

## **Climate Change Agreements**

### **Energy Intensive eligibility criteria - guidance for sector associations and participants**

1. This guidance paper explains the eligibility criteria for entry into a Climate Change Agreement (CCA) under Energy Intensity (EI) criteria.
2. The application stages and the roles of sector associations and participants under the EI criteria is summarised in the table in Annex 2. The table highlights which stages the sector needs to complete and which stages participants need to complete.

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### **Background and generic issues**

#### **Legislative basis**

3. The Climate Change Levy (CCL) and CCAs were introduced by the Finance Act 2000. Until January 2006, eligibility for the CCAs was confined to processes covered by Part A of the Integrated Pollution Prevention and Control Regulations (SI 2000/1973). SIs 2006/59 and 2006/60, which came into force on 21 January 2006, provided for additional processes to be eligible for entry to CCAs. These regulations specify precisely the processes that are covered by the energy intensity criteria. Any further processes that are proposed for entry into the CCAs under the EI eligibility criteria will not be eligible to enter into such agreements until they have State Aid approval from the European Commission and are specified in regulations.

## Qualification criteria

4. Sectors must qualify for an EI CCA based on the relative energy intensity for that sector and its international competitiveness on a sector-wide basis. The value of energy used must be 3% or more of production value for the sector. In addition, they must meet or exceed an import penetration test of 50% or more<sup>1</sup>. Sectors that have an energy intensity of 10% or more do not need to pass the international competitiveness criterion. The sector qualification is based on the average energy cost and production values for the three highest annual values recorded over four consecutive years. Further details of these definitions, and how to apply them and related CCA conditions can be found in Annexes 1 and 2 respectively.
5. The eligibility test is applied at sector level, not at individual company or site level. This ensures that the process itself is energy intensive within the terms of the definitions. The test is applied only at the beginning of the agreement, so as not to disincentivise energy efficiency. However, the agreements provide that the composition of the sector shall be subject to review to ensure that the process definition adequately describes an energy intensive process.
6. Facilities that are eligible under the PPC criteria must join under those criteria. They cannot choose to change to the EI criteria. Applications for a CCA under the EI criteria can only be made if the process is not eligible under the IPPC criteria. However, it is possible for separate facilities on the same site, each qualifying under PPC and the EI criteria, to be included in one hybrid agreement with the target unit sharing a single target (see CCA-B03).
7. These EI agreements must normally be operated by bona fide sector associations that DECC will expect to demonstrate robust management capability and resourcing. The sectors negotiate the initial agreement and then manage its implementation on behalf of their member companies. Associations will also prepare the data for the initial eligibility tests to determine each sector's process energy intensity and its international competitiveness. This is a one-off test. If the clearly defined process meets the criteria, all companies carrying out that process can apply to participate in the CCA. Joining the Agreement will place an obligation on each company to register its facilities and monitor its performance throughout the duration of the Agreement. As with existing agreements, CCAs will run until March 2013. It was announced in the pre-budget statement in October 2007 that the CCAs were to be extended to 2017. The form of the agreements beyond 2010 will be subject to consultation, renegotiation and receiving the necessary approval from the European Commission.

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<sup>1</sup> The import penetration percentage is the total value of imports for the sector divided by the total value of all UK sales for the sector plus the sales value of imports minus the total value of exports for the sector.

## Targets

8. To set targets, baseline energy use and production at each facility will be required. This will have been collected in the course of determining sector eligibility. Once a suitable base year has been selected, it will form the basis for target reductions measured over a 12-month period starting on 1 October in alternate years, known as Target Periods, throughout the duration of the agreement. Establishing base-year conditions is consequently of key importance to the success of the agreement, particularly the achievement of target reductions. Details on how to set targets and how to apply to join CCAs are explained in CCA paper CCA-A02 (Introduction to Climate Change Agreements).

## Participants (individual companies)

### Setting up an Energy Intense Climate Change Agreement: what participants need to be aware of

9. For those participants and sectors that are familiar with setting up and running CCAs, the basis for EI Agreements is the same as that for existing agreements with the exception of the initial eligibility criteria. The essential background is set out in DECC Paper CCA-A02. Details on CCL rates for different fuels and exemptions can be found on Her Majesty's Revenue and Customs' (HMRC) website via the following hyperlink ([CCL rates](#)). For the EI eligibility criteria, only Option 2 type agreements are available. DECC Paper CCA-A02 also includes details of the application process, how to apply for the CCL discount and the obligations on individual companies.

### Process definition and boundary, and eligible processes

10. Initial qualification will have included a process definition. One reason for agreeing a process definition is to establish its boundary. This is important for individual participants because the boundary determines the limit of the eligible process and any directly associated activities (DAA) that might also be allowed. The DAAs should be agreed at sector level when the process definition is agreed. Any additional DAAs claimed by an operator must satisfy the criteria set down in CCA-B01. This also contains a number of examples from different manufacturing sectors to illustrate which DAAs might be eligible and those that would be excluded. For further information and examples please refer to CCA-B01.

### The 90/10 rule

11. The 90/10 rule applies if energy use in the eligible process and any DAAs accounts for more than 90% of the energy use on a site. In this case, the remaining operations on site are eligible under the 90/10 rule. That is, operations such as administration, which are not directly involved in manufacturing or processing, can be included at any one location provided they do not require 10% or more of the total site energy demand. DECC has

published a definitive guide (CCA-B04) to the 90/10 rule and how the rule should be applied.

### **Participants' obligations**

12. A group of facilities that share a single target is defined as a Target Unit (TU). These facilities do not necessarily need to be on the same site. A Target Unit can also consist of a single facility. Participants must be able to measure total energy use for each facility. This may demand sub metering around the eligible process, DAAs and activities that might be eligible under the 90/10 rule. The sector, or its nominated consultant, should be in a position to advise individual companies.
13. Participants must retain records of energy use and production for the duration of the agreement and make them available for audit. There may also be significant changes in operating conditions or production throughput that could influence a TU's performance. However, any relevant information pertinent to performance needs to be well documented.

### **Operating Climate Change Agreements**

14. Participants are required to report their energy/carbon and production data to the sector association at the end of each Target Period. These periods are set out in the agreements. Each participant will need to record accurate data on total energy use for the eligible process and be able to correlate this with data on production throughput. Further details on reporting requirements, auditing and reconciliation are explained in CCA-A02.

### **Confidentiality**

15. All information that relates directly to individual facilities and sector agreements is treated in the strictest confidence and is not released to anyone other than those personnel in DECC, HMRC and AEA directly involved in CCAs. DECC may be obliged to release any information about a facility under the Freedom of Information Act or the Environmental Information Regulations. DECC will consult before releasing anything except emissions data.

For further information on CCAs, including all related reference guides, forms and documentation you should visit this DECC website:

[www.defra.gov.uk/environment/climatechange/uk/business/cca/](http://www.defra.gov.uk/environment/climatechange/uk/business/cca/)

## **Annex 1 Energy Intense Climate Change Agreement qualification criteria**

16. Process energy costs should be compiled from each company's annual costs for total energy (ie electricity plus all primary energy sources used) for the most recent four consecutive years with available data. The energy used must be directly related to the process as defined in this CCA submission.
17. The import penetration ratio is the value of imports, divided by the total value of manufactures' sales, plus the sales value of imports, minus the value of exports.
18. The percentage of sector energy cost relative to production value is the total value of sector energy cost, divided by the total sector production value.
19. Production value as defined in the Energy Products Directive (EPD):

*'Production value is defined as turnover, including subsidies directly linked to the price of the product, plus or minus the changes in stocks of finished products, work in progress and goods and services purchased for resale, minus the purchases of goods and services for resale.'*

### **Explanation of production value**

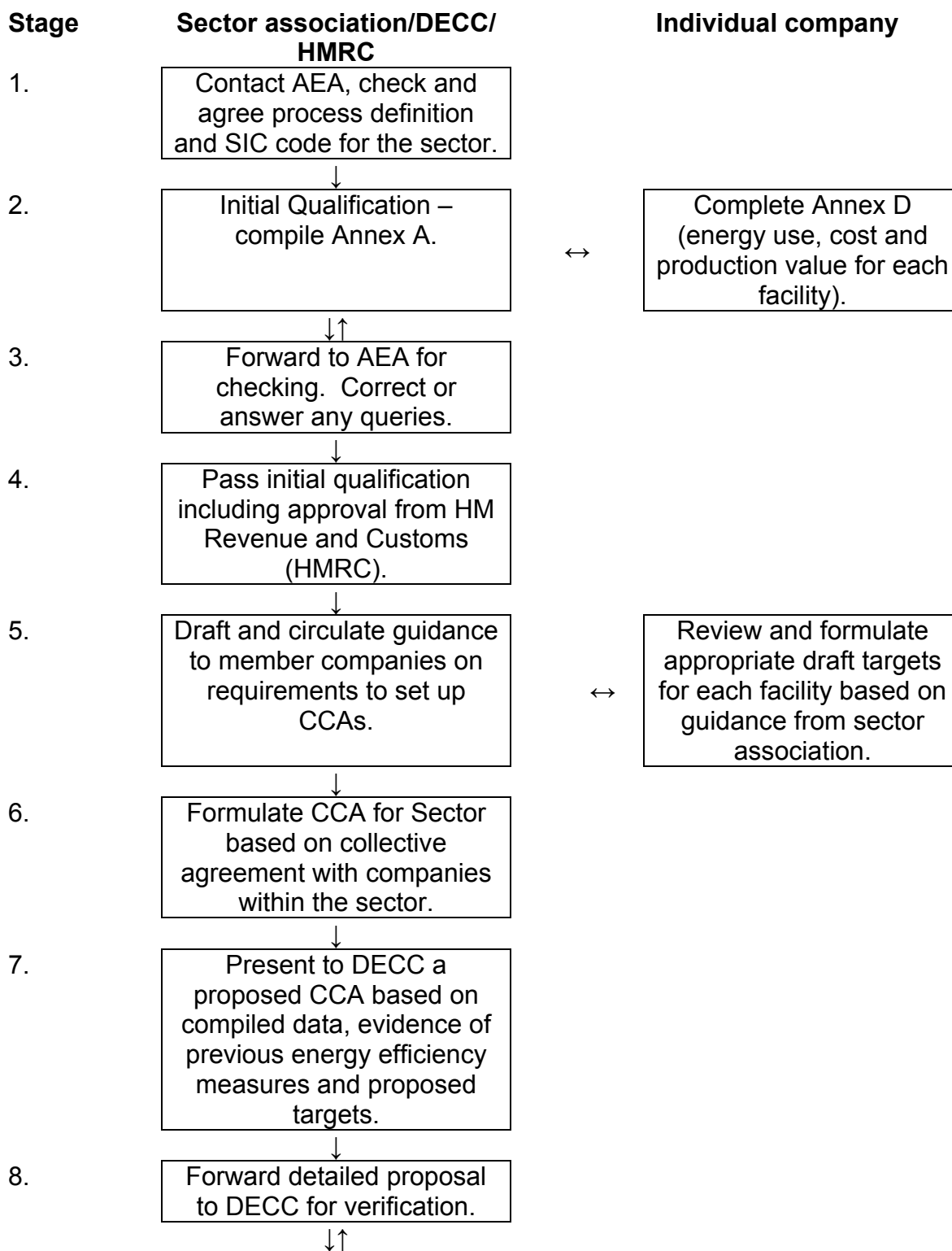
20. Production value will relate closely to turnover, but some adjustments need to be made to turnover. This is done to ensure that it relates to the correct market value of work undertaken by the firm and from the correct time period. It is important to ensure that production value relates to production of that year only. Otherwise it cannot be combined accurately with energy use in that year to reflect energy intensity.
21. Explaining the components of the definition should help explain this.  
**Production value equals:**

**Turnover:** which is how much the company makes from all sales;

- **plus subsidies:** which is how much the government subsidises companies to reduce their price. This is included as if a subsidy is not included, the price (and thus turnover) doesn't reflect the true value of the sales;
- **plus net change in stocks:** which is how much stocks change. This is important because it is possible that sales rise only because stocks fall from the previous year and not because 'production value' in the current year has increased;
- **minus goods and services that have been bought and resold -** Goods and services that have been bought for the purpose of reselling it: Which is the change in the amount purchased for resale this year from last year. This is because a firm such as an auction house's turnover would not actually reflect production;

- **plus work in progress:** which is the value of work done in the current year but is not acknowledged in sales because it refers to unfinished products minus this value from the previous years. In most cases this will not be an issue. (If a firm has a production line that is producing at the same rate as the previous year there will be no change because of the value of work in progress. This is included for firms that produce bulky items that take much time to produce. It also may be a factor for firms who have had a significant change in output from the previous year.)

## Annex 2 Outline of the stages required by sector associations and participants to start an Energy Intense Climate Change Agreement



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