HM Government

Government response to the consultation on ‘Climate Change Agreements: proposal for scheme extension and views on reforms for any future scheme’

Consultation closed: 11 June 2020

July 2020

Any enquiries regarding this publication should be sent to us at:
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Introduction

The consultation and a recent evaluation of the scheme are published on GOV.UK.

Climate Change Agreements scheme extension and reforms for any future scheme:

https://www.gov.uk/government/consultations/climate-change-agreements-scheme-extension-and-reforms-for-any-future-scheme

Evaluation of the second Climate Change Agreements scheme:

https://www.gov.uk/government/publications/second-climate-change-agreements-scheme-evaluation

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Overview

Summary

- In Spring Budget 2020, the Government announced that the current Climate Change Agreements (CCA) scheme would be reopened to new entrants for a set period and extended for a further two years until March 2025. The consultation that was published in April 2020 set out the Government's proposals for how this extension would be implemented and sought views on potential reforms were there to be a future CCA scheme. It received 101 responses, highlighting the strong interest of businesses and other stakeholders in this area.

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

- There was strong support from businesses and industry for continuation of the scheme. Almost 9,000 facilities across the UK currently benefit from participation in the scheme, and a recent evaluation of the scheme found that in most participating sectors participation was between 80-100% of eligible businesses.

- The Government is not reforming the eligibility criteria for the extension or substantially reviewing existing rules and processes for this interim period. Instead, we intend to explore further reform in these areas as part of a longer-term review of the scheme.

- To inform longer-term review, the consultation invited views on how a future CCA scheme beyond March 2025 could be targeted to better deliver value for taxpayers' money and to support the UK's commitment to net zero. Responses highlighted that a future reformed scheme could help industry in the transition to net zero, whilst supporting the competitiveness of businesses. Respondents also gave views on the eligibility criteria for a future scheme, the need to support both energy efficiency and carbon savings, and the potential for simplification of any future scheme and the wider policy landscape.

Consultation background

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

The proposals in the consultation were developed by considering the findings from the 'Second Climate Change Agreements scheme: evaluation' published on 16 April 2020 (https://www.gov.uk/government/publications/second-climate-change-agreements-scheme-evaluation), as well as input from stakeholder bodies, such as the UK Emissions Trading Group, which have helped to inform Government of the strengths of the scheme and shown where there are opportunities to improve it. The consultation documents posed a series of questions about the Government's proposals.

The consultation was launched on 16 April 2020 and closed formally on 11 June 2020. Three responses were submitted and accepted after this deadline. In setting the timescale for the consultation Government recognised the challenges that COVID-19 represented for stakeholders and gave longer than might be expected for a relatively technical consultation on a mature scheme. Government also recognised that the need to ensure continuity of the scheme required legislation to be passed and new targets to be in place for the start of Target Period 5.

The consultation was published online. Responses were submitted through an online response tool or by email. BEIS held a webinar on 13 May 2020 to answer questions about the consultation proposals.

Summary of Government decisions in response to the consultation

Based on responses to the consultation, the UK Government has made the following decisions:

- **Target Period and Certification Dates -** The confirmed dates are:

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

- **Eligibility -** The current eligibility criteria will be maintained for the extension.

- **New Entrants -** New entrants will be allowed to apply to join existing sector agreements, with the Environment Agency expected to certify eligible new entrant facilities from January 2021. The deadline for applications is extended to 30 November 2020.

- **Baseline for Targets –** The baseline period is to be updated. Where discrete data for 2018 is not currently available, appropriately adjusted Target Period 3 (covering 2017 and 2018) data may be used instead to estimate a 2018 baseline.

- **Target Setting –** The process for agreeing sectoral targets will remain as proposed, although, where required, we have extended the deadline for counter proposals up to 30 October 2020 at the request of sector associations.

- **Surplus –** Surplus will not be allowed to be brought forward to use in the added Target Period 5.

- **Buy-out Price** – This will increase as proposed to £18/tCO2e for Target Period 5. Target Period 4 buy-out remains at £14/tCO2e.

- **Financial Penalty Price –** Increase to the financial penalty price for penalties related to Target Period 5 in line with the buy-out cost per tCO2e for the appropriate target period; the financial penalty will increase to be the greater of £250 or £18/tCO2e.

- **Other Aspects of the Scheme –** We intend to maintain all other scheme rules and processes for the purpose of this extension. A short window to make some specific amendments to agreements will be opened in 2021, with separate guidance to follow on this.

- **Next Steps and Milestones for Target Setting and Variations to Agreements –** In addition to extending the deadline for new entrant applications to 30 November 2020, we confirm an extension of the deadline for sector associations to submit counter proposals for target setting to 30 October 2020.

- **Future Scheme –** We acknowledge the views on the potential reform were there to be a future CCA scheme. The Government will look to confirm a timeline for further engagement on the future of the CCA scheme shortly.

Next steps

Government intends to implement the proposed changes listed above to the CCA scheme extension, including laying the necessary legislation. The Department for Business, Energy and Industrial Strategy (BEIS) and the Environment Agency (EA) will issue further communications regarding target setting negotiations and new/varied agreements.

The Government intends to undertake further assessment of the purpose and targeting of a long-term scheme following the extension. Further details will be set out in due course.

Government Response to the Consultation

Responses received to the consultation

This Government response outlines the consultation position, a high-level summary of the stakeholder responses to the consultation and the UK Government's response to these, organised under each question of the consultation related to the extension and on potential future reforms.

In reporting the overall response to each question, 'majority' indicates the clear view of more than 50% of respondents in response to that question, and 'minority; indicates fewer than 50%. 'About half' indicates an overall response within a few percentage points of 50% (either way).

The following terms have been used in summarising additional points raised in the responses: 'many respondents' indicates more than 70% of those answering the particular question, 'a few respondents' means fewer than 30%, and 'some respondents' refers to the range in between 30% and 70%. This is consistent with the approach of other UK Government responses to consultations.

In the Government response sections, 'we' refers to the UK Government.

We received a total of 101 responses to the consultation, 52 responded online and 49 by email. Of these, 43 were from sector/trade associations (37 of which are Climate Change Agreement holders), 16 were from consultants, 36 from businesses, 3 from individuals, 2 from energy suppliers and 1 academic.

Not all respondents answered the specific questions. Of those who did, the majority of responses were from those who responded online. Responses which did not explicitly express their support or disapproval of the specific proposal, particularly for those received by email, were categorised as 'other.' When summarising stakeholder responses to the consultation, all accompanying written text was analysed for each question.

CCA Scheme Extension - Response to the Consultation

Target Period and Certification Period dates

Consultation Question(s)	91 responses
Q1. Do you agree with the proposed dates for the target and certification periods? Q2. How would these dates affect you and/or businesses within your sector?	

Consultation position

We proposed that the new Target Period (TP) remains as a two-year target period in line with Target Period 1-4 of the scheme. This begins on 1 January 2021 and ends on 31 December 2022. The proposal for the new Target Period would require an extension to Certification Period 5 and a new Certification Period 6 as set out in Figure 1.

Figure 1 Added target and certification periods (including extension to existing CP5)

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

Summary of stakeholder responses to consultation

- Question 1 received a total of 91 responses.

- Nearly all respondents agreed with the proposed dates for the target and certification periods.

- The extension and certainty on the CCL discount for a further 2 years was welcomed. Most agreed that the proposed target and certification dates fit into the overall design of the scheme, following a similar pattern of previous periods. Respondents noted that it provides consistency for operators during a time of economic uncertainty.

- 3 respondents disagreed with the proposal.

- While an overwhelming majority agreed with the proposed dates, some did express concerns regarding the wider pressures on industry, namely COVID-19 and the ongoing uncertainty relating to the UK's exit from the EU. Few respondents felt that they were approaching their energy efficiency potential under these constraints and given their individual investment cycles. On the contrary, one respondent suggested that Target Period 5 would encourage efficiency investments in 2021 and 2022.

Government response

Most participants felt that the proposed dates for new target and certification periods were reasonable and straightforward, as the dates were in line with the current scheme which is well understood by participants.

We understand the challenges of COVID-19 and the range of impacts it has on different sectors. Our approach to the dates for the target and certification periods is to maintain continuity and ensure the twin objectives of the scheme, to drive energy efficiency and maintain competitiveness, are met.

In order to ensure enough time for the reporting process for the new target period, we will vary the certification period currently scheduled to end on 31 March 2023 so that this now ends on 30 June 2023. This is necessary as otherwise participants would not be certified to receive CCL discount between 1 April 2023 and 30 June 2023.

Eligibility

Consultation Question(s)	88 responses
Q3. Do you agree with the proposal to maintain the current scheme eligibility criteria?	

Consultation position

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

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

Summary of stakeholder responses to consultation

- Question 3 received a total of 88 responses.
- The majority of respondents agreed with the proposal.
- Many agreed with keeping the current eligibility criteria for the extension as this is well understood by sectors and operators. It was also suggested that this will ensure that all current operators who continue to meet the existing eligibility would maintain their

benefits of participating in the scheme and minimise the administrative requirements of operators.

- Few respondents disagreed with the proposal.

- Of those respondents who disagreed, most concerns were in regard to specific processes of individual sectors and calling for the inclusion of these processes into the list of eligible processes for that sector.

Government response

The Government welcomes the views submitted on this proposal, including those that supported extending or narrowing the eligibility. We have decided that the CCA scheme extension will maintain the current scheme eligibility criteria for the short extension. This will ensure that all operators who meet the existing eligibility criteria can continue to participate in the scheme. All current operators will be expected to confirm to their sector association that they remain eligible under current scheme criteria before assenting the variation to their underlying agreement for the extension.

New entrants

Consultation Question(s)	85 responses
Q4. Do you agree that we should re-open the extended scheme to allow new entrants to join existing sector agreements? Q5. If so, do you agree with the process for enabling this?	

Consultation position

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

The process for adding new entrants, including how they will be assessed by the Environment Agency and the provision of baseline data, will follow the existing processes as set out in the CCA operations manual[1].

In order to ensure that facilities would have enough time to bring forward additional energy-efficiency investment in order to meet their targets, we will restrict the addition of new facilities to the period prior to the start of Target Period 5. Subject to finalised timing of other elements of this extension, we proposed to close applications for new entrants on 30 September 2020. This would allow the Environment Agency enough time to assess all applications prior to the

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

beginning of Target Period 5. This assessment would follow the same new entrant process as set out in the scheme operations manual.

Summary of stakeholder responses to consultation

- Question 4 received a total of 85 specific responses.
- Of those that responded to this question, all but two agreed with the proposal to re-open the extended scheme to allow new entrants to join existing sector agreements.
- Respondents expressed their support for new entrants as a way to drive energy efficiency improvements across sectors. They also highlighted that closing the scheme to new entrants, at any stage, could create a competitive distortion and establish perverse incentives for investment decisions.
- While many respondents supported opening the scheme to new entrants, there was an overwhelming concern from respondents that the September deadline to join the scheme was tight and proposed various extension periods. Few respondents expressed concerns that operators were being asked to submit applications without an understanding of the baseline year or targets they would be signing up to, and that this created uncertainty and risked unnecessary administrative burden. Others cited COVID-19 which because of furloughed or remote working of staff, would make it difficult for new entrants to collect the information required for an application before the end of September.
- Although 42% of respondents agreed with the proposal and did not express a need for an extension of the new entrant deadline, 54% of respondents who also agreed with the proposal asked for some sort of extension to the new entrant deadline. While a majority of responds who asked for an extension did not provide an indication of how long of an extension was needed, the most common request was for an extension of the new entrant deadline by 3 months. There was also concern that the September deadline was earlier than the previous deadline given for Target Period 4.

Government response

We welcome the views which support the proposal to allow new entrants and note the request for an extension on the new entrant deadline. We have considered the appropriate length of extension in light of the representations and the need to ensure continuity of the scheme and the start of the new Target Period in January 2021.

In response to the consultation and to support new entrants impacted by COVID-19 with limited available resource, we will extend the new entrant application deadline to 30 November 2020. This will ensure that facilities will have enough time to bring forward additional energy-efficiency investment in order to meet their targets. This should allow the Environment Agency enough time to assess all applications ahead of the bulk of Target Period 4 reporting.

Previously when applications for new entrants were closed, the administrative deadline to make an application was July 2018, with all new facilities added by October 2018. Our initial proposal allowed an additional 2 months, and so by extending this further we have given 4 months extra for potential new entrants in these proposals.

We recognise that some new entrants will be submitting their applications to the Environment Agency before sector targets are agreed. We would like to emphasise that 30 November 2020 is the deadline for applying and not the assent of a formal underlying agreement, and would encourage sector associations to discuss with new entrants their counter proposal if they do not agree with the proposed target for their sector.

In light of the finalised deadlines for new entrants and the target counter proposals, it is estimated that all new entrants will have agreements issued by 31 March 2021, and that the earliest certification of new facilities will be January 2021. The exact timing of certification will be dependent on when an acceptable application to join is submitted and there being an agreed sector target in place. Certification will begin on the date on which the underlying agreement takes effect. Certification of new facilities will not be retrospective to an earlier date.

Baseline for targets

Consultation Question(s)	86 responses
Q6. Do you agree with the proposal to use calendar year 2018 for the target baseline?	

Consultation position

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

The Government agreed with the evaluation findings and proposed to update the baseline year for all sector associations and target units to 2018. This was on the basis that data operators should have already collected relevant data for 2018 (the final year of Target Period 3), which would significantly reduce any burden for sector associations and operators in collecting the necessary data to provide to the Environment Agency.

Summary of stakeholder responses to consultation

- Question 6 received a total of 86 responses.
- Some two-thirds of respondents felt it was reasonable to set a new baseline year, given the original baseline year will now be out of date for most businesses, with half of respondents supporting 2018 as the baseline year. Respondents highlighted that as long as the ability to renegotiate the suggested target was there, together with sufficient time to develop a counter proposal, they would support an update to the baseline year.

- Of those respondents who disagreed with using 2018 but agreed with an update to the baseline, most expressed concerns in using 2018 as a single year baseline, citing that this data was not readily available and would be a large administrative burden for merely an extension of the scheme. Many cited COVID-19 as a reason for this resource availability, suggesting that resources would be spent on addressing the impacts of the COVID-19 crisis and that priority for business at the moment is business solvency. There were concerns that using a single year is not representative for industry as single year baselines may cause distortions where certain facilities may have unusual circumstances that year. Additionally, respondents highlighted that carrying out a one-off single year's data collection exercise to get data from every operator in a compressed timescale would introduce errors, therefore suggesting that multiple years would be better to smooth out any anomalies.

- Few respondents suggested making updating of the target baseline period optional for those who wish to do so, recognising that updating the baseline would be welcomed by some.

- Fewer than one-third of respondents disagreed with the proposal.

- Of those who disagreed, a majority expressed concerns that changing the baseline year from 2008 to 2018 ignores a significant proportion of the additional energy savings the sector had made pre-2018, suggesting that this puts early movers at a significant disadvantage because it overlooks all the progress made in energy efficiency improvement over the period 2012 to 2018. Respondents highlighted that some of the participants to the sector agreement have made large capital investments to improve efficiency, including fuel mixes and investing in energy-efficient process machinery. These respondents feel that the change of the baseline will mean that these improvements are essentially disregarded. The change in baseline could effectively commit companies to failing to meet any new target.

Government response

There was clear evidence from the evaluation that the current 2008 baseline is too dated, so we had proposed 2018 to reduce administrative burden through a tie with Target Period 3 reporting.

We note the concerns that updating the baseline would penalise early movers. An update to the baseline captures energy efficient measures made prior to 2018, and the targets that follow this should consider this in what can reasonably be achieved in the subsequent target periods. We welcome and encourage sectors to submit counter proposals to their respective sector targets if they feel the current target proposed against the updated baseline is not appropriate for their sector, and the additional time being allowed for counter proposals to be submitted will help ensure these are suitably evidenced. We believe that agreement of an achievable sector target that is fairly distributed should remove the concern that early movers will be penalised.

While we were surprised that some participants do not collect single year data for 2018, we recognise the current challenges to collecting additional information and the concerns that a single year baseline may not be representative of the industry. We have therefore taken the decision to allow the use of data from Target Period 3, which covers 2017 and 2018, to estimate a single year target baseline, where discrete data for 2018 is not currently available. For the vast majority of participants this is information already submitted and as such should not require additional resource to collect data. Where full Target Period 3 data is not available, for example for those who joined the scheme during Target Period 3, we will ask that 2018 data is provided or, if this is unavailable, further guidance will be provided.

We have decided against allowing the choice of whether to update or retain the current target baseline. This is to ensure equal and fair treatment of all operators in the scheme, supports our proposed straightforward approach to the scheme extension and removes administrative burden.

Target setting

Consultation Question(s)	85 responses
Q7. Do you agree with process as set out for agreeing sectoral targets?	

Consultation position

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

Summary of stakeholder responses to consultation

- Question 7 received a total of 85 responses.

- The majority of respondents agreed with the proposal.

- Respondents were satisfied with the process as set out for agreeing targets. It was expressed that agreeing targets at a sector level seemed a sensible way forward and highlighted that this reduces burden on individual companies.

- Around a third of respondents disagreed with the proposal.

- Of those respondents who disagreed, the majority commented on the targets themselves rather than the process as set out for agreeing sectoral targets. Those that focused on the actual proposed target, highlighted the anticipated difficulties in achieving the target for Target Period 5 due to the impacts of COVID-19 on resource and performance, the uncertainties of Brexit and having already reached their energy efficiency limits.

- Those who disagreed and specifically referred to the process as set out for agreeing targets raised concerns about setting a common 6.67% target setting across all sectors. Respondents also highlighted the timing of benefits, highlighting that investments in energy efficiency take a long time to develop and implement, and that benefits may not be delivered in a 2-year extension. The investments that will affect a site's performance in Target Period 5 are likely to have already been approved, with some stating these were approved on the basis there would be no targets for 2022.

- Those concerned with the resource availability and time pressures to submit counter proposals suggested that targets be extrapolated by 2 years from current sector targets.

- There were a few respondents who requested that a change to target types (i.e. relative basis to absolute basis) be permitted as part of the target setting process. Respondents claimed this would be possible without the need for new data and so could be implemented with minimum difficulty.

Government response

We recognise the challenges COVID-19 presents to industry across all sectors and encourage sectors to continue to share specific case studies with Government on how COVID-19 is affecting businesses. In addition to the support already provided by Government to cope with these unprecedented circumstances, we continue to review how we can lend further support through the CCA scheme. These reflections are also important such that they could help indicate how a long-term future scheme could be structured and ensure competitiveness and energy efficiency.

CCAs are not intended as a straightforward subsidy for energy intensive industries and are designed to encourage businesses to unlock additional energy efficiency potential. As such, targets have been set to reflect the need to decarbonise and improve energy efficiency as required to deliver net zero and achieve the Government's objective to improve energy efficiency by 20% in businesses and industry by 2030.

Final targets will be agreed through bilateral negotiation with sector associations. This is an opportunity to take stock and agree a more appropriate sector specific target proposal, as sectors have developed differently from when original targets were set in 2012. Where sector associations disagree with the proposed 6.67% target, they are encouraged to submit a counter proposal using the tailored evidence templates provided by BEIS. We have noted the impact of COVID-19 on resource availability to submit evidence counter proposals by 31 July 2020, and therefore, where required, have extended the deadline to dates up to 30 October 2020 at the request of sector associations. Please refer to the section 'Next steps and milestones for target setting and variations to agreements' for further detail.

Surplus

Consultation Question(s)	88 responses
Q8. Do you agree with the proposal that surplus should not be brought forward for use in the added target period?	

Consultation position

- Surplus provides a mechanism for operators to bank overperformance from a target unit in one Target Period to offset any shortfall in performance in subsequent Target Periods. This helps ensure that operators are not discouraged from taking early action against the longer-term targets that had been set to 2020.

- It was proposed that surplus should not be brought forward in the added target period, to ensure that Target Period 5 targets are met based on actual performance and that the extension will deliver additional energy/carbon savings.

Summary of stakeholder responses to consultation

- Question 8 received a total of 88 responses.

- Of those who responded, 22% agreed with the proposal.

- Those respondents who agreed with the proposal that surplus should not be brought forward for use in the added target period were concerned that businesses which have a lot of banked surplus would mean that they are not incentivised to reduce energy use and get the benefits without additional action. A few respondents noted this would have no impact as they were not expecting a surplus.

- More than half of the respondents disagreed with the proposal.

- Of those respondents who disagreed, many expressed concerns that not being able to bring forward surplus in the added target period would unfairly penalise early investors. Respondents felt that companies that have already invested in improving energy efficiency should not be unduly penalised in the extension of the scheme.

- While the majority of respondents rejected the proposal to cancel carryover of surplus from Target Period 1 - Target Period 4, few agreed that not all surplus should be retained of which most suggested that at a minimum surplus from Target Period 4 be carried over.

Government response

A consequence of the proposed re-baseline to Target Period 3 is that any over- or under-performance in the scheme through to the end of Target Period 3 will be captured within the new baseline. The target negotiation process is intended to allow this to be captured and for a suitable target for Target Period 5 to be agreed which considers what is left to be implemented and how much of this is likely to be done by 2022.

We recognise that over and underperformance will vary within a sector, and that it is important that targets are fairly distributed amongst operators to ensure that those who have made earlier progress are not unfairly penalised if surplus is not available to meet underperformance. The additional time allowed for this should help ensure targets are fairly distributed to operators in each sector.

Operators who over-perform on their targets will also already be benefiting financially from lower energy use and associated emissions. We are clear that any extension should result in additional energy / carbon savings to justify qualification for a further 2 years of significant CCL discount.

Early investors will benefit from a lower Target Period 3 baseline when agreeing targets for Target Period 5. Again, we encourage sectors to submit counter proposals if they disagree with the 6.67% target proposal.

Some suggested that only Target Period 4 surplus should be carried forward. However, as Target Period 4 performance is not yet known, not allowing surplus means that sector associations and operators can engage with the target negotiation process with the understanding that targets will need to be met entirely through reported performance and can plan accordingly.

Analysis of Target Period 3 data shows that, based on accumulated surplus to that point, 47% of target units would be able to maintain their performance at Target Period 3 levels with no improvements and be able to fully meet a 6.67% target against a Target Period 3 baseline though use of banked surplus.

We therefore will maintain our proposal to not allow surplus to be brought forward in the added target period.

Buy-out price

Consultation Question(s)	91 responses
Q9. Do you agree with the proposal to increase the buy-out price to £18/tCO2e? Q10. What would the financial and operational impacts be of this buy-out change to you and/or businesses within your sector?	

Consultation position

We proposed that the buy-out price for Target Period 5 should be set at £18 per tonne CO2 equivalent (£18/tCO2e). This was on the basis that a previous increase in line with Retail Price Index uprates did not materially change the scale of buy-out use when comparing the 3 Target

Periods, and that the buy-out price should be considered alongside the increased value of the CCL discount since 2019. The increase is intended to ensure buy-out remains a suitable disincentive for operators to achieve targets without implementing energy-efficiency measures whilst still ensuring that those who have relatively low levels of underperformance maintain a net benefit when considering the CCL discount received.

Summary of stakeholder responses to consultation

- Question 10 received a total of 91 responses.
- Around a third of the respondents agreed with the proposal.
- A number of respondents recognised that the value of the CCL discount had increased and thus felt it was logical that the buy-out price be increased.
- Few respondents felt that the current buy-out price did not provide sufficient motivation to act as an incentive to ensure operators meet CCA targets and that an increase in financial consequences was required.
- About half of respondents disagreed with the proposal.
- The majority of those who disagreed cited the economic impacts of COVID-19 and uncertainty arising from EU exit will mean that investments in energy efficiency in 2021 and 2022 will not be high priority with international businesses trying to recover. Cash for investment will be slow to recover and if cash must be accrued and allocated for larger buy-out costs then it will reduce any investment businesses may be able to make during Target Period 5. Few respondents claimed that the buy-out increase would penalise businesses when they could least afford it, especially those heavily exposed to international competition and not operating at full capacity because of COVID-19.
- There was a concern that the increase in buy-out price would reduce the cost-effectiveness of being in the scheme for many businesses, especially for small and medium-sized enterprises (SMEs) who may have to terminate their agreement. Few respondents felt that more financially able organisations may have an advantage over smaller and less profitable entities as their means allow for paying out the buy-out price without significant financial impact on the balance sheet.
- Few respondents were concerned that there may be a cumulative negative impact of other changes being proposed (updating the baseline, not allowing surplus to carry forward, target tightening etc.) that could ultimately result in large buyouts.
- Few suggested that the increase to the buy-out cost may be acceptable, but only if carbon emissions factors used for the purpose of calculating buy-out are updated to more recently published emissions factors (the carbon emission factors currently used are from 2012).

Government response

We acknowledge the concerns raised that an increase to the buy-out rate would increase the cost of buy-outs in Target Period 5, where operators fail to meet their new target. However, we believe that the right way to mitigate this is through the target negotiation process where a suitable sector level target can be agreed, and with time allowed for this to be fairly distributed to operators in each sector. The additional time we are allowing for this process should enable this to happen.

We agree with respondents that the emissions factors used are dated, noting that if these were to be updated it would need to be for Target Period 5 only to avoid complications with Target Period 4 targets/buy-out and surplus already accumulated. However, the existing emission factors have been considered in the proposed £18/tCO2e figure, as we have analysed how underperformance when converted to tCO2e relates to the now increased value of the CCL discount. If the emissions factors were updated, then the buy-out figure would need to be re-visited too. As these emission factors will be used for calculating Target Period 5 buy-out and, for the very small number of carbon targets, performance, for simplicity we are opting to keep these as they stand for the extension.

We will therefore be proceeding with the proposed £18/tCO2e buy-out cost for Target Period 5 to ensure this is commensurate with the increased value of the CCL discount.

Financial penalty price

Consultation Question(s)	87 responses
Q11. Do you agree with the proposal to increase the financial penalty price in line with the buy-out cost per tCO2e for the appropriate target period?	

Consultation position

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

Summary of stakeholder responses to consultation

- Question 11 received a total of 87 responses.
- Around two-thirds of respondents agreed with the proposal.
- Some felt this was consistent with financial penalties in previous Target Periods, suggesting that most operators have a good understanding of the scheme and do not

expect many sites to encounter penalties. Of those who agreed, most believed this to be a reasonable increase.

- Fewer than one-third of respondents disagreed with the proposal.

- Of those respondents who disagreed, many felt the price increase was unreasonable given the amount of personnel, time and money dedicated to compliance with the scheme, suggesting the financial penalty remain unchanged. Others felt it was unfair to penalise manufacturers for making a mistake, if they are willing to correct it, and suggested to remove the financial penalty entirely.

- Responses to this question were strongly linked to the previous question on buy-out price, where those who disagreed with an increase to the buy-out price, were more likely to disagree to an increase to the financial penalty price.

Government response

Overall, there was broad support from respondents for an increase to the financial penalty price in line with the buy-out cost per tCO2e for the appropriate target period. As a result, the Government intends to make these changes to the financial penalty price for the CCA scheme extension. For inaccurate data in relation to baselines or reporting for Target Period 5, the penalty will be the greater of £250 or £18/tCO2e.

Other aspects of the scheme

Consultation Question(s)	84 responses
Q12. Do you agree with the proposal to maintain scheme rules for the purpose of this extension?	

Consultation position

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

Summary of stakeholder responses to consultation

- Question 12 received a total of 84 responses.

- Around 80% of respondents agreed with the proposal.

- Most highlighted that the current scheme is relatively simple to administer and preferred to maintain consistency for the purpose of this extension. Respondents recognised the short timescales for the extension and felt that any new rules would create unnecessary administrative burden.

- Few respondents disagreed with the proposal.

- Of those respondents who disagreed, few called for the eligibility rules to be amended to enable whole sectors to participate in the CCA scheme. Others echoed their concerns from question 6 on target setting regarding requests to change the currency of target types (i.e. from a relative basis to an absolute basis). Few also raised concerns over retaining the primary electricity factor at 2.6.

- There were also calls for more flexibility on the "bubbling and un-bubbling"[2] of target agreements which is currently not permitted for existing participants.

Government response

Overall, there was broad support from respondents to maintain other schemes rules and processes for the purpose of this extension. As a result, the Government intends to not make additional changes to other aspects of the scheme.

Regarding the primary electricity factor, the 2019 Digest of United Kingdom Energy Statistics (DUKES) dataset suggest that the primary electricity conversion factor is still close to 2.6 and as such we will not be updating this for the extension.

We appreciate that allowing new entrants to join the scheme and the resetting of the baseline means that there may need to be some limited scope for changes to be made to the agreements for Target Period 5 should there be reasonable justification. We are therefore proposing that there will be a short window in 2021, after the initial variations are made to agreements to implement Target Period 5, where these further variations can be considered. This could include allowing new entrants to be "bubbled" into existing agreements and for the provision of new baseline data when complete 2018 / Target Period 3 data is not initially available. Guidance on the permitted changes will be provided in due course.

Requests were made for changes between energy/carbon or relative/absolute targets at a sector level. While we are not inclined to allow these changes for the purpose of the extension, we will consider this as part of the counter proposal negotiation process.

[2] "Bubbling" refers to multiple facilities being included within a single Target Unit. "Un-bubbling" refers to the exclusion of facilities from a single Target Unit.

Next steps and milestones for target setting and variations to agreements

Consultation Question(s)	88 responses
Q13. Do you agree with the proposed timeline for the target setting and agreement variation process? Q14. How would the proposed timeline affect you and/or businesses within your sector?	

Consultation position

Please refer to the consultation published on 16 April 2020 for the proposed next steps timing following the launch of the consultation. Following the consultation, this has since been updated. Please refer to updated timeline below.

Summary of stakeholder responses to consultation

- Question 13 received a total of 88 responses.
- More than a third of respondents agreed with the proposed timeline for target setting and agreement variation process.
- Around two-thirds of respondents disagreed with the proposal.
- Of those respondents who disagreed, nearly all felt that the timescales were too short. Of which, one third specifically requested an extension of the deadline to submit counter proposals and 26% specifically requested an extension of the new entrant application deadline. Respondents proposed varying dates for any extension.
- These respondents highlighted that the deadlines for submitting the target counter proposals and new entrant applications are very tight, especially during a time when businesses have been severely affected during the COVID-19 pandemic and resources are not available as key expertise and personnel have been diverted to deal with recovery from the pandemic.

Government response

We acknowledge the challenges of resource availability from COVID-19 to meet the target setting process and new entrant applications, and therefore we have decided to grant an extension to both deadlines.

The deadline for sector associations to submit counter proposals for target setting will be extended, where required, from 31 July 2020 to up to 30 October 2020 at the request of sector associations. Recently announced Government support which provides financial relief to businesses who bring back furloughed staff, will assist in the return of resource availability.

As described above in the “New Entrant” section of the Government response, we confirm the extended deadline for new entrant applications is 30 November 2020.

An indicative timeline is set out below. It may be possible for sector associations to propose the distribution of the sector target to operators at the same time as the sector targets are negotiated. All new entrants will initially be placed in new target units. They can then potentially be “bubbled” into existing target units in the correction window in 2021, as described in the section above.

Please note that it may be possible to complete some processes earlier where sector targets are agreed between BEIS and sector associations sooner and where new entrant applications are made in advance of the 30 November deadline.

(green)	New Entrant Process
(yellow)	Target Setting Process

Action	Date
Legislation enabling scheme extension to be laid (subject to Parliamentary timetable)	**September 2020**
Environment Agency (EA) issue variations to all existing agreements to include the new and varied text.	**October 2020**
Deadline for evidence templates to be received by BEIS. Six weeks then allowed for BEIS and sector association to agree sector targets to ensure this is completed before beginning of Target Period 5.	**30 October 2020**
Deadline for new entrants to make applications.	**30 November 2020**
Expected final date for Target Period 5 targets to be agreed between BEIS and sector associations. This may be completed earlier where counter proposals are submitted in advance of 30 October deadline or the target proposed by BEIS is accepted.	**11 December 2020**
First opportunity to calculate Target Period 5 target for new entrants to new target units.	**14 December 2020**
EA issue variation notices to sector associations requesting distribution of sector targets to target units within 20 working days.	**16 December 2020**

Action	Date
Deadline for all current operators to confirm to their sector association that they remain eligible under current scheme eligibility criteria as set out in the umbrella agreements. Sector associations provide EA with list of those who have or have not confirmed eligibility.	**16 December 2020**
First new entrants underlying agreements issued and certified on assent. Agreements take effect on date of assent.	**From January 2021**
Deadline for EA to receive sector target distribution from sector associations.	**18 January 2021**
EA agree final target distribution with sector associations.	**1 February 2021**
EA issue variation notices to operators to include a value for the Target Period 5 target in their underlying agreements.	**8 February 2021**
EA administrative deadline to determine all new entrant applications.	**1 March 2021**
Absolute deadline for new entrant certification.	**31 March 2021**
Correction window potentially allowing new entrants to be “bubbled” into existing agreements and for the provision of new baseline data when complete 2018 / Target Period 3 data is not initially available.	**July – September 2021 (TBC)**

Potential Future Reforms - Response to the Consultation

Eligibility

Consultation Position

On the basis of the recent evaluation of the second CCA scheme, which concluded that the scheme drove better performance and therefore better value for taxpayers' money for a subset of scheme participants, the Government asked stakeholders for views on whether the eligibility criteria should be updated in future to consider alternative factors and gathered views on suitable methods for determining eligibility for a future scheme. The Government also asked stakeholders to consider what other changes might be considered to support participants' performance.

Summary of stakeholder responses to consultation

Consultation Question(s)	81 responses
Q15. What are your views on the eligibility criteria for sectors and operators to join any future CCA scheme?	

- Question 15 received a total of 81 responses.
- The largest proportion of respondents supported maintaining the current eligibility criteria. Over a quarter of respondents believe that the current criteria are clear and should remain the same.
- Of those who supported expanding eligibility, many suggested that the scheme should be expanded to cover new sectors, including all energy-intensive sectors. Several respondents expressed support for a sector-based approach, which would open the scheme to all sites and processes in relevant sectors. Others emphasised that any changes should not exclude those already in the scheme.
- Few respondents suggested that energy-efficiency comparisons should not be made between fundamentally different sectors and others believed the scheme's eligibility criteria should be targeted at the most trade exposed sectors and the ones most at risk of carbon leakage.
- Of the small proportion of respondents who would like to see the scheme limited, a few respondents believe that the criteria need to evolve to meet Government targets or remain relevant, whilst others suggested that to improve value for money the scheme would need to phase out sectors.

- A few respondents suggested using completely different eligibility criteria. Of these, a few suggested that BEIS should make ISO50001 or similar a recognised accreditation for the scheme, whilst others suggested using Nomenclature des Activités Économiques dans la Communauté Européenne (NACE) / Standard Industrial Classification (SIC) codes, instead of the energy and trade intensity tests.

Consultation Question(s)	72 responses
Q16. Is the previously used energy intensity and trade intensity criteria a suitable method for determining eligibility for sectors in the future?	

- Question 16 received a total of 72 responses.
- About half agreed with the suggestion that Government could revert to using energy- or trade intensity tests in its eligibility criteria.
- Of those who agreed, some expressed concern that the Environmental Permitting Regulations 2010 (EPR) criteria does not currently have the required effect. A few respondents suggested that a tiered system within the CCA scheme could be adopted to ensure value for money for the Government.
- However, some respondents disagreed with the suggestion.
- Of those who disagreed, some respondents wanted the eligibility criteria to remain the same. A proportion of these believe that using the energy-intensity and trade-intensity criteria only would cause a significant number of facilities to drop out of the scheme.
- A few respondents raised concerns that sites within certain sectors would not have the data to prove that some of their processes are energy intensive. Others expressed concerns that some industries would not qualify for the scheme if eligibility is revised in line with the proposal. A few respondents suggested that using the energy-intensity and trade-intensity criteria only, could be a barrier to new entrants.
- Of those that did not specify a response to the question, a few respondents requested that the Government consult on any future eligibility proposal.

Consultation Question(s)	73 responses
Q17. Would an energy intensity test at facility level be a suitable method, in part, for determining eligibility for a future scheme?	

- Question 17 received a total of 73 responses.
- Few respondents agreed with the suggestion. Of those who agreed, a number of respondents believe that the proposal would help the Government improve the

scheme's value for money. A few respondents expressed concerns that sector level tests might exclude unique or emerging industries which do not readily fit into another sector. Another suggested that support should be given to sites who do not know how to improve their energy efficiency.

- Some respondents would like the current system to remain unchanged.
- The majority of respondents disagreed with the suggestion that an energy intensity test at facility level was a suitable method, in part, for determining eligibility for a future scheme.
- Of those that disagreed, many suggested that eligibility should be judged at sector level. Several respondents expressed concern that a site level test could lead to certain sites securing a competitive advantage over others. One respondent believed that facility level testing could be a barrier to SMEs benefitting from the scheme.

Consultation Question(s)	55 responses
Q18. What changes could be made to drive more savings from those sectors the evaluation found to be delivering less than energy-intensive sectors?	

- Question 18 received a total of 55 responses.
- Of the 55 responses, the largest proportion of respondents believe that the CCA scheme should, in the future, be driven by carbon savings to incentivise the use of renewable energy.
- The second largest proportion of respondents would like the scheme to recognise renewable energy.
- A few respondents would like to be able to access grant schemes to help them to invest in technology, highlighting that access to capital is the barrier to investment for SMEs.
- A few respondents would like to be able to access to guidance for investments. Of these, one respondent suggested setting up a knowledge sharing forum between industry sectors for this purpose.
- Several respondents questioned the evaluation finding that there was such a difference between the energy-efficiency savings made by participants who are eligible through the Environmental Permitting Regulations 2010 (EPR) and participants eligible through the Climate Change Agreements (Eligible Facilities) Regulations 2012 (based on energy-intensity). Of these, many suggested that the difference between the 4% and 11% quoted in the evaluation was mainly due to energy-intensive sectors coming into the CCA scheme later and there being a greater potential for savings versus the EPR sectors who have been in the scheme since 2001.
- A few respondents suggested that targets should be bespoke to sectors and that the CCA scheme should introduce sector roadmaps tailored to each sector. A few would

like to see the recommendations from the Clean Growth Strategy[3] reflected in a new CCA scheme.

Government response

The Government thanks stakeholders for the responses received and the observations and suggestions made about how well the CCA eligibility criteria work now, and how they could be improved to support better targeting and to ensure that new and emerging energy intensive industries could benefit from a CCA style scheme in the future. The Government recognises that the energy intensity varies within a sector and notes the concern that facility level tests could undermine umbrella agreements and sector associations.

Evidence submitted in response to this consultation will be used to support future opportunities to engage with the design of any CCA scheme succeeding the short extension.

Target focus and technologies considered

Consultation position

Recognising that the commitment to transition to a net zero economy by 2050 means that all sectors of the economy need to contribute towards very significant carbon reductions, the Government asked stakeholders how the CCA scheme targets could be revised to support greater carbon reductions, alongside the current scheme focus on support for energy efficiency. The Government was particularly interested to hear if targets expressed in terms of carbon reductions were feasible and how best to set these in order to ensure better carbon performance in the long term.

Reducing carbon emissions is expected to a large extent to depend on technological solutions. Some equipment may only deliver a return if payback periods are longer. The Government is interested in understanding more about how targets, the payback periods and permitted technologies could unlock better carbon savings in the long term.

Summary of stakeholder responses to consultation

Consultation Question(s)	72 responses
Q19. How could targets be set to enable greater levels of additional carbon savings from a longer-term scheme?	

- Question 19 received a total of 72 responses.
- Of the 72 responses, the largest proportion of respondents suggested transitioning to carbon targets.

[3] https://www.gov.uk/government/publications/clean-growth-strategy

- Of these, some would like the CCA scheme to allow surplus carbon to be traded in the future. A few respondents suggested that carbon and energy efficiency savings need to be decoupled as CCAs are currently a barrier to investment in reducing greenhouse gas emissions. They have highlighted that if sectors electrify to decarbonise, their energy efficiency worsens, and they incur a CCA penalty.

- Some respondents suggested that targets should incentivise carbon reduction and use of renewables. Several respondents would like the scheme to recognise the use of renewable energy.

- A few respondents highlighted that many companies use the same budget for both carbon and energy-efficiency savings. Moving to carbon targets would allow companies to implement a broader suite of carbon and energy reduction projects.

- A few respondents suggested that the scheme should regularly review primary energy factor for electricity and carbon factors. Some respondents would like the scheme to simplify its reporting processes so that a business's carbon pricing obligations are streamlined, and double counting is avoided.

- A few respondents suggested that the scheme should keep the option for relative targets, while some respondents suggested that the scheme should adopt absolute carbon targets.

Consultation Question(s)	64 responses
Q20. What maximum payback should be considered for technologies in scope for target setting for a longer-term scheme?	

- Question 20 received a total of 64 responses.

- Of the 64 responses, the largest proportion of respondents supported 2-year payback periods.

- Of these, a few respondents suggested that 2 years is suitable for energy efficiency projects and a few highlighted that 2 years is the standard payback period length. A few respondents would like certainty on the future of the scheme if the paybacks are to be any longer than 2 years.

- The second largest proportion of respondents believe that a 5-year payback period would be suitable and would support major capital investments. Of these, a majority suggested that they would need a long-term commitment from the Government to make a 5-10 year investment viable.

- A few respondents suggested that any reduction targets should accurately reflect the timescales for the deployment of decarbonisation technologies, which would need longer paybacks.

- A few respondents suggested that a 4-year payback period would be suitable. Of these, one thinks that this should be the maximum length of payback period that is considered.

One respondent suggested that a 12-18 month payback period would be suitable for small projects and investments. There were a few respondents who would like to see payback periods increase to over 7 years.

Consultation Question(s)	65 responses
Q21. Which technologies should be considered in setting longer-term targets?	

- Question 21 received a total of 65 responses.
- Of the 65 responses, the largest proportion of respondents support the incorporation of low-carbon technologies, renewable energy, and on-site renewables.
- Of these, several respondents would like to see green grid electricity recognised by the scheme.
- Hydrogen, Carbon Capture, Utilisation, and Storage (CCUS), solar panels and wind farms were the most frequently mentioned technologies that respondents would like to see recognised or incorporated in the CCA scheme.
- Battery storage, heat pumps, biogas, biomass, nuclear, natural gas, the decarbonisation of heat and combined heat and power (CHP) were each mentioned over three times by respondents.
- The second largest proportion of respondents have suggested that a review of each sector should be undertaken to understand the different options. Of these, a few respondents suggested that sector roadmaps should be introduced to reflect sector differences.
- A few respondents would like Government support to help them invest and support companies to come off the grid. Of these, a few would like access to grant schemes.
- A few respondents would like improved monitoring and smart and sub-metering. Of these, one would like smart meters to be mandatory.

Government response

The Government thanks stakeholders for the responses received and the suggestions made about target focus and possible technologies that should be considered in setting longer-term targets. The Government recognises the interest in carbon reduction targets, alongside energy efficiency, and notes the support for incorporating low-carbon technologies, renewable energy and on-site renewables and flexibility technologies such as batteries and other energy storage in the design of any future CCA scheme. The Government also notes concerns from respondents that SMEs cannot afford larger investments and that some businesses would need help for longer payback measures.

Responses submitted will be used to support further opportunities to engage with the future of the CCA scheme.

Other potential reform areas

Consultation position

Any reform is an opportunity to address shortcomings and inefficiencies in the scheme. The Government therefore wanted to take this opportunity to ask stakeholders what aspects of the CCA scheme should be reconsidered in any re-design of a replacement scheme. In particular, we asked stakeholders to reflect on how well the scheme works with similar reporting regimes, and where there might be opportunities to reduce administrative burdens and align the scheme better with other policies.

Summary of stakeholder responses to consultation

Consultation Question(s)	71 responses
Q22. For any potential longer-term CCA scheme beyond this extension, what other changes would you like to be considered?	

- Question 22 received a total of 71 responses.
- Of the 71 responses, some suggested that there should be only one scheme for carbon reductions that businesses must comply with. Several respondents suggested that the CCA scheme aligns with other schemes to reduce administrative burden for businesses. Of these responses, it was suggested that a common format for data reporting is introduced across sectors.
- Some respondents suggested that a future scheme should measure carbon emissions to encourage the use of renewable energy. Of these, a proportion would like to be able to trade any surplus carbon. Several would like the scheme to factor in decarbonisation of the grid. This could be done by updating emissions factors regularly and recognising renewable fuels.
- Several respondents disagree with stringency tests being applied when a company changes ownership and would like companies to be able to continue grouping sites together (i.e. in a “bubble”).
- A few respondents expressed a desire to engage with a future consultation on long-term reform to the CCA scheme, and a single respondent wants broader reform of the Climate Change Levy (CCL) so that it supports decarbonisation.
- A few respondents suggested that buyout should be reinvested by Government into energy saving projects. The Government notes the suggestion by one respondent to incorporate carbon offsetting.

Government response

The Government is grateful for the responses it has received and will consider how any replacement could be designed to work better with other schemes, including the potential to reduce the administrative burdens on businesses. The Government also read with interest stakeholders' observations on the interaction between carbon-based targets and the decarbonisation of the power grid.

The Government will look to confirm a timeline for further engagement on the future of the CCA scheme shortly.

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

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