

EU Emissions Trading Scheme

Frequently Asked Questions following the announcement of the final allocation list for the UK National Allocation Plan (2005 – 2007)

Registry	1
Sector-level	1
Installation-level.....	2
Temporary exclusion for Climate Change Agreement participants.....	4
Regulations	4
New Entrant Reserve	5
Missing or Late Installations	6

Registry

When will registry accounts be opened and allowances be issued?

Now that the installation allocations have been announced the UK NAP table can be entered into the CITL (Community Independent Transaction Log) and allowances can be issued by the UK Registry. It is expected that the Registry will become accessible to account holders, and therefore available for trading, sometime later this week. Details of how to access Registry accounts will now be sent to authorised representatives .

Can private traders open accounts on the registry?

Those wishing to open accounts can go through the necessary administrative procedure now, to ensure they are ready to trade as soon as possible. Further details of the required account application documentation can be found on the Environment Agency's website¹.

Further information relating to the registry may be found at:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/registry/index.htm>

Sector-level

Why have sector allocations changed since the 14 February list?

Sector allocations may have changed since the revised provisional allocation list published on 14 February due to improvements in data, and the correction of errors that were highlighted to us following that publication and sent to us by the closing date for comments (4 March 2005). For example, these include changes to sector classification and updated verified historic data submission.

How has my installation been classified in a sector?

Sector allocation has been based on the sector in which installations are modelled by the Department of Trade and Industry's (DTI) Updated Energy

¹ See: <http://www.environment-agency.gov.uk/business/444217/590750/590838/1009544/1009655/1009773/?lang=e>

Projections (UEP) and the Digest of UK Energy Statistics (DUKES). Where relevant, an installation's Climate Change Agreement (CCA) classification has been based on which CCA target their energy is covered by. We have reviewed the sector classification of all installations that raised queries with regard to their sector classification since the publication of the provisional allocation list in February 2005 and are satisfied that all installations are classified correctly.

How has the allocation to each sector been calculated?

The methodology for calculating allowances at the sector level was established following various consultations with industry during 2003 and 2004. Appendix B of the National Allocation Plan (NAP) shows how the different input assumptions are used in the calculations. In general, sector allocations are calculated by adding 2002 emissions data from all installations in a sector and multiplying this by the UEP growth rate. The allocation methodology that the UK has adopted is intended to allocate emissions in line with business as usual projections to each sector, except for the generator sector which will be contributing extra emissions reductions.

Installation-level

Why is my installation-level allocation lower than historic emissions?

The allocation methodology has been developed following a long period of consultation and is designed to allocate allowances to each sector according to estimated projected business as usual emissions, with the exception of the electricity generation sector. Once the sector total is determined, and a contribution to the new entrant reserve removed, allowances are distributed on the basis of each installation's relevant emissions. The allocation methodology needed to be transparent, consistent, objective and meet the other criteria in the EU Emissions Trading Scheme (EU ETS) Directive. The allocation methodology provides for allocations to be divided between installations on the basis of their historic emissions during the baseline period. Whilst overall the allocations to sectors are consistent with projected emissions, allocations to individual installations will vary depending on the proportion of historic emissions attributable to each installation.

All installations within the same sector that have the same standard methodology applied to their installation should receive the same percentage reduction on their relevant emissions figure. An installation's relevant emissions figure is calculated by averaging the historic emissions during the baseline period after deducting the lowest year's emissions, therefore providing an artificially inflated representation of 'average emissions'. However, exceptional rules (baseline changes, rationalisation and commissioning (BCR) and temporary closure) have been adopted to address a number of specific situations where the standard allocation methodology led to significant anomalies. The rules on baseline changes, rationalisation and commissioning were applied to eligible installations in respect of which an application was made by the required date.

Why is my allocation inconsistent with other installations in my sector?

Government published an Explanatory Note alongside the revised provisional allocation list on 14 February, which provided details of installation level allocations, including an example of the standard allocation methodology. As mentioned above, all installations within the same sector that have the standard methodology applied to their installation should receive the same percentage reduction on their relevant emissions figure. However, installations which started operation in 2003 received an allocation based on the benchmarking methodology, as these installations did not have sufficient historic data to allow the standard methodology to be used, and so are not subject to the same percentage reduction on their relevant emissions. It is also important to note that a number of installations have had BCR or temporary closure rules applied to their allocation methodology to account for changes at the installation during the baseline period and therefore their allocations may be calculated on a unit by unit basis resulting in a different percentage reduction from relevant emissions.

Why have allocations changed since the provisional list of installation level allocations was published?

The publication of the revised provisional allocation list on 14 February 2005 was for the purpose of providing operators with an indication of the likely number of allowances they might receive, and to provide an opportunity for the identification of any errors of fact in baseline emissions data or allocations. This list was clearly identified as provisional, because the identification of any errors of fact in relation to one installation would affect allocations in the rest of that sector. Also, at the time of publishing the provisional list there were a few outstanding issues, such as appeals against the application of the baseline, commissioning or rationalisation rules, that could have led to changes in allocations. Additional information that may have led to changes to the allocation list since February include updated verified historic data, changes in sector classification and better information on applications to the new entrant reserve, providing this information was provided by the deadline of 4 March 2005.

What if I recently varied the scope of my GHG permit and the variation affects baseline data in my NAP form and verification opinion?

Defra provided an opportunity for any such changes to be incorporated following the publication of the revised provisional allocation list on 14 February, and submission of data was required by 28 February. It is now too late to have any such changes taken into account which would increase the relevant emissions for the installation. However, if an operator provided false or misleading information for the purposes of developing the NAP and that information has resulted in an over-allocation to an installation, the Secretary of State has power under the Greenhouse Gas Emissions Trading Scheme Regulations 2005 to reduce the number of allowances to be issued in respect of that installation in future years of the Scheme.

If the change in scope is as a result of the addition of one or more technical units since 1 January 2004, you are entitled to apply for a free allocation from the new entrant reserve. See the DTI website for further details².

My installation has closed/ is due to close, what action should I take?

You are under a legal obligation to apply to your Regulator to surrender your permit by 21st May or, if later, within one month of the date on which the activities covered by the permit ceased. It would also be helpful if you could notify Defra and the DTI³.

Temporary exclusion for Climate Change Agreement participants

What progress has been made on the UK's application for temporary exclusion for installations covered by Climate Change Agreements?

Installations covered by Climate Change Agreements (CCAs) who wished to make use of the temporary exclusion provision were asked to apply by 4 March 2005. The UK submitted an application to the European Commission on 30 March 2005. A copy of the application, as well as a list of the installations that applied for temporary exclusion on the basis of having an existing CCA is available on the Defra website⁴. We will advise operators affected by this application of the outcome of our application once a formal decision is reached.

Regulations

I have heard there are new regulations relating to the Scheme – what are they for?

The Greenhouse Gas Emissions Trading Scheme Regulations 2005⁵ (Statutory Instrument 2005 No. 925) ("2005 ETS Regulations") entered into force on 21 April 2005, revoking and replacing the existing Greenhouse Gas Emissions Trading Scheme Regulations 2003 ("2003 ETS Regulations") and the Greenhouse Gas Emissions Trading Scheme (Amendment) Regulations 2004.

The 2003 ETS Regulations (which came into force on 31 December 2003) transposed the EU Emissions Trading Directive into UK law. The Regulations provided the necessary legal framework and detailed rules for the purpose of implementing the EU Emissions Trading Scheme in the UK. Amendments to the 2003 ETS Regulations were required to enable the implementation of various policy decisions that had already been made public as part of the preparation of the National Allocation Plan following previous work and consultation with respect to the UK implementation of the EU ETS (such as new entrant and closure policy) and to take account of further EU implementing

² <http://www.dti.gov.uk/energy/sepn/euets.shtml#newentrant>

³ eu.ets@defra.gsi.gov.uk (Defra) and ets.ner@dti.gsi.gov.uk (DTI)

⁴ See: <http://www.defra.gov.uk/environment/climatechange/trading/eu/nap/exclusion.htm>

⁵ The Regulations are available from the HMSO website at: <http://www.legislation.hmso.gov.uk/si/si2005/20050925.htm>.

legislation. Amendments were also necessary to enable regulators to recover the costs incurred when exercising their functions under the Scheme.

Draft amending Regulations to give effect to these policy decisions were consulted on in late 2004 and these amendments have subsequently been incorporated into the 2005 ETS Regulations. For ease of reference, a single consolidated 2005 version of the Regulations has been created (rather than retaining the 2003 ETS Regulations and introducing separate amending Regulations).

Further information on the new Regulations is available at:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/info/directive.htm#regulations>.

New Entrant Reserve

I have applied to the new entrant reserve – when will I hear the outcome of my application?

For those new entrants who have already applied to the new entrant reserve (NER), Regulators have begun contacting operators and preparing to process applications. However, in accordance with the ETS Regulations⁶, Regulators cannot formally determine applications until the UK National Allocation Plan has been legally designated the 'approved national allocation plan'. The Regulations designating the UK NAP are expected to come into force in early June 2005. Once Regulators have the power to determine applications, Regulators will be required to assess the applications within two months (subject to requests for further information, including verification), although Regulators will seek to determine applications as soon as possible.

A list of installations that have already applied to the NER is available on the Environment Agency's website⁷.

I haven't yet applied for allowances from the new entrant reserve. Can I still apply?

Yes, you can still apply. Operators who wish to apply for allowances from the new entrant reserve but have not yet done so should look at the relevant Regulator's website for details about eligibility, obtaining a valid permit for the new activity and the application process:

The Environment Agency for England and Wales
www.environment-agency.gov.uk/emissionstrading

Scottish Environment Protection Agency for Scotland
www.sepa.org.uk/air/index.htm

The Department of the Environment Northern Ireland for Northern Ireland

⁶ See: <http://www.opsi.gov.uk/si/si2005/20050925.htm>

⁷ See: <http://www.environment-agency.gov.uk/business/444217/590750/590838/1009544/1009655/1009719/?lang=e>

<http://www.ehsni.gov.uk/environment/industrialPollution/emissionstrading.shtml>

For offshore installations, the Department of Trade and Industry at:

<http://www.og.dti.gov.uk/environment/euetsr.htm>

You should be aware that allowances from the new entrant reserve are allocated on a first-come first-served basis. Further details about the rules and procedures that apply to new entrants is also available on the DTI's website⁸.

Missing or Late Installations

I think my installation should be covered by the EU ETS, what should I do?

The Government has decided that a small number of allowances (1.5Mt) should be set aside from the New Entrant Reserve to issue to late installations entering the Scheme after the final installation level allocation. Installations covered by the Scheme that have not yet applied for a permit from their regulator or submitted verified data to Defra must do so as soon as possible. These installations will be issued with less allowances than they would have received had they been included in the final allocation.

Further details on how Government intends to treat installations which have come forward late in the implementation process of Phase I will be made available shortly⁹.

⁸ See: <http://www.dti.gov.uk/energy/sepn/euets.shtml> and <http://www.dti.gov.uk/energy/sepn/euets.shtml#neca>.

⁹ See: <http://defraweb/environment/climatechange/trading/eu/permits/index.htm>