HM Government

Climate Change Agreements: proposal for scheme extension and views on reforms for any future scheme

Closing date: 11 June 2020

April 2020

Any enquiries regarding this publication should be sent to us at:
cca@beis.gov.uk

Introduction

In June 2019, the UK became the first major economy in the world to legislate to end its contribution to global warming by 2050, increasing the ambition of our commitments to reduce greenhouse gas emissions under the Climate Change Act. Decisive action will need to be taken by all sectors to achieve the transition to a net zero world, and the Government is prepared to support the economy through this in what will be a defining period of action for our country, and indeed for our planet, on tackling climate change; leading to the UK's hosting of COP26 in Glasgow in 2021.

With 25% of UK greenhouse gas emissions coming from business, significant steps will need to be taken by the private sector to decarbonise. Incentivising energy efficiency is a powerful way of reducing carbon emissions and operating costs. Analysis conducted for the 2017 Clean Growth Strategy showed that up to £6 billion and 22MtCO2 could be saved in 2030 through investment in cost-effective energy efficiency technologies.

The Climate Change Agreements (CCA) scheme, first established in 2001, serves the dual purpose of making energy and carbon savings through energy-efficiency targets whilst also helping to reduce energy costs in energy-intensive sectors by providing a significant discount to Climate Change Levy (CCL) paid. The targets provide a basis on which organisations can make improvements to the energy-efficiency of their facilities over an 8 year period, ensuring their contribution to UK-wide goals, in return for a discount worth in total an estimated £300m annually on their Climate Change Levy bills.

There is strong support from businesses and industry for the scheme. Over 9,000 facilities across the UK benefit from participation in the scheme, and a recent evaluation of the scheme (www.gov.uk/government/publications/second-climate-change-agreements-scheme-evaluation) found that between 80-100% of businesses were participating in most eligible sectors.

In Spring Budget 2020, the Government announced that the current CCA scheme will be reopened to new entrants for a set period and extended for a further two years until March 2025. This consultation sets out the Government's proposals for how this extension will implemented. This includes how targets will be agreed to drive further energy and carbon savings in industry, and in response to calls from industry, an updated baseline year used to measure performance.

The Government is not proposing to reform the eligibility criteria for the extension or substantially review existing rules and processes for this interim period. Instead, we want to explore further reform in these areas as part of a longer-term review of the scheme, and we welcome views on the factors that should be considered as part of this.

Contents

General information

Why we are consulting

This consultation seeks views on the proposal to extend the Climate Change Agreements (CCA) scheme by a further 2 years through the addition of a new Target Period (from 1 January 2021 to 31 December 2022) and extending certification for reduced rates of CCL for participants meeting obligations under the scheme to 31 March 2025. The consultation also seeks initial views on potential reforms were there to be a future CCA scheme.

Consultation details

Issued: 16 April 2020

Respond by: 11 June 2020

Enquiries to:

Business Energy Use Team
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Consultation reference: Climate Change Agreements: proposal for scheme extension and views on reforms for any future scheme

Audiences:

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

Territorial extent:

The CCA scheme operates on a UK-wide basis

How to respond

Respond online at: beisgovuk.citizenspace.com/energy-efficiency/climate-change-agreements-extension

or

Email to: cca@beis.gov.uk

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

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

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

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

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the government's consultation principles.

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

Background

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

The first CCA scheme was introduced in 2001, alongside CCL, in recognition of the fact that the CCL could impact on the competitive position of energy intensive industry. The present scheme started on 1 April 2013 and is currently scheduled to run until 31 March 2023, when the CCL discount based on current agreements will end.

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

The current scheme has 4, 2-year target periods. The final target period currently in place (‘Target Period 4’) ends on 31 December 2020, with operators who meet obligations for Target Period 4 being eligible for certification for CCL discount from 1 July 2021 to 31 March 2023 (‘Certification Period 5’).

Following consultation in 2012, the rule was put in place that the scheme would be closed to new entrants from 31 October 2018 to offset the perceived poor value for money of allowing facilities to join during the final target period, where the full CCL discount provided may not result in additional energy / carbon savings.

Climate Change Agreements Scheme Evaluation

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

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

Slightly more than half of target units (TUs) achieved their targets without using buy-out or banked surplus[1] in each target period (TP), with little variation between TPs. The average level of underperformance[2] was low (4-6.5% of total emissions for the scheme). The level of overachievement[3] of targets was greater (8.7%-13.5% of total emissions), exceeding the level of underperformance in each of the first three target periods. Almost all CCA participants had taken some action on energy efficiency since the start of the scheme. However, about half of firms reported that the scheme did not influence their energy efficiency action.

Findings from the evaluation, as well as input from stakeholder bodies, such as the UK Emissions Trading Group, have informed the Government of the strengths of the scheme and shown where there are opportunities to improve it. Some of these reforms may be significant and would take longer to deliver. Therefore, the Government is proposing an extension to the current scheme through the addition of a new target period (‘Target Period 5’) and subsequently an additional certification period (‘Certification Period 6’) where participating business who meet their obligations in Target Period 5 will be eligible to receive reduced rates of CCL. The following chapter sets out the policy proposals for the scheme extension, while the final chapter considers the areas that might be in scope of longer-term, more fundamental reforms to the scheme. At this stage we are seeking preliminary insights on these areas to aid us in our considerations for any future CCA scheme, which would be subject to further consultation on potential scheme design.

Proposal for scheme extension

Target Period and Certification Period dates

We propose that the new Target Period (TP) remains as a two-year target period in line with Target Period 1-4 of the scheme. This would begin on 1 January 2021 and end on 31 December 2022.

The final certification period for the scheme is scheduled to end on 31 March 2023. Currently, sector associations report on performance for a target period by 1 May following the end of the target period, with those facilities which have met their obligations being certified to receive CCL discount from 1 July. In order to ensure enough time for the reporting process for the new target period, we intend to vary the certification period currently scheduled to end on 31 March 2023 so that this now ends on 30 June 2023. This is necessary as otherwise participants would not be certified to receive CCL discount between 1 April 2023 and 30 June 2023. The added certification period, for which facilities will only be certified having met obligations in Target Period 5, will begin on 1 July 2023 and end on 31 March 2025.

[1] TUs can carry forward or ‘bank’ surplus accumulated by exceeding their targets in a previous target period.
[2] Underperformance means the buy-out plus banked surplus that a TU needed to use to meet its target for a given TP, as a proportion of total reported emissions for the relevant TP.
[3] Overperformance means the surplus generated by a TU relative to its target, as a proportion of total reported emissions for the relevant TP.

Figure 1 Current target and certification periods

	2019	2020	2021	2022	2023
Target Period (TP)	**TP4: 1 Jan 2019 to 31 Dec 2020**				
Certification period (CP)	**CP4: 1 Jul 2019 to 30 Jun 2021**		**CP5: 1 Jul 2021 to 31 Mar 2023**		

Figure 2 Proposed target and certification periods (including extension to existing CP5)

	2019	2020	2021	2022	2023	2024	2025
Target Period (TP)	**TP4: 1 Jan 2019 to 31 Dec 2020**		**TP5: 1 Jan 2021 to 31 Dec 2022**				
Certification period (CP)	**CP4: 1 Jul 2019 to 30 Jun 2021**		**CP5: 1 Jul 2021 to 30 Jun 2023**		**CP6: 1 Jul 2023 to 30 Mar 2025**		

1. **Do you agree with the proposed dates for the target and certification periods?**

2. **How would these dates affect you and/or businesses within your sector?**

Eligibility

We are not proposing any changes to the eligibility criteria for the extension period[4]. This will ensure that all current operators who continue to meet the existing eligibility will maintain their benefits of participating in the scheme.

All sector associations who currently hold umbrella agreements will be able to engage with the process to vary these agreements to add the new target and certification periods, as well as enabling new entrants to the scheme (see ‘New entrants’ section below).

All current operators will be expected to confirm to their sector association before assenting the variation to their underlying agreement for the extension that they remain eligible under current scheme criteria.

Whilst eligibility criteria reform isn’t in scope of the proposed 2-year extension, the evaluation findings (www.gov.uk/government/publications/second-climate-change-agreements-scheme-evaluation) support the Government’s proposal to review these as part of a longer-term reform of the scheme (see ’Potential future reforms’ section for further details).

3. **Do you agree with the proposal to maintain the current scheme eligibility criteria?**

New entrants

The CCA scheme closed to new entrants on 31 October 2018. We are proposing that facilities not currently in the scheme will be able to join, provided they meet the criteria for an eligible facility. Operators will be expected to report the performance of new entrant facilities for Target Period 5 only.

[4] Please refer to ‘Potential future reforms’ section of this document for discussion and questions on eligibility for any potential future CCA scheme

The process for adding new entrants, including how they will be assessed by the Environment Agency and the provision of baseline data, will follow the existing processes as set out in the CCA operations manual[5].

In order to ensure that facilities will have enough time to bring forward additional energy-efficiency investment in order to meet their targets, we will restrict the addition of new facilities to the period prior to the start of Target Period 5. Subject to finalised timing of other elements of this extension, we expect to close applications for new entrants on 30 September 2020. This is to allow the Environment Agency enough time to assess all applications prior to the beginning of Target Period 5. This assessment will follow the same new entrant process as set out in the scheme operations manual.

In order to manage the administrative work in assessing eligibility for new entrant facilities, but without prejudging the outcome of this consultation, we intend to allow operators to begin applying to the scheme now.

The issue of new agreements and certification to claim CCL discount will not be possible until after sector targets and agreements have been finalised. Subject to timing of the steps required to do so, we expect the Environment Agency to begin issuing agreements containing new entrant facilities by January 2021. The assent to these agreements by operators would confirm they agree to the targets and rule changes that, subject to the outcome of this consultation and legislative consent, take effect from 1 January 2021 to align with the start of Target Period 5.

The Environment Agency will certify eligible facilities from the date when operators provide their assent to their underlying agreement. Certification of new facilities will not be retrospective to an earlier date.

This same process will also apply to any facilities re-entering the scheme.

4. **Do you agree that we should re-open the extended scheme to allow new entrants to join existing sector agreements?**

5. **If so, do you agree with the process for enabling this?**

Baseline for targets

Under the Climate Change Agreement scheme, each facility measures progress towards its targets against a baseline year. For many facilities, the baseline year is 2008 - which was appropriate when targets were being set in 2012. The recent evaluation found that that there may have been significant changes to facilities other than energy-efficiency improvements, since 2012. This means that some targets could be too lax or too stringent.

The Government agrees with the evaluation findings and is proposing to update the baseline year for all sector associations and target units to 2018. This aligns with data operators have already collected for 2018 (the final year of Target Period 3), which should significantly reduce any burden for sector associations and operators in collecting the necessary data to provide to the Environment Agency.

[5] https://www.gov.uk/government/publications/climate-change-agreements-operations-manual--2

Sector associations will be required to submit baseline data to the Environment Agency with sufficient time ahead of new umbrella agreements being issued to ensure adequate quality assurance checks can be completed. Further details will follow on these timelines imminently.

6. **Do you agree with the proposal to use calendar year 2018 for the target baseline?**

Target setting

In 2017, the Government set a goal to improve energy efficiency in businesses and industry by at least 20% by 2030 from a 2015 baseline. Since then, the UK has further increased its decarbonisation ambition by adopting the legal requirement to reduce its carbon emissions to net zero by 2050. To support these policies, the Government is proposing that targets for sectors should be consistent with meeting a 20% improvement to energy-efficiency by 2030 from the 2018 baseline.

Final targets will be agreed through bilateral negotiation with sector associations. BEIS will contact sector associations with its initial target proposal in April 2020. Sector associations will then have time to consider this offer and will be asked to confirm to the Government by a set deadline whether they intend to accept this target. If they do not accept the target, they will be asked to provide an evidenced counter proposal. We would welcome sector associations being more ambitious than our initial proposals where possible to demonstrate their contribution to the UK net zero commitment. BEIS will consider counter proposals and provide a final target to the sector associations.

Sectoral umbrella agreements including the final agreed target levels will be published after those agreements have been assented. Actual performance against those targets will be published by the Environment Agency as part of a biennial report in 2023.

7. **Do you agree with process as set out for agreeing sectoral targets?**

Surplus

Surplus provides a mechanism for operators to bank overperformance from a Target Unit in one Target Period to offset any shortfall in performance in subsequent Target Periods. This helps ensure that operators are not discouraged from taking early action.

A consequence of the proposed re-baselining to 2018 is that any over or underperformance in the scheme through to the end of Target Period 3 will be captured within the new baseline. If operators were able to carry over any surplus banked to Target Period 5, this could mean they are able to meet all or some of their Target Period 5 targets without undertaking any further energy-efficiency measures. Operators who over-perform on their targets will also already be benefitting from lower energy use and associated emissions.

We are clear that any extension should result in additional energy / carbon savings. We therefore propose that any banked surplus from Target Periods 1 - 4 will not be available to offset any under-performance against the Target Period 5 target. Buy-out would continue to be required for any under-performance in Target Period 5 in order for facilities to be re-certified to receive the CCL discount in the final certification period.

8. **Do you agree with the proposal that surplus should not be brought forward for use in the added target period?**

Buy-out price

When CCA targets in the current scheme were agreed with sectors in 2012[6] the aim was to set these at a level that was challenging but achievable, with use of buy-out being available as an alternative to meeting targets for the purpose of remaining compliant with the scheme. This feature of the scheme allows scheme participants to pay a fee per tonne of CO2e to cover any target attainment shortfall. The buy-out price for Target Period 1 and Target Period 2 was set in 2012 at £12/tCO2e.

The buy-out price was reviewed in 2016[7] and increased in line with the RPI to £14/tCO2e. This was with an expectation that number of facilities using buy-out would reduce from the numbers seen in Target Period 1 and Target Period 2. This has not been the case; around half of target units are not achieving their targets and are therefore using banked overperformance and/or buy-out to meet underperformance. There has been little variation to this across Target Period 1-3.

Respondents to the 2016 review raised general concerns about adverse competitiveness impacts of any increase to the buy-out price, but no evidence was submitted demonstrating the specific impacts on competitiveness resulting from this increase, and we have not seen any subsequent to this to show that the increase has had any significant competitiveness impacts.

Consistent with the Government's objective to reduce carbon emissions cost-effectively and our legal commitment to net zero, we are now proposing an increase to the buy-out price for Target Period 5.

Participants should also recognise that rises in CCL rates since April 2019 make the CCL discount more valuable to CCA participants than when the buy-out price was last reviewed in 2016 (see tables below).

Table 1 Main rates of CCL

Taxable commodity	Rate from 1 April 2018	Rate from 1 April 2019	Rate from 1 April 2020	Rate from 1 April 2021
Electricity (£ per kilowatt hour (kWh))	0.00583	0.00847	0.00811	0.00775
Gas (£ per kWh)	0.00203	0.00339	0.00406	0.00465
Liquefied petroleum gas (LPG) (£ per kilogram (kg))	0.01304	0.02175	0.02175	0.02175
Any other taxable commodity (£ per kg)	0.01591	0.02653	0.03174	0.03640

[6] Data centre and sawmills sectors were added later in 2014
[7] https://www.gov.uk/government/consultations/climate-change-agreements-discussion-paper-on-the-target-review-2016-and-buy-out-price-review

Table 2 Percentage discount for holders of a climate change agreement[8]

Taxable commodity	Rate from 1 April 2018	Rate from 1 April 2019	Rate from 1 April 2020	Rate from 1 April 2021
Electricity	90%	93%	92%	92%
Gas	65%	78%	81%	83%
LPG	65%	78%	77%	77%
Any other taxable commodity	65%	78%	81%	83%

A change to the buy-out price is also expected to increase energy and carbon savings under the CCA scheme, with a higher price providing a sharper financial incentive to meet targets.

We have considered various options to change the buy-out for the proposed Target Period 5, noting that previously the increase from the price for Target Period 1 and Target Period 2 to the price for Target Period 3 and Target Period 4 was £2/tCO2e. In addition to RPI uprates, we have also considered that the scale of buy-out use has not materially changed across the 3 Target Periods.

Table 3 Use of the buy-out fee

	Target Period 1	Target Period 2	Target Period 3
Number of target units in receipt of buy-out fee notice	1,627	1,321	1,394
Number paying buy-out fee	1,420	1,216	1,245
Total value of buy-out fees paid by 1 July (£m)	£22.1	£22.2	£28.9[9]

We are of the view that replicating an RPI increase does not appear to go far enough. When considering the value of the CCL discount per tonne of underperformance, as calculated using CCA scheme emissions factors, this would be worth an estimated £13.70 /tCO2e for electricity and £20.84 /tCO2e for gas using 2021/22 CCL rates[10].

We are proposing to link the buy-out price broadly in line with the average of these calculated rates (recognising that CCA targets are based on overall energy use and not specific to any

[8] https://www.gov.uk/guidance/climate-change-levy-rates

[9] The increase in TP3 is due in part to the increase in the rate of buy-out fee from £12 to £14 per tonne CO2e. If the fee had remained at £12 per tonne then the total TP3 buy-out would have been £24.8 million.

[10] Converted using published Climate Change Levy rates and discount for 2021/22 and scheme emissions factors used to convert underperformance to tCO2e for the purpose of calculating buy-out and surplus (0.521 kgCO2e/kWh for electricity and 0.185 kgCO2e/kWh for gas)

energy type) and therefore increasing the buy-out price to £18/tCO2e for Target Period 5. We believe that this is justified to ensure buy-out remains a suitable disincentive for operators to achieve targets without implementing energy-efficiency measures whilst still ensuring that those who have relatively low levels of underperformance maintain a net benefit when considering the CCL discount received.

9. **Do you agree with the proposal to increase the buy-out price to £18/tCO2e?**

10. **What would the financial and operational impacts be of this buy-out change to you and/or businesses within your sector?**

Financial penalty price

Where penalties are appropriate as a result of an operator being found to have provided inaccurate baseline data or target period data, the amount of the penalty is based on the extent of inaccuracy in the data provided by a target unit.

Currently, the amount of the penalty will be the greater of £250 or an amount calculated based on £12/tCO2e for the difference between the actual emissions and the reported emissions for the target period. In addition to this penalty, the buy-out mechanism may need to be used to meet a target if, as a result of correcting the error, the target unit is found not to have met its target for the previous target period.

The financial penalty as a cost per tCO2e has not increased since the scheme was established in 2012, and we are now proposing that this should increase to the relevant £/tCO2e for the target period in which the inaccurate data was provided. For penalties related to inaccurate data provided in Target Period 3 or Target Period 4, the penalty will remain as the greater of £250 or £12/tCO2e. For inaccurate data in relation to baselines or reporting for Target Period 5, the penalty will be the greater of £250 or £18/tCO2e in line with the section above.

The calculation for other penalties is unchanged.

11. **Do you agree with the proposal to increase the financial penalty price in line with the buy-out cost per tCO2e for the appropriate target period?**

Other aspects of the scheme

The evaluation found that participants and sector bodies were generally familiar with the scheme and had developed systems to meet its requirements. The Government is therefore not proposing to implement any substantive administrative changes for the extension (Target Period 5) beyond those set out above but will consider proposals for longer-term administrative reform (see 'Potential future reforms' section for further details).

12. **Do you agree with the proposal to maintain other scheme rules and processes for the purpose of this extension?**

Next steps and milestones for target setting and variations to agreements

Below is in indicative view of next steps and timing following the launch of this consultation. It is subject to the outcome of this consultation.

Action	Date
Target proposal letters sent to sector associations	April 2020
Applications for TP5 new entrants open	April 2020
Consultation closed	June 2020
Government response published	July 2020
Deadline for sector associations to confirm if they accept target offer or provide evidenced target counter proposal	End July 2020
Deadline for new entrants to make applications	30 September 2020
BEIS issue final target offers to sectors & instruct the Environment Agency to vary sector umbrella agreements	October 2020
Sector associations distribute targets amongst participants for agreement with the Environment Agency	October – November 2020
New umbrella agreements issued and assented	November 2020
New/varied underlying agreements issued	December 2020 – January 2021

13. **Do you agree with the proposed timeline for the target setting and agreement variation process?**

14. **How would the proposed timeline affect you and/or businesses within your sector?**

Potential future reforms

While at this stage we are proposing an extension operating on a similar basis to the existing scheme, we would like to explore how any longer-term CCA scheme might fit within the wider policy landscape and contribute to the commitment to net zero. Industry will play a crucial role in how we meet that commitment, and the scheme currently covers an estimated 114 TWh of energy use in 2018 (approximately 43% of all industry[11]).

While no new scheme beyond this extension is currently being proposed, we expect that in the event of designing a longer-term scheme we would consider more significant reforms. Below are examples of the key areas of the scheme design that may be under consideration. At this stage we are seeking preliminary insights on these areas to aid us in our considerations for any future CCA scheme, which would be subject to further consultation on potential scheme design.

Eligibility

Eligibility for the CCA scheme was initially determined based originally on qualification for the Pollution Prevention and Control Regulations when the scheme was first established in 2001, and more recently the Environmental Permitting Regulations. However, it was expanded in 2006 to include additional sectors based on an energy intensity and/or trade intensity criteria[12]. The range of sectors has stayed broadly constant at around 50 since that time, including the entry of 2 new sectors in 2014.

One of the key learning points from the evaluation was that the eligibility of CCA sectors should be reviewed to improve the targeting of the scheme at sectors that are both energy intensive and open to international competition. Analysis showed a greater impact (11.4% reduction compared to 4.1%) was found for electricity use on CCA sites that were admitted to the CCA scheme because they met energy-intensity and trade-intensity criteria, compared to non-CCA sites with equivalent energy-intensity. The evaluation also used the evidence collected through various workstreams to consider other characteristics of organisations, such as size and other policy drivers, which result in less or more influence on energy-efficiency or competitiveness from the CCA scheme.

In moving to a longer-term scheme, we would want to consider whether these eligibility criteria still ensure the scheme is appropriately targeted, that it continues to offer value for money, and what the criteria should be going forward.

15. **What are your views on the eligibility criteria for sectors and operators to join any future CCA scheme?**

16. **Is the previously used energy intensity and trade intensity criteria a suitable method for determining eligibility for sectors in the future?**

17. **Would an energy intensity test at facility level be a suitable method, in part, for determining eligibility for a future scheme?**

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11 Based on figures converted from Thousand tonnes of oil equivalent to TWh (264 TWh). Energy Consumption in the UK, Table C1.

12 This allowed sectors to enter for processes which exceeded 10% energy intensity i.e. energy costs account for more than 10 percent of production costs, or 3% energy intensity and the product has a 50% import penetration ratio i.e. the majority of sales of a given product in the UK are sourced from imports.

18. **What changes could be made to drive more savings from those sectors the evaluation found to be delivering less than energy-intensive sectors?**

Target focus and technologies considered

The scheme is currently based primarily on encouraging energy-efficiency, and while these efficiency savings will result in carbon savings, the targets are not driven by the level of carbon reductions they will result in. As a scheme where the incentive (CCL discount) is linked to the energy consumption, it follows that targets should require participants to become more energy efficient. However, moving forward with a longer scheme we will need to consider what the basis for those targets should be and to what extent they are supporting those industries eligible for the scheme to remain on the correct trajectory to ensure the UK meets net-zero and other long term energy and carbon obligations. This may mean looking at the balance between energy savings and carbon savings, particularly given continued decarbonisation of grid electricity, and how targets can be set to support wider ambitions for each, as well how system flexibility and managing peak demand might be helped by the scheme. Consideration will need to be made for the types of technologies expected to be implemented, including those considered in the context of industrial roadmaps and action plans.

19. **How could targets be set to enable greater levels of additional carbon savings from a longer-term scheme?**

20. **What maximum payback should be considered for technologies in scope for target setting for a longer-term scheme?**

21. **Which technologies should be considered in setting longer-term targets?**

Other potential reform areas

There are other administrative and scheme rule improvements that could be considered for a longer-term scheme which have been deemed to be either too complex or inappropriate to consider for a short extension. Examples include the approach to facilities being combined into single target units and the use of rolling baselines to better account for changes in facility operations over time which may affect target performance.

Data collection and reporting is a key element of the scheme, and alongside CCAs businesses need to consider a range of other energy related policies which require reporting and notifications of compliance. Steps have already been taken in this space, with the closure of the CRC Energy Efficiency Scheme after the 2018/19 compliance year and the coming into force of the Streamlined Energy and Carbon Reporting (SECR) framework from April 2019. We will want to consider how a potential longer-term scheme fits within the wider energy policy and reporting landscape, including other schemes such as the Industrial Energy Transformation Fund, and whether there are opportunities to explore any potential synergies in how these policies could operate together.

22. **For any potential longer-term CCA scheme beyond this extension, what other changes would you like to be considered?**

Consultation questions

1 Do you agree with the proposed dates for the target and certification periods?

2 How would these dates effect you and/or businesses within your sector?

3 Do you agree with the proposal to maintain the current scheme eligibility criteria?

4 Do you agree that we should re-open the extended scheme to allow new entrants to join existing sector agreements?

5 If so, do you agree with the process for enabling this?

6 Do you agree with the proposal to use calendar year 2018 for the target baseline?

7 Do you agree with process as set out for agreeing sectoral targets?

8 Do you agree with the proposal that surplus should not be brought forward for use in the added target period?

9 Do you agree with the proposal to increase the buy-out price to £18/tCO2e?

10 What would the financial and operational impacts be of this buy-out change to you and/or businesses within your sector?

11 Do you agree with the proposal to increase the financial penalty price in line with the buy-out cost per tCO2e for the appropriate target period?

12 Do you agree with the proposal to maintain other scheme rules and processes for the purpose of this extension?

13 Do you agree with the proposed timeline for the target setting and agreement variation process?

14 How would the proposed timeline affect you and/or businesses within your sector?

15 What are your views on the eligibility criteria for sectors and operators to join any future CCA scheme?

16 Is the previously used energy intensity and trade intensity criteria a suitable method for determining eligibility for sectors in the future?

17 Would an energy intensity test at facility level be a suitable method, in part, for determining eligibility for a future scheme?

18 What changes could be made to drive more savings from those sectors the evaluation found to be delivering less than energy-intensive sectors?

19 How could targets be set to enable greater levels of additional carbon savings from a longer-term scheme?

20 What maximum payback should be considered for technologies in scope for target setting for a longer-term scheme?

21 Which technologies should be considered in setting longer-term targets?

22 For any potential longer-term CCA scheme beyond this extension, what other changes would you like to be considered?

Appendix 1 – Sectors holding umbrella agreements

Sector name	Number of facilities (as at March 2020)	Number of Target Units (as at March 2020)
Aerospace	30	20
Agricultural Supply	128	95
Aluminium	24	19
Bakers	2005	103
Brewing	43	30
Calcium Carbonate	10	6
Cement	2	2
Ceramics	46	24
Chemicals	211	183
Cold Storage	416	230
Compressed Gases	12	3
Dairy	84	62
Data Centres	169	86
Egg Processing	1	1
Eggs & Poultry Meat	210	108
Eurisol / Mineral Wool	0	0
Food and Drink	781	626
Foundries	2	2
Geosynthetics Non-Woven	4	3
Glass	5	5
Gypsum products	0	0
Horticulture	135	100
Kaolin and Ball Clay	12	3
Laundries	125	57

Leather	9	6
Lime	0	0
Malting	26	10
Meat	137	103
Metal Packaging	24	17
Metalforming	65	56
Motor Manufacturing	42	38
Non-Ferrous Metals	15	15
Packaging & Industrial Films	79	70
Paper	47	37
Pigs	112	63
Plastics	409	349
Poultry Meat Processing	54	47
Poultry Meat Rearing	662	78
Printing	319	301
Rendering	17	14
Sawmills	21	15
Semiconductors	23	22
Slag grinding	0	0
Spirits	79	24
Steel	15	6
Supermarkets	2083	5
Surface Engineering	161	147
Surface Engineering Heat Treatment	19	17
Textiles	60	60
Textiles Energy Intensive	70	66
Tyres	5	4
Wallcoverings	13	13
Wood Panels	6	3

This consultation is available from: www.gov.uk/government/consultations/climate-change-agreements-scheme-extension-and-reforms-for-any-future-scheme

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