



Opting out small emitters and hospitals from the EU ETS: the UK's approach

Stakeholder event, 12 October 2011

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UK opt-out for small emitters and hospitals



Overview

11:00 – 11:15. Presentation by Eoin Parker:

- Context and introduction
- UK approach

11:15 -11:45. Questions and discussion

11:45 – 12:00. Presentation by Amy Jones

12:00 – 12:30. Questions and discussion

12:30 – 13:15. Lunch (light lunch provided)

13:15 – 13:30. Presentation by Amy Jones

13:30 – 14:00. Questions and discussion

14:00 – 14:15. Presentation by Stephen Reeson. *Considering opting out: key factors*

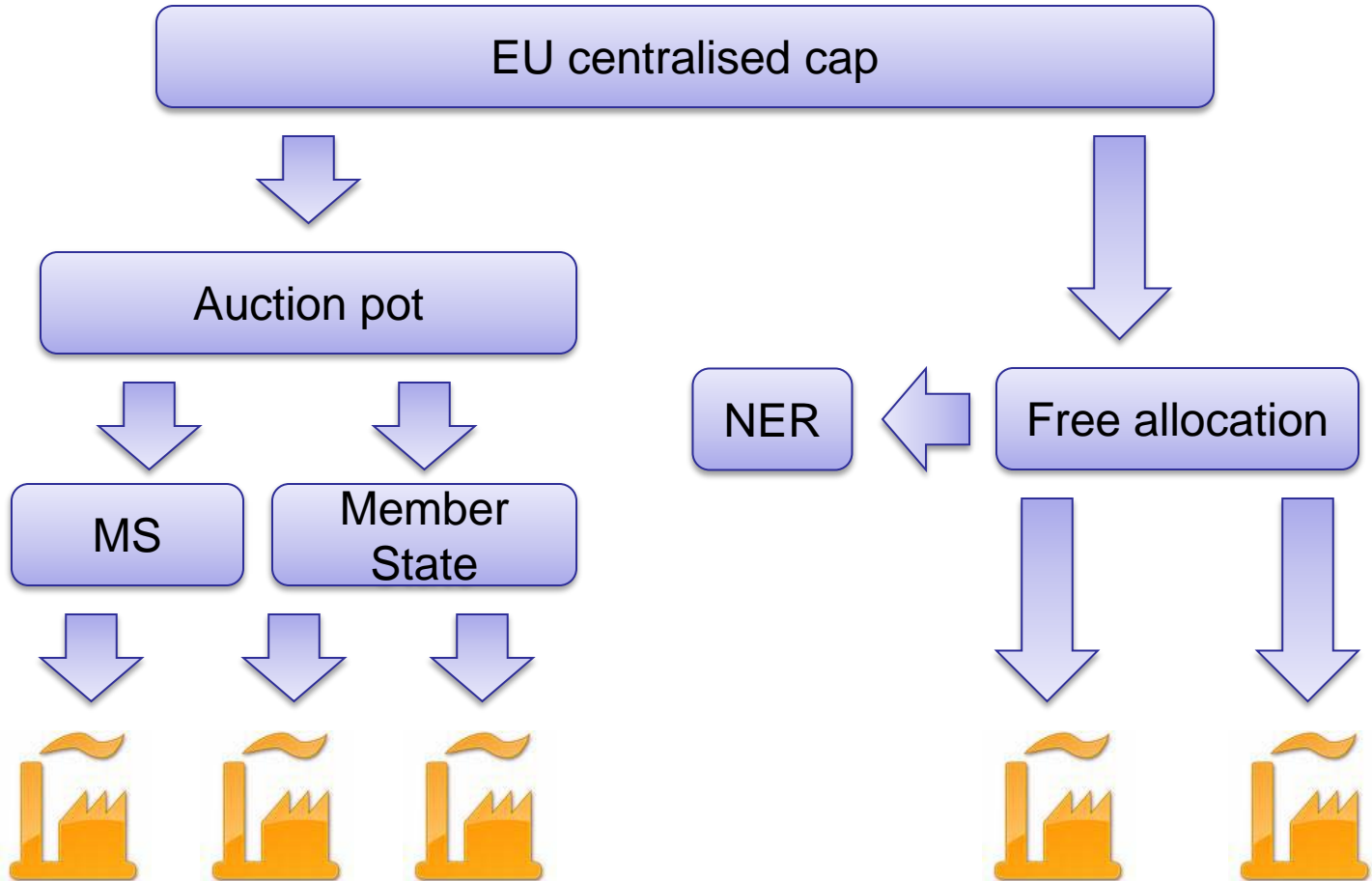
14:15 – 14:55. Final questions and discussion

14:55 – 15:00. Closing remarks

The EU Emissions trading system (ETS)

- A cap and trade system to incentivise cost-effective reductions in GHG's from carbon-intensive industries and electricity generators
- UK 13% of the total cap and c. 1000 installations (12,000 EU installations, including small emitters)
- Phase I – 2005-07: “Learning by doing”
- Phase II – 2008-12: Helping to deliver EU's Kyoto target of 8% below 1990 levels
- Phase III – 2013-20: Helping to deliver EU's 2020 target of 20% below 2005 verified emissions by 2020

Phase III, 2013 – 2020. Top-down approach to cap-setting and harmonised allocation



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Harmonised free allocation in Phase III



- Harmonised set of rules across the EU - different to Phase II
- EU-wide benchmarks set at average of top 10% performers in each sector
- Installations receive 80% free allocation in 2013, declining each year to 30% in 2020
- Sectors at risk of carbon leakage receive 100% free allocation up to the benchmark
- National Implementation Measures (NIMs) - list of the draft free allocations (including list of small emitters) for all UK installations in ETS Phase III

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Small Emitters and Article 27



- Acknowledges the disproportionate administrative costs of the ETS for small emitters (MRV, implementation fees)
- Allows MS to provide an opt out for small emitters and hospitals from the EU ETS in Phase III (from 2013)
- Eligible operators must deliver equivalent emissions reductions as if the installation were still in the EU ETS

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UK approach



- Deliver real reductions in costs to UK small emitters and hospitals whilst incentivising abatement
- Design a proposal that will not be rejected by the European Commission
- Avoid putting UK industry at a competitive disadvantage compared to the rest of the EU
- Deliver a simple scheme

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UK approach



What the UK opt-out provides:

- A voluntary scheme with the potential for both compliance and administrative cost savings
- Uses the existing regulatory framework of the EU ETS and overlaps with CCA, CRC schemes treated the same as EU ETS
- Flexibility to ensure that UK industry is not put at a competitive disadvantage compared to other Member States
- Commission agreement to decouple the submission of the final UK small emitter opt-out list with the submission of UK NIMs

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UK approach



Key process steps (NIMs):

- i. UK operators scrutinise draft preliminary allocations – 28 October 2011
- ii. UK submits draft NIM to the Commission, including draft small emitter opt-out list – December 2011
- iii. Commission scrutinises MS NIMs – early 2012
- iv. UK preliminary NIMs finalised following submission of final small emitter opt-out list – early 2012
- v. Final allocations following application of the cross sectoral correction factor – mid 2012

Key process steps (Small emitters):

- i. Internal clearance of UK proposal – October 2011
- ii. UK formally submits proposal to Commission – end October 2011
- iii. UK submits draft list (according to ETS300) of opt outs with NIMs – December 2011
- iv. UK operators confirm if they wish to opt out on the basis of final UK proposal – early 2012 (following Commission endorsement)
- v. Final UK opt-out list submitted to the Commission – early 2012
- vi. Opt out list confirmed by Commission agreement – mid 2012

Questions?

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Overview of UK proposal: Opt-out agreements

Policy development process:

- Formal and informal (ETG) consultation with industry
- Consideration of existing climate policy landscape
- Engagement with Europe and the Commission

Key policy design features:

- Participation is **voluntary**
- Not an additional scheme – sits under the regulatory umbrella of the **EU ETS**
- Operators that choose to opt-out are obliged to meet installation-level **emissions reduction targets**
- **No free allocation**/no duty to surrender allowances
- A **penalty** will apply for any annual emissions above the target, this will be set according to the EUA price
- No third party verification required

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Overview of UK proposal: Eligibility

Small emitters

- Eligible to *incumbent* installations with:
 - Annual emissions less than 25 000tCO₂ in 2008, 2009 and 2010, and subsequent years, and
 - Net thermal capacity less than 35 MW in 2008, 2009 and 2010

Hospitals

- *Incumbent* installations which primarily supply a hospital
- Association confirmed by Department of Health or Devolved Administration

All opt outs

- Have an opt out agreement with DECC

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Overview of UK proposal: Re-entering the EU ETS

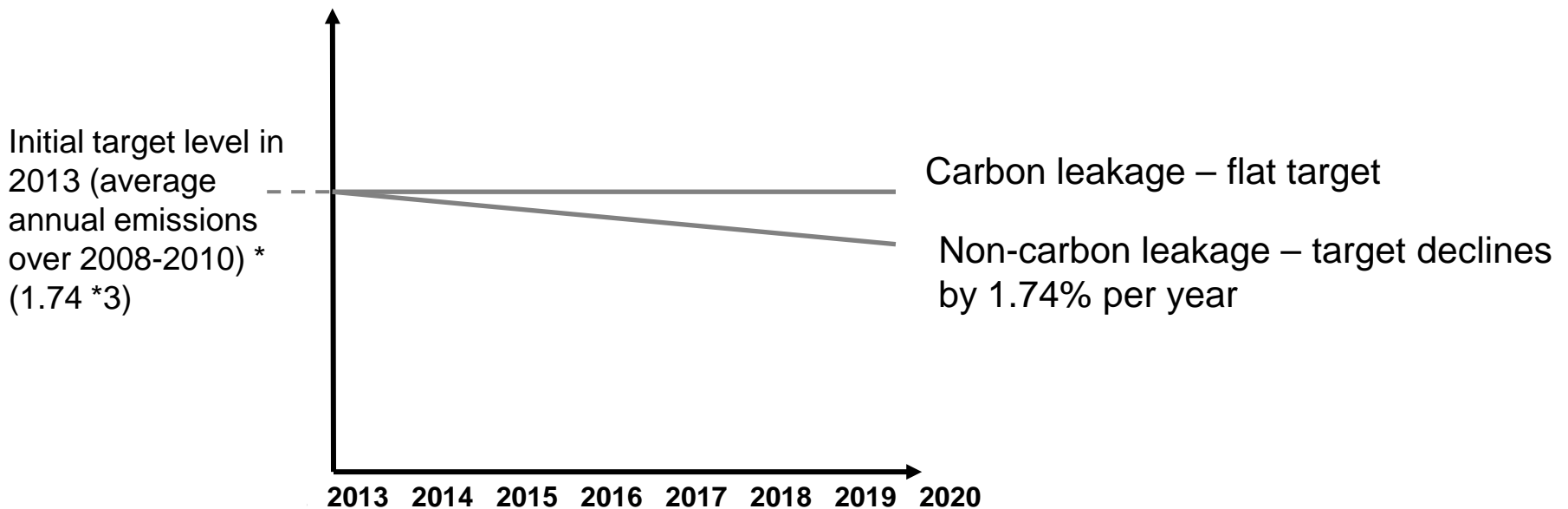
- Opted out installations cannot re-enter the EU ETS in Phase III by choice
- Installations will re-enter the EU ETS from the beginning of the following year:
 - If installation is a small emitter opt-out and annual emissions rise above threshold (25,000tCO₂) in any one year
 - If installation is persistently fails to pay the penalty for excess emissions and SoS terminates the opt out agreement
- On re-entry installations will:
 - Receive a free allocation at the level set out in the UK NIMs
 - Be required to comply in full with EU ETS rules
 - Be required to meet outstanding obligations under the opt out agreement

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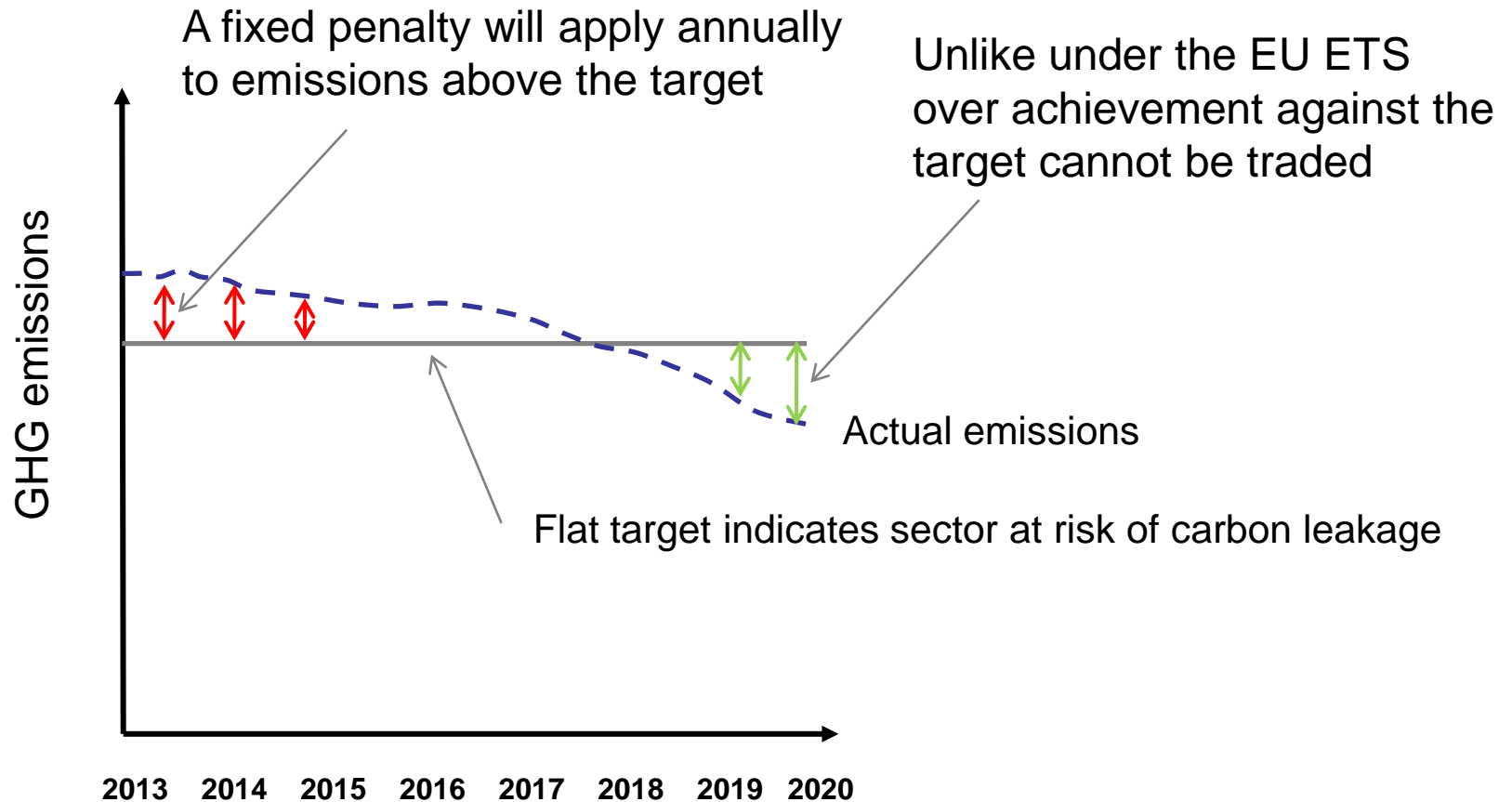
Opt-out agreements: targets

- By opting out installations will be subject to a binding emissions reduction target
- Based on historic emissions (2008-2010)
- The cross sectoral correction factor will not apply



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Opt-out agreements: penalties



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Opt-out agreements: setting the penalty



The penalty level will be set according to the EUA price:

- Based on the average end of day settlement price of the December futures contract for the compliance year

E.g. the penalty for 2013 will be the average price of the December 2013 futures contract over the period December 2011–November 2012

E.g. the penalty for 2014 will be the average price of the December 2014 futures contract over the period December 2012–November 2013

- We will publish indicative prices for subsequent compliance years
- Invoices for excess emissions will be issued by 31st March with a deadline for payment of 30 April

Questions?

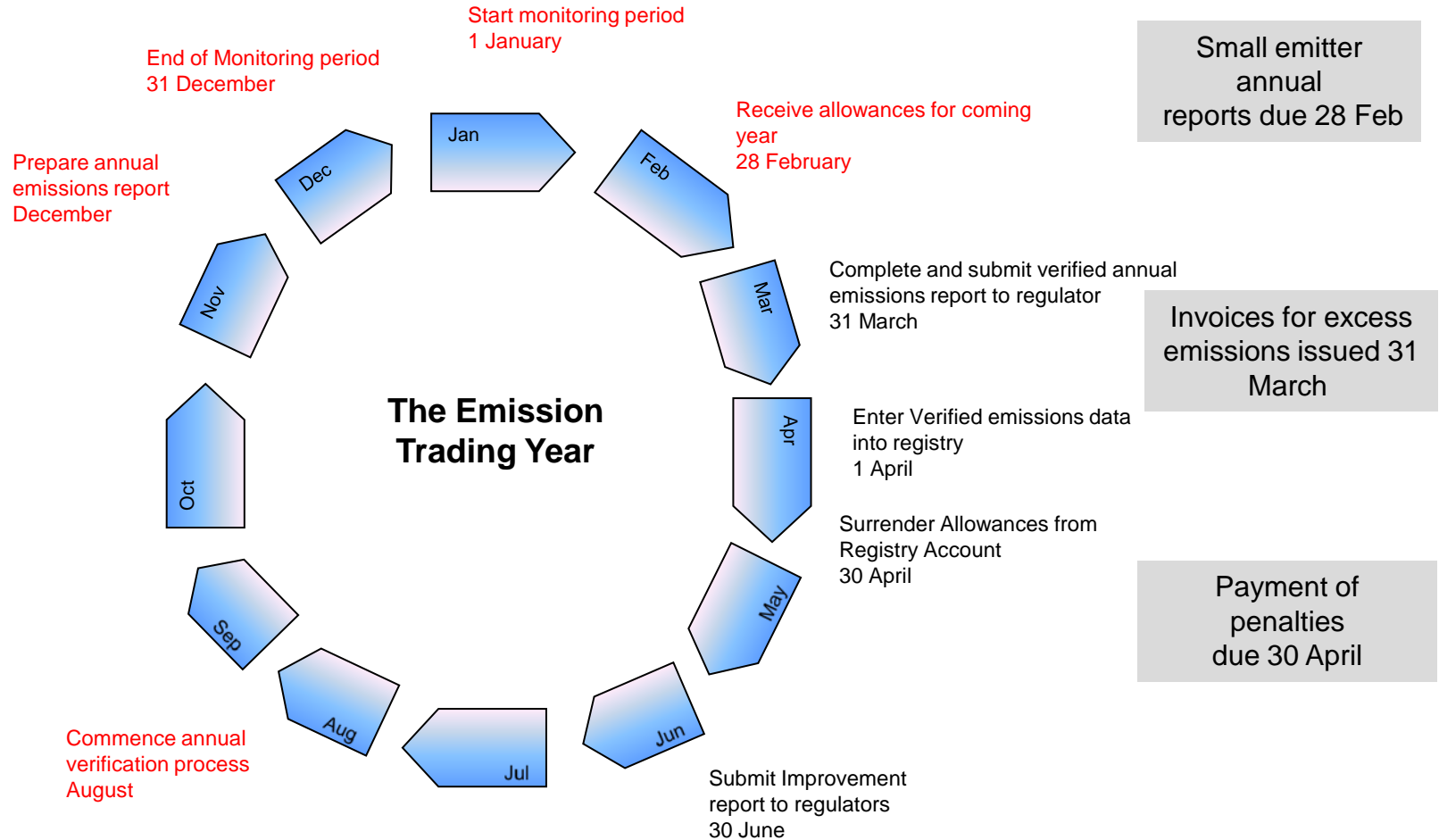
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Opt-out agreements: MRV

- Monitoring and reporting largely according to EU ETS Monitoring and Reporting Regulations:
 - Simplified monitoring plan for installations less than 25,000tCO₂
 - Annual emissions report
- BUT self verification instead of third party verification (optional)
- Provision of de minimis rule for small sources
- Regulator auditing:
 - On a risk basis
 - In depth auditing of a proportion of installations each year, including, if necessary, site audits
 - Cost recovered through subsistence fees

The EU ETS Annual Compliance Cycle



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Opt-out agreements: Outstanding risks



- Clearance of the UK's proposal with the Commission

Issue	UK proposal	Initial Commission position
Target baseline	Historical emissions	Allocation level
Trajectory for non carbon leakage	1.74% per annum	80% - 30%
Third party verification	No third party verification	Exemption only for installations with annual emissions less than 5000tCO ₂

- Avoid potential competitive distortion within the EU and in the UK (interested in views)

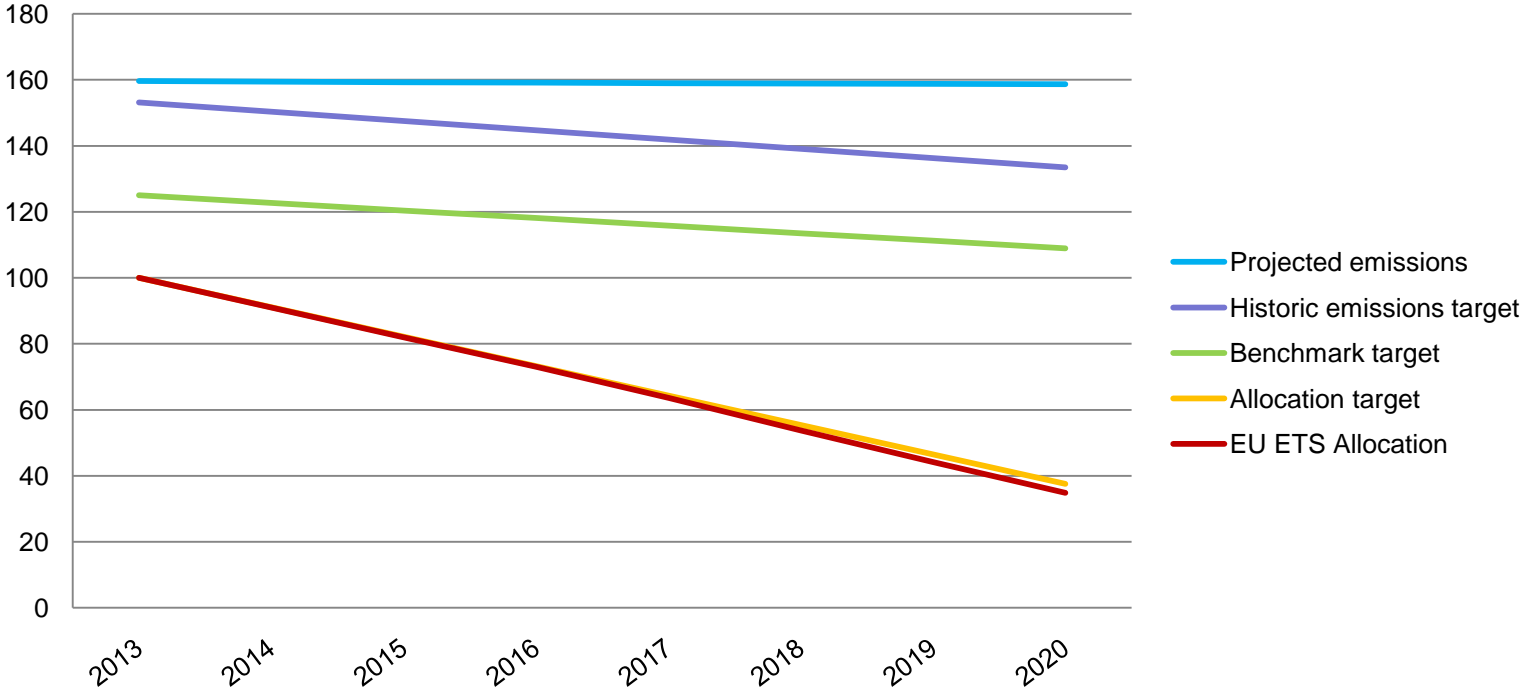
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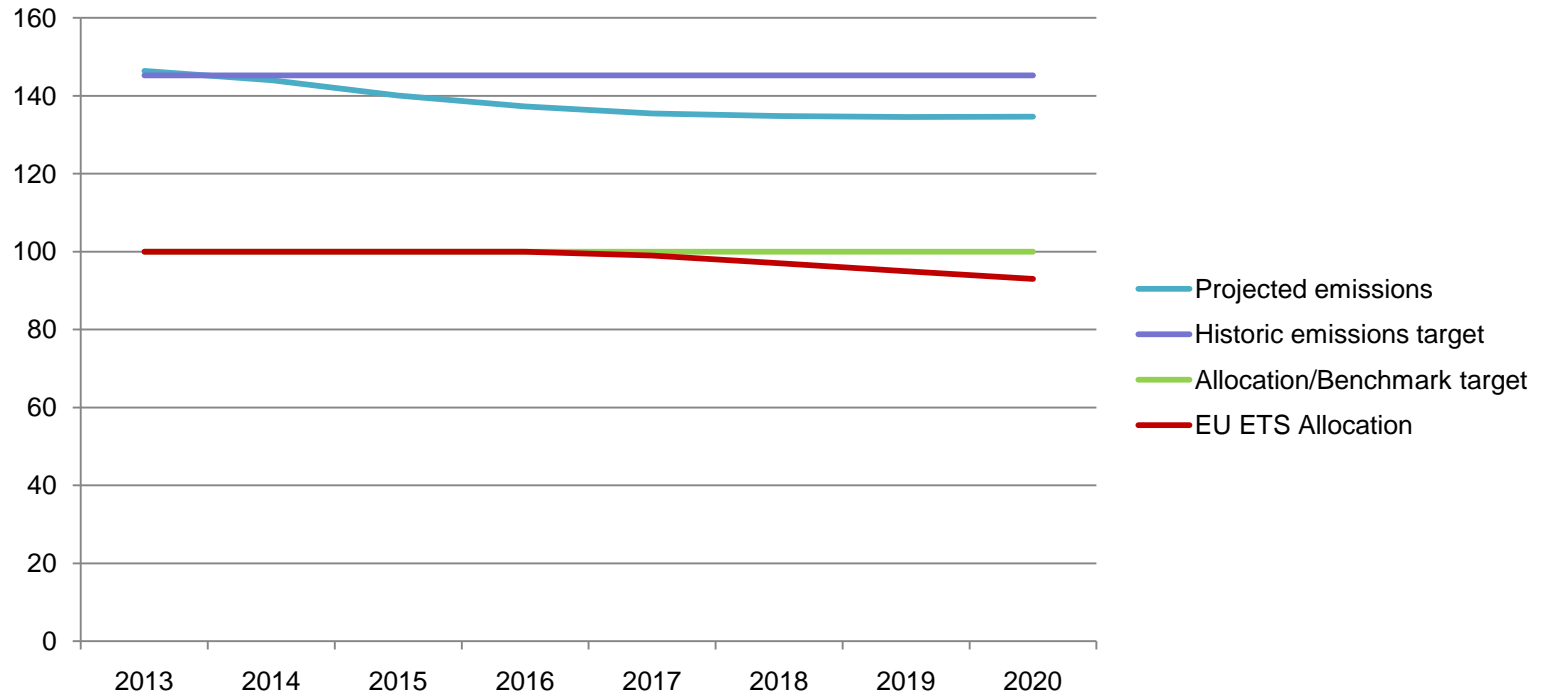
Opt-out agreements: fall back targets

- Fall back 1: Target set at the level of the EU ETS sector benchmark
Non-carbon leakage – declines by 1.74% per year
- Fall back 2: Target set at the level of the EU ETS allocation
Non- carbon leakage – declines from 80% in 2013 to 30% in 2020
Banking and borrowing
- Carbon leakage: Targets remain at 100% of sector benchmark = EU ETS allocation
- Cross sectoral correction factor does not apply

Comparison of targets and projected emissions for sectors not at risk of carbon leakage (Option 1, 2013= 100)



Comparison of targets and projected emissions for carbon leakage sectors that choose to opt out (Option 1, 2013=100)



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Opt-out agreements: Process



Finalisation of UK policy and agreement with Commission	Now - late 2011
UK small emitters asked to formally indicate if they want to opt-out based on final UK policy proposal	Early 2012
Draft targets issued based on verified annual emission and thermal capacity data for 2008, 2009, 2010	With release of final UK policy proposal
Operator returns request for opt out agreement	Before end of consultation period
DECC issues opt out agreements	Following end of consultation period
Commission agrees final UK opt out list	Mid 2012
Opt out begins	1 January 2013

Questions?