

# **Climate Change Agreements - delivering simplification in the new scheme**

Consultation package for new CCA Scheme commencing April 2013

March 2012



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# Executive Summary

1. This consultation sets out in more detail how the Government will implement the policy changes to the new Climate Change Agreements (CCA) scheme set out in the Government Response<sup>1</sup> published in January 2012. This consultation sets out clearly revised draft Agreements and Rules. It seeks views on the way we propose implementing policy changes and, in particular whether we have accurately reflected the policy decisions and whether there are any unintended consequences arising from the drafting.
2. In addition we are seeking views on:
  - New proposals on the charging scheme which have been developed as a result of feedback during the first consultation period. This charging scheme will be implemented by the administrator, the Environment Agency, on a cost recovery basis.
  - Government's proposals for the implementation of energy and carbon accounting in the new scheme.
3. In January 2012, we published a consultation<sup>2</sup> seeking views on draft regulations to appoint the Environment Agency as the administrator for the new scheme, the Climate Change Agreements Regulations 2012. Following this consultation, a finalised version of the regulations is intended to be published and laid before Parliament in September 2012 in order to come into force on 1st October 2012.

## How to respond

4. Responses are welcome by email or post to the address below. Evidence to support your answers will be particularly helpful. If you are including any long reports as part of your response, please identify the relevant sections within it.
5. You are requested where possible, to use the electronic version of the consultation response form accompanying this document. Please send completed response forms to: [ccaconsultation@decc.gsi.gov.uk](mailto:ccaconsultation@decc.gsi.gov.uk). Alternatively, please complete a paper copy of the consultation response form and forward by post to:

Department of Energy and Climate Change  
Climate Change Agreements  
Area 1A  
3 Whitehall Place  
London  
SW1A 2AW

6. For any enquiries, please telephone 0300 068 6873 or 0300 068 6447.

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<sup>1</sup> See [http://www.decc.gov.uk/en/content/cms/consultations/cca\\_simp\\_cons/cca\\_simp\\_cons.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cca_simp_cons/cca_simp_cons.aspx)

<sup>2</sup> See [http://www.decc.gov.uk/en/content/cms/consultations/cc\\_regs\\_2012/cc\\_regs\\_2012.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cc_regs_2012/cc_regs_2012.aspx)

7. The closing date for responses **25 May 2012**. DECC will also invite stakeholders to a meeting to discuss these matters in a series of stakeholder dialogue events that will be held in April-May 2012.

# 1. Revised Agreements

## Accompanying documents this section applies to

**Umbrella Agreement (schedule 1 contains the Rules)**

**Underlying Agreement (schedule 1 will contain identical Rules to the Umbrella Agreement)**

### Background

8. Agreements form a key part of the structure of the CCA scheme. The draft Climate Change Agreements Regulations 2012 ("the Administrator Regulations") set out the statutory responsibilities of the administrator. The agreements focus on the responsibilities of the Umbrella or Underlying Agreement holder.
9. The current CCA scheme consists of Umbrella and Underlying Agreements that contain substantial detail on the mechanics of the scheme. There have also been a number of different agreements in use, for different sectors which results in complexity for the scheme administrator and inhibits transparency and comparison between sectors. We have previously consulted on, and decided to adopt only one agreement type in the new scheme, which will be broadly based on 'Option 2' agreements in the previous scheme.

### Revised Agreements: overall proposal

10. Government has previously proposed<sup>3</sup> to separate out some elements of the current agreements into a separate set of standardised scheme rules. Government now intends to implement this proposal by including standardised Rules as a schedule to both the Umbrella and Underlying Agreements. The draft agreements presented in this consultation do this and are based on those published in the March 2010 consultation, but revised to reflect this Government's policy decisions following consultation, and to reflect the role of the Environment Agency ("EA") as administrator.
11. We propose that the scheme structure is as follows:
  - [Agreements, which incorporate Rules for the operation of climate change agreements \("the Rules"\) at Schedule 1](#). Both the Umbrella and Underlying Agreements would incorporate the same standard Rules. The Rules cover the obligations placed on the sector associations and/or operators. They cover high level obligations, the technical details for which are then set out in guidance.
  - [Guidance](#). As set out in previous consultations, technical aspects of the scheme will be covered in guidance, rather than set out in the agreements. Government considers guidance is the more appropriate place to cover in depth technical elements, rather than the

<sup>3</sup> These proposals were set out in the 'Consultation on draft agreements and scheme rules for new Climate Change Agreements' published 23 March 2010.

agreements. Guidance on CCA's currently available on the DECC website will be updated to support the agreements and to reflect recent developments in the design of the new scheme. For the new scheme, guidance will be published on Environment Agency's website. Industry will be consulted on the development of the new CCA scheme guidance, and key guidance required for negotiations will be developed in the coming months. Overall, they prevent the agreements becoming unwieldy and too long by keeping such technical detail out, which can also be updated more quickly, if necessary.

- **Transparency.** In line with the overall approach of increasing transparency and the responsibility of individual Target Units, Government intends to publish the targets agreed at both the Umbrella and Underlying Agreement level. It proposes to do so in such a way as to preserve the commercial sensitivity of operators, by only publishing the percentage improvement in currency terms relative to the baseline performance.
12. We have considered feedback received from the previous consultations, and reflected this in the new agreements where possible and practical to do so. We have increased 'working day' deadlines so they are more realistic, and standardised the majority of them to either 10 or 20 working days to provide simplicity. Notices to operators following target review will now also be issued by the administrator, rather than sector associations. Rule 3.6 on maintaining record of energy saving actions has been revised following feedback, to make it clearer this applies only to facilities in the Underlying Agreement. Many of the other comments received raised points more appropriate to be covered in guidance, which we will produce in due course.
  13. The revised agreements (incorporating the Rules) reflect recent further developments in CCA policy. These policies have either been previously consulted on, or are presented in this consultation. The agreements also reflect changes to legal basis of the scheme - i.e. in the Finance Bill 2012 and the draft Climate Change Agreements Regulations 2012<sup>4</sup> to appoint the Environment Agency as the scheme administrator. A summary of how the agreements and Rules have been updated to reflect these is set out below. Note that the majority of the changes are in Schedule 1 rather than the main body of the Umbrella and Underlying Agreement.
  14. It is anticipated that the Environment Agency will complete the Underlying Agreement with data provided to it from the TU or Sector Association. For example, the Environment Agency will calculate the emissions and penalty value on the basis of energy data provided.
  15. The revised agreements are included in this consultation package to provide sector associations and operators with sight of how the new agreements will be shaped ahead of sector target negotiations for the new CCA scheme commencing in summer 2012.

### Summary of key changes

16. Below is a summary of how the agreements (incorporating the Rules) have been amended and updated from the those consulted on in 2010.

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4 see [http://www.decc.gov.uk/en/content/cms/consultations/cc\\_regs\\_2012/cc\\_regs\\_2012.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cc_regs_2012/cc_regs_2012.aspx)

## Rules for the Operation of Climate Change Agreements, Schedule 1

17. The majority of the changes made to the agreements we previously consulted in 2010 are within the Rules. A summary of each section of the Rules and key changes is set out below:

- Rule 1 sets out obligations which are common to both the sector association and the operator. They include a number of new requirements regarding the use of the electronic Register. They also include the requirement to pay the administrator's charges.
- Rule 2 sets out the obligations that only apply to a sector association. They have been updated to clarify responsibility for target reporting now lies with the operator. We anticipate that in practice much of this reporting will occur via Sector Associations, but this more accurately reflects the responsibilities of the operators.
- Rule 3 sets out the obligations that only apply to an operator. They have been updated to reflect the fact that it is now the operator's responsibility to provide data directly via the Register rather than to the sector association. The dates for providing this information have also been altered accordingly. It places an obligation on the operator to pay the buyout fee under Rule 7 and to pay any financial penalties, details and calculations of which are set out in the Administrator Regulations.
- Rule 4 sets out the notice to comply with Rules 1 - 3, failing which the agreement can be terminated. In the 2010 consultation this was set out at Rule 2.14 and Rule 3.15. In particular, a failure to comply with the obligation to pay the buyout fee under Rule 7, may result in termination of the Underlying Agreement.
- Rule 5 deals with certification of a facility. Provisions in this section relating to the EU ETS have been updated to reflect proposed changes in this legislation. The remainder of the section is substantially unchanged from the previous consultation.
- Rule 6 sets out how a target unit can meet its target and in particular provides for the payment of a buyout fee. All previous provisions relating to CERs have been removed, as this does not reflect policy decisions. The Novem procedure is reflected in Rule 6.4.4.
- Rule 7 sets out the mechanics of the buyout mechanism.
- Rule 8 deals with the distribution of any surplus following bubbling or unbubbling. This was previously covered by the rule on banking overachievement.
- Rule 9 follows the same wording as the previous rule on the inclusion of additional facilities save for the additional provision set out in Rule 9.6 which set out when the administrator can refuse to vary or enter into an agreement. Previous provisions under section relating to varying the sector target as result of including new facilities have also been removed. Government has removed this provision because the sector target is now only relevant at the beginning of the agreement and at the review in 2016. Looking at the sector target at only these times is the most efficient way to set targets at the sector level. Any new entrants who come in outside these times will not have their targets related to the overall sector target, therefore the power to vary the sector target in these events is not needed.



- Rule 10 also has provisions relating to varying the sector target as result of excluding facilities removed, for the same reasons as set out for Rule 9 above. The remainder of Rule 10 remains substantially the same as the previous rule.
- Rule 11 on variation of a sector target following a review has been updated to reflect the role of the administrator.
- Rule 12 sets out rights of appeal to the First Tier Tribunal in addition to the rights of appeal set out in the Administrator Regulations. Accordingly, previous rules on Dispute Resolution Procedure and Adjudication have been removed.
- Rule 13 sets out the records and information that are required to be retained and reflect the previous rule with some simplifications where appropriate .
- Rule 14 sets out the confidentiality provisions and have been updated to reflect the fact that the administrator will now hold information and will be required to publish certain information under regulation 8 of the Administrator Regulations. The Administrator will also be able to release information that it holds to the Secretary of State.
- Rule 15 sets out the requirements where a sector association wishes to collect charges due from an operator to the administrator.
- Rule 16 deals with service of notices.
- The previous rule on termination has been removed, as this has been moved to Regulation 8 in the Administrator Regulations.
- Rules that contain 'working day' deadlines in them have been increased standardised to either 10 or 20 working and where possible and practical.
- The 2016 sector target review is no longer set out in Rules as this will be undertaken by the Secretary of State who is not a party to the agreements. The basis on which the Review will be undertaken will be set in guidance instead, and Rule 8 make reference to this guidance.
- The previous rule dealing with the variation of an Underlying Agreement following a change in currency has been removed. This reflects Government's intention regarding differentiation of carbon and energy targets (see section '5. Energy and Carbon Accounting' below). Target currencies may only be changed at review.
- The proposed rule for variation of the rules has been deleted as it is no longer required as this will be dealt with via the Administrator Regulations.

## **Umbrella Agreement**

18. Apart from incorporating the Rules as Schedule 1 in both agreements, the Umbrella Agreement has had minor changes made to the version previously consulted on in 2010. These changes are:

- Agreement generally updated to reflect it is now entered into by the administrator rather than the Secretary of State
- Removal of the recitals
- Amendment of the interpretation provisions to include provisions set out in Schedule 1
- Wording reflects that the sector target review will now take place in 2016 (see paragraph 4.2)
- Wording reflects that the scheme has been extended to March 2023, subject to state aid approval (see paragraph 6.1)
- Agreement reflects the changes to target periods (see Schedule 5)
- New provision added under clause 8, referring to application of Rule 15, stating the administrator shall not be liable pay to pay any expenses of the sector association in connection with or arising out of the collection of charges.

## Underlying Agreement

19. The Underlying Agreement included in this package is also an updated version of that which we previously consulted on. The changes made to the Underlying Agreement included in this package are the same as those described for the Umbrella above, with the exception of a new provision in clause 8.
20. A new schedule has been added to capture the agreement value based on base year data fuel split for the whole site that is part of the eligible facility (i.e. including EU ETS emissions). This has been added to enable the administrator to calculate the agreement value and subsequently the penalty charges as set out in the draft 2012 regulations.

## Key changes in detail

### Rules now in Schedule 1 of Agreements

21. The proposal to establish a separate set of scheme Rules and simplify the agreements accordingly was first set out in the March 2009 consultation<sup>5</sup>. The reason for separating the operation of the scheme from the agreements was based on the fact that it was very difficult, if not impossible, to agree variations to 5,000 agreements where the need arose. With the redesign of the scheme and the introduction of an administrator, it is now possible to incorporate the Rules for the operation of CCA'S within the agreements. The Finance Bill 2012 (new paragraph 52E(1) of Schedule 6 to the Finance Act 2000) provides that the Secretary of State can specify terms to be included in a Climate Change Agreement and can confer powers on the administrator to vary agreements to incorporate those terms.

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<sup>5</sup> 'Consultation on the form and content of new Climate Change Agreements'  
([http://www.decc.gov.uk/en/content/cms/consultations/cons\\_ccas/cons\\_ccas.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cons_ccas/cons_ccas.aspx))

Accordingly there is no longer a need to set Rules out in a separate document.

## 2016 Sector Target Review

22. The version of the draft rules published in March 2010 contained a provision on the sector target review. This provision has now been removed and will instead be placed in guidance to be issued by the Secretary of State in due course. We have made this change as the 2016 sector target review will be conducted by the Secretary of State, and is therefore not appropriate to include in an agreement between sector/operator and the Environment Agency. The guidance for the sector target review will be consulted on with sector associations before it is implemented.
23. Sectors will be able to propose a change of target currency at 2016 review.

## Proposal to terminate for failure to meet targets

24. Under the current scheme, refusal to issue a new certificate for a failure to meet targets or the issue of a variation certificate removing the discount are colloquially known as “decertification”. For the new scheme, we propose to replace decertification with termination.
25. Government considers that the buy-out mechanism means that there will be no risk that organisations will be unable to meet their targets, should they wish to do so. Decertification has been used very little, except where businesses no longer exist. Accordingly, there is little reason to retain decertification.
26. An operator whose Underlying Agreement has been terminated due to not meeting their target would be able to reapply in the next certification period on the basis that it has met the target for the period when it held no agreement and has paid any outstanding penalties (see Rule 9.6). An operator whose agreement has been terminated for any breaches other than not meeting their target would not be able to reapply until the beginning of the second certification period following the certification period in which the termination occurred.

### Consultation Question

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|----|--|
| 1. | <b>Are there any unintended consequences as a result of the proposal to terminate for a failure to meet targets? If yes, please provide evidence to substantiate your views.</b> |
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## First Tier Tribunal

27. Dispute resolution procedures and adjudication are mentioned in the section ‘Right of Appeal’. This builds on the provisions set out in the draft Administrator Regulations which provide for appeals to be made by First Tier Tribunal. The Tribunal will be able to hear appeals in respect of any decisions and actions by the Environment Agency.

First Tier Tribunal process is underpinned by the General Regulatory Chamber (GRC)

Rules. These can be viewed on the Legislation.gov.uk website, at <http://www.legislation.gov.uk/uksi/2009/1976/introduction/made>. It would be helpful to receive views on whether the overall appeal package covered between Rules, draft Administrator Regulations and the GRC Rules cover all requirements needed regarding potential appeals within the scheme.

### Consultation Question

- 2. Are there any unintended consequences as a result of the revised agreements for the CCA scheme, including the Rules? If yes, please provide evidence to substantiate your views.**

## 2. Eligibility Regulations

Accompanying documents this section applies to

**Draft Climate Change Agreements (Eligible Facilities) Regulations 2012 will be published in April 2012**

28. The Eligibility Regulations that will be published next month will implement previously announced Government decisions<sup>6</sup> to change the 90/10 rule to a 70/30 rule and remove the energy intensity criteria, but not the eligible processes from legislation. Only industries who have previously satisfied Government that they are eligible for CCAs on the basis of their energy intensity and exposure to international competition which are included in the Climate Change Agreements (Eligible Facilities) Regulations 2006 will be eligible for CCAs. The current definition of the Energy Intensive processes and activities themselves remain unchanged, and it remains Government's intention that any new sectors will need to demonstrate why they should be eligible on the basis of energy intensity and international competition.
29. To achieve this the Eligibility Regulations will revoke the Climate Change Agreements (Eligible Facilities) Regulations 2001 ("the 2001 Regulations") and the Climate Change Agreements (Eligible Facilities) Regulations 2006 ("the 2006 Regulations") (as amended) and replace them with a slightly updated and consolidated version. Therefore the Eligibility Regulations will look similar to the 2001 Regulations with the Schedule to the 2006 Regulations (as amended) attached.
30. As noted in the Government Response to the Consultation on the simplification of the Climate Change Agreements Scheme<sup>7</sup> published in January 2012, Government is still considering the eligibility of data centres for CCAs. Should Government decide to allow data centres into CCAs, their relevant processes and activities will be added in the Regulations.

### Consultation Question

- 3. Are there any unintended consequences as a result of the draft Eligibility Regulations ? If yes, please provide evidence to substantiate your views.**

<sup>6</sup> This decision was announced in 'Government Response to the Second Consultation on the Form and Content of New Climate Change Agreements  
([http://www.decc.gov.uk/en/content/cms/consultations/cca\\_scd\\_cons/cca\\_scd\\_cons.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cca_scd_cons/cca_scd_cons.aspx))

<sup>7</sup> See [http://www.decc.gov.uk/en/content/cms/consultations/cca\\_simp\\_cons/cca\\_simp\\_cons.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cca_simp_cons/cca_simp_cons.aspx)

## 3. Closure of UK Emissions Trading Registry

### Accompanying documents this section applies to

**THE GREENHOUSE GAS EMISSIONS TRADING (AMENDMENT) SCHEME 2012 (draft)**

31. In the September 2011 consultation and response to this consultation<sup>8</sup>, Government announced that it has decided to establish a buy-out mechanism to replace the UK Emissions Trading Scheme. The basis of the operation of this is contained in the UK Greenhouse Gas Emissions Trading Scheme 2002<sup>9</sup> (as amended), published on the DECC website. The 2012 Scheme will amend the 2002 scheme to provide a sunset provision, closing the scheme on 29 June 2012. All remaining allowances in the scheme will be cancelled on its closure.

### Consultation Question

4. **Are there any unintended consequences of the scheme to close the UK ETR? If yes, please provide evidence to substantiate your views.**

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8 See [http://www.decc.gov.uk/en/content/cms/consultations/cca\\_simp\\_cons/cca\\_simp\\_cons.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cca_simp_cons/cca_simp_cons.aspx)

9 See [http://www.decc.gov.uk/en/content/cms/emissions/ccas/uk\\_ets/uk\\_ets.aspx](http://www.decc.gov.uk/en/content/cms/emissions/ccas/uk_ets/uk_ets.aspx)

## 4. Administrative Charges - further proposals

32. The January 2012 consultation in section 4, Fees and Charges<sup>10</sup>, outlined two charging options to cover the costs of administering the CCA scheme from January 2013. Those options were:

- **Option 1** Simple flat rate annual subsistence charges for Sector Associations and for Target Units. These would cover all costs associated with administering an agreement, including where a variation to an agreement is undertaken.
- **Option 2** Simple flat rate annual subsistence charges for Sector Associations and Target units with a separate charge for variations.

	Option 1 Jan 2012 Consultation	Option 2 Jan 2012 Consultation
<b>Sector Association annual charge</b>	£1000 p.a	£1000 p.a
<b>TU annual charge</b>	£370 p.a per target unit	£350 p.a per target unit
<b>Variation Charge</b>	£0	£75 p.a per target unit

33. On further consideration of the legislation and agreement Rules underpinning the new scheme, and reflecting discussion with sector associations we consider that there is merit in consulting on a variation to the charging proposals outlined in January.

34. In presenting the new proposal we have taken into account the responses from the January consultation, in which the majority of respondents did not favour the separate variation charge, but preferred instead the simplicity of a single annual charge.

### New proposals

35. There are two proposed changes to the charging mechanism. The first is to move to a Target Unit charge based on the number of facilities each Target Unit contains, rather than a flat charge. This is to reflect the fact that work done in administering agreements is largely driven by facility-level activities. This proposal would therefore recover costs more equitably, to comply with HMT guidance. In addition to this, the new Rules proposed by government to allow for more widespread bubbling of facilities (where it assists industry) will mean that the final number of Target Units is difficult to predict and use as a basis for charging.

<sup>10</sup> See page 10 in 'Climate Change regulations and Scheme administration charges: Opportunity to comment' ([http://www.decc.gov.uk/en/content/cms/consultations/cc\\_regs\\_2012/cc\\_regs\\_2012.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cc_regs_2012/cc_regs_2012.aspx))

36. The second proposal is that Sector Associations may choose to collect charges from Target Units on the administrator's behalf, as part of their wider role in the CCA scheme. To enable this to happen, the charging scheme will create the obligation for the Target Unit to pay the subsistence charges. The saving that would be made by the administrator with such an arrangement would be passed on directly in the form of a discount to the Sector Association charge if a sufficient number of its operators were to take up this arrangement. The value of this discount would reflect the total cost saving to the administrator in dealing with financial transactions and chasing payments.
37. This suggestion was raised at a CCA consultation event in February 2012 and initial feedback was favourable. The arrangement would allow, for example, Target Units to pay for their charges alongside their annual membership of the Sector Association. The benefits of this for businesses would be in saving the administrative burden of raising a separate payment with the administrator.
38. However, this would not be a mandatory approach. Any Sector Associations and Target Units who prefer Target Units to be billed directly would be able to request this. The Sector Association charge in this instance would be at the non-discounted rate if an insufficient number of its Target Units pay via the Sector Association. In order to benefit from the discounted charge, Sector Associations wishing to exercise this option would need to meet a number of conditions. These would include:
- a) agreement to collect the subsistence charge from the majority of the Target Units under their Umbrella Agreement (those Target Units taking up this option would be listed)
  - b) recovering the exact charge (in accordance with the charging scheme) from their Target Units and passing this to the administrator within the appropriate financial year
  - c) itemising the charge separately on any invoice to the Target Unit (as opposed to incorporating it into an annual membership charge, for example)
  - d) ensuring they collect a sufficient number of the charges from their Target Units
  - e) at the end of the financial year, reporting to the administrator which Target Units they have not been able to collect from.
39. These conditions are for financial transparency to ensure that the administrator's charges remain outside the scope of VAT. They are also required for financial propriety in the collection of charges, and to help the administrator to identify Target Units who have not paid, so that the administrator can collect the unpaid charges directly from them.
40. If the Target Unit fails to pay, the ultimate liability for the charge would remain with the Target Unit. Whilst the administrator would expect a reasonable degree of payment chasing by the Sector Association (alongside any late Association fees for example) the administrator would remain responsible for debt collection in the event of any non-payment by a Target Unit.
41. If the Sector Association fails to collect from a significant number of its members, or collects and fails to pay, the administrator would not continue the collection arrangement via that Sector Association in future years. The table below set out details of the charges under these modified proposals.



Option One	New Option 1 (Where the SA does <b>not</b> recover the charge on behalf of the administrator)	New Option 2 (Where the SA recovers the charge on behalf of the administrator)
Sector Association annual charge	£1000	£0
TU annual charge (includes variations)	£185 per facility	£185 per facility

42. Proposed charges are based on estimates of 8,500 facilities, and with a cost (and income) forecast of £1.5M in line with the previous proposal. Modelling previously used estimates of 4,500 Target Units, covering 9,000 facilities. A consequence of introducing the cost-recovery charge is that some participants who benefit from small Climate Change Levy discounts may choose to exit the scheme, although to some extent this may be offset by new sectors joining the scheme.
43. The charges are designed to cover the work that the administrator will undertake in respect of maintaining the Umbrella and Underlying Agreements. As set out in the January 2012 consultation<sup>11</sup> these activities include opening and maintaining register accounts, processing variations and de-certifications, reconciling targets, reporting to DECC and HMRC, auditing, and taking payments.
44. The administrator will also offer a helpline service for matters to do with completing returns and operating the registry. It will not offer a service for detailed bespoke advice on compliance with the scheme, as these are set out in the Rules and guidance documents. Operators will need to seek this bespoke advice from Sector Associations or other competent persons. The administrator will not be undertaking any work in respect of negotiating targets, processing appeals or policy matters.
45. We believe that the above charges are simple to administer, fair and proportionate. They will assist in keeping financial activities and IT design simple and low cost. The level of charge is not significant when compared to the cost of industry compliance with CCAs, or the financial benefit gained from the CCL discount. The proposed charges compare favourably to the other, more complicated and mandatory carbon emission-related regulatory regimes. Annual subsistence charges for EU ETS permit holders are between £2,550 to £4,080, and similar charges for CRC participants are £1,290 per year.
46. The Government recognises that a consequence of agreement holders being required to meet the cost of administering the scheme, rather than have this borne by the taxpayer, is that some businesses will find that the cost of compliance and fees outweighs the financial value of the agreements.

<sup>11</sup> See [http://www.decc.gov.uk/en/content/cms/consultations/cc\\_regs\\_2012/cc\\_regs\\_2012.aspx](http://www.decc.gov.uk/en/content/cms/consultations/cc_regs_2012/cc_regs_2012.aspx)

### Future charges

47. These charge levels are proposed with a degree of uncertainty remaining with respect to the final number of facilities. It is hoped that charge levels can be maintained at this proposed level throughout the first target review period and that inflationary pressures can be absorbed, as the level of assistance needed by industry (and particularly the new sectors) subsides. The actual charges and costs incurred however will be reviewed on an annual basis by DECC and HMT. Any change to the type of charges, or charge levels proposed in the future, will be subject to a full public consultation, and approved by the Secretary of State.

#### Consultation Question

**5. Which of the two new administration charging proposals do you prefer? Please provide evidence to substantiate your views (where appropriate).**

# 5. Energy and Carbon Accounting - proposals

## Introduction

48. Government is minded to make a number of changes to the way target units will report and calculate energy and carbon in the new scheme. The objective is to simplify, streamline and align the CCA scheme wherever possible with other schemes such as the EU Emissions Trading System. Industry's recent feedback has been calling for this to happen to facilitate a reduction in the cumulative burden to industry in having to comply with a number of climate change policies. These ideas were presented at the 20 February stakeholder consultation event. Responses received at that event and subsequent discussions have helped shape the detailed proposals set out here.
49. Government is therefore seeking industry's views in the following areas:
- Renewable Heat
  - Emissions Factors
  - Energy Accounting
50. Government is also planning to hold a number of workshops during April and May to develop draft guidance on energy/carbon accounting. These workshops will allow industry to raise any issues regarding the implementation of the proposals outlined here.

## Proposals

### A. Renewable heat: treatment in carbon and energy targets

51. Under the current scheme when heat is generated from renewable fuel then the energy content of the renewable fuel used to generate this heat is not reported as part of the target unit's total energy consumption. Renewable heat has therefore counted as both zero energy and zero carbon (except for some sectors who use significant biomass). This approach in effect allows both energy and carbon targets to be met by switching to renewable fuels. Government wishes to incentivise both the generation of renewable heat as part of decarbonisation of industry, as well as increased energy efficiency. However, it is expected that the carbon savings that can be obtained from incremental energy efficiency will be smaller than that which can be achieved by fuel switching in some sectors or Target Units.
52. Since the introduction of the Renewable Heat Incentive (RHI) Government anticipates a more significant take-up of renewable heat. The current approach in CCAs is not transparent, and taken in the context of the RHI risks losing the driver for increasing energy efficiency (as energy efficiency targets can be achieved simply through use of renewable

heat and not necessarily the efficient use of renewable heat). Government believes therefore that in order to ensure transparency and to incentivise genuine energy efficiency improvements, that biomass and biofuel consumption should be reported in the New Scheme. This form of energy would have a zero carbon factor except for peat. It should be noted that biomass used in EU ETS installation, as with other fuels, will not be reported under CCAs.

53. Therefore in the new scheme, energy targets will purely drive energy efficiency, whereas carbon targets will reflect the potential both to increase the efficient use of fossil fuels, and the opportunities to decarbonise heat. Carbon targets will be expected to be numerically tighter (as they will reflect opportunities to improve energy efficiency and switch to renewable fuels). This means that sectors will still have the choice between carbon and energy targets but they will not be able to switch currencies outside of target reviews (where the potential for biomass and biofuel uptake will be considered explicitly). In addition, target units will have to have the same currency as the sector.
54. Energy values will be calculated from calorific values of fuels. It is proposed that these energy contents will be calculated as actual factors where available, or standard factors, where not available. We propose that biogas from Anaerobic Digestion plants will only need to report the actual energy content of the gas. The details of how this will work in practice and specific scenarios will be included in the guidance papers which will be discussed at the April/May workshops. Table 1 below lists the gross calorific value (CV) of a number of common biomass feedstocks, which would be used where no actual site data is available.

**Table 1<sup>12</sup>: Gross calorific value (CV) of common biomethane and common biomass feedstocks.**

Fuel	Gross CV GJ/tonne
Biomethane	54.39
Grasses/Straw	15.26
Wood Chips	14.74
Wood Logs	15.48
Wood Pellets	17.90

### Consultation Question

- 6. Do you have any other kinds of feedstock that you use which should be added to the list in the table above?**

55. **Proposal:** Sectors have the opportunity to split into carbon and energy sub-sectors which contain the identified target units. This would mean negotiating two sector targets for

<sup>12</sup> Sourced: 2011 Guidelines to Defra / DECC's GHG Conversion Factors for Company Reporting

sectors who choose this option.

## Consultation Question

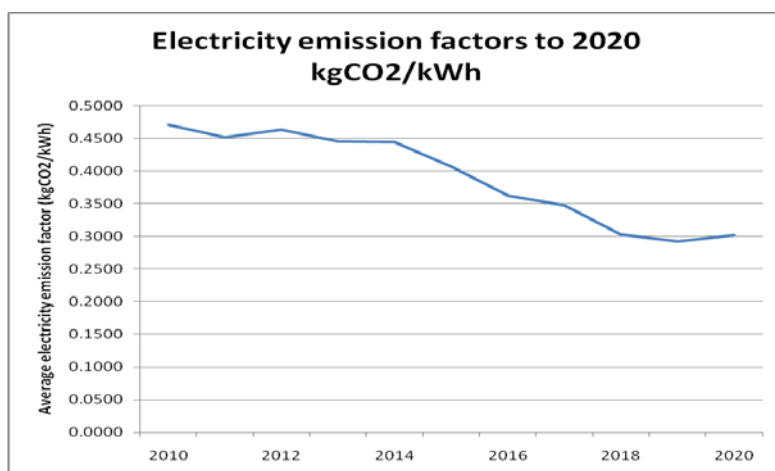
- 7. Do you foresee any problems with this approach? Please provide evidence to substantiate your views (where appropriate).**

### B. Carbon Accounting: Emissions Factors

56. The emission factors used in the current scheme have not changed since its introduction in 2001. Holding the same emission factors allows sites to make clear investment decisions based on the knowledge that carbon targets will not become more or less challenging depending upon any changes in emissions factors, outside the control of the operator. It also allows reported emissions to be represented as real site savings rather than as a consequence of decarbonisation of the grid.
57. Since the introduction of CCAs, other schemes have come into effect. There have been a number of calls from business and industry, including through the Red Tape Challenge, to align emissions factors across climate change schemes (including CRC Energy Efficiency Scheme, EU ETS, EPR and Defra/DECC GHG reporting guidelines). The introduction of the new CCA scheme provides an opportunity to do this.
58. In the following discussion, it should be noted that the new system will require only energy reporting in CCAs, as the conversion to carbon through application of the emissions factors will be done by the Registry.
59. In response to representations from industry, Government is proposing to align the CCA emissions factors with factors used in other schemes (CRC, EU ETS and Defra/DECC GHG reporting guidelines) as far as possible.
60. Alignment with EU ETS emissions factors could potentially lead to confusion and complexity for those sites which are not part of the EU ETS. In particular the EU ETS emission factors are very detailed, containing many variants of fuel types, split by end user (e.g. power generation, iron and steel, manufacturing) and split by region for natural gas. This would be an overly complex system for those not familiar with the EU ETS, and would even add potential complexity for those that are. This approach would also require the use of an additional emissions factor for electricity use.
61. We therefore propose that the scheme emissions factors will be aligned to the Defra/DECC GHG reporting guidelines<sup>13</sup>. It is noted that the CRC Energy Efficiency Scheme consultation also proposes aligning the emissions factors in that scheme with the Defra/DECC GHG reporting factors (for a reduced number of fuels). For fuels not covered by the Defra/DECC GHG reporting guidelines then DECC propose these would be published in a CCA emissions factor list which would be fixed throughout the lifetime of the scheme. Government will consider EU ETS emission factors in developing this. Annex 4 provides a draft list of the proposed emission factors.

13 Sourced: 2011 Guidelines to Defra / DECC's GHG Conversion Factors for Company Reporting

62. These changes particularly concern electricity, and would result in a change from static factors to ones that would change on an annual basis. It is noted that the increased effective carbon content of electricity over the current figures would have a marginal impact on the cost of the buy-out should targets be missed. Most schemes review emission factors on an annual basis (EU ETS, GHG reporting guidelines, CRC proposals under consultation). For most fuels the factor is fixed and does not vary from year to year, but for electricity, grid effects mean that the factor changes. Therefore complete alignment will also require CCA emissions factors to vary annually.
63. The Defra/DECC reporting guidelines are usually published in the second half of the year between June and October. The CCA reporting period will be on a two year calendar basis. The emissions factors covering this two year period would be established before the beginning of the reporting period, using the latest available Defra/DECC reporting factors. The CRC scheme reports on an annual financial year basis. Emission factors in the CRC scheme will be updated on an annual basis.
64. However, the new CCA scheme will be reporting data on a biennial basis. Therefore, should a single number be used for the two-year period, it would only be aligned with GHG reporting guidelines in the year of the CCA report (and there will be a mismatch for emissions from the first year). Should the emissions factors be aligned for both years, it would necessitate separate reporting of each year's data. The use of annually or biennially varying figures will increase the uncertainty of target negotiations for carbon targets (there will be no impact on energy efficiency targets). This could be accounted for using a scenario for the decarbonisation of the electricity grid, and reviewing progress at target reviews.
65. **Option 1:** To use biennially varying figures. These would be based upon the latest Defra/DECC GHG reporting guidelines factors at the start of each milestone period. In addition for target negotiation purposes, DECC would use the central scenario of grid decarbonisation, as shown in figure 1 below, when assessing carbon targets during target negotiations. Figure 1 below is based on the latest DECC Inter-departmental Analysts' Group (IAG) projections for electricity emission factors. This figure shows a projected reduction of around 40% by 2020. This would then be reviewed at the 2016 target review.

**Figure 1<sup>14</sup>: Projection of electricity emission factors out to 2020.**

66. **Option 2:** Use fixed factors for target negotiation and assessment of target achievement based upon the Defra/DECC GHG reporting guidelines factors and any additional fuel factors that are not covered by this which have been agreed prior to the start of the scheme. As this would drift from the annually published figures over time and in particular, not show the impact of the decarbonisation of the electricity grid, we propose that the emissions calculated using the biennially updated emissions factors be published alongside those calculated using the fixed factors. We note that this may allow the calculation of the fraction of electricity consumed at a TU level.
67. **Option 3:** Total alignment with GHG reporting guidelines, using annually updated figures. This would require separate reporting on each year of the target period. Target negotiations would use the approach outlined under Option 1.

### Consultation Question

- 8. Which option do you prefer? Please provide evidence to substantiate your views (where appropriate).**

### C. Energy Accounting

68. CCAs are designed to incentivise energy efficiency. At the time of their introduction there were few other policies which also acted to increase energy efficiency or decarbonisation of energy supplies. Now that EU ETS incentivises efficient power generation and generation of heat in large installations, Government has considered whether the current CCA approach, which is based on primary energy accounting, should continue. In particular, whether (if the focus is on the efficient use of energy in a Target Unit with an energy target) reporting should be on a delivered energy basis (i.e. quantity of metered electricity or heat consumed) or a primary energy basis (i.e. the quantity of primary fuels used to generate the metered electricity or heat consumed)

<sup>14</sup> Source: DECC Inter-departmental Analysts' Group (IAG) guidance for policy appraisal. This projection does not include EMR

69. We have concluded that primary energy remains the most appropriate approach because:

- it recognises the total input into the system to generate useful forms of energy such as electricity and heat. It therefore encourages the efficient generation and distribution of electricity and heat and puts downward pressure on UK CO<sub>2</sub> emissions even if the same quantity of electricity and heat are consumed. This also has benefits for the UK's security of supply of primary fuels.
- heat accounting under a delivered energy approach would need either to consider the 'useful heat', or be based on fuel inputs to generate this useful heat. The first case may be complex, and may create an additional administrative burden. The second case is effectively a primary energy accounting approach for heat.
- It is well understood by current CCA participants.



## Annex: Emission Factors

**Table 2: GHG emission factors sourced from the latest Defra/DECC GHG company reporting guidelines**

Fuel	GHG Company Reporting (kgCO <sub>2</sub> e/kWh)  Delivered
Electricity	0.52462 – 2009 5-year grid rolling average
Natural Gas	0.1836
Coal	0.33253
Refinery Gas	0.24602
Coke	0.33752
LPG	0.21467
Ethane	0.24602
Kerosene	0.24795
Petrol	0.24066
Gas Oil	0.27857
Fuel Oil	0.26744
Naphtha	0.23798
Petroleum coke	0.31837

**Table 3: Other non-standard emission factors**

Fuel	Other Fuels (kgCO <sub>2</sub> e/kWh)  Delivered	Reference
Peat	0.3586	Factor agreed with DECC in existing scheme
Clean fuel oil	0.2552	Factor agreed with DECC in existing scheme
Medium fuel oil	0.2547	Factor agreed with DECC in existing scheme
Light fuel oil	0.2493	Factor agreed with DECC in existing scheme
Scrap tyres	0.193109	Latest UK country-specific factors table prepared for the EU ETS (European Union Emissions Trading Scheme). 2011

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