

Climate Change Agreements: Interim Guidance

Version 1.0

Agreeing sector commitment improvement profiles between 2008 and 2020
and apportioning sector commitment effort across individual Target Units

12/10/2012

Climate Change Agreements: Interim Guidance – Agreeing sector commitment improvement profiles between 2008 and 2020 and apportioning sector commitment effort across individual Target Units

Version control

This guidance document will be updated periodically. The table below lists the dates when new versions were published and the pages/sections where updates were made.

Version	Date of publication	Actions taken on page/section number	Action (amended/added)
1.0	12/10/2012		

Introduction

1. The following notes sets out the DECCs expectations on how the profile of sector improvement commitment between 2008 and 2020 should be agreed and how Target Unit targets should be handed out such that the agreed sector improvement commitment for a given target period is delivered.

Agreeing sector commitment improvement profiles between 2008¹ and 2020

Default sector commitment improvement profile

2. The default sector commitment profile between 2008 and 2020 will be a linear and constantly improving profile, and will be calculated as follows:
 - Take re-baselined performance for 2008 on a new scheme basis². This will come from the final agreed re-baselining spreadsheet and will be known as (P2008_{RBL,NSB}).

¹ 2008 means performance at MS4 in the Old Scheme

² i.e. including changes for new entrants, exits, EU ETS, 70% Rule and accounting for renewable energy

- Take the agreed sector commitment for 2020 expressed as % improvement. This will be known as $ASC\%_{2020}$.
3. The agreed sector commitment (ASC) for each target period in the New Scheme will be calculated as follows:
- Target Period 1 (2014), $ASC_{2014} = (P2008_{RBL,NSB}) * [1 - (ASC\%_{2020} * (6/12)/100)]$
 - Target Period 2 (2016), $ASC_{2016} = (P2008_{RBL,NSB}) * [1 - (ASC\%_{2020} * (8/12)/100)]$
 - Target Period 3 (2018), $ASC_{2018} = (P2008_{RBL,NSB}) * [1 - (ASC\%_{2020} * (10/12)/100)]$
 - Target Period 4 (2020), $ASC_{2020} = (P2008_{RBL,NSB}) * [1 - (ASC\%_{2020} * (12/12)/100)]$

Exceptions to default

4. The default linear improvement profile for the sector may be declined for the following reasons:

Sector Association

5. The Sector Association could decline if they evidence they provided in the evidence template (ET), or separately, suggests that it should be something different. This could be due to:
- Investments set out in the ET deliver 'lumpy', step improvements in performance, as evidenced by the entries for realistic penetration of measures for 2016 and 2020 in the ET.
 - For sectors with relative sector commitments, there is a demonstrable issue with projected sector throughput for the first target period (TP1) compared to MS4, which might have a significant impact upon the relative energy performance that is achievable at TP1 with respect to 2008. DECC is prepared to examine robust evidence that is presented in the evidence templates, and separately, relating to the relative sizes of actual throughput in 2008 and the throughput likely to be realised during the first target period (TP1³), and the effect this could have on relative performance at TP1. Where there is a large difference between actual throughput at 2008 and that projected for TP1, then DECC is also prepared for individual TUs to use the calendar year of 2008, instead of MS4 as the base year, if this helps alleviate the issue.

³ DECC does not consider that there is sufficient certainty regarding throughputs at TPs after TP1 to warrant throughput to be taken into account for TPs after TP1.

DECC

6. DECC will decline if a linear profile returns a target for 2014 that *appears* to be less stringent than the actual performance in 2010, expressed on a New Scheme basis.

Evidence Template and other supplied information suggests a non-linear sector improvement profile between 2008 and 2020

7. If the Sector Association wishes to have an improvement profile that is not linear between 2008 and 2020, then the information in the final agreed ET regarding the realistic abatement by 2016 and 2020 will be used to agree an alternative profile.
8. In the first instance, the ratio of realistic abatement calculated in the ET between 2008 and 2016 and 2008 and 2020 will be used. Therefore:
- $ASC_{2016} = ASC_{2020} * [2016 \text{ Realistic Abatement (Col W)/2020 Realistic Abatement (Col X)}]^4$.
9. DECC would then expect linear profiles between $P2008_{RBL,NSB}$ and ASC_{2016} and between ASC_{2016} and ASC_{2020} . Sectors would have to provide additional information in order for non-linear profiles between $P2008_{RBL,NSB}$ and ASC_{2016} and between ASC_{2016} and ASC_{2020} to be agreed.
10. Departures from a linear, downward trend argued for on the basis of issues with throughput between 2008 and TP1 will be examined on a case by case basis after the necessary evidence has been provided by the SA. Such evidence would include, but not be limited to:
- Appropriate qualitative and quantitative information in the additional tab of the ET
 - Plot of energy consumption (New Scheme Basis) against throughput for 2008, on a weekly or monthly basis.
 - Plot of annual throughput against time for the period 2008-2011 and estimated projected annual throughput for 2012, 2013 and 2014, with an explanation supporting these projections.

A linear profile returns a sector commitment in 2014 that appears less stringent than the actual performance in 2020

11. In order to check this, DECC will carry out the following test:
- The re-baselining results will be taken.
 - The TUs in the re-baselining spreadsheet that actually reported at MS4 AND at MS5 will be identified. These will be known as the New Scheme Cohort (NSC).

⁴ These are the columns in the qualitative spreadsheet of the ET.

- The performance of the NSC will be determined on a New Scheme Basis for both MS4 (2008) and MS5 (2010) and the change in actual performance between these two years will be compared with the change in performance between 2008 and the first target period (TP1) implied by a linear profile. DECC will expect the performance in 2014 implied by the linear profile to be better than that actually achieved at MS5, all on a New Scheme basis.
12. The calculations to determine the performance of the NSC on the New Scheme basis from MS4 to MS5 are the following:
- For NSC the % of Direct Fuel consumed in 2008 that was covered by EU ETS Phase III will be determined. This will be known as $DF_{EUETS,NSC}$. This will come from the completed re-baselining results.
 - The performance for NSC at MS4 will be recalculated so that it is expressed on a New Scheme basis, i.e:
 - $PNSC_{MS4,NSB} = [ENSC_{MS4} - (DFNSC_{MS4} * DU_{EUETS,NSC}) / TNSC_{MS4}$; Where,
 - $PNSC_{MS4,NSB}$ is the performance of the New Scheme Cohort at MS4 on New Scheme Basis.
 - $ENSC_{MS4}$ is the total primary energy actually consumed by New Scheme Cohort at MS4.
 - $DFNSC_{MS4}$ is the total direct fuel consumed and reported by the New Scheme Cohort at MS4.
 - $D_{EUETS,NSC}$ is the proportion of direct fuel consumed by the New Scheme Cohort at MS4 that was covered by EU ETS Phase III.
 - $TNSC_{MS4}$ is the throughput of New Scheme Cohort MS4.
 - The performance for NSC at MS5 will be recalculated so that it is expressed on a New Scheme basis, i.e:
 - $PNSC_{MS5,NSB} = [ENSC_{MS5} - (DFNSC_{MS5} * DU_{EUETS,NSC}) / TNSC_{MS5}$; Where,
 - $PNSC_{MS5,NSB}$ is the performance of the New Scheme Cohort at MS5 on New Scheme Basis.
 - $ENSC_{MS5}$ is the total primary energy actually consumed by New Scheme Cohort at MS5
 - $DFNSC_{MS5}$ is the total direct fuel consumed and reported by the New Scheme Cohort at MS5
 - $D_{EUETS,NSC}$ is proportion of direct fuel consumed by the New Scheme Cohort at MS4 that was covered by EU ETS Phase III. (Note: It will be assumed that this proportion is the same at MS4 and MS5, as the actual proportion for MS5 is not available)
 - $TNSC_{MS5}$ is the throughput of New Scheme Cohort MS5
 - The actual improvement in performance between MS4 and MS5 on a New Scheme Basis will be:
 - $(PNSC_{MS4,NSB} - PNSC_{MS5,NSB}) / PNSC_{MS4,NSB}$
 - The improvement in performance implied by the linear profile between 2008 and 2014 will be:
 - $(PAP_{2008,NSB} - ASC_{2014}) / PAP_{2008,NSB}$; Where,

- $PAP_{2008,NSB}$ is the performance of all participants in 2008 on New Scheme Basis, which will come from the completed re-baselining results.
- **DECC will expect that the following is true:**
- $[(PAP_{2008,NSB} - ASC_{2014}) / PAP_{2008,NSB}] > [(PNSC_{MS4,NSB} - PNSC_{MS5,NSB}) / PNSC_{MS4,NSB}]$

Apportioning agreed sector commitment across Target Units

13. Once a sector commitment for 2020 and the commitment profile to 2020 have been agreed, the Sector Association must now distribute targets to individual TUs such that, in aggregate, these individual TU targets deliver the sector commitment. This has to be true for all target periods.
14. As many sectors will have undertaken detailed bottom-up analyses of energy saving potential at the individual TU level, DECC wishes to extend to sectors flexibility in handing out targets to TUs such that TU targets reflect the spread of potential discovered during the analysis.
15. However, in its determination to preserve the integrity of the scheme and ensure that every TU undertakes *suitable* effort to improve energy efficiency, DECC will review the spread of individual TU targets in order to be satisfied that gaming is not occurring. Gaming, for example, could be the loading of a disproportionately large amount of effort onto one TU. If DECC believes that gaming might be occurring, then it will follow up further with sector associations on what action should be taken.

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