







11 July 2012

Dear Sir/Madam,

# <u>Timing of applications to the EU Emissions Trading System Phase II New Entrants Reserve.</u>

Following an information gathering exercise with industry at the end of 2011, this letter sets out Government's proposed handling of the EU Emissions Trading System (EU ETS) Phase II New Entrant Reserve (NER) for the remainder of 2012.

If you are planning to commence new activities, or extend existing ones, covered under the EU ETS before the 31<sup>st</sup> December 2012, you may be eligible to receive free allowances from the NER. These allowances can be used for compliance in Phase II (2008-2012).

To ensure a smooth transition to the next Phase (starting on 1 January 2013), Government intends to introduce a deadline for applications to the Phase II NER. <u>The proposed deadline for applications is 1 September 2012</u>. Any applications received after this date will not be determined.

Further background information can be found below. Should you have any questions or comments on the approach set out in this letter please submit these by email by no later than 10 August 2012.

## Background

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

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

Allocations from the NER work on a queue basis. An applicant will submit an application in which they request a number of allowances. This application is determined by the Environment Agency, and the applicant is informed as to the level of determined allowances. As for incumbent installations, actual allocations from the NER are made on an annual basis. As at 17 May 2012, there were 6,983,322 allowances available to apply for in the UK's NER.

The Environment Agency manage the NER queue on behalf of all the UK regulators. They publish regular reports on the status of the queue. <sup>1</sup>

<sup>1</sup> http://www.environment-agency.gov.uk/static/documents/Business/Phase\_II\_NER\_Report.pdf

The UK National Allocation Plan<sup>2</sup> (NAP) for Phase II of the EU ETS commits the UK to auction, or otherwise sell, 7% of allowances in Phase II. The NAP also states that allowances from closures and surplus allowances from the NER will be auctioned or sold in addition to this and up to the 10% limit as set in the Emissions Trading Directive 2003/87/EC.

As we near the end of Phase II, and the likely surplus in the NER has become clearer, decisions are needed on how to implement the commitments made in the NAP. In particular, when and how to auction remaining allowances.

### Approach and next steps

Following an information gathering exercise with industry at the end of last year, <u>Government proposes to introduce a deadline for applications of 1 September for any new applications to the Phase II NER</u>. The purpose of this deadline for applications is to ensure timely processing of applications and a smooth transition to the next Phase. In particular, it will allow us to make final announcements about auctioning surplus allowances before the end of the Phase. **Should you have any comments or questions on this approach, please respond by 10 August.** 

For those businesses that are planning to make applications to the NER, we would be grateful for further information on the amount of allowances you are likely to be requesting.

However, applications to the NER should be made directly to your regulator, copied to the Environment Agency where they are not your regulator.

#### How Information will be used:

The information provided will be used to inform final decisions regarding the closure of the NER, ensuring that the NER is able to meet business needs whilst also ensuring a smooth transition to Phase III.

Information provided in response to this request, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request. Your data will be processed in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

### **Next steps**

Please email your response to <a href="mailto:eu.ets@decc.gsi.gov.uk">eu.ets@decc.gsi.gov.uk</a> titling your email — 'Phase II NER Deadline' by **10 August.** Operators in Scotland are requested to copy their responses to the Scotlish Government at <a href="mailto:eu.ets@scotland.gsi.gov.uk">eu.ets@scotland.gsi.gov.uk</a>.

<sup>&</sup>lt;sup>2</sup> The NAP is available at: