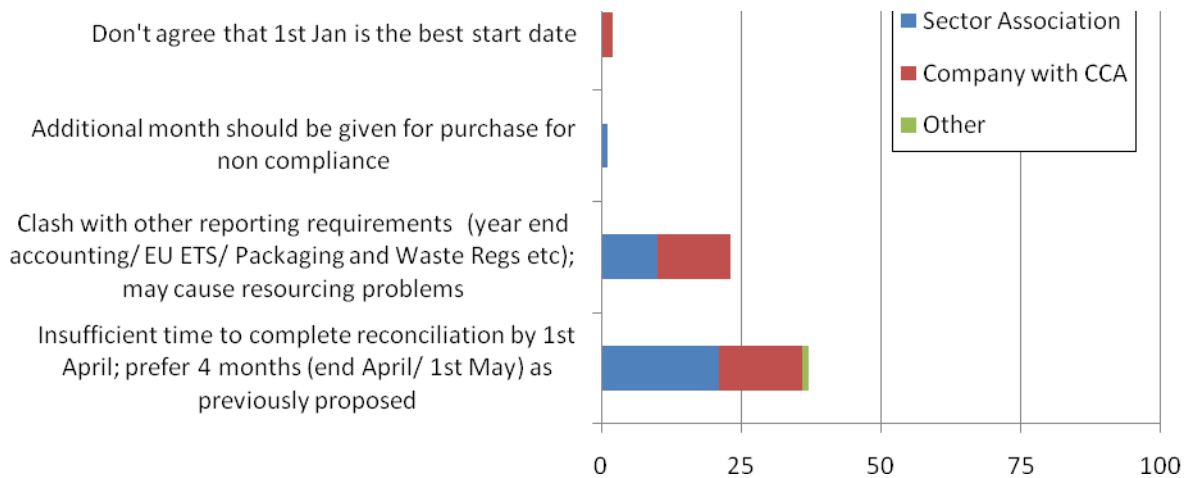


**Figure 15:** Question 3 responses by type of respondent



**Figure 16:** Question 3: Points for, and number of respondents raising these points



**Figure 17:** Question 3: Points against, and number of respondents raising these points**Question 3: Commentary**

90 respondents answered this question; 9 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

Both Sector Associations and companies with CCAs reported a roughly even view on whether there were likely to be any problems with this proposal (overall, 40% of respondents answering this question said they could foresee problems, 47% said they could not, 13% were unsure). 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.

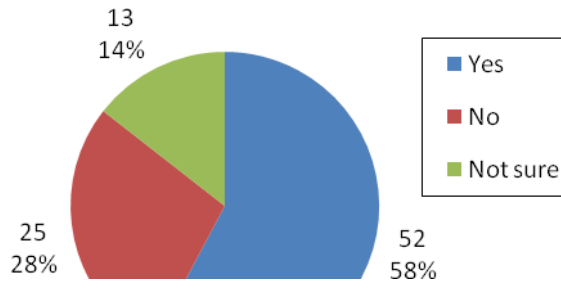
Whilst some respondents (11) highlighted potential benefits of CCAs being better aligned with EU ETS and CRC, 23 respondents highlighted the fact that this period clashed with other reporting requirements (such as year-end accounting, EU ETS, Packaging and Waste Regs etc), which they felt could cause potential resourcing issues. Whilst 23 respondents considered there was sufficient time between the end of the target period and reconciliation, 37 respondents did not and most of the latter instead proposed that there should be a minimum of 4 months between the end of the target period and reconciliation (i.e. reconciliation deadline of end April/ start of May).

In terms of the reporting period commencement date, 38 respondents specifically confirmed that they already reported on this basis and/ or that the calendar year was the best reporting period. Only 2 respondents (companies) expressed the view that 1<sup>st</sup> Jan start date should be reconsidered.

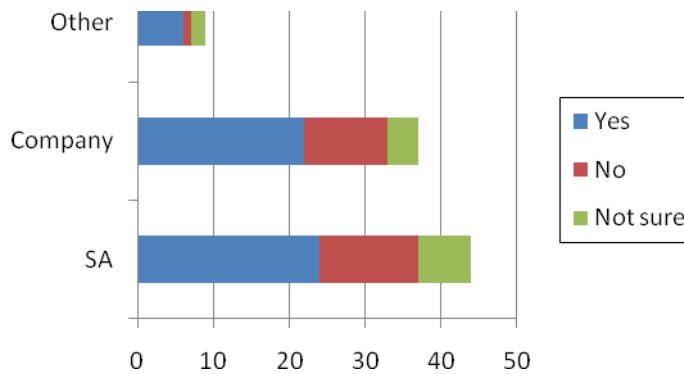
**2.4: Question 4**

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

**Figure 18:** Question 4 showing number and % of respondents (of those who answered this question) by response



**Figure 19:** Question 4 responses by type of respondent



**Figure 20:** Question 4: Points for, and number of respondents raising these points

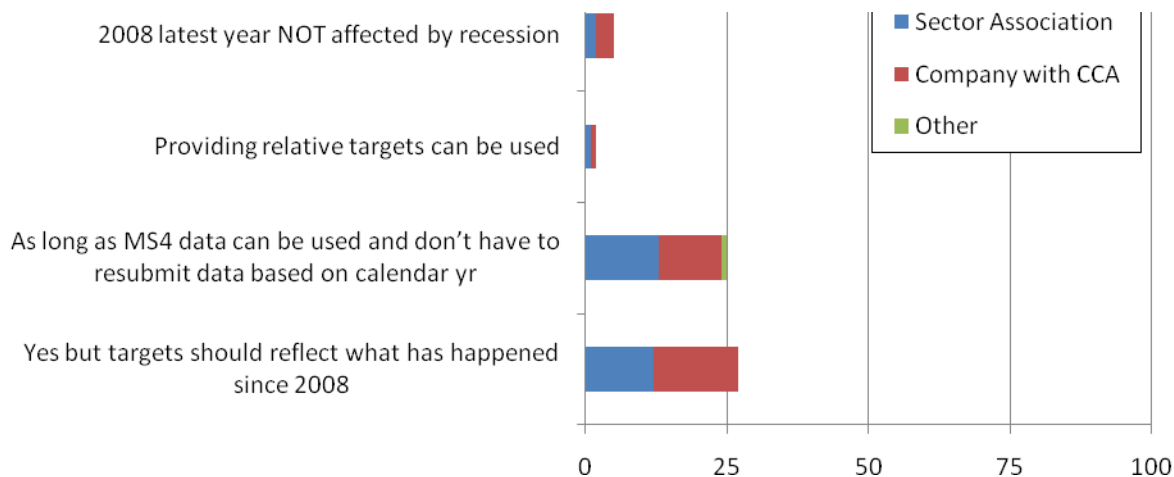
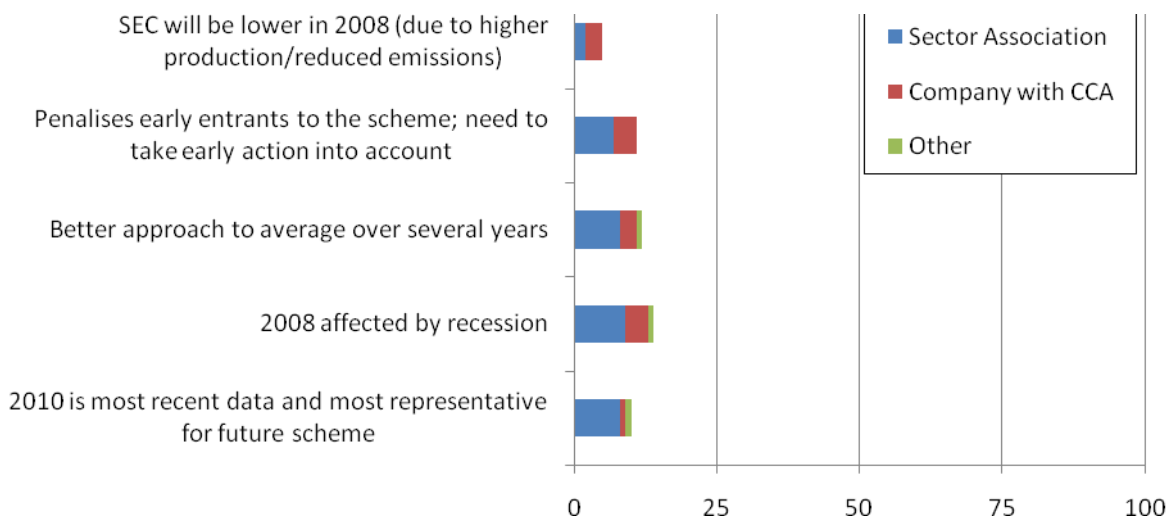


Figure 21: Question 4: Points against, and number of respondents raising these points



**Question 4: Commentary**

90 respondents answered this question; 9 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

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 (overall, 58% were in favour, 28% were not, and 14% were unsure). A slightly greater proportion of companies with CCAs than Sector Associations were in favour (59% versus 55%). An equal proportion (30%) were not in favour.

However, analysis of the points for and against the proposal indicate that while the majority were in favour of 2008 as the common baseline year, it was emphasised that events since 2008 needed to be taken into account in the target setting and it would be preferred if MS4 data could be used without the need for resubmitting data based on the calendar year.

In terms of the views of those against, 14 respondents (e.g. EEF) felt that 2008 was negatively affected by the recession (though 5 other respondents considered that 2008 was not affected by the recession) and so would not be a representative baseline year. 5 respondents felt that the SEC was low in 2008 (due to high production and low emissions) and would unduly affect subsequent reporting.

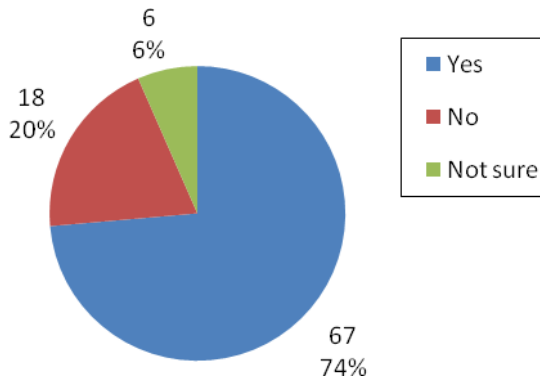
While the majority were content to have a single year for baseline reporting, 12 respondents (including EEF and UK ETG) felt that it would be better to use an average of several years, aligning with the approach used for EU ETS.



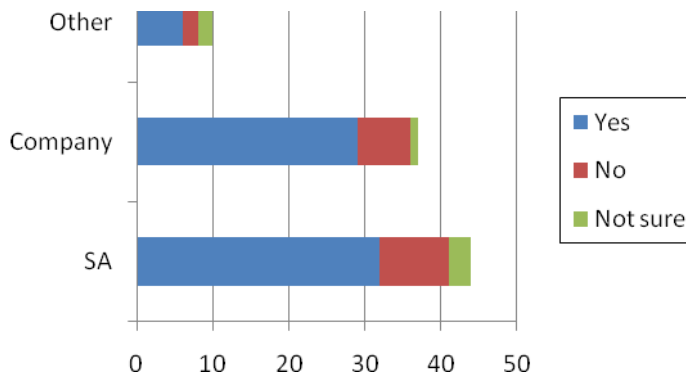
**2.5: Question 5**

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

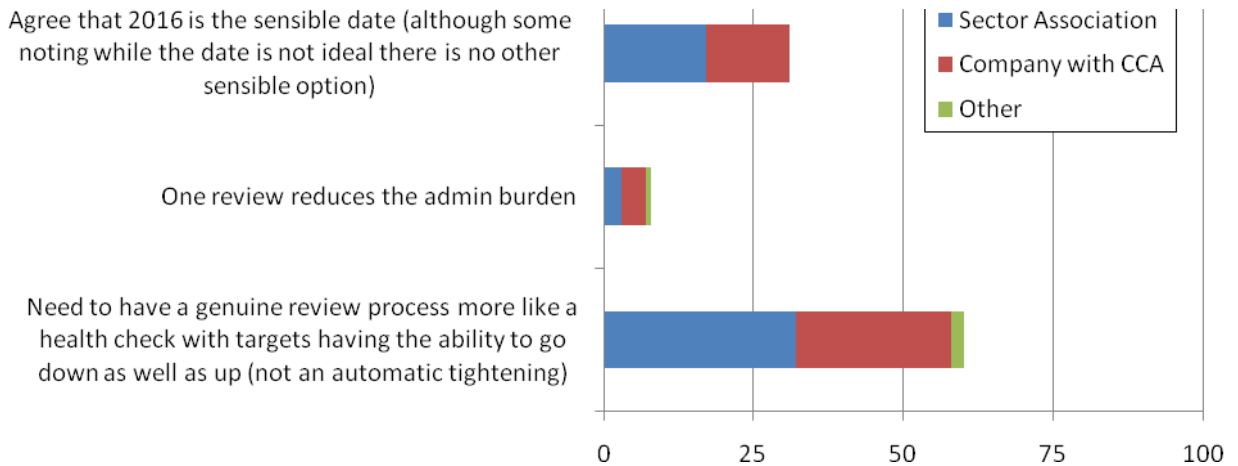
**Figure 22:** Question 5 showing number and % of respondents (of those who answered this question) by response



**Figure 22:** Question 5 responses by type of respondent

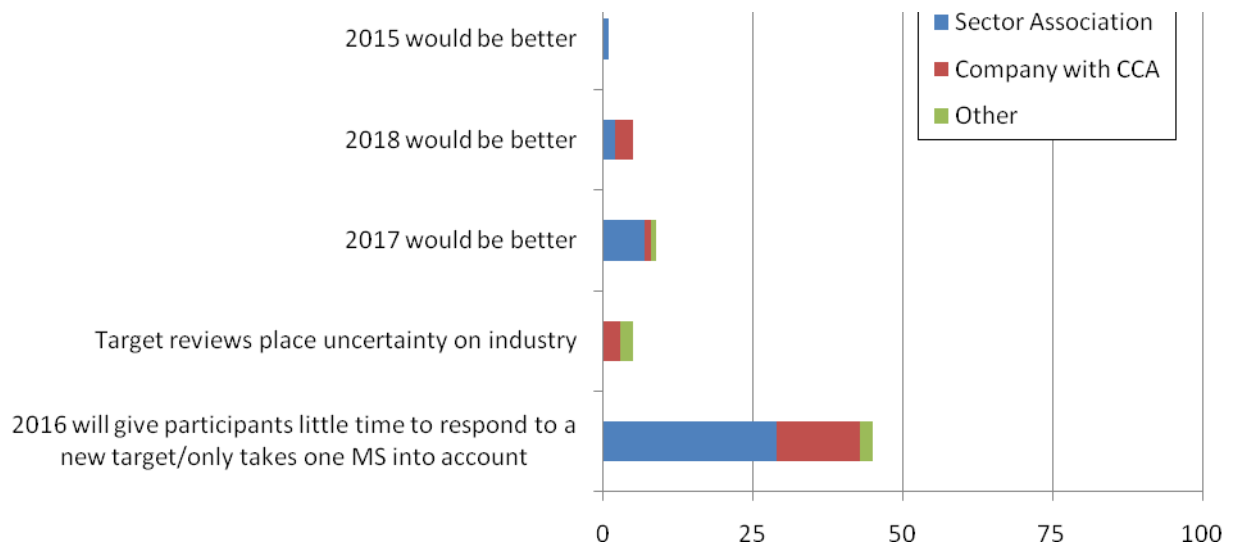


**Figure 23:** Question 5: Points for, and number of respondents raising these points





**Figure 24:** Question 5: Points against, and number of respondents raising these points



**Question 5: Commentary**

91 respondents answered this question; 8 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

The majority of respondents answering this question (74%) agreed that the new CCA scheme should include a target review in 2016 to ensure targets remain challenging. Companies with CCAs favoured this slightly more than Sector Associations (78% versus 73% in favour). 20% of respondents did not agree with the question and 7% were not sure.

The majority of respondents (60) stated that they found the review acceptable but made a comment that the review should be a ‘proper target health check’ with DECC willing to slacken targets as well as tighten them as the performance and evidence dictates. Many respondents (45) stated that while they found the review acceptable, they felt that that the review timing in 2016 would not be ideal due to the limited data available on progress against targets. However, 31 of the respondents conceded that 2016 would be a sensible option considering potential alternatives. With regard to the timing of the review, 9 respondents favoured 2017 (mainly Sector Associations), 5 favoured 2018 and 1 Sector Association (UKLF) favoured 2015.

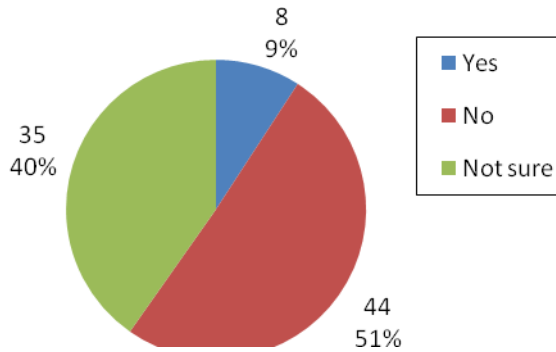
8 respondents stated that having one review would reduce the administrative burden for the scheme. 5 respondents (but no Sector Associations) said that target reviews place uncertainty on industry.

**2.6: Question 6**

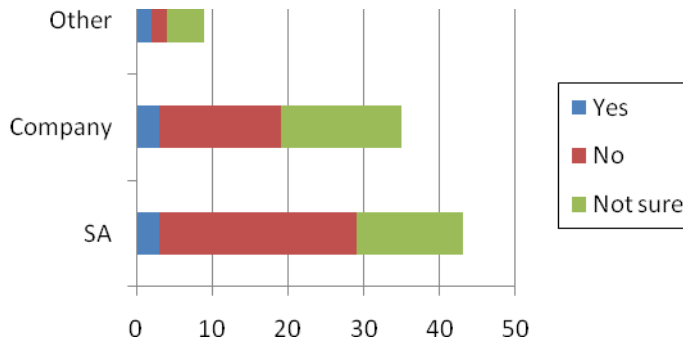
**6a:** Do you agree there is benefit in amalgamating some sectors into a smaller number of sectors for negotiation purposes under the new CCA Scheme? **6b:** Do you have any suggestions for how this can be done?

**Question 6a**

**Figure 25:** Question 6a showing number and % of respondents (of those who answered this question) by response



**Figure 26:** Question 6a responses by type of respondent



**Figure 27:** Question 6a: Points for, and number of respondents raising these points

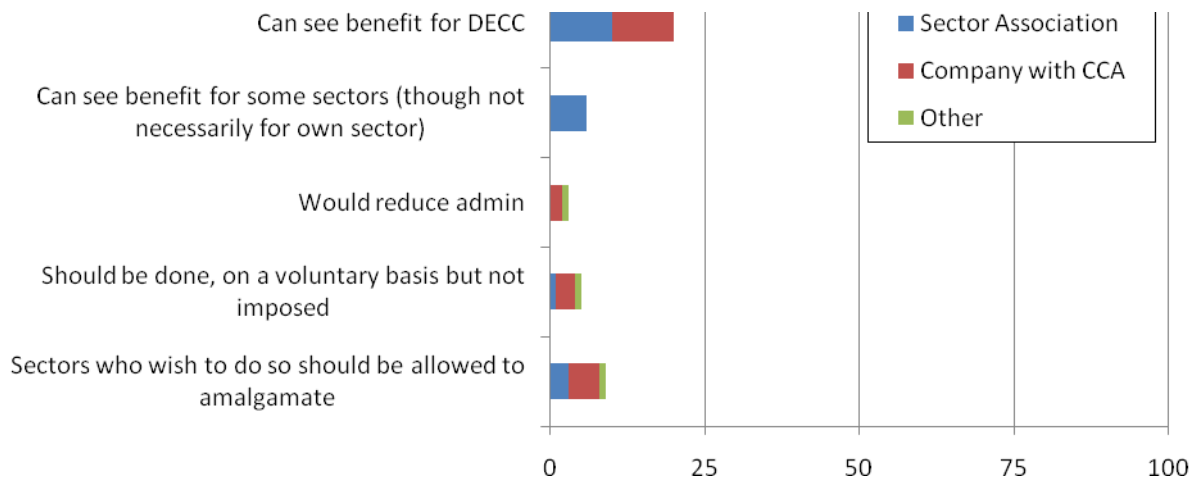
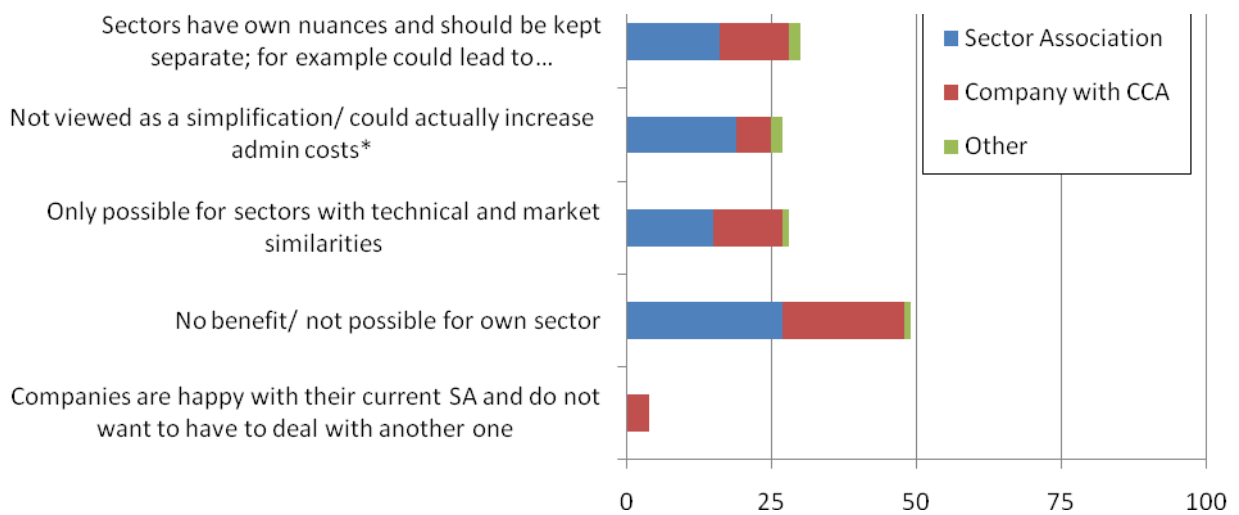
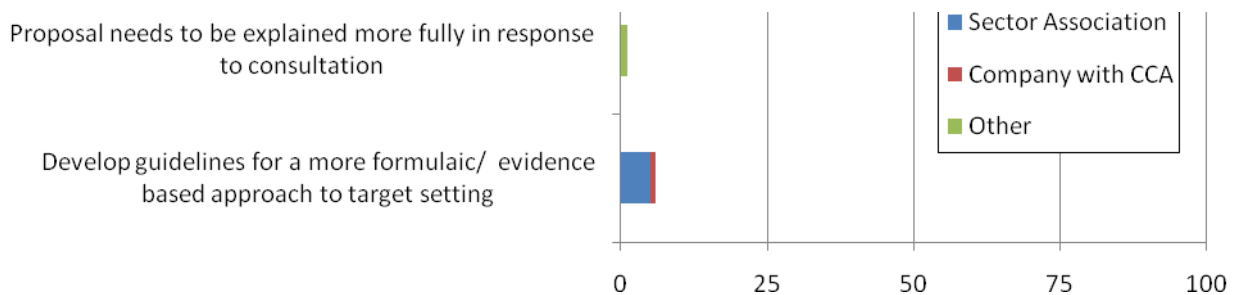


Figure 28: Question 6a: Points against, and number of respondents raising these points



\* Points here included that as an amalgamated group, the sub-sectors would first have to reach agreement before negotiating with DECC; that the process would be more complex and time consuming for sectors; that the variation of technologies and abatement technologies will make it difficult to produce targets for amalgamated sectors

Figure 29: Question 6a: Other points, and number of respondents raising these points



Question 6a: Commentary

87 respondents answered this question; 12 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

Only 9% of respondents who answered this question supported this proposal outright. 51% of respondents (60% of Sector Associations) disagreed that there was benefit in amalgamating sectors, and the remaining 40% of respondents were not sure. Just over half of the respondents who were not sure (19 of 35 respondents) explicitly stated that it could be an option for other sectors, but did not feel it was relevant/ possible for their own.

Within the positive points raised for this proposal, 20 respondents commented that they could see the benefit to DECC, and a further 6 respondents could see benefits for sectors (though not necessarily their own). 14 respondents indicated that sectors who wished to amalgamate should be allowed to do so, though of these respondents a number highlighted that this should be done on a purely voluntary basis.

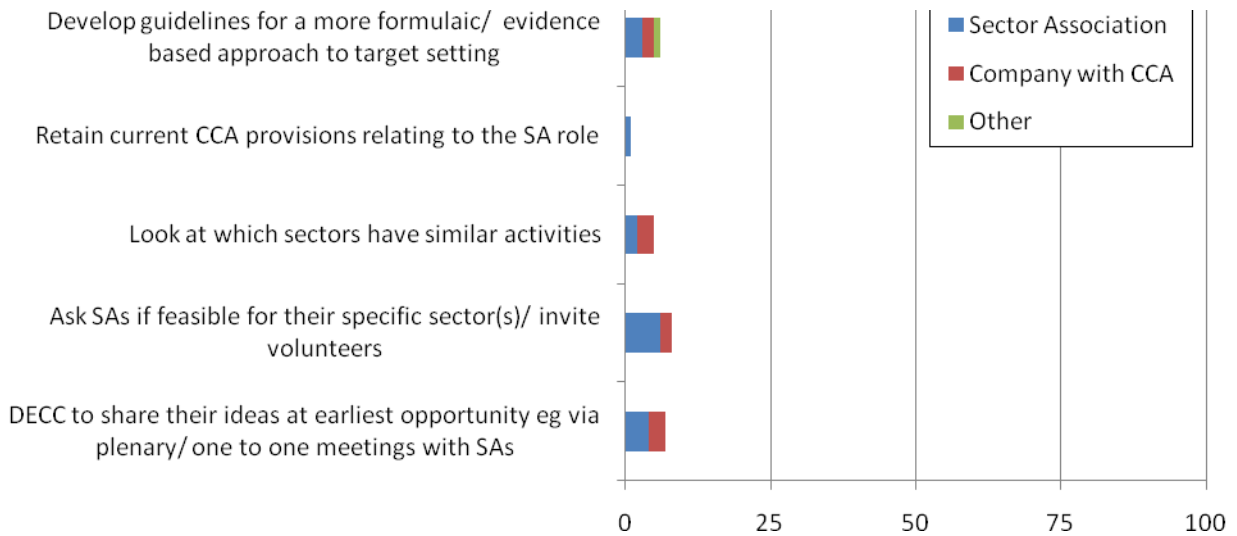
Whilst many respondents (28) highlighted that amalgamation could be possible for sectors with technical and market similarities, which would have similar energy savings potential, the majority of respondents (49) stated that they could not see any benefit in it, or that it was not possible, for their own sector. The common arguments against the proposal were that: sectors have their own nuances and should be kept separate to avoid issues such as unrepresentative targets (30 respondents) and that the proposal would not be a simplification but would run the risk of increasing rather than reducing the admin burden for government, sectors and companies (27 respondents) as there would be an additional layer of admin/ negotiations required at the sub-sector level and the process of deriving and agreeing targets in a wider sector would be more complex.

A number of respondents added a comment, in response to 6a (6 respondents) or 6b (6 respondents), that they felt that admin costs would be more effectively reduced by developing clearer guidance on the target setting, such that the process becomes more formulaic/ evidence based.

#### **Question 6b**

26 respondents gave one or more suggestions or comments, summarised in the following:

**Figure 30:** Question 6b: Summary of responses



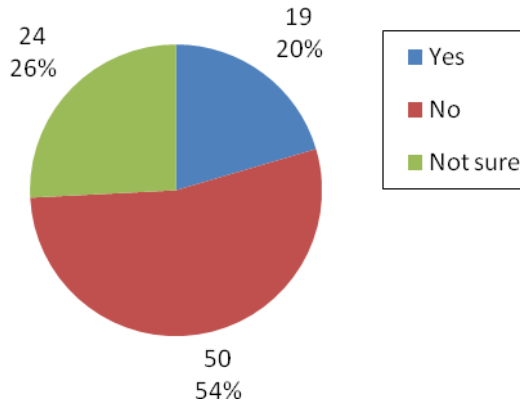
**Question 6b: Commentary**

Only 25% of respondents provided a response to this question. The main suggestion was for DECC to more directly open up dialogue with sectors by sharing their existing ideas (7 respondents) and to invite volunteer sectors (8 respondents). FEC Services Ltd (Sector Association for NFU sectors) was the only respondent who specifically identified an opportunity for amalgamation, as they flagged that they do not see significant difficulties in negotiating all of the current NFU agreements on a common basis so long as they have the opportunity to consider the different constraining factors for the various business groups that they represent.

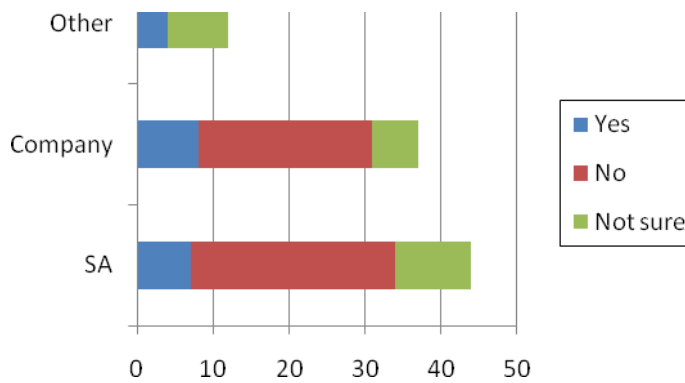
**2.7: Question 7**

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

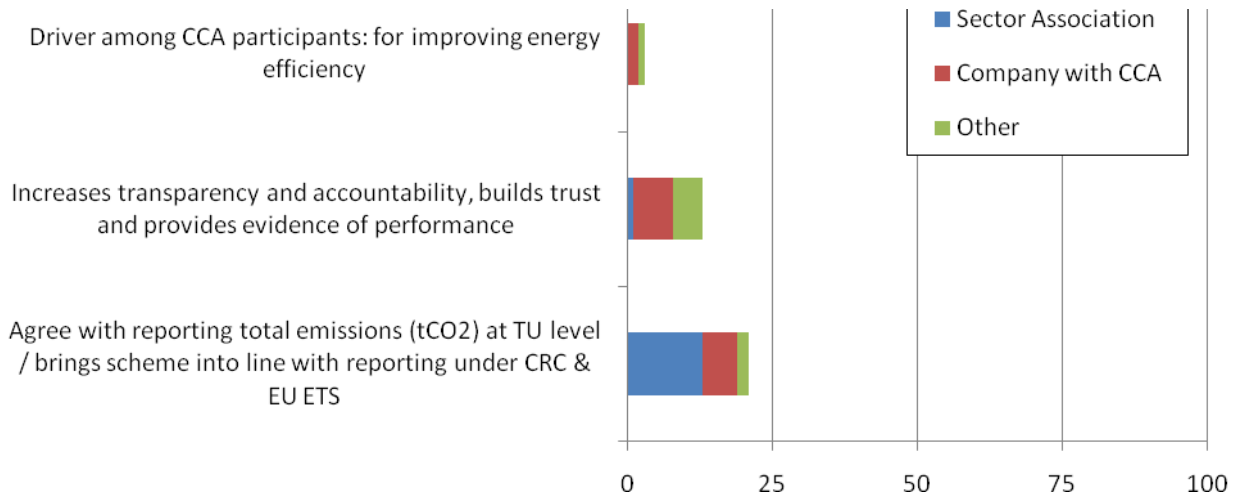
**Figure 31** Question 7 showing number and % of respondents (of those who answered this question) by response



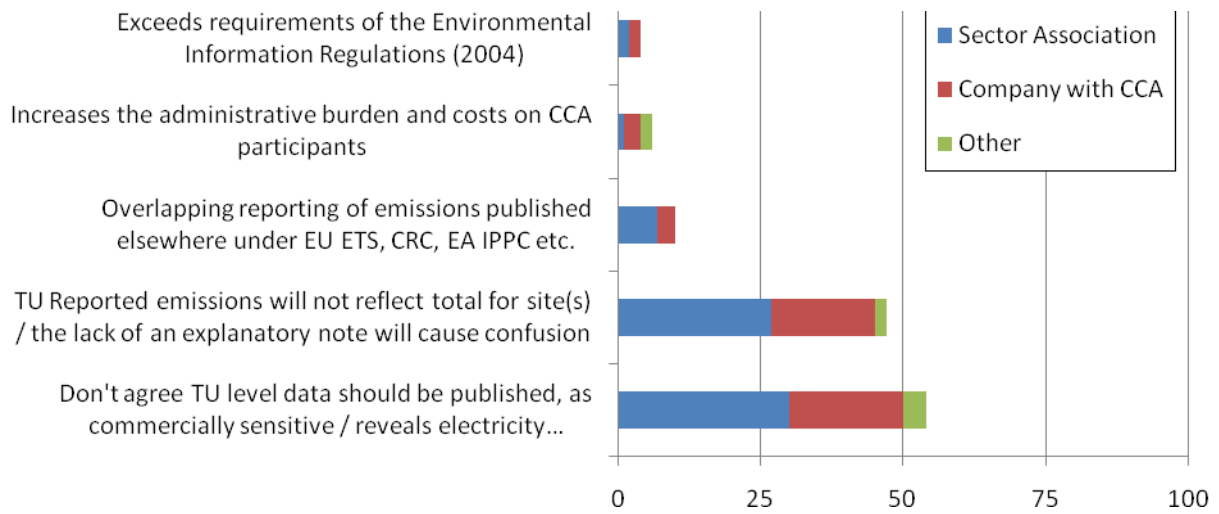
**Figure 32:** Question 7 responses by type of respondent



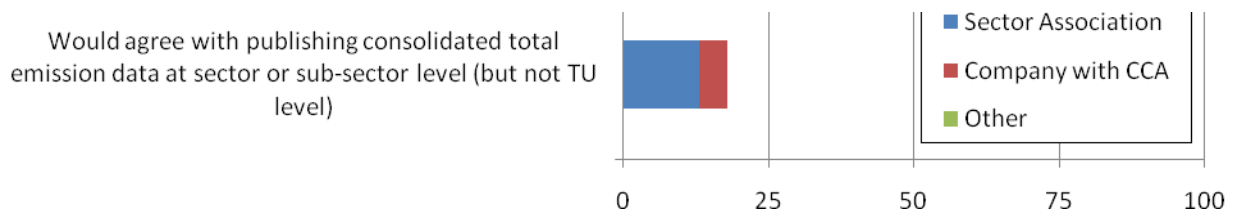
**Figure 33:** Question 7: Points for, and number of respondents raising these points



**Figure 34:** Question 7: Points against, and number of respondents raising these points



**Figure 35:** Question 7: Other points, and number of respondents raising these points



**Question 7: Commentary**

93 respondents answered this question; 6 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

Of those respondents answering this question, both Sector Associations and companies reported a majority view (54%) against the proposal to publish total emissions data (tCO<sub>2</sub>) at Target Unit (TU) level. A minority of respondents (20%) were in favour, with a further 26% not sure.

Analysis of points for shows that those in favour consider the proposal to be consistent with the approach followed by the CRC Energy Efficiency scheme and the EU ETS ‘CITL’, where direct emissions are already reported. Total emissions data is already published elsewhere e.g. by the Environment Agency for PPC-regulated sites – although this was seen by respondents as a point against the proposal. Circa 14% of respondents believed publishing the data would increase transparency, but only a few believed the proposal would improve energy efficiency.

The Information Commissioner’s Office (ICO) submitted a specific response to this question, stating that it believes information disclosure can often be best way to build trust between public bodies, stakeholders and the wider public. The ICO’s view is that:

- i) The proposal is in line with the Environmental Information Regulations (EIR) 2004.
- ii) Under the provisions of the EIR, DECC would be required to release emissions data regardless of commercial sensitivity, in response to a request received.

- iii) In relation to the confidentiality provisions to be included in the scheme rules, it is also possible that other information relating to emissions data may have to be disclosed.
- iv) Data should be published in an open format that enables re-use, in light of the proposals in the Protection of Freedoms Bill on publishing open data.

Thirteen Sector Associations indicated they would support the proposal if emissions data was consolidated at a sector or sub-sector level<sup>1</sup>.

Analysis of points against indicates that the over-riding concern was that emissions data at the TU level could be commercially sensitive (e.g. BGMC, CBI), for example:

- i) Because companies report under a number of different schemes, between the different datasets some commercially sensitive information could be gained. For example, EU ETS participants publishing CCA data after the removal of EU ETS Phase III data would effectively be revealing the proportion of their energy consumption relating to electricity, which could be back-calculated from emissions.
- ii) One Sector Association (MAGB) was concerned that emissions data would help establish their members' cost of sales, which could be used against them in negotiations with their customers – large multi-nationals – and so reduce their sales revenue.
- iii) A number of respondents were concerned that relative performance, fuel mix and production data might also be published, although this was not proposed in the Consultation.

Some respondents were of the view that the proposal would increase the administrative burden on participants, given the number (potentially up to 5) of reporting schemes that they may be subject to. One company stated the Government's overall approach to reporting emissions were complex and should be streamlined and simplified as much as possible. The proposal to publish the emissions data under the provisions of the Environmental Information Regulations (2004), other than in response to a specific request, was also questioned.

A number of respondents stated that in their view publishing emissions data on its own would be confusing (due to the overlapping nature of other reporting schemes and due to relative targets). Respondents proposed a comments box for CCA participants to explain emissions.

---

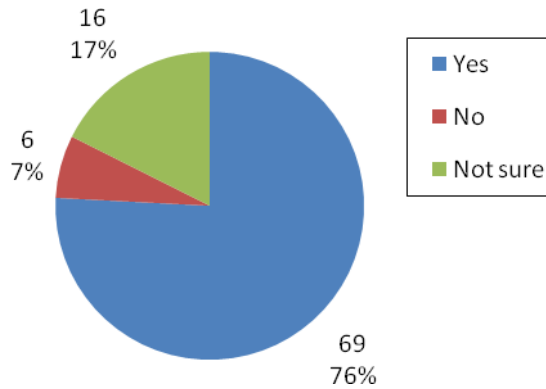
<sup>1</sup> The results of the 5<sup>th</sup> milestone published October 2011 presents aggregated energy and production data for each sector



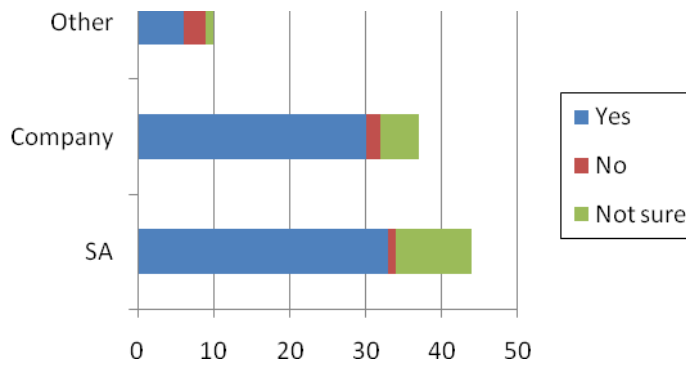
**2.8: Question 8**

*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?*

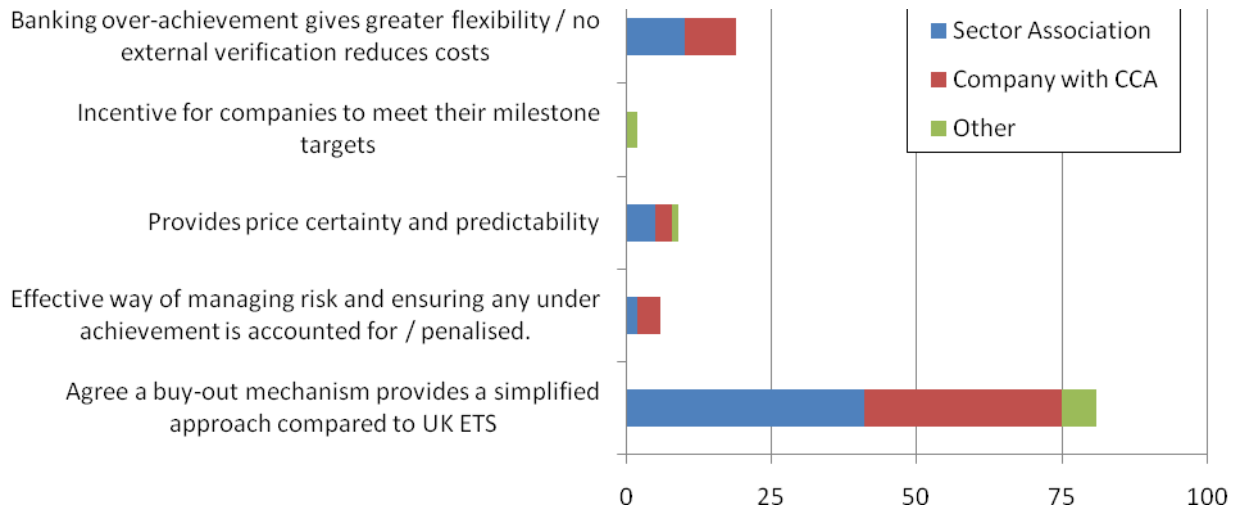
**Figure 36:** Question 8 showing number and % of respondents (of those who answered this question) by response



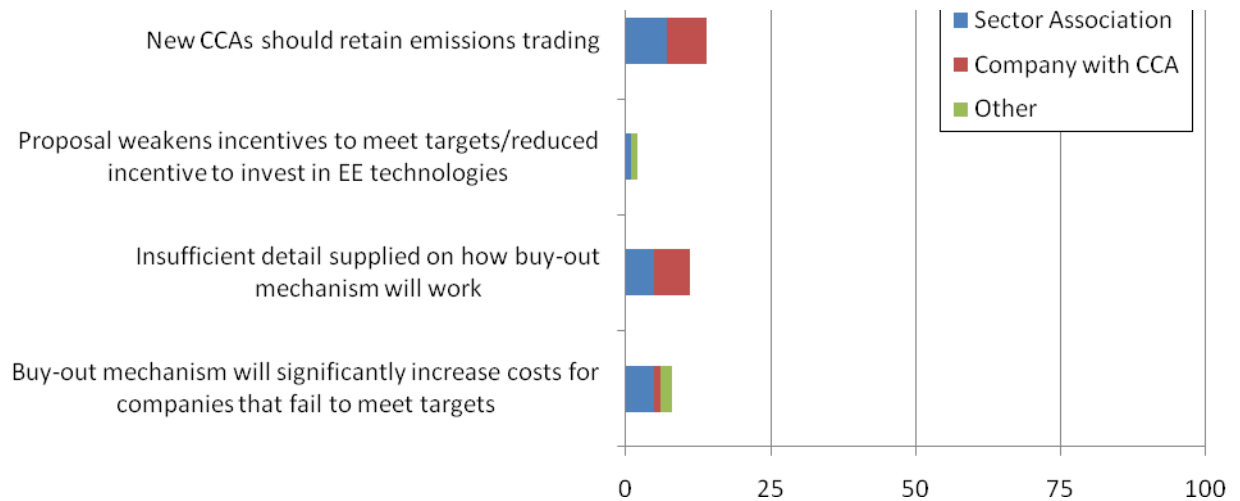
**Figure 37:** Question 8 responses by type of respondent



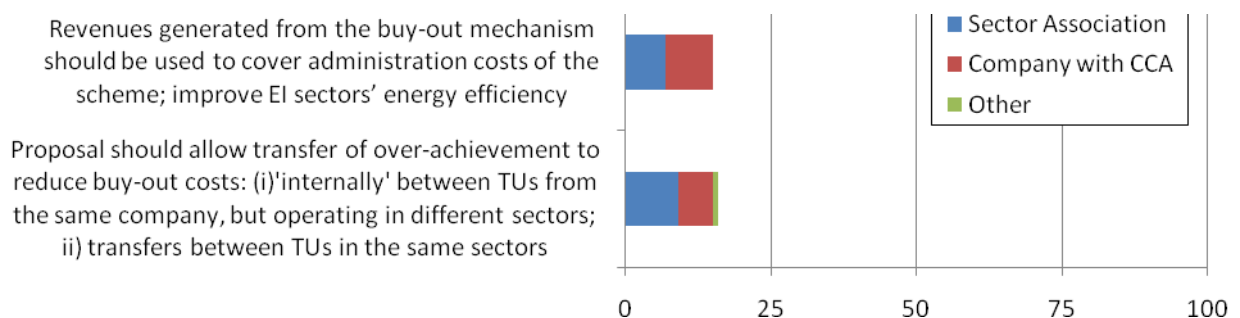
**Figure 38:** Question 8: Points for, and number of respondents raising these points



**Figure 39:** Question 8: Points against, and number of respondents raising these points



**Figure 40:** Question 8: Other points, and number of respondents raising these points



**Question 8: Commentary**

91 respondents answered this question; 8 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

Of the respondents answering this question, both Sector Associations and companies with CCAs reported a clear majority view (76%) in favour of a buy-out mechanism, as a simplified alternative approach to UK ETS, as one has already been implemented for the Renewable Obligation. A number

of respondents (17) were in favour of retaining emissions trading in the new CCAs, but in the absence of discussion of this option some stated they were in favour of the buy-out mechanism as the ‘next-best’ option for risk management.

The proposal for a buy-out mechanism is seen as an effective way of managing the risk of not meeting milestone targets (6) and providing price certainty and predictability (9), subject to how the price is established. Analysis of points against indicates a number of respondents are concerned that the mechanism will significantly increase costs for CCA participants (8) – in particular, Dairy UK and SEEC.

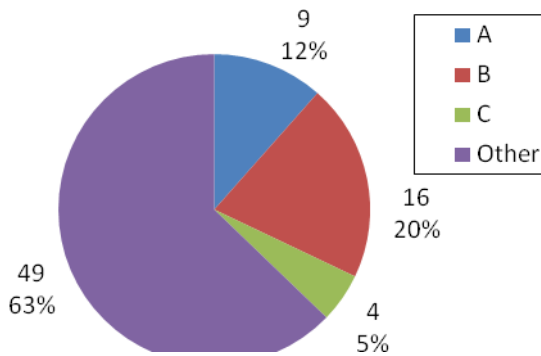
A number of respondents (15) proposed that banked over-performance should be transferable between: i) un-bubbled Target Units belonging to the same company across different CCA sectors; and ii) different company Target Units within the same sector (1). This was seen as a way to reduce buy-out mechanism costs.

Respondents also 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 Energy Intensive sectors to improve their energy efficiency.

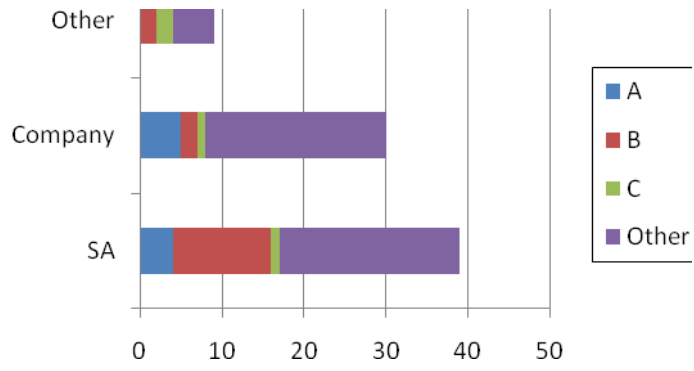
**2.9: Question 9**

*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?*

**Figure 41:** Question 9a showing number and % of respondents (of those who answered this question) by response

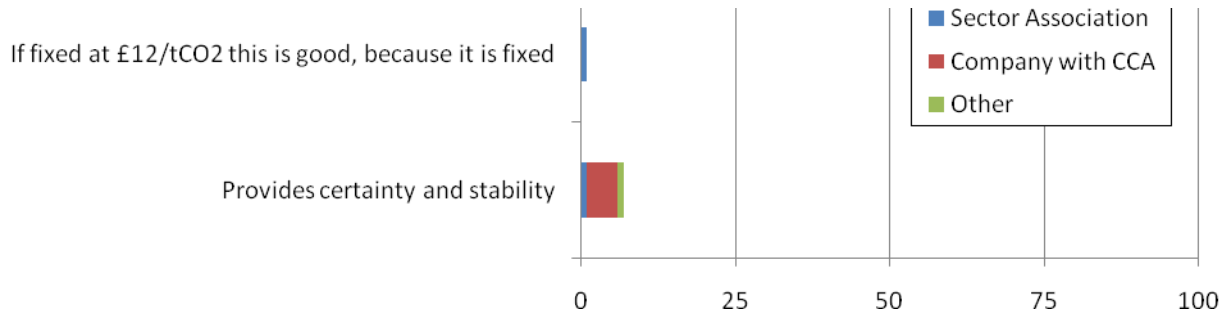


**Figure 42:** Question 9a responses by type of respondent

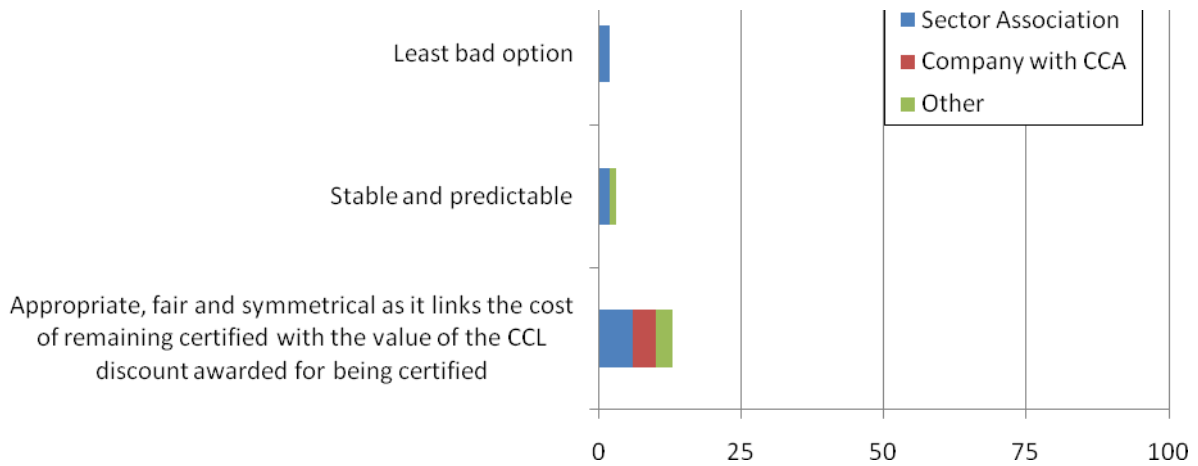


**Question 9a: Points for, and number of respondents raising these points**

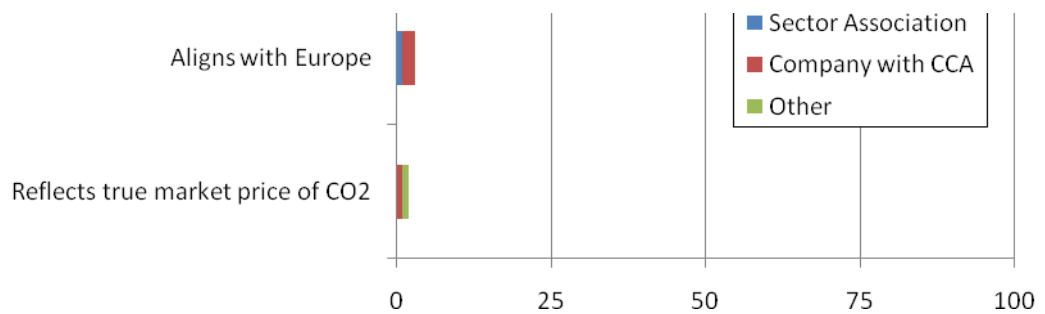
**Figure 43:** Points for Option A, and number of incidences of these points being raised



**Figure 44:** Points for Option B, and number of incidences of these points being raised

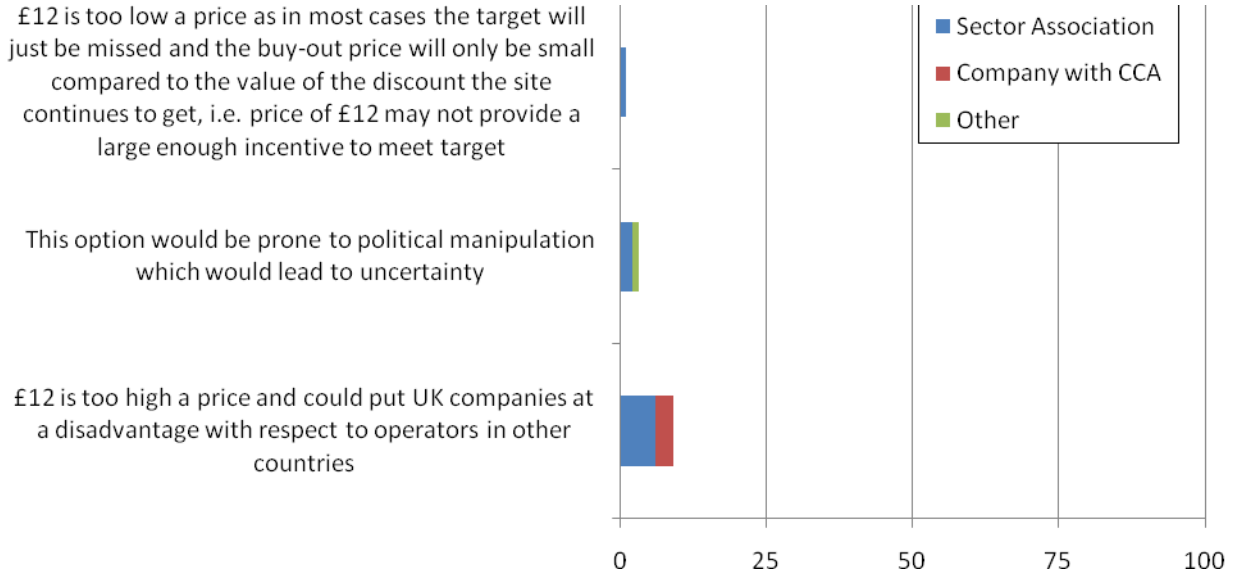


**Figure 45:** Points for Option C, and number of incidences of these points being raised

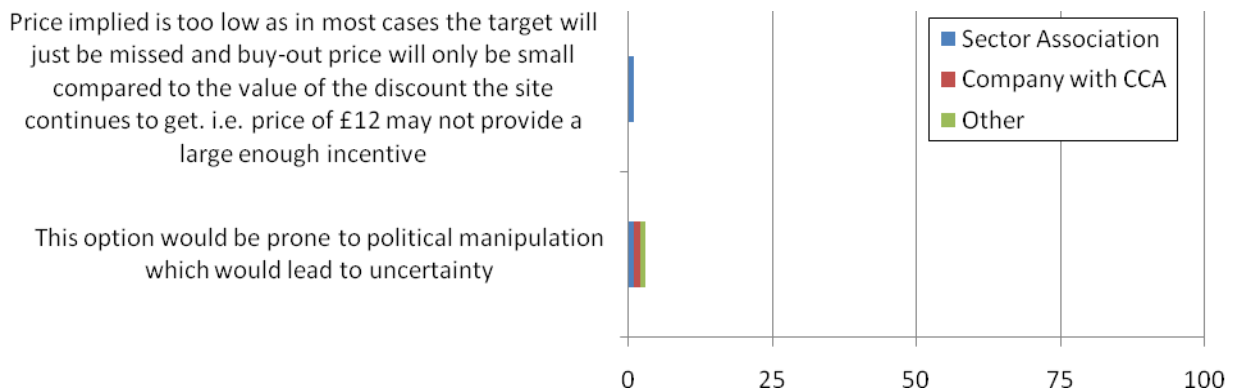


**Question 9a: Points against and number of respondents raising these points**

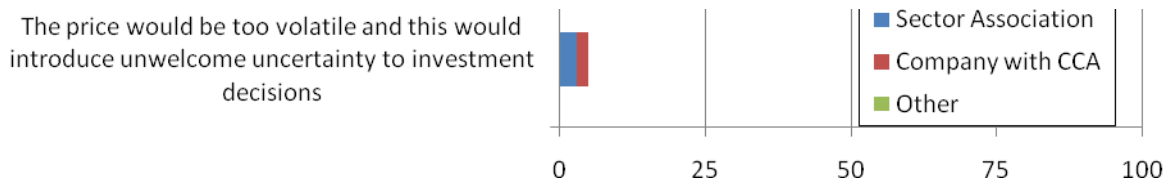
**Figure 46: Points against Option A, and number of incidences of these points being raised**



**Figure 47: Points against Option B, and number of incidences of these points being raised**



**Figure 48: Points against Option C, and number of incidences of these points being raised**

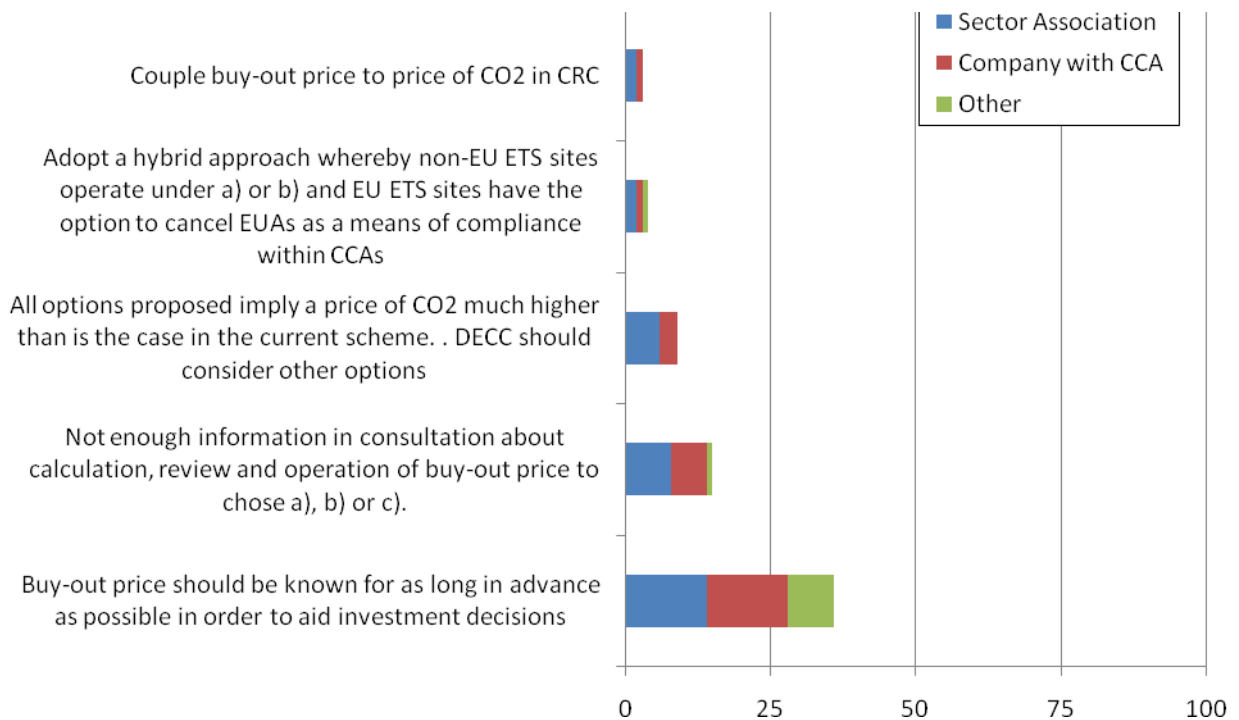


**Question 9a: Other points and number of respondents raising these points**

Most respondents did not opt for any of the options presented for a buy-out price, but made a number of points relevant to the question. These points and the number of incidences of their being raised is given in below.



**Figure 49: Question 9a: Other points raised**



**Question 9a: Commentary**

78 respondents selected one of the four prescribed answers to this question (i.e. ‘Option A’, ‘Option B’, ‘Option C’ or ‘Other’); 21 did not, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

Of those who did select an answer, the majority (49 responses, 63%), did not opt for any of the options presented. Of the options presented, Option B was the most popular with 16 responses (20%) in favour of it, followed by Option A with 9 responses (12%) and then Option C with 4 responses (5%).

The appreciable resistance to Options A, B and C seems to have at its heart the fact that they all represent a significant increase in the unit cost of CO2 in compliance compared to what sites have been accustomed to in the current scheme. From the responses it would seem that care is required to strike the right balance such that the price is of a level that drives abatement but is not too high as to make dropping out of the scheme a more favourable option. A number of respondents also stated that since a higher unit cost of CO2 in compliance represents a greater financial risk to participants of not meeting their targets by action, it is expected that sectors will negotiate targets more aggressively.

There is also resistance to the options proposed on the grounds that it was not exactly clear how the price would be calculated. The most significant point made by respondents supporting Option B was that it seemed appropriate and fair to link the cost of remaining certified (if the target was failed) to the value of the CCL on electricity that the participant gets a discount on by being in the scheme.

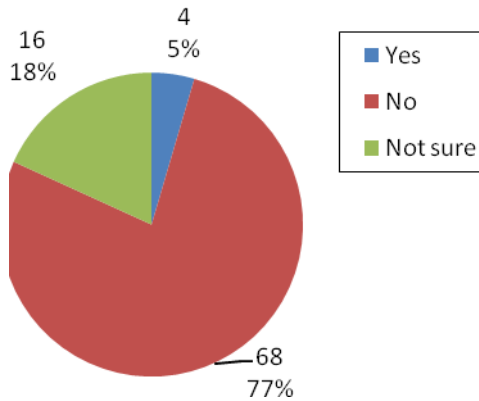
An alternative suggested by a few respondents was to allow CCA facilities affected by EU ETS to cancel EUAs as a means of compliance.



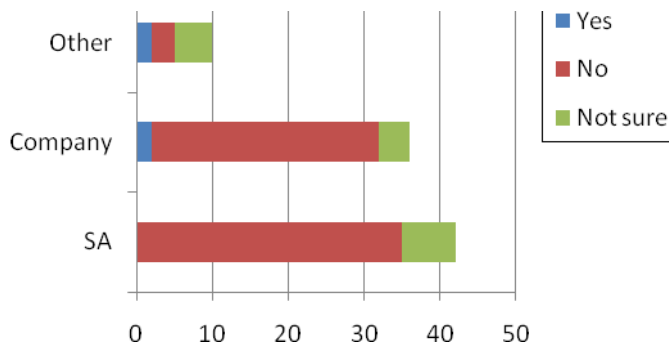
A significant number of respondents expressed the importance of having a good forward view of the price of carbon in the buy-out mechanism.

**Question 9b: Breakdown of responses received**

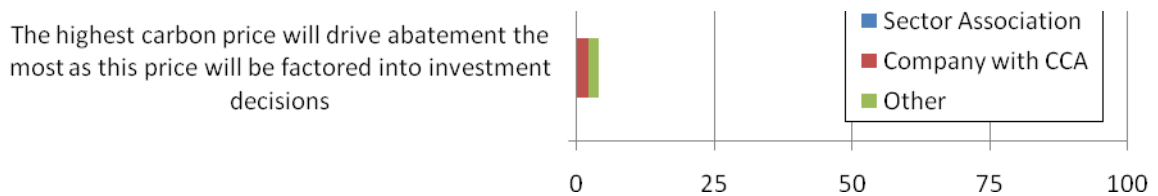
**Figure 50:** Question 9b showing number and % of respondents (of those who answered this question) by response



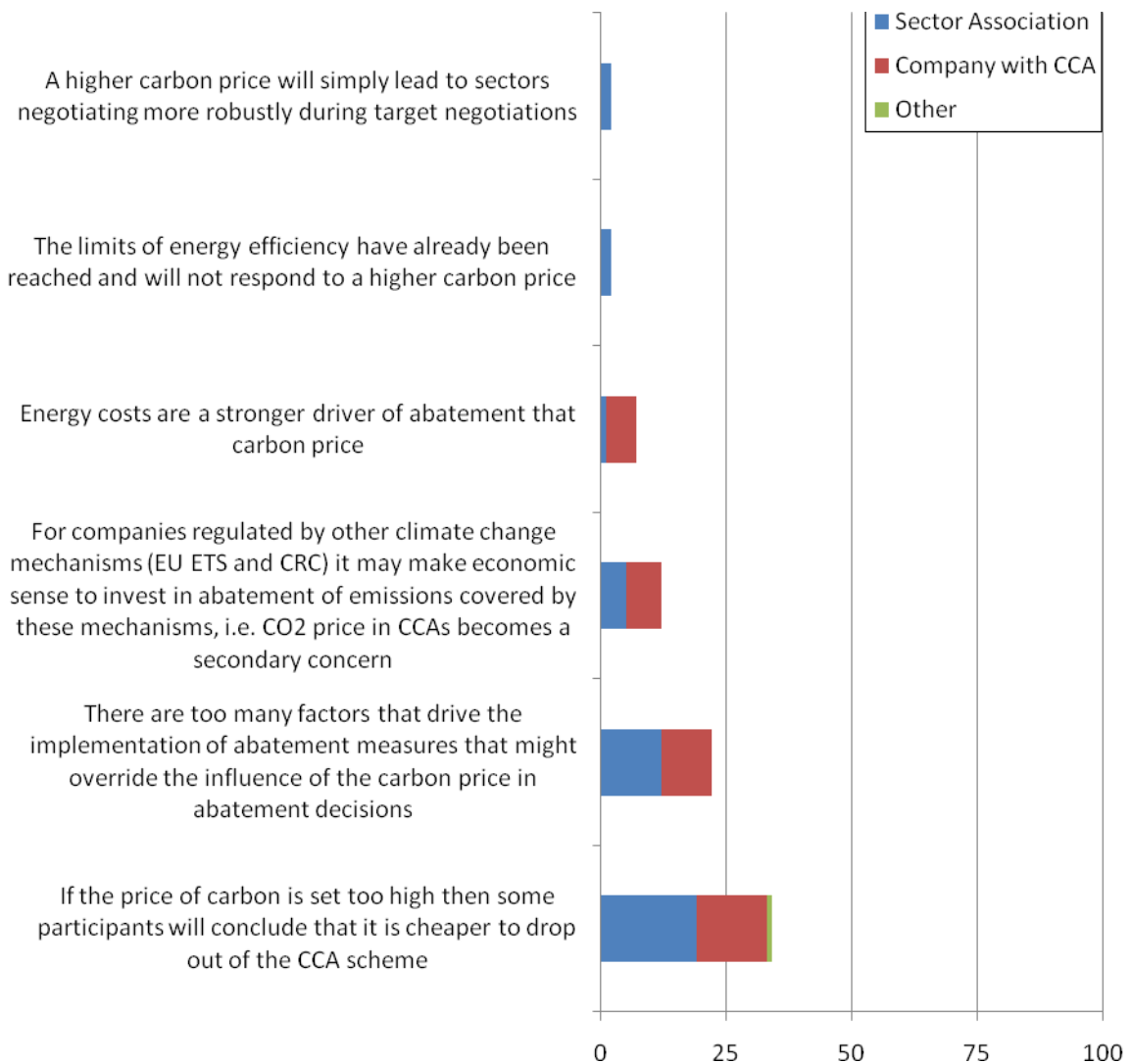
**Figure 51:** Question 9b responses by type of respondent



**Figure 52:** Question 9b: Points for, and number of respondents raising these points



**Figure 53:** Question 9b: Points against, and number of respondents raising these points



**Question 9b: Commentary**

88 respondents answered this question; 11 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

68 respondents (77% of those who answered the question) rejected the proposal, with only 4 agreeing (5%) and 16 (18%) being not sure.

It would appear from the responses (No or Not Sure) that there is a worry that too high a CO2 price could lead to some sites concluding that it is cheaper to drop out of the scheme.

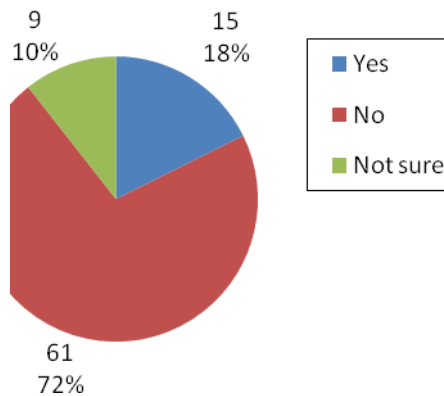
A number of respondents suggested that investment decisions leading to abatement were made on the basis of a number of considerations, not just on cost of CO2 avoided, e.g. cost of energy, availability of capital and replacement recycles.

There is also a view that investment might drift away from CCAs to EU ETS or CRC for companies covered by multiple schemes if the price of CO<sub>2</sub> is vastly different between schemes. A number of respondents indicated that where companies with sites covered by CCAs are also affected by EU ETS and CRC, investment decisions taken by those companies will be based on the greatest CO<sub>2</sub> cost that can be avoided. This will be a function of the price of CO<sub>2</sub> in the scheme in question and the volume of CO<sub>2</sub> that can be abated within the scheme in question. This is another example of the various factors that sites will take into account when making abatement investment decisions.

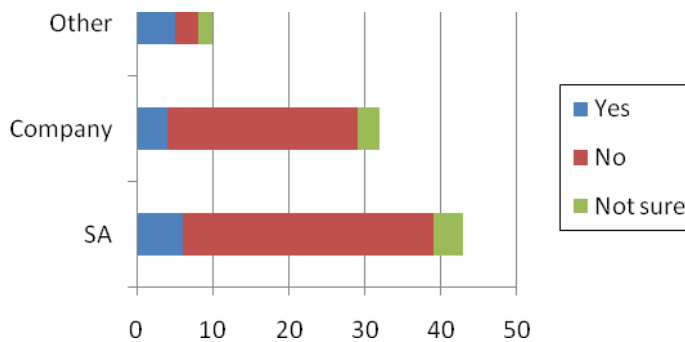
A small number of respondents indicated that a high CO<sub>2</sub> cost would have no impact upon abatement as the limits of energy efficiency had either already been reached or were very close to being reached.

**Question 9c: Breakdown of responses received**

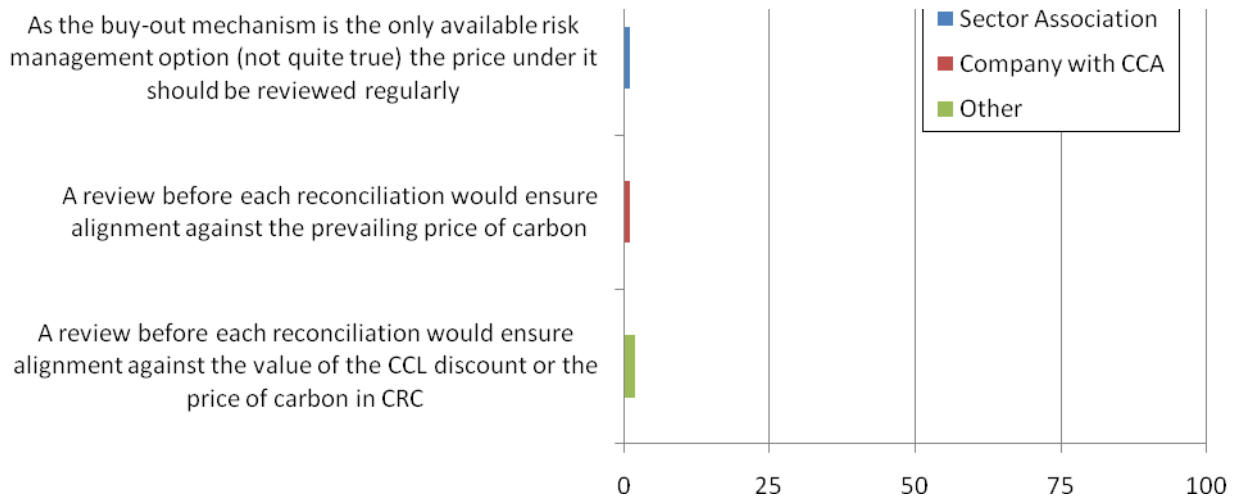
**Figure 54:** Question 9c showing number and % of respondents (of those who answered this question) by response



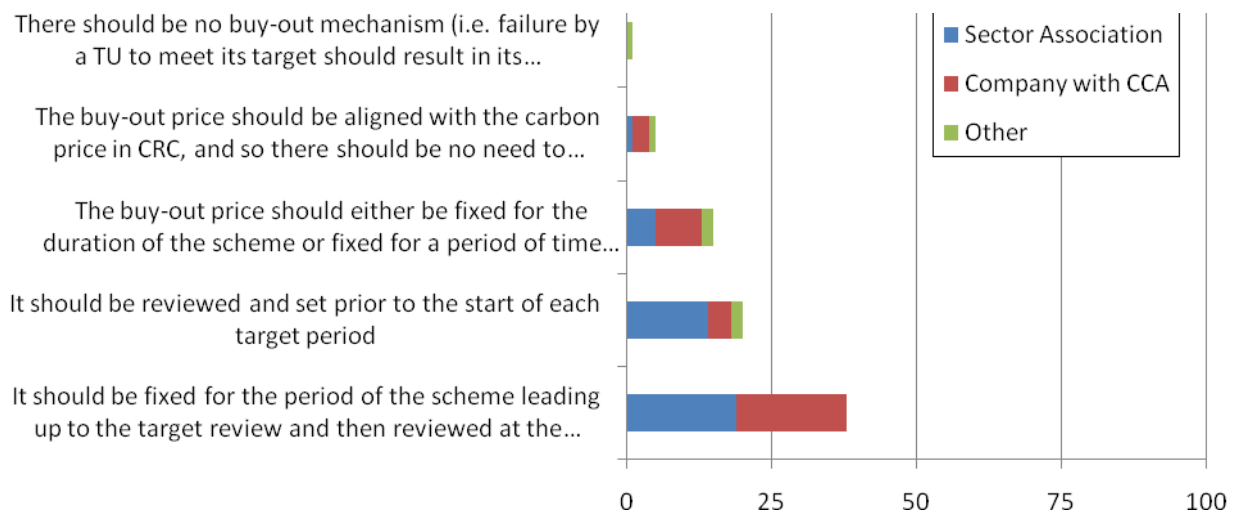
**Figure 55:** Question 9c responses by type of respondent



**Figure 56:** Question 9c: Points for, and number of respondents raising these points



**Figure 57:** Question 9c: Points against, and number of respondents raising these points



**Question 9c: Commentary**

85 respondents answered this question; 14 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

Of those who answered this question, 61 respondents (72%) disagreed with the proposal, with only 15 (18%) agreeing and 9 (10%) saying they were not sure.

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 relating 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.

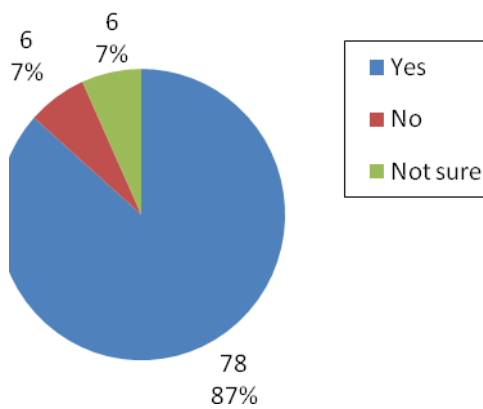
The overriding message was that certainty of price was need for as far into the future as is practicable. There was also significant feeling that the mechanism by which the buy-out price is set should be transparent and agreed with stakeholders.

**2.10: Question 10**

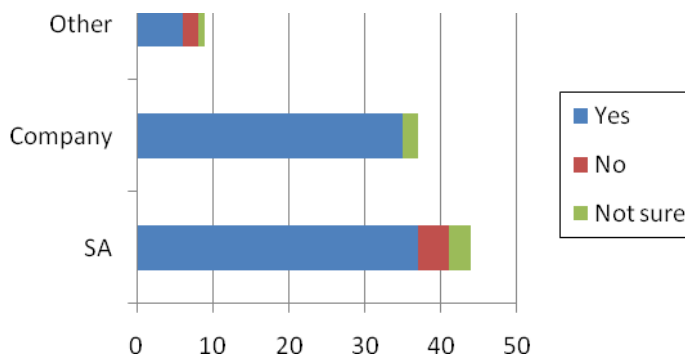
*10a: Do you agree that the introduction of a system of penalties would provide a more proportionate and effective alternative for some situations of non-compliance than the loss of Levy discount for two years? 10b: Are there any additional examples (to those listed above) of non-compliance that could be introduced to provide a more proportionate way of dealing with situations of non-compliance?*

**Question 10a**

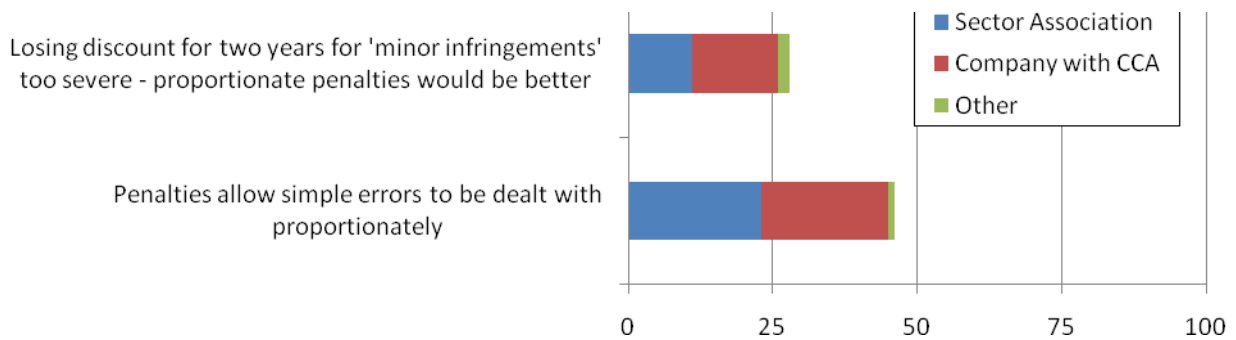
**Figure 58:** Question 10a showing number and % of respondents (of those who answered this question) by response



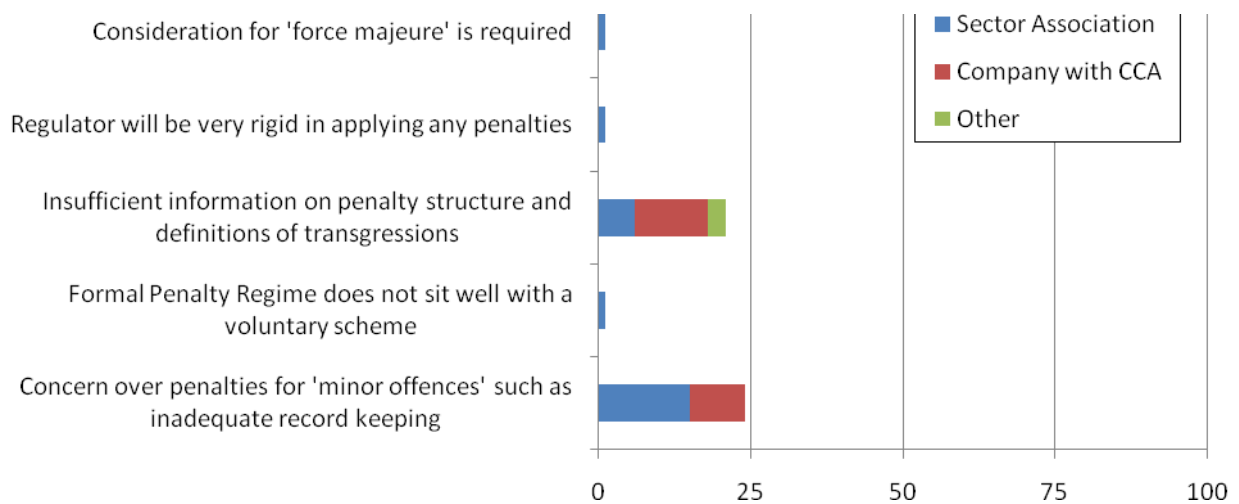
**Figure 59:** Question 10a responses by type of respondent



**Figure 60:** Question 10a: Points for, and number of respondents raising these points



**Figure 61:** Question 10a: Points against, and number of respondents raising these points



**Question 10a: Commentary**

90 respondents answered this question; 9 did not answer, but may have made comments of relevance to the question (where these comments were relevant they were categorised according to whether they supported or opposed the proposal and are recorded above).

There was general support (87% of respondents who answered this question) 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. A larger number (46) felt penalties would allow simple errors to be dealt with proportionately.

There was also a general view (expressed by 24 respondents) that penalties for inadequate record keeping were not warranted and corrective action should be required (presumably ahead of a penalty if nothing was done).

Around 21 respondents expressed the view that insufficient information was provided in the consultation on the penalties and the levels at which they would be set to be able to give a definitive response.

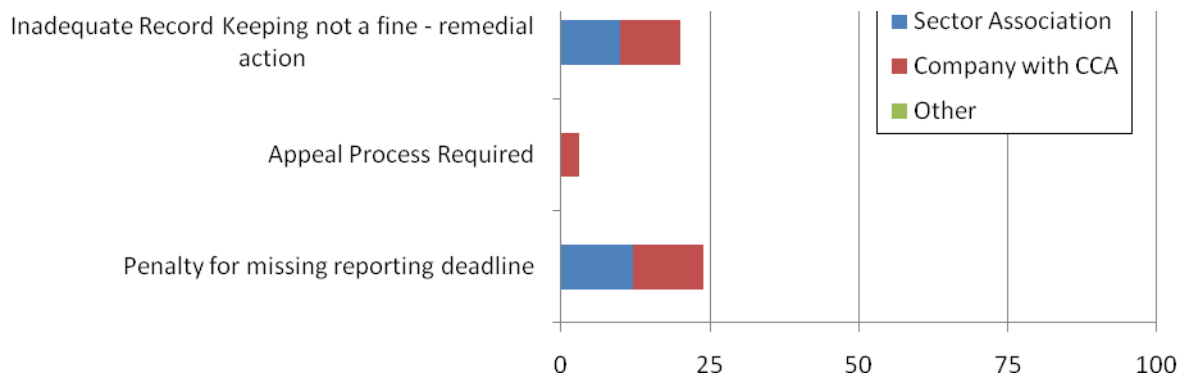
A small number of respondents made points that 1) a penalty regime has apparent contradictions with a voluntary scheme (1 respondent); 2) there was concern that the administrator may be too rigid in applying the penalties (1 respondent) and, 3) related to this, there needed to be retention of a consideration of ‘force majeure’ in considering individual cases (1 respondent).

One influential group (the ETG) did not support the proposal. They expressed concern about the fairly long list of infringements in the consultation document and also felt that the response of a Regulator such as the EA would be very “rigid”. Any penalty system should, in their view, be as simple as possible. They also felt that consideration for ‘force majeure’ is necessary and has existed in the agreements to date.

**Question 10b: Breakdown of responses received**

33 respondents gave one or more additional examples or comments, summarised as follows:

**Figure 62: Question 10b comments**



**Question 10b: Commentary**

24 respondents stated that they agreed with penalties for missing the reporting deadline.

A small number of respondents (3) recommended that there should be an appeal process within the penalty structure.

As in question 10a, a significant number of respondents (20) recommended that inadequate record keeping should not result in a penalty.

## 2.11 Question 11

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

**Table 1:** Quantitative responses to consultation question 11

Proposal	Total responses	Responses with figures provided	Company Admin Increase	Company Admin Decrease	SA Admin Increase	SA Admin decrease	Other Increase	Other Decrease
<b>1.2.1 Target Periods, Milestone Periods and Reconciliation</b>	58	13 (11 relevant to question)	£3.5-10k (5 response)		£7-48k (5 response)	£180k (1 response)		
<b>1.2.5 Target Negotiations</b>	52	5	£20k (1 response)		£1-10k (3 response)	£6k (1 response)		
<b>1.3.3 Release of information to third parties</b>	51	7	£5-18k (2 response)		£1-5k (4 response)		SA – £2.5million due to loss of competition (1 response)	
<b>1.4.1 Risk Management Tools</b>	51	10 (9 relevant to question)	£2k (1 response)			£5k (1 response)	Company - £65k buying allowances (1 response)  Company - £50k from loss of profit of selling overachievement (1 response)  SA - £25k - £4.5m buying allowances (4 response)	Company - £4k saving from avoided verification (1 response)
<b>1.4.2 Penalties</b>	50	3	£5-10k (1 response)		£4k (1 response) £500 per incident (1 response)			



**Question 11: Commentary**

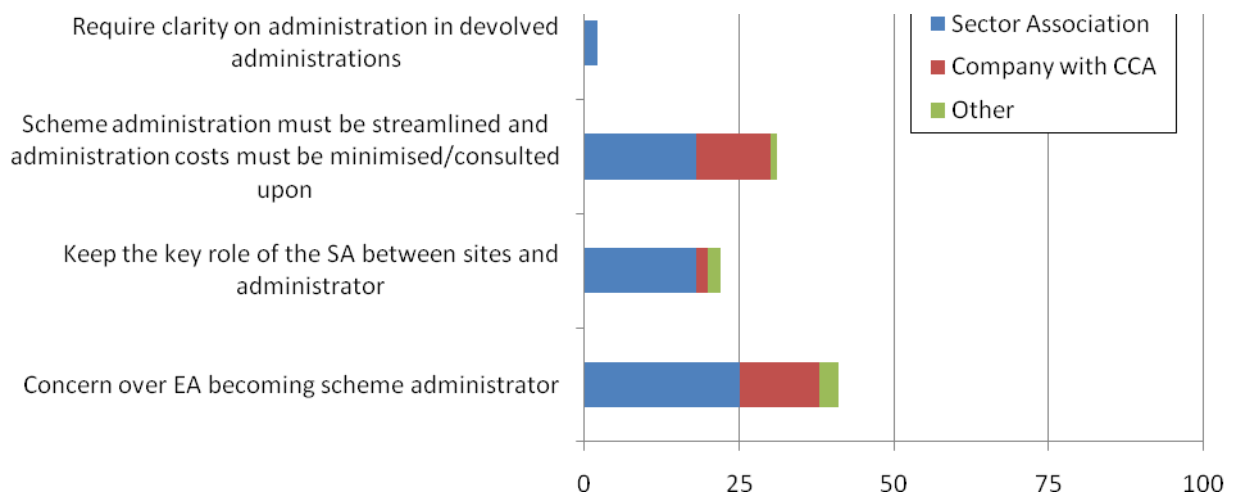
The table above shows that only a very small number of respondents provided quantitative figures in response to this question, ranging from 6% to 22% of respondents. The range of figures supplied in response to the proposals varies significantly and there is generally a lack of detail on how the figures 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 the companies. Some simply do not state the basis for the figures. Similarly, for the information supplied by companies, some report by site and some by TU.

### 3) Summary of other Comments

The following provides a summary of comments that were made by 53 respondents in relation to the ‘other comments’ part of the consultation. Where comments did not align with specific consultation questions they have been categorised (into 29 overall comments) and the number of respondents by type, making each point is given.

#### **Administration of scheme**

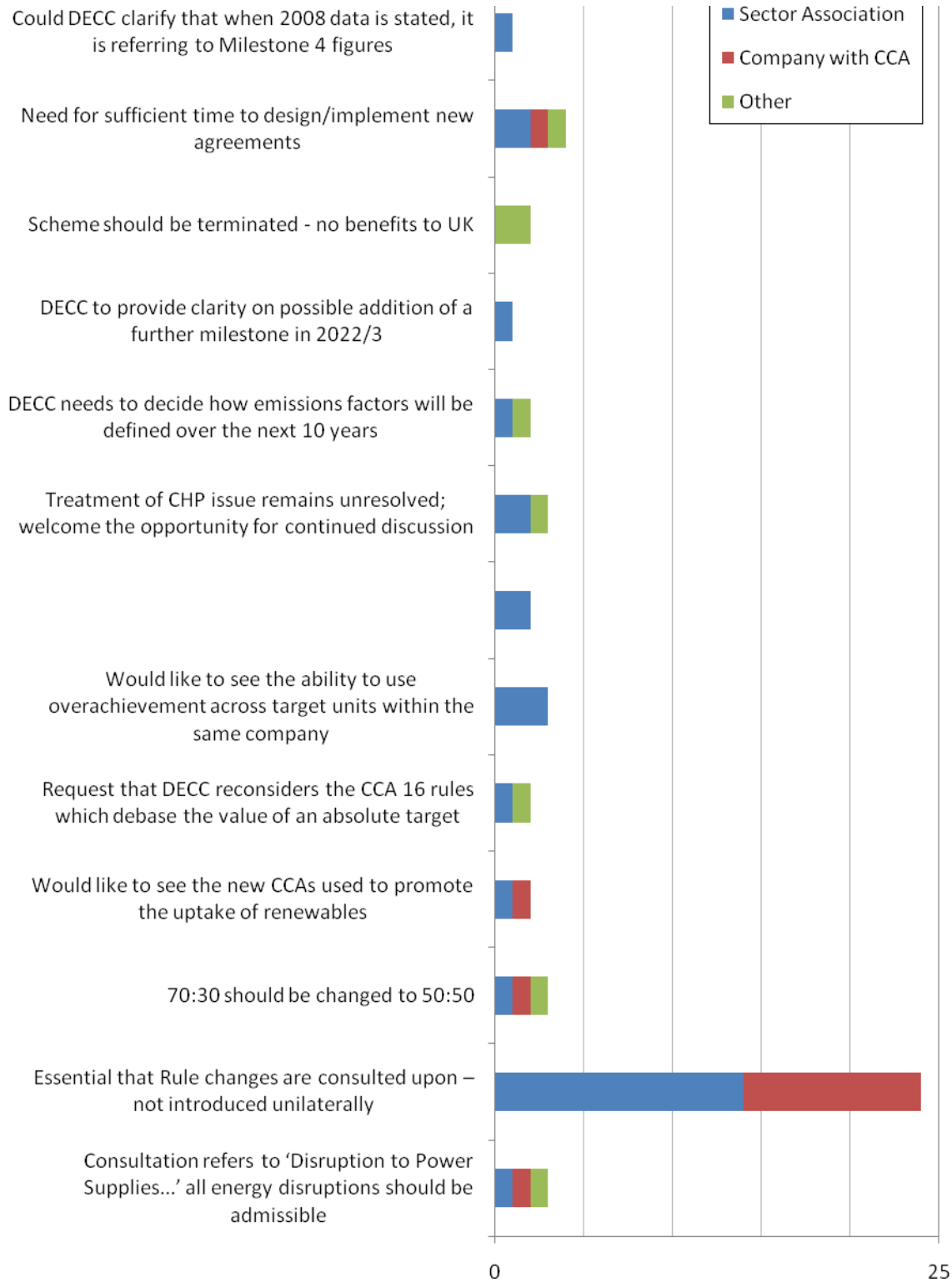
A number of the ‘other comments’ made by respondents concerned the proposed administration of the new scheme.



1. A large number of respondents (41) expressed concern over EA becoming scheme administrator. 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).
2. A large number of respondents (22) were keen to stress that the government should keep the key role of the SA between sites 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 by early intervention or correction at the time of data submission etc.
3. Around 30 respondents felt that scheme administration must 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 proposals 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.

4. In relation to the Environment Agency and its jurisdictions in the UK, respondents required clarity on administration of CCAs in devolved administrations. i.e. Would this also be England and Wales Environment Agency? How would they interface with Scottish and NI equivalents?

**Other comments that were made were:**





## **Annex 1: List of Organisations That Responded to the ‘Consultation on Simplifying CCAs’, October 2011**

### **Sector Associations (with CCAs)**

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 Enviro  
 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

**Annex 2: Consultation questions and overall responses**

		Y	N	NS
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?	71	8	14
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?	76	6	7
2b	What are the additional costs of reporting energy use for the year?			
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?	36	42	12
4	Do you consider that 2008 would be the most appropriate year to use as a common baseline year start date?	52	25	13
5	Do you agree that the new CCA scheme should include a target review in 2016 to ensure targets remain challenging?	67	18	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?	8	44	35
6b	Do you have any suggestions for how this can be done?			
7	Do you agree with Government's proposal to publish emissions data?	19	50	24
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?	69	6	16
9a	Which price option do you think would be 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?	4	68	16
9c	Do you agree that the buy-out price should be reviewed before each reconciliation?	15	61	9
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?	78	6	6
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?			
11	For each measure proposed in this document, can you estimate what the impact will be on your administration costs?			