



Department for
Business, Energy
& Industrial Strategy

CLIMATE CHANGE AGREEMENTS:

Discussion Paper on the Target Review 2016 and Buy-out Price Review



5 August 2016

© Crown copyright 2016

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/version/3/ or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Any enquiries regarding this publication should be sent to us at [\[CCAtargetreview@decc.gsi.gov.uk\]](mailto:CCAtargetreview@decc.gsi.gov.uk).

This publication is available for download at www.gov.uk/government/publications.

Climate Change Agreements Target Review 2016 and Buy-out Price Review: Discussion Paper

Introduction

1. The Government set out its initial proposals for the Climate Change Agreements (CCA) Target Review 2016 in the [Discussion Paper and Call for Evidence](#)¹. This included a proposal for a staged process to review targets, including a sift and select process to examine the evidence where changes in realistic potential have occurred since targets were agreed in 2012. This would inform decisions on selecting sectors for detailed review. The Discussion Paper also stated that:

'The Government response to the Consultation on simplification, 2011, said "the buy-out price will be reviewed at the target review scheduled for 2016". We have no plans to adjust the buy-out price for the first two reporting periods of the Scheme i.e. before the end of 2016. As part of the target review we will examine the extent of use of buy-out in Target Period 1, once this data becomes available, to inform any review of buy-out for Target Periods 3 and 4.'

2. The [Government Response to the CCA Target Review 2016: Discussion Paper and Call for Evidence](#)² confirmed that the Government would initiate preparatory work on sift and select, in line with the process for the target review that had been set out in the Discussion Paper and Call for Evidence and also that the target review would include a review of the buy-out price for Target Periods 3 and 4 (TP3 and TP4).
3. The [Government's Response](#)³ to the Business Energy Efficiency Tax Landscape Review announced that the CCA Target Review, including the review of the buy-out price for Target Periods 3 and 4 (2017-18 and 2019-20), which had been on hold pending the outcome of the Business Energy Efficiency Tax Landscape Review, would recommence later this year.

CCA Target Review 2016 – Summary of work undertaken and conclusion

4. The [Discussion Paper and Call for Evidence](#) in 2014 sought views on changes to abatement measures and techniques since targets were agreed in 2012. The [Government Response to the CCA Target Review 2016: Discussion Paper and Call for Evidence](#) reported on the outcome of the Call for Evidence, including stating that:

'of 30 responses received...a significant number of respondents signalled their view that there had been no change in the realistic potential available in their sectors since targets were set in 2012 and therefore no justification for revisiting the 2020 sector commitments'.

¹ Published in October 2014.

² Published in March 2015.

³ Published in March 2016.

-
5. The Department has carried out further analysis of the evidence on changes since target-setting in 2012, including analysis based on responses to the Call for Evidence. The analysis has reflected the reduced window for deployment of measures before the start of Target Periods 3 and 4, and also takes account of the potential timetable for negotiations/cascade to Target Unit level. On the basis of this, the Department has concluded there is limited evidence of changes relating to the realistic potential for energy efficiency or carbon savings since 2012. Accordingly, the Department has decided **not to take sectors forward for detailed target review**. Separate arrangements will apply to sawmilling and data centres as new sectors to the CCA scheme, joining in 2014.

Review of the Buy-out Price

6. When CCA targets were agreed with sectors in 2012 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. The buy-out price for TP1 and TP2 was set in 2012 at £12/tCO₂eⁱ.
7. The [CCA Biennial Progress Report](#)⁴, covering 2013 and 2014, indicated that in Target Period 1 just over half of the target units (51%) met their target and that just under half of the target units (49%) used buy-out. The total surplus – i.e. the amount by which target units delivered above their targets - for those target units that met their target was 4,088 kilotonnes of CO₂e. This was approximately twice the amount of total of CO₂e that reflected underperformance from the target units that did not achieve their target (2,024 kilotonnes of CO₂e). Of the target units that did not achieve their target, 227 (14%) of these chose not to pay the buy-out price, but rather to leave the CCA scheme.
8. While we have used the data from TP1 to inform the options on any future buy-out price, we note that these data relate only to the first of four target periods and the results for subsequent target periods may not be similar. In particular, since there may be a time-lag before newly deployed abatement measures deliver their full energy savings, it is reasonable to expect that the use of buy-out would be greater in TP1 than in subsequent target periods.
9. We also note the views that were supplied in response to the 2014 Discussion Paper, including that 16 of 20 respondents were '*not in favour of a future change to the price. A number of reasons were cited. Respondents said that: the ... price of £12 per tonne has brought certainty to businesses; any changes would deter future investments; and incentives for participation would be eroded*'.

Review of the Buy-out Price: Options

10. The buy-out price for the first two target periods (2013-14 and 2015-16) was announced in the Government Response to the Consultation on Simplifying the CCA Scheme in January 2012. This stated that the objective in setting the buy-out price was

⁴ Published in October 2015 by the Environment Agency.

to strike a balance between having a strong incentive to abate (i.e. to introduce measures to meet energy or carbon saving targets) and the financial impact, including any competitiveness issues, on participants. This Response set the buy-out price for TP1 and TP2 at £12/tCO₂e.

11. Consistent with the Government's objective to reduce carbon emissions cost-effectively, we would now like to understand whether a change to the buy-out price would increase carbon savings under the CCA scheme. A higher price would likely provide a sharper financial incentive to meet targets, however it may affect the right balance between an incentive to meet targets and avoiding competitiveness impacts. In relation to this issue, we note that participants who remain compliant with the Scheme, will continue to benefit from CCA discounts until the present CCA scheme ends on 31 March 2023. We also note that, since the Climate Change Levy (CCL) rates, which have increased since 2012, will continue to increase annually in line with the Retail Price Index until 2018/19⁵ and will increase further in subsequent years to reflect the announced closure of the CRC Energy Efficiency Scheme (CRC). The value of the CCL discount available to CCA participants will therefore have increased significantly since 2012. The CRC allowance price has also increased since 2012 and will continue to increase in line with the Retail Price Index (RPI) until that scheme ends in 2019⁶. **The Department is seeking views and evidence to inform a decision on whether the buy-out price should be adjusted for TP3 and TP4.**
12. The Department is considering a number of options for changing the buy-out price. Of these, we are minded to increase the buy-out price in line with the rise in average CCL rate across fuels. CCL rates increase in line with the Retail Price Index (**Option 2**). However, we would welcome views, with evidence that underpins any views, on all the options.

Option 1 – Increase the buy-out price to £17/tCO₂e for TP3 and TP4

13. An increase in the buy-out price to £17/tCO₂e would broadly align it with the published 2017/18 CRC allowance prices. This would bring the price paid for carbon emissions associated with a shortfall in meeting targets broadly to the carbon price under the CRC. Part of the rationale for setting the buy-out price at £12/tCO₂e in 2012 was that this was the same as the CRC Phase 1 allowance price. However, having regard to the

⁵ <https://www.gov.uk/government/publications/rates-and-allowances-climate-change-levy/climate-change-levy-rates>; the CCL rates for electricity and gas respectively are £18.49/tCO₂e and £10.73/tCO₂e in 2017/18, £19.61/tCO₂e and £11.01/tCO₂e in 2018/19 and £29.53/tCO₂e and £18.38/tCO₂e in 2019/20. These are the published £/kWh rates converted to £/tCO₂e for comparison, using emissions factors from published [Green Book supplementary guidance](#).

⁶ <https://www.gov.uk/government/collections/crc-energy-efficiency-scheme>; HMT has announced its intention to increase the CRC allowances prices by RPI, meaning that the prices for sales for 2017/18 will be £16.60/tCO₂ and £17.70/tCO₂. N.B. This price is subject to amendment of the regulations to change the CRC allowance price and to Parliament's approval.

competitiveness impacts of this size of increase in the buy-out price, we have not proposed an increase to £17/tCO₂e as our preferred option. We are also mindful of the fact that the potential link between the buy-out price and CRC allowance price would only be relevant up to and including CRC compliance year 2018/19, based on the Budget 2016 [announcement](#) that participants will not be required to purchase CRC allowances to cover energy used after 31 March 2019.

Option 2 – Increase the buy-out price broadly in line with the RPI to £14/tCO₂e for TP3 and TP4

14. An increase in the buy-out price from £12/tCO₂e, the level at which it was set in 2012, to £14/tCO₂e is broadly in line with RPI and so ensures that it remains the same in real terms as when it was set initially. This is our preferred option. An increase in line with RPI that has regard to the need to strike a balance between providing a strong incentive to abate and the financial impact on participants. The value of the CCL discount has increased in real terms since the start of the CCA scheme in 2013 and will continue to increase in value through the remaining years of the scheme. It therefore seems reasonable that the value of the buy-out fee should also be increased for TP3 and TP4. An increase in line with RPI would also be consistent with the approach taken to increasing the CRC allowance price.

Option 3 – Retain the present buy-out price of £12/tCO₂e for TP3 and TP4

15. We recognise the competitiveness issue associated with the buy-out price and will consider evidence that is submitted relating to this. However, as set out above, the CCL has increased since 2012 and will continue to do so to 2018/19. Furthermore, the increase of CCL in 2019 to reflect the ending of the requirement to purchase CRC allowances will further increase the value of the CCL discount to 2023. This, coupled with the high level of use of buy-out in TP1, where 49% of target units used buy-out, means we have not chosen this as our preferred option.

Discussion and evidence-gathering questions on the buy-out price

Question 1

Would a change to the buy-out price increase carbon savings under the CCA scheme by providing a sharper financial incentive to meet targets? Please provide evidence.

Question 2

Which price option – Option 1, 2 or 3 - do you think would be most appropriate for the buy-out price? Please provide evidence.

Next Steps

16. We welcome views and evidence on the issues in this Discussion Paper. The Government will consider responses and make an announcement in the autumn on whether or not the buy-out price will be revised for TP3 and TP4.

17. Responses

Please respond by: **Friday 23 September 2016**

Please respond using Citizen Space. This may be accessed at the link below:

<https://econsultation.decc.gov.uk/decc-policy/reviewofbuyoutprice>

For any queries, please e-mail CCAtargetreview@decc.gsi.gov.uk.

Confidentiality, data protection and data sharing

Information provided in response to this discussion paper, 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 would like information that you provide to be treated as confidential please indicate this in writing when you send your response to the discussion paper. 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.

Our intention is that responses to the discussion paper may be shared with the Environment Agency as Scheme Administrator and their technical consultants. Furthermore, we propose to share information from the discussion paper more widely within BEIS to inform wider Government policy-making on energy efficiency. Please could you indicate if you are not content for evidence you submit to be used for other purposes within BEIS.



