

Update to FDF Members on

UK Emissions Trading System (UK ETS)



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Presented by:
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The Presenter



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Graeme has over 15 years experience in the areas of carbon management and carbon reporting. He has worked with organisations across a range of sectors, ensuring compliance with mandatory carbon reporting schemes and developing carbon targets, and carbon management strategies.

What we'll cover today

- What is happening now?
- UK ETS
 - Who will qualify?
 - What are the Reporting Requirements?
 - How much will it cost?
- UK Emissions Tax
 - Qualification
 - Process
 - Costs

What is Happening Now?



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Current Reporting Requirements



- 2020 will be the final year of existing EU ETS Reporting scheme in the UK
- Current reporting processes will apply
 - Submit Annual Report by end of March
 - Surrender allowances by end of April
- ...plus the submission of an additional 'Activity Level Report'
 - Similar to NIMS data collection spreadsheet – report at sub-installation level
 - To be completed for 2019 and 2020
 - Will be compared to the NIMS report and used for free allocation going forward
- EU Allowances
 - UK Registry **Holding Accounts** remain open until **30th April 2021**
 - UK **Trading Accounts** will close from **1st January 2021**
 - After this date Allowances would need to be purchased (or sold) from non-UK EU Trading Accounts

2021 Onwards



- Two options being considered by government
 - A UK ETS scheme (potentially linked to EU ETS)
 - A UK Emissions Tax
- Legislation is in place for either option to be taken forward
- Consultation on the UK ETS scheme has closed and response was published in June 2020
- Consultation on the Carbon Emissions Tax was published in July and closed on 29th September 2020 – still awaiting response
- UK ETS is the preferred option – but final decision yet to be made

The image shows two side-by-side consultation documents. The left document is titled 'The future of UK carbon pricing: UK Government and Devolved Administrations' response' and is dated June 2020. It features logos for HM Government, Welsh Government, Scottish Government, and the Department of Agriculture, Environment and Rural Affairs. The right document is titled 'Carbon Emissions Tax Consultation' and is dated 21 July 2020, closing on 29 September 2020. It features logos for HM Revenue & Customs and HM Treasury. Both documents are from the UK Government and Devolved Administrations' response to the future of UK carbon pricing.

The future of UK carbon pricing
UK Government and Devolved Administrations' response

HM Government
Ulyddorffwr Cymru
Welsh Government

Scottish Government
gov.scot

Department of Agriculture, Environment and Rural Affairs
www.daera-ni.gov.uk

HM Treasury

Carbon Emissions Tax
Consultation

Publication date: 21 July 2020
Closing date for comments: 29 September 2020

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UK ETS



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Who Will Qualify?

- The UK ETS will commence on **1st Jan 2021** and run from **2021 -2030** (mirroring EU ETS Phase IV) – may be linked to EU ETS in the future
- Qualification levels will be identical to EU ETS
- Any potential expansion of the scheme will be considered during the first review (in 2023) and could be implemented in 2026
- The hospital and **low emitter opt-out** scheme for sites emitting **<25,000tCO₂ p.a.** and with **<35MWth** capacity will be maintained
 - Opt-out sites still need to report but are given targets to meet rather than purchasing and surrendering allowances
- A new '**ultra-low emitter**' exemption scheme will be implemented for sites emitting **<2,500tCO₂ p.a.**
 - Exempted sites will still be required to monitor emissions annually and inform the EA if they go over 2,500tCO₂
 - ...but will not be required to submit annual reports or buy/surrender allowances.

Organisations should have indicated during NIMS process whether they intend to opt-out - Exemption to be based on 2016-18 emission levels, subsequently based on 2021-23

The Process



- Timescales and Reporting will be as EU ETS with potentially some minor 'tweaks' e.g. emission streams totalling 10tCO2 or less can be aggregated, some simplification to monitoring plans and the reporting systems
- Participants will be required to:
 - Monitor and report emissions for each calendar year
 - Undertake Verification
 - Produce an 'Annual Report' and 'Activity Level Report', to be submitted each year by end of March
 - Allowances to be purchased and surrendered by end of April
- A new reporting system (New ETSWAP!) is under development
- A full system review will take place in 2023 and again in 2028

How Much will it Cost?

- **Free allowances** will still be allocated – allocation will be ‘similar’ to the EU ETS Phase IV allocation Rules (NIMS process)
 - Up to 30% free from 2021-2025, then reducing annually to 0% by 2030
- Allowances will be auctioned with a ‘**cap**’ being initially set **5%** below the UK’s notional share of the EU ETS cap for Phase IV of the EU ETS
- A minimum auction price of **£15/tonne** will be set
- A Cost Containment Mechanism (**CCM**) will be put in place – similar to EU ETS – to intervene if significant allowance price rises occur
 - (In Year 1 ‘significant’ will be if price = 2 X average carbon price for the preceding two years, for three consecutive months)
- We would expect the costs to roughly follow the EU ETS cost trajectory



Other Carbon Allowance Mechanisms

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- In the UK Scheme, UK allowances can be '**banked**' for future years
- Entities entitled to a free allocation can '**borrow**' this for use in the previous years' surrender (as is the case in EU ETS)
- ...however participants will **not** be permitted to use any banked EUAs for UK ETS compliance obligations
- The use of **International Carbon Credits** will **not** be permitted in the UK ETS (....at this time)

What Do I need to do now?

- Complete 2020 Annual Reporting as usual
- Check allowances held...potentially sell excess or transfer to any EU sites
- Check your NIMS data submission (Tab K) to identify indicative free allocation for budgeting in UK ETS
- **Expect confirmation of next steps soon!**
- **Potentially permits will be transferred into UK ETS – awaiting confirmation**
- **...potential transfer of Registry Accounts – awaiting confirmation**

2 Indicative expected final amount of free allowances:

(a) Linear factor referred to in Article 10a(4) of the EU ETS Directive:

Linear factor	2021	2022	2023	2024	2025
0.8562	0.8342	0.8122	0.7902	0.7682	

(b) Cross-sectoral correction factor (CSCF) in accordance with Article 14(6) of the FAR:

For the purpose of your own information, as explained above, you can enter values for the cross-sectoral uniform correction factor in accordance with Article 10a(5) of the ETS Directive here. The default value is 1, until the Commission has published the final value in accordance with Article 14(6) of the FAR.

When submitting this report to the competent authority for the purpose of establishing the national implementation measures, make sure that no data is entered here.

CSCF	2021	2022	2023	2024	2025
Value used for calculation	1.0000	1.0000	1.0000	1.0000	1.0000

(c) Factor to be used for calculation:

For installations covered by Article 10a(3) of the Directive, the linear factor displayed in point (a) has to be applied for each year unless the CSCF displayed in point (b) is lower than 1. In such case, the CSCF has to be applied for any such year.

For installations not covered by Article 10a(3), the CSCF displayed in point (b) will be applied for each year.

Value used for calculation	2021	2022	2023	2024	2025
1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

(d) Calculation in accordance with Article 16(8) of the FAR:

The amounts displayed here reflect the calculation of the final total amount of allowances allocated free of charge in accordance with Article 16(3) of the FAR, i.e. allocation values with either the linear factor or the cross-sectoral correction factor applied as appropriate (i.e. the result of point (c) above). However, these values cannot be considered final values, because the cross-sectoral correction factor is not known yet at the time of this data collection.

Sub-installation	2021	2022	2023	2024	2025
11 Heat benchmark sub-installation, CL					
12 Heat benchmark sub-installation, non-CL	711	711	711	711	711
13 District heating sub-installation					
14 Fuel benchmark sub-installation, CL					
15 Fuel benchmark sub-installation, non-CL					
16 Process emissions sub-installation, CL					
17 Process emissions sub-installation, non-CL					
Total preliminary free allocation	711	711	711	711	711

UK CARBON TAX



Who Will Qualify?

- The tax regime will commence on **1st Jan 2021**
- It will be applied to **installations currently in the EU ETS**
-**including those currently operating under the 'opt-out' scheme**
- ...the tax may be extended to other sectors in the future
- Any Installations that qualify as an '**ultra-small emitter**' will **not** be liable for the tax
-but will be required to monitor emissions to confirm that they remain below the threshold (emit <2,500tCO₂ per annum)



The Process?

- The tax will be based on emissions incurred during each calendar year
- Participants will still have to monitor and report annual emissions
-and submit a verified Annual Emissions and Activity Level Report by the end of **March**
 - ('opt-out' sites will not be required to submit an ALR)
- Tax bills will be issued in **August** for the preceding year
- i.e. in **August 2022** you will receive the tax bill for emissions incurred in **Jan- Dec 2021**
- The bill must be paid within **30 days** of issue

How Much will it Cost?

- Installations will receive a Tax-Free emission allocation
- As with UK ETS allocation will be ‘similar’ to the EU ETS Phase IV allocation Rules (NIMS process)
- Emissions over the tax-free allocation will be subject to taxation
- **Indicative** tax rates will be set for each year in the Autumn budget of the preceding year
 - i.e. the **2021** rate would have been set in **Autumn 2020** (budget was cancelled)
 - ...will be based on EUA ‘futures price’ plus an uplift – to give the **maximum** potential tax rate
 - **Actual tax rate** will be based on clearing EUA price for that reporting year
 - Indicative rate will be lowered to match but **not be exceeded**
- E.g. Tax rate for 2020 emissions will be confirmed in January 2021

Reward for Decarbonisation

- Installations that **reduce emissions** beneath the tax emission allowance (as a result of genuine steps to decarbonise, as opposed to a reduction in activity)
-will receive a **payment** for the difference in actual emissions vs allocation
- The payment rate will be set as a percentage of the tax rate for that year
 - 50% is used as an example in the consultation

What Do I need to do now?

- Complete 2020 Annual Reporting as usual
- Check allowances held...potentially sell excess or transfer to any EU sites
- Check your NIMS data submission (Tab K) to identify indicative tax free allowance for budgeting purposes

QUESTIONS?



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Thankyou

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