

Department of Energy and Climate Change

Consultation on the Form and Content of New Climate Change Agreements

Consultation Response Form

How to Respond

1. Please use this form when responding to the Consultation on the Review of Climate Change Agreements. Both the Consultation Document and this form can be downloaded at:

<http://www.decc.gov.uk/en/content/cms/consultations/open/open.aspx>

2. If for any reason you are unable to use this form, please submit your comments in writing, heading each response with the number and the text of the question to which you are responding.
3. To facilitate analysis of responses, we would be grateful if you could send your response in electronic format (word document) to:

ccaconsultation@decc.gsi.gov.uk.

Please mark in the subject field of your e-mail “**Response: Consultation on the Review of Climate Change Agreements**”.

4. If you are unable to reply electronically, please send a hard copy to:

Sam Lutterodt
Department of Energy and Climate Change
Climate Change Agreements Team
3 Whitehall Place
London
SW1A 2HD

Enquiries: 020 7238 4732.

5. Respondents in Scotland, Wales and Northern Ireland are invited to copy their submission to the appropriate Devolved Administration:

Scotland

By email: james.simpson@scotland.gsi.gov.uk

By Post: James Simpson
Energy Efficiency & Microgeneration Team
Energy Markets Division

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The Scottish Government
2nd Floor, Meridian Court
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Glasgow G2 6AT

Enquiries: 0141 242 5831

Wales

By email: Ruth.Gow@wales.gsi.gov.uk

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Department for Environment, Sustainability and Housing
Welsh Assembly Government
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6. Any queries relating to this consultation should be sent by e-mail to:

ccaconsultation@decc.gsi.gov.uk

Please mark the subject field of your e-mail “**Query: Consultation on the Review of Climate Change Agreements**”. Alternatively, queries may be addressed by post to Sam Lutterodt at the above address.

Part 1: General Information

Please provide details of your organisation/company/sector association below (please note: DECC's confidentiality statement related to this consultation can be found in the Consultation Letter to which this list of questions is attached).

Name Susanne Baker
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QUESTIONS

Part II: The Role of Sector Associations (See paragraph 43 of the Consultation Document)

1. Would the scenarios identified in Table 1 of Section II of the Consultation Document lead to a weakening, no change or strengthening of the role of sector associations? [Please tick one box]

- Weakening
- No Change
- Strengthening

2. If a weakening, what would be the impact and what could be done to mitigate it?

Part III: Possible Changes to Climate Change Agreements Issues Related To Target Setting

A. Should all targets be set in absolute terms only?

Proposal A

The arguments for and against setting all targets in absolute terms or retaining the current choice between absolute and relative are well balanced. The Government is therefore keen to learn the views of interested parties on this complex issue, before making a proposal. However, comments might focus on three possible options:

1. To retain the current arrangements whereby target units are able to choose between absolute and relative targets and the sector target is determined by the currency of the majority of the energy use in the target units in the sector agreements.
2. To set absolute targets at both sector and target unit level.
3. Set targets at sector level on an absolute basis and allow target units the option of absolute or relative targets with a mechanism for the sector to reach compliance through the market.

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3. Do you agree with the analysis given in paragraphs 47 to 54 of the Consultation Document?

- Yes
- No

If not, in what way and why?

Paragraph 48 highlights that CCA scheme is “unusual” in having the option of relative targets. This implies that the approach is a weakness and that “cap and trade” is always the best option. We would challenge that view. Optimisation of energy use and ensuring that energy efficient operations replace less energy efficient ones should not be discounted as a way towards combating climate change. The consultation document says relative targets cannot “guarantee” overall reductions in emissions. We would urge Government to recognise that despite 94% of target units operating under relative targets as part of their existing Climate Change Agreements substantial absolute energy reductions have still been achieved. From our experience, relative targets have the ability to tackle behavioural change within an organisation more than any other target mechanism.

Paragraph 50 and 52 sections f and g refers to reference level of throughput and CCA16 mechanism. However it should be recognised that if Government decides to proceed with proposals to split targets determining the reference throughput will be difficult and a challenge for some members.

Paragraph 52 sections h and i. The consultation document repeatedly links over-achievement of targets against “windfall benefits”. We would argue that this is needlessly negative. It is our view that improvements in energy efficiency should be recognised and welcomed as being beneficial to the environment and fully in line with the aim of the scheme.

4. Do you agree that all sector targets should be set in absolute terms?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

UK Steel does not have an adequate knowledge of other sectors to be in a position to agree or disagree. However, for steel we would argue that the status quo – where there is a choice of absolute and relative, with sector targets based on the majority currency - is maintained.

The value of relative targets should not be underestimated as they provide a useful benchmark to measure day to day performance. Relative targets have allowed facilities to make changes to their processes and improve the carbon footprint per unit of production. It should not be forgotten that the option to choose between absolute and relative targets with a sector target based on the majority currency has to date produced significant and tangible energy savings over the life of the CCA scheme over and above business-as-usual in many CCA industrial sectors. And significantly, relative targets for target units also help to restrict the risk of overachievements through changes in throughput – quite the reverse, cuts in output can make targets more difficult to achieve.

The fact that more detailed energy usage information will be used to negotiate new agreements than has previously been the case should in itself address the perceived issues or failings of the current scheme.

UK Steel opposes unilateral absolute energy targets on industry, which would result in extremely restricted growth, if any, for UK business and capacity mothballed in the current recession may never recover. Developing a successful scheme with absolute targets is not totally straightforward – as

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illustrated by severe teething problems in both the UK ETS and the EU ETS.

An absolute regime can reward inefficient companies that are losing market share but, perversely, can penalise growing companies that are becoming more efficient. In addition, in a highly competitive industry it could force less efficient production overseas – a counter productive outcome in the context of a global carbon system.

Relative targets are therefore preferable despite the risks in a downturn.

5. If sector targets were set on an absolute basis, do you agree that targets for target units should also be set on an absolute basis?

• Yes

• No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

In addition to the arguments set out in response to Q4, UK Steel thinks it would be impossible to predict market demands and therefore output or energy consumption years in advance. Therefore it is difficult to see how meaningful absolute targets could be applied to target units.

If not, how could the responsibility between target units with relative targets and those with absolute targets be shared for achieving an absolute sector target?

This would be difficult to calculate, attribute and administrate. The performance position of each target unit would be dictated by all other target units within the sector. The ownership of success or failure within the sector would therefore not rest with each target unit and would potentially result in less commitment to succeed.

These would not be relative targets, but absolute targets in all but name.

6. If relative targets were set, are there ways in which carbon savings could be guaranteed?

• Yes

• No

If so, how?

If the Government decarbonises the power sector

7. Any other comments on Proposal A?

B. Should all targets be set in terms of carbon emissions only?

Proposal B

1. The arguments for and against moving to set all targets only in terms of carbon emissions are well balanced. The Government is therefore keen to learn the views of interested parties on the issue, before making a proposal. Views might focus on the options of:
 - No change: i.e. retain the option of targets based on either energy use or carbon emissions at both sector and target unit levels.
 - All targets set in terms of carbon emissions only.
 - Set sector targets in terms of carbon emissions while allowing underlying targets to be set in terms of energy use.
2. In the case that the option of carbon or energy targets is retained, to fix the currency of sector target for the duration of the agreement, making no subsequent changes for entrants and exits.

8. Do you agree with the analysis in paragraphs 55 to 61 of the Consultation Document?

- Yes
- No

If not, in what way and why?

9. Do you agree that targets for all sectors and target units should be set only in terms of carbon emissions?

- Yes

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- No



Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

Although understanding of carbon as a currency is growing and the use of a carbon target may make a fuel switch more transparent energy efficiency remains a much more tangible measure. It is relatively easy for a company to monitor and measure the amount of energy used, it strongly and clearly resonates in people's minds with costs and comes with a high degree of control. This direct link with energy costs has significantly raised awareness of energy issues at board level.

Carbon savings are generally estimated using assumptions such as the fuel mix at power stations or by other means which might not be necessarily available to target facilities. Most have no control over the carbon emitted in, for example, the electricity generated by their supplier so it serves to blunt incentives, at least as things currently stand.

The Climate Change Levy is not a carbon tax. It still applies to nuclear electricity. So reforming CCAs to make the currency carbon would mean that the CCL would need to be reformed as well.

If you do not agree, please state which alternative option you prefer and why.

Retaining the *status quo* – expressing targets in terms of energy use - appears to be a reasonable approach. Over or under achievement is still converted to carbon (CO₂) to enable trading but only at the reconciliation period, rather than as a routine monitor of performance, a simpler approach which has served to ease administrative burdens.

A key argument for moving to CO₂ is to give more transparency to the potential of fuel switches. However, UK Steel thinks the benefits here are probably limited - especially if the Government proceeds with proposals to split targets, as any move to renewables, which can be excluded from CCAs, will show benefits on energy saving currency anyway.

10. If the choice of target currency between energy use and carbon emissions is retained, do you agree that the currency of sector targets should be fixed for the duration of agreements, making no subsequent changes for entrants and exits?

- Yes



- No



Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

It would be simpler, more transparent and less expensive to administer

11. Any other comments on Proposal B?

C. Should targets be set annually?

Proposal C

To set target periods annually, with target periods in 2012, 2013, 2014 and 2015, with one-year certification for Levy reduction.

12. Do you agree with the analysis in paragraphs 62 to 66 of the Consultation Document?

• Yes

• No

If not, in what way and why?

UK Steel believes DECC have over-emphasised:

- The “significant” spike in carbon markets risk – particularly considering that tougher negotiated targets will result from using much more energy usage information than had been available when negotiating the original CCAs.
- The loss of focus on energy efficiency in the interim “non-milestone” year

13. Do you agree that target periods should be set annually, with target periods in 2012, 2013, 2014 and 2015, and with 1-year certification for Levy reduction.

• Yes

• No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

UK Steel would argue that a two- or three-year certification period would make it much easier for members to justify the capital expenditure needed to implement energy-saving measures. This is all the more important in the context of new agreements as the use of more stronger and robust energy data in forthcoming negotiations will inevitably lead to tighter, more robust targets. Reductions in energy are often achieved in a stepped approach, rather than “continuous gradual improvement” and as a result this fits better within 2-year targets.

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There is also a concern that Government has underestimated the potential resource requirement and administrative burden with respect to CCA16 renegotiations. The Regulatory Impact Assessment suggests costs of around £110k with limited additional burden on Target Units and minimal burdens on sectors. However, in light of proposals to employ consultants and introduce charges then moving to annual targets suggests potentially significant addition costs on industry.

14. If your preference is to retain a 2-year cycle for reconciliation, please set out your reasons, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

As above

15. Any other comments on Proposal C?

The government should look at ways to align the annual reporting requirements of the EU ETS, CRC and CCAs – particularly for companies impacted by all three schemes.

D. Should targets under new Climate Change Agreements be subject to review?

Proposal D

1. To undertake a target review in 2011 for the 2014 and 2015 targets.
2. To clarify the criteria for target changes to include other factors, including previous performance and the status of the market in allowances.

16. Do you agree with the analysis in paragraphs 67 to 78 of the Consultation Document?

• Yes

• No

If not, in what way and why?

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As stated earlier, the perceived failings of the original scheme will, we believe, be addressed through more effective negotiations as a result of using significantly better energy use data. This should in itself lead to tighter, more realistic targets.

In addition, UK Steel is concerned that paragraph 78 implies that early action on energy efficiency will be penalised and that the Government intends to micro-manage the carbon market by setting beyond achievable energy targets if Government thinks the price of carbon is lower than it should be.

Market intervention has the potential to introduce huge uncertainty, and doing so from one phase to another is an issue, but to change mid-course could be irresponsible.

In addition, the RIA does not take account of the costs of undertaking target reviews. This is a significant exercise for sectors and Target Units.

17. Do you agree that there should be a target review in 2011 for the 2014 and 2015 targets?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

The only additional information available in 2011 will be the 2010 results. As targets for 2012-15 have to be negotiated in 2010 it seems odd to review targets just one year after they have been agreed and before they have been implemented.

If you do not agree, please state which alternative option you prefer and why.

Review in 2013 the 2015 targets. This would allow information from the 2012 target period to be accounted for. Assessing the situation from the 2012 target period would be the earliest opportunity for assessing both the new CCA regime in the context of Phase 3 EU ETS rules and would allow an opportunity to review changes in technology and to ensure all cost-effective measures are being employed.

18. Do you agree that the criteria for setting targets in a target review should be extended to include other factors, including previous performance and the status of the market in allowances?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of the different approaches, including the administrative burden and financial cost.

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It is important that negotiations on targets are based on the most up-to-date information available so targets are as robust and realistic as possible. We anticipate that the use of stronger energy use data during negotiations will be the most significant factor in improving targets going forward. But we would stress that future targets must take account of the ability to improve energy consumption, not blindly following global targets.

If you agree, what other factors should also be taken into account? Please explain why.

19. Any other comments on Proposal D?

Issues Related To Target Achievement

E. Should all target units be required to meet their targets either by direct action or by purchase of allowances?

Proposal E

Subject to a better understanding of the impact on the role of sector associations, to require all target units to meet their targets either through direct action or through purchase of allowances.

20. Do you agree with the analysis in paragraphs 79 to 85 of the Consultation Document?

• Yes

• No

If not, in what way and why?

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21. Do you agree that all operators should be required to meet their targets, or purchase carbon allowances, to qualify for Levy discount?

• Yes

• No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

For fairness and simplicity of administration, given the experience gained through existing CCAs. If necessary, internal balancing of allowances should be allowed, managed and co-ordinated by sector associations, rather than requiring all Target Units to be Account Holders.

22. What would be the impact on the role of sector associations should this policy be introduced? Other than maintaining existing arrangements, what might be done to mitigate any negative impacts?

We would strongly urge that there is little change to the role of sector associations. It is important that they continue to keep individual members advised as to their likely needs.

23. Any other comments on Proposal E?

We would argue for the prohibition placed on trading by Corus to be urgently reviewed. Going forward, it could make its participation in CCA untenable.

F. Should risk management tools be restricted to carbon trading only?

Proposal F

Carbon trading should be the only risk management tool under new Climate Change Agreements.

24. Do you agree with the analysis in paragraphs 86 to 88 of the Consultation Document?

- Yes
- No

If not, in what way and why?

The consultation implies operators can insure against any/all actions under the Regulations. But at present there is a very significant failure in the insurance market which has become very risk adverse to the point where previously coverable risks are no longer being insured. Under such circumstances, it may be necessary for there to be a "special circumstances" mechanism to allow for discussion with regulators about particular market failures.

We would argue that a risk management tool to deal with potential fuel supply disruption is not difficult to justify. As identified in the consultation paper, the provision has been rarely used but the risk remains very real. Given the inadequate levels of gas storage in the UK, the looming gap between future electricity supply and demand and the evidence of past failure in certain parts of the fuel supply chain through accident or other factors, the risk of fuel supply disruption is increasing and should be recognised. This could also lead to fuel switching in order to maintain production – potentially at the expense of failing the target. These are not insurable events.

25. Do you agree that carbon trading alone is an adequate and sufficient risk management tool?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

The threat of fuel supply disruption remains an ever-present possibility so we would urge for the existing provision on this to remain in place.

Industrial action by suppliers arising from the continuing economic decline could also have an enormous effect upon a company. We would argue for a temporary measure to take this into account given the current economic climate.

26. Is there scope for industry to insure against failure to meet targets?

- Yes

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- No



Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

We would like to see firmer evidence that this could be done in a cost effective way otherwise it will just add another layer of unforeseen cost which is obviously not reflected in the Regulatory Impact Assessment.

27. Any other comments on Proposal F?

G. What arrangements should be made for carbon trading?

PROPOSAL G

1. To close UK ETS at the end of current Climate Change Agreements and to cancel all remaining allowances.
2. Views of interested parties are sought on whether trading under new Climate Change Agreements should take place in the Carbon Reduction Commitment market or in a new stand-alone scheme.
3. Views of interested parties are sought on how a realistic carbon price can be maintained in the market and whether and how the generation of allowances due to throughput changes should be limited.

28. Do you agree with the analysis in paragraphs 89 to 104?

- Yes



- No



If not, in what way and why?

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Paragraph 94: This implies that it is important to establish a common price across the CRC/CCA schemes, however CRC participants will benefit from revenue recycling and hence equality of pricing might not be an achievable goal or a fair comparison.

Paragraph 96: Although it is suggested that even a relatively small oversupply of CCA allowances could disrupt the CRC market, analysis needs to also take into account the proposals to split targets, tighter negotiated targets and the likely effect of changes to the scope of the EU ETS Phase 3 post 2012.

Paragraph 103: This suggests that in an extreme case 7 million allowances could be generated before CCA16 had effect. This does not take account of the splitting of targets or the effect of changes to the scope of the EU ETS in Phase 3.

29. Do you agree that UK ETS should be closed after 31 December 2012 and all remaining allowances cancelled?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

UK Steel strongly believes that if companies have acquired allowances either by over-achieving against their target or by purchasing allowances on the market they should be allowed to benefit from them. If the current scheme is to be extended to 2013 then they should at the very least be usable against any 2012 target.

For future CCAs we support a stand alone trading scheme for CCAs which uses EUAs for compliance allowing allowances to be banked for compliance in future target years. If this was pursued existing allowances should be used to help kick start the scheme.

Alternatively, we propose that the Government considers purchased allowances and banked allowances which can be demonstrated to have been generated as a result of real energy efficiency gains (rather than changes to throughput) as part of negotiations on new targets as recognition of early action.

30. Do you consider that trading under the new scheme should take place in the Carbon Reduction Commitment market or a new stand-alone scheme?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

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UK Steel believes that insufficient analysis has been undertaken in order to effectively assess this. Further work should be carried out to assess the impact of:

- Government proposals to split targets
- The changes in scope to the EU ETS in phase 3
- The impact of much tighter targets in new CCA agreements

It may be that concerns about the disruption to the CRC market prove to be unfounded.

Nevertheless we do agree with Government that the CRC is an unknown and needs time to bed in. For that reason UK Steel supports the creation of a stand alone scheme, but in the context of a long term policy goal of creating only one single trading scheme. This must be the long term vision.

Any trading scheme for future CCAs should allow for EUAs to be used for compliance allowing allowances to be banked for compliance in future target years. Banking is important and may help encourage more substantial investments in energy efficiency. If this model was pursued existing allowances should be used to help kick start the scheme.

31. Do you agree that a mechanism or mechanisms should be introduced to limit the generation of allowances due to changes in throughput?

• Yes

• No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

UK Steel can see the advantages of a mechanism to protect markets from significant oversupply through cuts in production.

However, along with concerns over the disruption to market confidence if Government begins to interfere in the market, we have specific concerns about government intervention to limit the generation of allowances at the target unit level. Changes to throughput could be a natural consequence of fluctuations in demand. It is also for this reason why annual absolute targets are the wrong approach for businesses that have a cyclical component to their operations. It may be more appropriate to assess risks of over oversupply at the sector level. In many cases the fluctuations that arise at a company level may not actually show at the sector level.

There is also a concern that the more rules that are introduced to remove the ability to generate any sort of surplus will make the Agreements less attractive to continue to operate. Additional rules will inevitably impose additional work on officials and possibly consultants and extra costs for companies for compliance and verification. At some point the value of the discount will be eliminated at which point agreements will be terminated.

We would also question why this mechanism should only work for production shortfalls and not visa versa. If a mechanism was employed then it should also be applied if throughput increases significantly over the forecast levels.

Although if relative targets for target units are employed this will restrict the risk of overachievements. Target reviews will also help.

32. Do you agree with any of the options identified in paragraph 103 of the Consultation Document?

• Yes

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- No



Please set out the reasons for your opinion, identifying the advantages and disadvantages of the options, including the administrative burden and financial cost.

Option A needs to be carefully considered before being dismissed in light of the reduced CCA market following tighter negotiated targets and possible splitting of targets.

Option C would be simple to administer and readily understood by companies. But in the context of the comments above - it may be more appropriate to assess potential fluctuations at the sector level where in many cases the fluctuations that arise at a company level may not actually show at the sector level.

The remaining options would be overly complicated and hard to implement fairly. If Government pursued them it basically risks micro-managing the carbon markets which we believe would not only introduce huge uncertainty but could be potential irresponsible.

33. Do you have any alternative suggestions for mechanisms to limit the generation or use of allowances due to changes in output? If so, please set out in detail what they are, identifying the advantages and disadvantages, including the administrative burden and financial cost.

34. Any other comments on Proposal G?

H. Should provisions for *de minimis* and materiality be introduced?

Proposal H

To introduce:

- a. a *de minimis* provision for failure to meet targets by up to 1% of the target. The operator would be required to purchase and retire the relevant number of allowances in the shortfall within 10 working days of notification by DECC; **AND**
- b. a materiality provision where failure to meet targets is greater than 1% of the target but no more than 2% of the target. The operator would be required to purchase and retire the total number of allowances in the shortfall within 10 working days of notification by DECC and, for that part of the failure to meet targets beyond 1%, make a payment of make a payment of £80 for each allowance in this part of the shortfall.

35. Do you agree with the analysis in paragraphs 105 to 111 of the Consultation Document?

- Yes
- No

If not, in what way and why?

36. Do you agree that both a *de minimis* provision and a materiality provision should apply?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

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Experience to date suggests this is rarely, if ever, used within our own sector. Nevertheless the *de minimis*, together with a short extension of time to allow allowances to be bought and retired, seems reasonable as does the proposal for a materiality level, alongside an associated penalty. UK Steel believes these could be introduced without unduly weakening the scheme.

If you do not agree, please state which alternative option you prefer and why.

37. If a *de minimis* provision is introduced, do you agree that the limit should be 1% of the target?

• Yes

• No

If not, please indicate what limit you would prefer, and why.

38. If a materiality provision is introduced, do you agree that the limit should be 2% of the target?

• Yes

• No

If not, please indicate what limit you would prefer, and why.

39. If a materiality provision is introduced, do you agree that the payment to be made should be £80 for each of the allowances to be bought?

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- Yes
- No

If not, please indicate what other level of payment you would consider appropriate, and why.

For smaller companies, we would argue that it would be more appropriate to require a payment of £10 instead of the suggested £80.

40. Any other comments on Proposal H?

I. In the case that relative targets continue, should the “Novem” procedure for setting targets and measuring performance continue to be used in relevant sectors and target units?

Proposal I

Continue to apply Novem for relevant sectors and target units, but require that Novem be applied in all cases, irrespective of whether the result is advantageous or disadvantageous to the sector or target unit concerned.

41. Do you agree with the analysis in paragraphs 112 to 115 of the Consultation Document?

- Yes
- No

If not, in what way and why?

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42. Do you agree that Novem should continue to be applied, but in an obligatory way, for relevant sectors and target units?

• Yes

• No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

43. Do you consider that an alternative method should be developed for combining diverse targets?

• Yes

• No

If so, please set out your proposal, identifying the advantages and disadvantages of the proposal, including the administrative burden and financial cost.

44. Any other comments on Proposal I?

ISSUES RELATED TO COVERAGE OF TARGETS

J. Should targets be split where there is an overlap between Climate Change Agreements and EU ETS?

Proposal J

1. To change the terms of the Climate Change Agreements so that facilities would be re-certified as eligible to claim the reduced rates of Climate Change Levy if:
 - a) sufficient allowances are surrendered to meet EU ETS obligations ;
AND
 - b) the residual Climate Change Agreement target is met.

This change will not affect the amount of Climate Change Levy discount that re-certified facilities may claim.

2. To establish the residual Climate Change Agreements target by negotiation between sector associations and DECC.
3. To restrict the creation of allowances under Climate Change Agreements to over-achievement against the residual Climate Change Agreements target.

45. Do you agree with the analysis in paragraphs 116 to 124 of the Consultation Document?

- Yes
- No

If not, in what way and why?

46. Do you agree that Climate Change Agreement targets should be split and agreements amended as proposed?

- Yes
- No

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Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

Providing that it would have no effect on CCL discount eligibility then UK Steel supports the move to split targets. It would help avoid double regulation, reduce the CCA market size and reduce risk of carbon markets being oversupplied with allowances. This in turn will help in assessing trading options. The alignment of the CCA year with the EU ETS year is also welcomed.

However, should this transpire it must be recognised that the splitting of targets will in turn limit the potential extent of energy saving measures on the remaining CCA energy sources. This must be recognised and taken into account during target negotiations.

47. If the double counting mechanism is retained, is there anything that could be done to make it less complex or more accurate?

• Yes

• No

If so, please set out your ideas.

If Government decides not to split targets then an alignment of the two scheme years would still be welcomed. Therefore any under- or over-achievement would be "in phase" where currently it is out of phase i.e. using, for example, 2007 EU ETS performance for 2008 CCA target adjustment.

48. Any other comments on Proposal J?

Support for target splitting is conditional only in light of an absolute continuation of full CCL relief. Splitting of targets could not be supported if it jeopardised state aid approval and put the existing levy rebate at risk.

K. Has the 90/10 rule provided administrative or environmental benefits that could be extended to a larger number of businesses by lowering the threshold?

Proposal K

None. Views of stakeholders sought.

49. Do you agree with the analysis in paragraphs 125 to 131 of the Consultation Document?

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• Yes

• No

If not, in what way and why?

50. Has the 90/10 rule provided administrative or environmental benefits that could be extended to a larger number of businesses by lowering the threshold?

• Yes

• No

Please set out the reasons for your opinion, including evidence relating to the numbers affected, the administrative burden and financial cost.

In facilities where remaining <10% of site energy has encompassed multiple units, the 90/10 rule has provided a very useful reduction in administrative burden.

51. Do you have any views on the value of the 1/9th provision? If so, please set out the reasons for your opinion, including the administrative burden and financial cost.

The 1/9th provision introduces significant additional administration at some facilities – however that can be balanced against the benefits of Levy relief.

52. Any other comments on Proposal K?

The Government indicated that a move from 90/10 to 70/30 option would mean that facilities would be unable to also apply the additional 1/9th. UK Steel would instead urge Government to consider a scheme which offer Target Units the choice to:

- I. Demonstrate that PPC/Directly Associated Activities (DAA) accounted for >70% of total site primary energy and therefore the Eligible Facility boundary would equal the Site boundary, OR
- II. Define the eligible facility so that at least 90% of its energy was PPC/DAA as in current scheme.

This would allow them to include up to an additional 1/9th non-eligible energy providing sub-metered giving small sites in some sectors the ability to retain some flexibility

ISSUES RELATED TO SIMPLIFICATION

L. Should only one agreement type be available, based on “Option 2” under the current scheme?

Proposal L

To offer only one type of agreement under new Climate Change Agreements based on the current Option 2.

53. Do you agree with the analysis in paragraphs 132 to 133 of the Consultation Document?

• Yes

• No

If not, in what way and why?

54. Do you agree that there should be only one type of agreement based on the current Option 2?

• Yes

• No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

55. Any other comments on Proposal L?

M. Should the compliance year be aligned with that for EU ETS, based on a calendar year?

Proposal M

1. To establish a common monitoring and reporting period with EU ETS based on a calendar year, with sector associations being required to submit data by 31 March, reconciliation to be completed by 31 May, and Levy reduction to be valid from 1 June.
2. To extend the period of Levy reduction under the final target period of the current scheme to 31 May 2013 for those operators with agreements under the current scheme that enter into agreements under the new scheme.

56. Do you agree with the analysis in paragraphs 134 to 140 of the Consultation Document?

• Yes

• No

If not, in what way and why?

57. Do you agree that a common target period should be established under Climate Change Agreements based on a calendar year?

• Yes

• No

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Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

A common period is sensible to ensure consistency, align with the EU ETS reporting scheme and reduce administrative burdens.

58. Do you agree that, if the start of the period for Levy reduction was to change to 1 June that the period for Levy reduction under the current scheme should be extended to 31 May 2013 only for those target units that have agreements under the current scheme and that enter into agreements under the new scheme?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

59. Any other comments on Proposal M?

N. Should all sectors, whether meeting targets or not, be required to provide the same data at reconciliation?

Proposal N

To require the same detailed reporting from all sector associations, irrespective of whether or not the sector meets its target, including the effective trading position of all target units.

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60. Do you agree with the analysis in paragraphs 141 to 146 of the Consultation Document?

- Yes
- No

If not, in what way and why?

61. Do you agree that all sector associations should be required to provide full milestone reporting data, including the effective trading position of all target units?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

UK Steel is happy to provide all milestone reporting data down to the target unit level.

62. Any other comments on Proposal N?

Anything that reduces the need to report similar, but different, data at different time periods is to be welcomed.

O. Should a common start date be established, for the purpose of measuring the impact of the scheme, based on 2010 performance?

Proposal O

To establish a common start date for the purpose of assessing the impact of Climate Change Agreements, based on performance in the 2010 target period.

63. Do you agree with the analysis in paragraphs 147 to 155 of the Consultation Document?

- Yes
- No

If not, in what way and why?

UK Steel is still struggling to understand how Government can't assess improvements from any particular milestone year, even with new entrants to the scheme during the course of existing CCAs and thus the varying baselines.

Whilst we appreciate that reporting performance from a single year for all sectors may enable the data to be easier to understand, the economic cycles of each sector are different and therefore the results may be misinterpreted to the same perceived extent that they currently are.

64. Do you agree that a common start date should be established, based on performance in 2010?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

The wording in paragraph 64 (and also in the RIA, paragraph 66) appears to refer to "**performance**" in 2010 and it is not clear the intent of this. While at the Plenary meeting, DECC stated that this refers to the performance of CCAs from 2010, rather than a milestone year on which to base performance to inform CCA MS targets. UK Steel would like to see this distinction made much clearer in the text.

If the intention of this question is to set a baseline against which CCAs as a policy instrument can be judged, then UK Steel supports using 2010 as a baseline year.

If you do not agree, please state which option you prefer and why.

Even if 2010 is used as a baseline year for communication the UK will still be in a recession, as a result this might not necessarily be the best year to begin benchmarking the performance of CCAs. 2008 may be a better year to monitor performance from.

65. Any other comments on Proposal O?

P. Should Scheme Rules be established, separate from the agreements, to facilitate their adjustment when necessary?

Proposal P
To introduce Scheme Rules and simplify umbrella and underlying agreements accordingly.

66. Do you agree with the analysis in paragraphs 156 to 159 of the Consultation Document?

- Yes
- No

If not, in what way and why?

67. Do you agree that Scheme Rules should be established and umbrella and underlying agreements simplified accordingly?

- Yes
- No

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Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

68. Any other comments on Proposal P?

Other Issues

Q. Are there barriers to access to Climate Change Agreements that can be removed, without the need to amend eligibility criteria?

Proposal Q None

69. Are there any significant barriers to energy intensive industry to enter into Climate Change Agreements under the current scheme?

- Yes
- No

If so, please provide a detailed explanation of the barrier or barriers concerned.

The uncertainties over state aid rules. However, this is not an issue for steel.

70. Other than changes to eligibility criteria, please describe any proposals you may have for changes to the scheme that might mitigate the barrier or barriers you have identified.

Any other comments on Proposal Q?

R. Are there ways within Climate Change Agreements to provide increased incentives to install Combined Heat and Power plant?

Proposal R

1. To consider re-introduction of tests for viability of Combined Heat and Power for relevant facilities similar to those that were applied under the current scheme and, where a cost-effective opportunity is identified, to include Combined Heat and Power as part of the Climate Change Agreement target.
2. To consider other options for removing barriers to Combined Heat and Power more broadly in the context of the Heat and Energy Saving Strategy. The Government will use the results of this consultation on Climate Change Agreements to contribute to that consideration.

71. Do you agree with the analysis in paragraphs 163 to 169 of the Consultation Document?

- Yes
- No

If not, in what way and why?

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72. Do you agree that a requirement for a test of the viability of Combined Heat and Power by relevant target units should be reintroduced and that, where cost-effective opportunities exist, targets should be adjusted to reflect this?

• Yes

• No

Please set out the reasons for your opinion, including any views on the type of tests that might apply, identifying the advantages and disadvantages, including the administrative burden and financial cost.

73. Please set out in detail any other proposals you may have for introducing further incentives to investment in Good Quality Combined Heat and Power within the context of the existing framework of Climate Change Agreements.

74. Any other comments on Proposal R?

S. Should the “light touch” approach applied to Climate Change Agreements operators under the Environmental Permitting (England and Wales) Regulations 2007 continue?

Proposal S

To continue with the existing “light touch” approach.

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75. Do you agree with the analysis in paragraphs 170 to 174 of the Consultation Document?

- Yes
- No

If not, in what way and why?

76. Do you agree that that the existing light touch should continue?

- Yes
- No

Please set out the reasons for your opinion, identifying the advantages and disadvantages of this approach, including the administrative burden and financial cost.

For sites regulated under PPC, or as is now the case EP, then it is sensible to maintain a light touch. All sites are required to meet the basic energy efficiency requirements and the exemption exists only for sector-specific requirements. Its inclusion in CCA allows Target Units to have a greater degree of choice on how energy savings are achieved while providing the environmental benefits and outcomes sought through permitting.

77. Do you consider there would be environmental benefits in removing the light touch?

- Yes
- No

If so, please set out what you consider them to be.

78. Any other comments on Proposal S?

T. Are there ways in which good energy management practices can be further encouraged under Climate Change Agreements?

Proposal T

Proposals are sought on non-mandatory measures that would encourage improved energy management practices by target units.

79. Do you agree that there are benefits to be gained in providing wider encouragement under Climate Change Agreements to ensure that all target units engage in good energy management practice?

- Yes
- No

If yes, please provide details of any proposals you may have for non-mandatory measures.

The current guidance and requirements set out within current the “qualitative requirements” should not be underestimated. We would argue that these parts of the agreements have been equally successful to the overall value of CCA as the energy reduction targets. The key successes of the CCA have been to raise the issue of resource efficiency further up the boardroom agenda. The “qualitative requirements” have played a crucial role in achieving this success.

During an audit, all facilities are currently measured against the “qualitative requirements”. Therefore UK Steel would argue that this successful part of the agreement does not need further strengthening.

80. Any other comments on Proposal T?

OTHER COMMENTS

81. Are there other changes, including more fundamental changes, to the structure of Climate Change Agreements not set out in this consultation which you feel could make the operation of Climate Change Agreements simpler and reduce regulatory cost for business? If so, please explain your suggestion or suggestions in detail, identifying the advantages and disadvantages, including the administrative burden and financial cost.