Department for
Energy Security
& Net Zero

Climate Change Agreements: consultation on a new scheme

Closing date: 14 February 2024

November 2023

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

Introduction

The voluntary Climate Change Agreement (CCA) scheme, established in 2001, serves the dual purpose of making energy and carbon savings through energy efficiency targets whilst also helping maintain competitiveness by reducing energy costs in eligible industrial sectors. The CCA scheme does this by providing a significant discount to participating businesses on the Climate Change Levy (CCL) paid. The targets provide a basis on which businesses can make improvements to the energy efficiency of their facilities over a set period, ensuring their contribution to UK-wide goals. In return, the businesses pay reduced rates of CCL on their energy bills, estimated to be worth around £300m per year in 2025-26 and 2026-27 for the period of the latest CCA scheme extension[1]. Participants can also see significant energy bill savings from the energy efficiency improvements they make towards these targets.

Between 1990 and 2019, the UK cut emissions faster than any other G7 country, a 44% reduction whilst growing our economy by 78%. Incentivising energy efficiency is proving to be a proactive way to drive the gains in carbon reduction and reaching net zero. In 2021 we published our Net Zero Strategy[2], which sets out policies and proposals for decarbonising all sectors of the UK economy to meet our net zero target by 2050, as well as our Industrial Decarbonisation Strategy[3], which sets out how industry can decarbonise in line with net zero while remaining competitive and without pushing emissions abroad.

Since its establishment, the CCA scheme has helped businesses become more energy efficient and continued to support their competitiveness; as evidenced through the 2020 CCA evaluation[4].

The current scheme targets end on 31 December 2024 with reduced CCL rates available until 31 March 2027 for those who meet targets and other obligations under the scheme, such as reporting or paying buy out fees. Our Industrial Decarbonisation Strategy committed to further assessment of the purpose and targeting of a long-term CCA scheme following the extension.

In December 2021, we published our initial consultation setting out key aspects of a future scheme and reforms under consideration. In Spring Budget 2023, the Government announced that the current CCA scheme would be reopened to new entrants for a set period and extended for a further two years until March 2027. In March 2023, we published a second consultation seeking views on the 2-year scheme extension and further detail of a potential long-term scheme. There was strong support through both consultations for a new longer-term CCA scheme.

In this consultation, we set out in more detail our proposals for a new 6 year CCA scheme that continues the incentive of access to reduced CCL rates for eligible businesses in return for delivery of negotiated energy efficiency or carbon targets. Having a 6-year CCA Scheme will give eligible businesses confidence in the longer term measures we consider necessary beyond business as usual investments. The new CCA scheme would have targets to the end of 2030 and provide CCL reduced rates for those meeting their obligations until March 2033.

[1] https://www.gov.uk/government/publications/spring-budget-2023/spring-budget-2023-html#policy-decisions
[2] https://www.gov.uk/government/publications/net-zero-strategy
[3] https://www.gov.uk/government/publications/industrial-decarbonisation-strategy
[4] https://www.gov.uk/government/publications/second-climate-change-agreements-scheme-evaluation

Contents

General information

Why we are consulting

This consultation seeks views on the introduction of a new Climate Change Agreement scheme to begin in 2025 and proposed reforms to the design of the scheme.

Consultation details

Issued: 22 November 2023

Respond by: 14 February 2023

Enquiries to:

Email: cca@energysecurity.gov.uk

Consultation reference: Climate Change Agreements: consultation on a new 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, energy suppliers, academia and other stakeholders 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/climate-change/new-climate-change-agreements-ccas-scheme

or

Email to: cca@energysecurity.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: bru@energysecurity.gov.uk

Background

The Climate Change Agreement (CCA) scheme is a voluntary scheme that encourages businesses in 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 access to reduced rates of Climate Change Levy (CCL). It directly supports an energy efficient, low-carbon future whilst also helping industrial competitiveness.

The first CCA scheme was introduced in 2001, alongside the CCL, in recognition of the fact that the CCL would increase the cost of energy for energy intensive industry. The present scheme started on 1 April 2013 and is currently scheduled to run until 31 March 2025 with eligibility for reduced rates until 31 March 2027.

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 sector definitions while underlying agreements are held by a site, or group of sites, owned by individual operators within a sector, and sets out the energy efficiency or carbon reduction targets appropriate for their type of operation.

When first established, the current scheme had four, two-year target periods (TPs), with targets ending on 31 December 2020 and reduced rates of CCL until 31 March 2023. In Spring Budget 2023, the Government announced that the current CCA scheme would be reopened to new entrants for a set period and extended for a further two years until March 2027 through the addition of a sixth Target Period ending on 31 December 2024. Prior to the extension, stakeholders were consulted on the proposed changes and the consultation response is published here: https://www.gov.uk/government/consultations/climate-change-agreements-consultation-on-extension-and-future-scheme-2023.

The final Target Period currently in place ('Target Period 6') ends on 31 December 2024, with operators who meet obligations for Target Period 6 being eligible for certification for CCL discount from 1 July 2025 to 31 March 2027 ('Certification Period 7').

	2021	2022	2023	2024	2025	2026	2027
Target Period (TP)	TP5			TP6			
Certification period (CP)	CP5: 1/7/21 - 30/6/23		CP6: 1/7/23 - 30/6/25		CP7: 1/7/25 - 31/3/27		

Climate Change Agreements Scheme Evaluation

An evaluation of the current CCA scheme was published in 2020, 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 scheme has contributed 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)[5] achieved their targets without using buy-out or banked surplus[6] in each Target Period[7], with little variation between Target Periods despite changes in the cost of buy-out. The average level of underperformance[8] was low (4-6.5% of total emissions for the scheme). The level of overachievement[9] 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. While some of the considerations were included in the recent extension, as a short extension it was not possible to make more significant reforms in response to the recommendations from the evaluation.

Climate Change Levy

The scope of this consultation does not include the CCL policy itself or the level of reduction to CCL rates accessed through participation in a CCA scheme. All tax rates are kept under review by HM Treasury and will be set at future fiscal events. Government has set out main rates and reduced rates of CCL from April 2025[10].

[5] The target facility or group of target Facilities that join together for the purposes of CCA target setting and reporting (that is, the facility(s) to which an underlying agreement applies). A facility or group of Facilities becomes a target unit once it has signed its underlying agreement.
[6] TUs can carry forward or 'bank' surplus accumulated by exceeding their targets in a previous target period.
[7] The evaluation reviewed data from Target Periods 1-3
[8] Underperformance means the buy-out plus banked surplus that a TU needed to use to meet its target for a given Target Period, as a proportion of total reported emissions for the relevant Target Period.
[9] Overperformance means the surplus generated by a TU relative to its target, as a proportion of total reported emissions for the relevant Target Period.
[10] https://www.gov.uk/guidance/climate-change-levy-rates

Wider Policy Landscape

The CCA scheme operates within a broader set of existing policies which are part of our strategy for business energy efficiency and industrial decarbonisation. Other policies in this space include:

Combined Heat and Power Quality Assurance - https://www.gov.uk/guidance/combined-heat-power-quality-assurance-programme

Energy Savings Opportunity Scheme - https://www.gov.uk/guidance/energy-savings-opportunity-scheme-esos

Energy Technology List - https://www.gov.uk/guidance/energy-technology-list

Industrial Energy Transformation Fund - https://www.gov.uk/government/collections/industrial-energy-transformation-fund

Streamlined Energy and Carbon Reporting scheme - https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance

UK Emissions Trading Scheme - https://www.gov.uk/government/publications/participating-in-the-uk-ets/participating-in-the-uk-ets

Carbon Price Support - https://www.gov.uk/guidance/climate-change-levy-rates#cps-rates

Future CCA Scheme

In our previous consultations[11] we set out key areas where we are considering reform for a future CCA scheme. We are grateful to all respondents for the views and evidence received in response to these consultations. This consultation builds on proposals set out in the previous consultations and provides further details of proposals for a new CCA scheme.

We are taking forward a new CCA scheme which will not be an extension to the existing scheme, but a separate and new scheme, building on the fundamental aspects of the existing scheme. This will require new agreements to be in place with sectors and operators, and new targets to be met.

It will be developed using the existing scheme as a foundation, with many fundamental aspects of the scheme remaining the same. It will continue to provide reduced rates of CCL for those that meet their obligations in the scheme, with certification periods for these reduced rates following on from Target Periods. The scheme will continue to be administered throughout the UK by the Environment Agency.

In this consultation, we set out our proposals for the new scheme to seek views and give a forward view of what the scheme will require from industry, with the aim of having the new scheme in place and operating by Q1 2025. The proposals for a new CCA scheme set out in this consultation build on responses to the consultations published in December 2021 and March 2023.

Scheme length

A long-term scheme was overwhelmingly favoured by respondents to the consultation published in December 2021. We recognise that by setting long-term targets and an associated route to accessing reduced CCL rates, participants will be given a longer-term horizon on which to plan the action and investments required to meet targets. These targets will be set at sufficiently stringent levels in what will be a key period for industry to contribute to net zero.

The Government has announced, at the 2023 Autumn Statement, a new CCA scheme which will have targets covering 6 years. We are proposing that the Target Periods and Certification Periods will run to the dates below. We consider that a 6-year scheme strikes the right balance between providing an incentive to drive longer pay-back measures, while managing the cost to the estimated £300m annual cost to the taxpayer to March 2033.

Target Period dates

- Target Period 1 (indicative): 1 January 2025 to 31 December 2026
- Target Period 2: 1 January 2027 to 31 December 2028
- Target Period 3: 1 January 2029 to 31 December 2030

[11] https://www.gov.uk/government/consultations/climate-change-agreements-ccas-proposals-for-a-future-scheme and https://www.gov.uk/government/consultations/climate-change-agreements-consultation-on-extension-and-future-scheme-2023

Certification Period dates

- Certification Period 1: 1 July 2027 to 30 June 2029
- Certification Period 2: 1 July 2029 to 30 June 2031
- Certification Period 3: 1 July 2031 to 31 March 2033

As the final certification period of the current scheme extension ends on 31 March 2027, the certification period will be extended to 30 June 2027 to ensure there is no gap in certification before the first certification period of the new scheme. This replicates the approach previously taken for the extension of the scheme to 2025.

Target Periods will remain at two years in length.

The reporting of performance which will be used to determine if targets have been met will be required by 1 May in the year following the end of each Target Period.

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Target Period (TP)	TP6	TP1		TP2		TP3				
Certification Period (CP)	CP6: - 30/6/25	CP7: 1/7/25 - 30/6/27		CP1: 1/7/27 - 30/6/29		CP2: 1/7/29 - 30/6/31		CP3: 1/7/31 - 31/3/33		

Eligibility

In our consultation published in December 2021 we outlined our intention to review the eligibility criteria used for the scheme and sought views on whether we should consider unified criteria to be applied to all sectors. As part of this, we undertook a data gathering exercise with industry to understand the impact of introducing new energy and trade intensity thresholds. We thank those that were able to provide us with data for this exercise.

Whilst we are not introducing new energy and trade intensity thresholds at this time, we are proposing as set out below an opportunity for new sectors to provide evidence to support potential admission to the Scheme.

Existing participating facilities will not automatically be transferred to the new scheme. The administrator will assess each facility to ensure they meet existing eligibility criteria under the appropriate sector definitions and the guidance we will provide on interpreting these definitions.

New eligible sectors

The last new eligible sectors were added to the scheme in 2014 when data centres and sawmill sectors joined the Scheme.

In our consultation published in December 2021, we proposed maintaining energy intensity and trade intensity as metrics to be used to assess eligibility for the scheme. While we are not proposing to change existing eligibility against these criteria, we are proposing that these should continue to be used to assess whether new sectors should be added.

That consultation also proposed moving from Import Penetration to Trade Intensity as the trade metric to be used to determine eligibility. Views on the use of a trade related metric were mixed, with some disagreeing and asserting the focus on energy efficiency, and some agreeing trade should be included. There was no overwhelming view of whether trade intensity should be used over import penetration – a few mentioned that while import penetration was easier to understand, they understood that trade intensity may be more consistent with other schemes. To maintain consistency with how processes have been added to the scheme in the past, we are proposing to maintain Import Penetration as the metric used.

We are proposing to continue to use the following thresholds to determine eligibility:

Sectors are eligible if either their energy costs:

- amount to at least 10% of their production value (i.e. EI ≥ 10%); or
- amount to 3% or more but less than 10% of their production value so long as there is an import penetration ratio of at least 50% (i.e. 3% ≤ EI < 10% and IP ≥ 50%).

Any sectors which wish to make a proposal for a new sector/process to be added to the scheme should come forward to initiate the process of gathering sufficient information to determine if the process meets the above criteria and therefore whether it should be added. This will be dependent on the availability of data, the operational status of facilities undertaking that process and if they meet the agreed criteria. Final decisions will be made by Government ministers. New eligible process definitions would be developed for any new sectors or processes joining the scheme.

New entrants to the scheme

In the previous consultation, we proposed a set new entrants' period for applications for entrance into the CCA scheme for the scheme extension. In response to this, a few respondents suggested that government should consider whether new entrants should be allowed to apply for a future scheme at any time.

Having considered these views, we are proposing that new entrants will be able to apply to enter the CCA scheme at any time. The proposed start date for applications is 1 May 2024. However, we are proposing that new entrants who join partway through a target period will be required to complete one Target Period before being certified to receive reduced rates of CCL.

1. **Do you agree with the proposal to allow new entrants to the scheme at any time?**
2. **Do you agree that new entrants should complete a Target Period before receiving certification for reduced rates of CCL?**

The 70:30 rule

The 70:30 rule is part of the process of determining the eligible facility. The basic principles of the rule are as follows:

If the installation consumes 70% or more of the site's total primary energy (reckonable energy), an operator can claim that all the site's energy consumption falls within the eligible facility.

If the installation consumes less than 70% of the site's total reckonable energy, an operator can claim the installation's energy consumption, plus energy consumed by other activities on site up to a value equal to an additional 3/7ths of the installation's energy consumption, as falling within the eligible facility. However, both the installation and any additional energy claimed under the 3/7ths provision must be separately sub-metered. The addition of the 3/7ths can occur at any point during the CCA except for the last two months of a Target Period.

A few responses to the consultation published in March 2023 suggested that the 70:30 rule should be considered as part of a consultation on a future scheme. However, we are not proposing to make any changes to the threshold of the rule for the new scheme, as we have not seen sufficient evidence for what benefits a further change to the threshold would bring, noting that this has changed from 90% in the first scheme to the current 70%.

We are, however, seeking views on whether operators should make an annual confirmation in the scheme reporting that their facilities remain compliant with the threshold. This is to ensure better practice in how participants are monitoring this.

3. **What are the potential impacts of the proposal that operators should make an annual confirmation to the scheme reporting that their facilities remain compliant with the threshold?**

Scheme targets

Process for setting targets

The targets for this scheme will be set with stringency in mind, and with consideration for the significant overall value to businesses that the CCA scheme represents. There is a challenging pathway to net zero with industry having a significant role to play in how we reach it, and we must ensure that the CCA targets will push industry to meet that challenge.

While we are not setting out the exact level of targets in this consultation, we do want to set out the approach we will be taking in setting these.

In previous target negotiations, Government has first established a proposed target for each sector based on relevant existing evidence and overarching strategic aims, with sector associations then able to make a counter proposal using a standardised counter proposal evidence template. This has not included the assessment of facility level potential to understand both the improvements already made and the overall potential for energy efficiency and decarbonisation.

In our consultation published in March 2023, we proposed that we would seek to undertake a process of gathering data at facility level to understand the potential for both energy efficiency and measures that provide low-carbon electricity and/or heat on site. We also proposed that we would collect evidence on the relationship between energy consumption and production at a site.

Views on the proposal to use facility level data to inform target setting varied. Some respondents agreed with the proposal, recognising that it could give a more accurate picture of a facility's performance and capability than to have targets set from the top down. However, other respondents disagreed with the proposal, raising concerns around increased administrative burden and data confidentiality, particularly in sectors with a small cohort. A few respondents also highlighted that some of this data is already collected through ESOS audits.

Having considered the views and evidence received in response to the previous consultation, we still consider that using facility level data to inform target setting would be beneficial for the scheme. In order to build a more representative and accurate picture of performance, this would involve facility level data from all participants. This would build upon the reporting of energy efficiency action previously undertaken by all participants within Target Period 6 of the current scheme and would be conducted prior to proposing new targets to each sector. Where possible, this will also build upon data reported via other government schemes.

4. **Do you agree with the proposal to gather data at a facility level to inform target setting?**

5. **Do you agree with the proposal that the proposed data gathering exercise be conducted prior to any target setting process?**

6. **Can you provide suggestions on how to reduce potential administrative costs of this approach?**

Continued scheme focus on energy efficiency

In our previous consultation we set out that we aim to continue focusing on driving energy efficiency, to which many agreed. Although some said the scheme should switch to primarily carbon focused targets, arguing that many participants will have exhausted much of the energy efficiency potential and that carbon targets are better aligned with reaching net zero.

The scheme is currently based primarily on encouraging energy efficiency. We believe the scheme should continue to be mainly focused on energy efficiency technologies and should drive the adoption of the remaining energy efficiency potential in eligible sectors, given energy efficiency's significant and continued contribution to the overall action required to decarbonise, as well as reducing the cost of deep decarbonisation.

However, through the evidence-based target setting process we will also look at the potential for carbon targets and supply side measures and will consider where these measures may be an appropriate focus of the scheme. Through our evidence-based target setting process we will agree suitable targets so that the final target is one which is appropriate and achievable for the sector, will lead to greater efficiencies and will deliver maximum Value for Money.

Base Year

The baseline year for the current scheme extension is 2018 (Target Period 6: 1 January – 31 December 2024). In our consultation published in March 2023, we proposed keeping the baseline year as 2018 for the scheme extension. While a large majority of respondents were supportive of this proposal, a few respondents expressed a preference for a later base year such as 2022.

While we recognise that recent years have been challenging for industry, due to the impacts of external issues such as Covid-19, cost of living increases and pressures due to increased energy prices, we believe that for a longer-term scheme it would be beneficial to have an updated baseline year. We are proposing that the baseline year should be updated to 2022, as this is the latest complete year of reported data available before January 2025. In addition, as UK ETS was launched in 2021, this would make 2022 an appropriate base year to account for our proposal to include UK ETS energy as part of CCA target setting (see page 19).

7. **Do you agree that 2022 should be used as the baseline year for the new scheme?**

8. **If you believe the baseline year should be revisited, which year should be used and why?**

Reporting & performance assessment

Facility level reporting and targets

In our consultation published in March 2023, we proposed that we move to Facility level reporting in a longer-term scheme. Currently multiple facilities operated by a business can be grouped together and a target applies to all. Applications to join the CCA scheme are at Facility level, and then Operators are allowed to combine Facilities together into a Target Unit (TU). In doing so, there is no requirement for each individual Facility to report its performance. Operators will still need to be gathered by Operators and Sector Associations at Facility level in order to report at TU level.

Of the 3,512 TUs currently included in the CCA scheme, 421 (~12%) contain more than 1 Facility. The bubbled TUs contain 6,037 (66%) of the 9,128 Facilities currently included in the scheme. TUs with very large numbers of Facilities tend to be in the supermarket and craft baking sectors.

While the option to combine Facilities into a single TU can be beneficial to businesses in some ways, in practice TU reporting creates significantly more administration:

- For Sector Associations in combining Facility level data to submit reports at TU level
- For DESNZ and the Environment Agency in establishing various complex rules to address TU reporting and where the makeup of the TU can change over time
- For Operators in working out which Facilities to group together and appreciating the implications of doing so
- For Operators in working out the relative performance of their Facilities – understanding which had performed best and which needed more improvement investment.
- For the new scheme, we are proposing that it will no longer be possible to combine Facilities into a single TU, and instead each target performance will be reported and assessed at a Facility level.

Moving to Facility level reporting would remove the following complex rules/requirements currently in the scheme:

- Rationalisation rules
- Stringency Test
- Including Facilities that have different Base Years in a TU
- Revising a target when including/excluding a new Facility in a TU
- Including greenfield Facilities in a TU
- Conditions for including/excluding Facilities in a TU
- Types of variations for Facilities joining/leaving a TU

It would also significantly simplify:

- Treatment of data errors and secondary reporting

- Cumulative correction of data over more than previous Target Period

Changes will be made to the CCA register to enable bulk uploading of the reports in recognition of the fact that more individual reports will be required from Operators/Sector Associations.

Some respondents to the recent consultation agreed with the proposal, with some noting that it would lead to more reliable data and would simplify some administration, such as change of Facility ownership variations. Around half of respondents disagreed with the proposal with reasons including the potential for increased administrative burden. In particular, potential impacts on investment decisions across multiple sites as businesses would no longer be able to trade surplus between Facilities, and potential for increased buy-out fees as a result.

Having considered the views and evidence provided in response to the consultation, we still believe that moving to Facility level reporting would be beneficial, both for government and scheme participants. As set out above, we believe that Facility level reporting would simplify several rules and requirements in the scheme and would reduce the administrative burden.

Target types & measuring performance

In our consultation published in March 2023 we proposed the implementation of a unified target type which would replace all existing targets. This would be adapted from the Novem methodology, and would consider the proportion of energy which is fixed (i.e. energy that must be consumed before any of the activity constituting the Facility's selected throughput is incurred) and energy which is variable (i.e. directly linked to production). It would also require, as the current Novem method does, reporting broken down by types of products at a Facility.

The proposed method is intended to give a more accurate view of performance and how this links to production, allowing better understanding of how a Facility is performing in terms of energy/carbon savings.

For each Facility, this would require an estimate of the Fixed Energy Consumption (FEC) and Variable Energy Consumption (VEC). There are various ways in which the FEC could be calculated for this purpose, including regression analysis or use of sub-meter and product run data.

About half of respondents to the consultation did not agree with the proposal. Reasons for this included concerns around complexity of tracking progress, including the need for sub-metering and sites that produce many different products, increased administrative burden and need for analysis, such as when new equipment is introduced. Some respondents did agree with the proposal. Some sectors are already using Novem targets, while others recognised that the methodology would assist with more reflective targets and allow for increased accuracy of energy performance tracking.

Having considered the feedback provided in response to the consultation, we still believe that there are benefits to the proposed approach to targets. We believe that using one target type will provide a simpler approach to the scheme and will provide a more accurate view of performance.

We are proposing that reporting will be at Facility level using a Novem approach with an estimate of fixed (none production related) energy consumption and variable (production related) energy consumption. We believe this approach will bring significant simplifications to the scheme, removing the need for various rules associated with Target Unit level reporting and different target types (Absolute, Relative and Novem).

If a Facility only has one product and estimates its fixed energy to be insignificant then the proposed Novem approach simplifies to be essentially the same as the current Relative target approach. The proposed requirement to adopt Novem is therefore flexible in terms of complexity, Operators will be able to balance the level of the metering and production data they require with the accuracy of performance measurement they need to achieve.

Carbon Emissions Factors and Primary Electricity Factors

Carbon Emissions Factors

Currently the scheme has a locked set of emissions factors established at the start of the scheme[12]. An effect of this is that when carbon emissions are calculated for each Target Period, these do not use the current emissions factors for those years. This means that the emissions reported do not accurately reflect the actual emissions for the years in question, and that they do not align with those that would be recorded for other regulations or schemes.

The consultation published in March 2023 proposed that for a new scheme the emissions factors would be updated during each Target Period, using the latest published emissions factors at that time. This change would mean that where there are carbon targets in the scheme, the reported performance will change as a result of changing emissions factors over time. This would be factored into target setting using assumed trajectories for emissions.

The majority of respondents agreed that carbon emission factors should be updated to the currently available factors for each Target Period, with reasons cited including allowing emissions factors to remain relevant, aligning better with other schemes, and aligning with factors used in reporting for other government departments.

We have considered the views and evidence received and have decided to implement this proposal and in a future scheme will update the emissions factors for each Target Period.

Primary Electricity Factors

The scheme operates on the basis of primary energy rather than delivered energy.

For grid electricity consumed, this is currently multiplied by 2.6 to account for the primary fuel used to generate the electricity.

The consultation published in March 2023 proposed that for the new scheme the grid electricity multiplication factor should be updated to account for greening of the grid and consideration should be given to reviewing and updating it for each Target Period.

A large majority of respondents agreed that the primary electricity factor for electricity should be updated. Reasons included that this would match with factors used in reporting by other government departments and would be in line with the greening of the grid. A few respondents suggested that the primary electricity factor should be updated at the beginning of each Target Period.

We have considered the views and evidence received and have decided to implement this proposal. The primary electricity factors will be updated for a new scheme starting in 2025.

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

They will be based on the emissions factors published by DESNZ in summer 2024. We are also seeking views on whether to update the primary electricity factor for each new Target Period.

9. **Do you agree that the primary electricity factor should be updated before each Target Period?**

10. **What would be the impact of updating the primary electricity factor before each Target Period?**

Treatment of self-generated electricity (PV, wind or hydro)

In the current scheme, the carbon emissions factor and primary energy multiplication factor for self-generated electricity (Photovoltaics (PV), wind or hydro) has been fixed to match that for grid electricity. This decision was made to avoid double incentivisation with renewables support such as the Feed-in Tariff (FiT[13]) scheme. While we want to continue to ensure that the scheme does not double incentivise with other policies in this space, such as Contracts for Difference[14], we believe that the conversions made should reflect the reality for those generation sources and ensure the scheme better aligns with other reporting mechanisms.

The consultation published in March 2023 proposed that the multiplication factor for self-generated electricity from PV, wind or hydro will be updated to 1.0, and the carbon emissions factor will be 0 tCO_2e/kWh. Ensuring there is no double incentive with other renewable electricity generation schemes will be considered through the target setting process, as well as our proposed reforms to reporting and performance measurement.

A large majority of respondents agreed that self-generated electricity should be accounted for as set out in the proposal, with some noting that this would be a fairer treatment of self-generated electricity and that on-site renewables are common investments among sectors. While some respondents suggested this should be extended to cover a wider range of low carbon electricity generating technologies, we do not intend to extend this proposal at this time. We intend to keep the proposal that the multiplication factor for self-generated electricity from PV, wind or hydro will be updated to 1.0, and the carbon emissions factor will be 0 tCO_2e/kWh.

Inclusion of UK Emissions Trading Scheme (UK ETS) energy in target energy

As part of our consultation published in March 2023, we asked respondents whether UK ETS energy should be included in the target energy for any potential future CCA scheme.

About half of respondents to the consultation agreed with the proposal to bring UK ETS into the target energy for any new scheme, and of these, a few commented that it may allow for more options to improve energy efficiency. Some respondents disagreed with the proposal, with concerns raised including the potential for double counting, and an increased administrative burden. A few respondents commented that UK ETS compliant sites should be exempt from the CCA scheme and CCL relief should be conditional on compliance of UK ETS.

We have considered the views and evidence received in response to the previous consultation and we believe that there are benefits to including UK ETS energy in CCA target energy reporting. We intend that participants should report on the energy that is covered by UK ETS alongside CCA reporting, but that the CCA targets on which any buy-out is payable should

[13] https://www.ofgem.gov.uk/environmental-and-social-schemes/feed-tariffs-fit
[14] https://www.gov.uk/government/collections/contracts-for-difference

continue to be based on energy that is not covered by the ETS. This will give a holistic view of the energy used across sites which is unavailable under the second CCA scheme.

We are conscious that businesses may be reporting similar information to multiple schemes and are looking at streamlining data requests, as much as we can, in order to reduce the potential administrative burden.

Annual Reporting

In our previous consultations, we asked if the reporting of energy and throughput data should be reported annually. Currently the reporting of this data is required at the end of a Target Period only.

Annual reporting would provide government with more frequent views of the performance of the scheme, and how well it is performing in line with expected target trajectories. The same reporting system used for Target Period reporting will be developed to also be used for this reporting, and we will work with participants to understand if there are any opportunities to align what is reported with data reported under other schemes in this space.

Some respondents were supportive of introducing annual reporting, for reasons including encouraging regular reviews of performance, therefore, allowing participants to see where to take action, and to gain a better understanding of their progress against targets. A few respondents raised concerns about the increased administrative burden related to annual reporting, with others suggesting that annual reporting would need to be streamlined with existing schemes.

Having considered the views and evidence received in response to the consultation, we intend to introduce annual reporting for a new CCA scheme. The annual reporting would take the same form as the reporting required at the end of a Target Period. However, this would not be used to formally assess performance against targets. The interim reporting would be used to provide an estimate of the performance outcome at the end of a Target Period. This data would not be published.

In the 2023 consultation published in March 2023 we also sought views on extending this reporting to include provision of further evidence of energy efficiency and decarbonisation potential. A few respondents felt that collecting this information would be useful, as it could provide a mechanism to justify encouraging businesses to review potential projects to become more energy efficient. Some respondents raised concerns that this would increase the administrative burden on participants and a few respondents suggested that reporting this information should not be mandatory.

We believe that there is value in CCA participants providing further evidence of energy efficiency and decarbonisation potential within the next 6 years, on a rolling basis, as part of their annual reporting. We expect this would help businesses to formally assess investment opportunities relative to the ever-changing technological advances, share insights within sectors and to help assess how improvements can be made at least cost. Moreover, we propose not to publish at individual facility level the data provided in connection with this energy efficiency and decarbonisation potential reporting, unless required to do so by law. In addition, we recognise that some participants may be collecting or reporting this data as part of other schemes. Government is developing a new digital CCA register and as part of this is considering the reporting requirements of other schemes with a view to reducing the cumulative administrative costs for participants. We are also reviewing data requests across different schemes to identify opportunities for streamlining.

11. **Do you agree with the proposal to extend reporting to include providing further evidence of energy efficiency and decarbonisation potential?**

12. **If so, do you agree that the energy efficiency and decarbonisation reporting should capture potential within the next 6 years on an annual, rolling basis?**

Buy-out

The scheme will retain the buy-out mechanism to allow those who do not meet targets to remain certified to received reduced rates of CCL. The influence of the buy-out mechanism in discouraging underperformance was noted in a few instances from the responses to the consultation published in March 2023 while highlighting that a significant increase in rate could impact the number of participants joining the scheme.

In our consultation published in December 2021 we set out a potential proposal to calculate this buy-out in energy terms. Feedback on this was mixed. A few saw a benefit in linking targets expressed in energy terms with a buy-out calculated in kWh and agreed with this approach as long as conversion factors were set from the beginning.

In our consultation published in March 2023, we proposed that a future scheme should continue to use a calculated tCO2e figure to calculate buy-out and surplus, as has been done for the current scheme. The reason for this is that the current method is well understood and can operate for both energy and carbon targets.

The majority of respondents agreed with maintaining the calculation for buy-out in carbon rather than energy, for reasons including that it is a well understood metric used for the duration of the first and second CCA Scheme, and that using carbon as the metric would align with UK net zero priorities. A few respondents noted that the buy-out methodology and costs needed to be available in advance to assist with financial planning.

We intend to continue to use a calculated tCO2e figure to calculate buy-out and surplus.

One reason for exploring a change to a buy-out calculated in kWh was to make clearer the link between underperformance, the CCL reduction gained and the required buy-out. CCL is not a carbon price, but a tax levied on energy use. While the buy-out is set using a cost per tCO2e, this is not intended to be a carbon price equivalent to that used in other schemes.

Our previous consultations did not set out a specific methodology for calculating buy-out for a future scheme but sought views on how this should be calculated in future. While currently this is based on a fixed £/tCO2e value which is set through legislation, it may be possible for this to be calculated by a formula which would consider factors such as updated emissions factors, current CCL reduced rates and reported performance.

Some respondents agreed with using a formula to calculate buy-out, with others noting that the calculation should be simple and well publicised to allow participants to plan effectively. A few respondents supported the current methodology for calculating buy-out, with reasons including that it is well understood by industry, and that a fixed buy-out published in advance of a Target Period helps businesses with financial forecasting. A few respondents commented that any significant changes or increase in the buy-out price would impact small and medium-sized enterprises (SMEs) and smaller sites the most.

We have considered the responses to the consultations and are proposing to use a formula to calculate the buy-out fee. This formula would consider a weighted average between the CCL discount per tCO2e between electricity and gas, in line with the continued equalisation of the

CCL rates between electricity and gas. We propose for the buy-out fee to be reviewed ahead of each new target period in order to account for the potential continued equalisation of the CCL rates, alongside wider macroeconomic conditions.

13. **Do you agree with the proposed methodology for calculating the buy-out price, including a weighted average between the respective electricity and gas CCL discount per tCO_2e?**

14. **Do you agree that the buy-out price should be reviewed ahead of each new target period to account for the potential continued equalisation of the CCL?**

Surplus

In the consultation published in December 2021, we sought views from respondents on the surplus mechanism with consideration to reforms outlined elsewhere, such as moving to Facility level reporting.

The surplus mechanism will continue to provide benefits to those who overperform against targets. Any accumulated surplus can be used to offset underperformance in subsequent Target Periods. From the consultation responses it was evident that a surplus mechanism encourages performance and rewards where one has overperformed.

In the consultation published in March 2023, we sought further views on how surplus should operate for any potential future scheme with consideration for the other reforms outlined in the document.

Respondents were generally supportive of the surplus mechanism continuing in a new scheme and noted that the mechanism encourages early performance and rewards early investment into measures that can offset future underperformance. A few respondents suggested that the mechanism should be more flexible, including the ability to trade surplus both within companies and between companies.

Having considered the views and evidence provided in response to the previous consultations, we are proposing that surplus should be able to be carried across Target Periods for individual Facilities. This would mean that if an individual Facility overperforms in one Target Period, the surplus can be carried forward to the next Target Period to offset any potential underperformance of that facility. We are not proposing to introduce any surplus trading between Facilities or companies.

15. **Do you agree with the proposal to allow surplus to be carried forward between Target Periods?**

Penalties

For the recent scheme extension, we increased the level of financial penalties that may be imposed where there is a failure by an operator to provide information under the relevant regulations if that information is inaccurate, or if they fail to make any other notification required under the terms of an underlying agreement.

Currently there is a £500 minimum penalty. The penalty for inaccurate information in relation to baselines or reporting for Target Period 6 is to be the greater of £500 or £25/tCO_2e in line with the buy-out price.

We propose to keep the new minimum financial penalty of £500 for a new CCA scheme and update the maximum penalty in line with any changes to the buy-out price.

16. **Do you agree with the proposal to keep the current financial penalties for a new CCA scheme?**

Miscellaneous elements

Energy Management Systems

In our consultation published in December 2021, we discussed making the implementation of an Energy Management (EMS) scheme such as ISO50001 mandatory. These energy management systems enable companies to follow a systematic approach to improve their energy performance and consequently to meet scheme targets.

A few respondents were supportive of mandating the implementation of an EMS and many felt that it was suitable for larger businesses who likely already have one in place. However, a majority of respondents believe an EMS requirement should not be made compulsory for reasons including the difficulty for SMEs and the cost impact. A few suggested incentivising this requirement through increased CCL discount or making this a route into the scheme for those not in an eligible sector.

We have considered the views and evidence received in response to the consultation published in December 2021 and are not proposing to make the implementation of an EMS mandatory.

Administrative changes

The Government is not proposing to implement any substantive administrative changes beyond those set out above.

17. **Beyond the proposals listed above, are there any other reforms / changes you would recommend for this new scheme?**

Timing

Below are some indicative dates for key milestones in taking forward this scheme. This timeline is subject to change.

Action	Date
Consultation closed	14 February 2024
Government response published	Spring 2024
Data collection and target setting process letters sent to sector associations	February 2024
Data collection exercise begins	March 2024
Applications for new entrants open	May 2024
Government to send target offer letters to sector associations	May 2024
Deadline for sector associations to provide evidenced target counter proposal	July 2024
Department for Energy Security & Net Zero issue final target offers to sectors & instruct the Environment Agency to prepare agreements	September 2024
Sector associations distribute targets amongst participants for agreement with the Environment Agency	October 2024
New umbrella and underlying agreements issued and assented	October - November 2024
Amendments to legislation to be in force	December 2024

18. Please provide any comments on the timeline set out above.

Consultation questions

List the consultation questions so that people can get an overview of what information is sought and can refer to them quickly.

Example questions using the 'Consultation questions' style:

1. **Do you agree with the proposal to allow new entrants to the scheme at any time?**
2. **Do you agree that new entrants should complete a Target Period before receiving certification for reduced rates of CCL?**
3. **What are the potential impacts of the proposal that operators should make an annual confirmation to the scheme reporting that their facilities remain compliant with the threshold?**
4. **Do you agree with the proposal to gather data at a facility level to inform target setting?**
5. **Do you agree with the proposal that the proposed data gathering exercise be conducted prior to any target setting process?**
6. **Can you provide suggestions on how to reduce potential administrative costs of this approach?**
7. **Do you agree that 2022 should be used as the baseline year for the new scheme?**
8. **If you believe the baseline year should be revisited, which year should be used and why?**
9. **Do you agree that the primary electricity factor should be updated before each Target Period?**
10. **What would be the impact of updating the primary electricity factor before each Target Period?**
11. **Do you agree with the proposal to extend reporting to include providing further evidence of energy efficiency and decarbonisation potential?**
12. **If so, do you agree that the energy efficiency and decarbonisation reporting should capture potential within the next 6 years on an annual, rolling basis?**
13. **Do you agree with the proposed methodology for calculating the buy-out price, including a weighted average between the respective electricity and gas CCL discount per tCO_2e?**
14. **Do you agree that the buy-out price should be reviewed ahead of each new target period to account for the potential continued equalisation of the CCL?**
15. **Do you agree with the proposal to allow surplus to be carried forward between Target Periods?**

16. Do you agree with the proposal to keep the current financial penalties for a new CCA scheme?

17. Beyond the proposals listed above, are there any other reforms / changes you would recommend for this new scheme?

18. Please provide any comments on the timeline set out above.

Next steps

This consultation will run for 12 weeks. The responses will be analysed, and a government response is expected to be published in Spring 2024.

This consultation is available from: www.gov.uk/government/consultations/climate-change-agreements-consultation-on-a-new-scheme

If you need a version of this document in a more accessible format, please email alt.formats@energysecurity.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.