

Introduction to Climate Change Agreements

Background to Climate Change Levy and Climate Change Agreements

1. The UK Government set itself a domestic objective to reduce emissions of carbon dioxide (CO₂) by 20% on 1990 levels by 2010. As a result, a range of policies for reducing greenhouse gas emissions were introduced. Major components of this programme are the Climate Change Levy (CCL) and Climate Change Agreements (CCAs) announced in the 1999 Budget and introduced on 1 April 2001.

Introduction

2. This guidance paper:
 - Explains how the CCL is applied and the basis for receiving discount.
 - Sets out the key entry and eligibility criteria for joining a CCA.
 - Describes the application procedures, including entry date requirements and target setting.
 - Explains the procedures for running CCAs, including reconciliation and re-certification.
 - Explains the application steps that sector associations are responsible for.
3. There are also three annexes that provide supplementary information on procedures for assessing targets, specifications for consultants' reports and definitions.

Climate Change Levy

4. The CCL is chargeable on the industrial and commercial energy supply of consumers in the following sectors:
 - Industry.
 - Commerce.
 - Agriculture.
 - Public and service sectors.
5. The CCL does not apply to supplies used by domestic consumers, by charities for non-business use or by very small firms using domestic levels of energy (roughly equivalent to the energy used by a six-bedroom house).
6. CCL is charged on taxable energy supplies and includes:
 - Electricity.
 - Natural gas.
 - Petroleum and hydrocarbon gas in liquid form.
 - Coal and lignite.

- Coke.
- 7. Current rates and exemptions from the levy can be found on Her Majesty's Revenue and Customs' website at [HMRC](#).
- 8. The CCL is added to bills before VAT and, although there is no legal requirement for it to be shown, it will usually appear as a separate item on energy bills. For more information on administration of the CCL, please contact HM Revenue and Customs' Helpdesk on 0845 010 9000.
- 9. A list of definitions pertinent to CCAs is listed in Appendix 3.

Climate Change Agreements

10. The Government recognised that energy intensive industries that are exposed to overseas competition should be given special consideration. Therefore, it agreed that such industries could qualify for a discount of up to 80% of the CCL. This would be done through a CCA.
11. CCAs have a two-tier structure. There is a sector-level agreement between DECC and the sector or trade association (known as an umbrella agreement), and individual agreements between DECC and the operator of the facility (known as underlying agreements). DECC currently contracts AEA Energy & Environment (AEA) to provide technical support in the operation of the CCAs.
12. In return for the CCL discount, the sector association must agree challenging targets to improve energy efficiency or reduce carbon emissions across the sector. Companies within the sector will be expected to meet equivalently demanding targets to contribute to the sector total.

Entry criteria for Climate Change Agreements

13. Energy intensive industries were initially defined as industries that are covered by Part A1 or A2 headings in Part 1 of Schedule 1 to the Pollution Prevention and Control (England and Wales) [Regulations 2000](#). This definition applies across the UK. The regulations cover a wide range of industrial sectors, from major energy intensive processes such as steel, chemicals and cement, to agricultural sectors, such as intensive pig and poultry rearing. Smaller sites that do not meet the size thresholds of the Pollution Prevention and Control (PPC) Regulations, but which otherwise would qualify, are also eligible for an agreement. The exception to this is combustion plants of greater than 50 MW capacity and the 3 MW limit for burning of waste oil, recovered oil or fuel manufactured from or comprising waste.
14. In 2006, a second wave of CCAs was rolled out covering energy intensive industrial and manufacturing sectors that were not PPC regulated and, therefore, had been excluded from the scheme. These sectors must meet strict criteria related to relative [energy intensity \(EI\)](#) and international

competitiveness. 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 more¹. This is a test that is applied to the value of the sector as a whole to determine its exposure to international competition. Sectors that do not meet the international competitiveness requirement must have an EI of 10% or more. The sector qualification is based on the average energy cost and production values for three consecutive years. The eligibility test is applied at sector level, not at individual company or site level. The test is applied only at the beginning of the agreement so as not to disincentivise energy efficiency. Sectors that have negotiated EI agreements include industrial gases, cold storage and glass manipulators.

¹ 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.

Definition of Climate Change Agreement facilities

15. The implementation of CCAs is dependent on sectors meeting biannual targets. Each sector comprises a series of **target units (TU)** that all have individual targets. These targets are mathematically combined to form the sector target. The procedures for setting up targets are dealt with in later sections.
16. To understand how CCAs work, it is important to define the component units that make up a TU. A TU can consist of a single facility or a number of different facilities that are grouped together to form a single TU, a process that has become known as 'bubbling'. The process of merging and demerging to form or adjust TUs is explained in guidance paper CCA-E01.
17. An eligible facility can be an energy-intensive **installation** or a site on which there is one or more such installations, as defined by the **The Pollution Prevention and Control (England and Wales) Regulations 2000** (Statutory Instrument 2000 No. 1973). An energy-intensive installation is an installation where a PPC Part A activity and any directly associated activities are carried out.
18. An installation is defined as:
 - A **Stationary Technical Unit (STU)** where one or more activities listed in Part 1 of Schedule 1 to the PPC Regulations are carried out.
 - Any other **directly associated activities (DAA)** on the same site that have a technical connection with the activities carried out in the STU and that could have an effect on pollution. For these purposes, references to an installation include references to part of an installation.
19. In summary, the **STU** is the core operation defined by PCC regulations that forms the legal basis for a CCA. DAAs can be added provided there is a genuine link to this operation. There are a series of examples set out in CCA-B01 that demonstrates how a genuine link between the STU and a DAA is defined.
20. These definitions also apply to **EI** CCAs. However, the boundary of each installation under these criteria is determined by an **eligible process**. The eligible process is defined by a **Process Definition** that is specific to each EI CCA, agreed when the agreement is first set up and specified in regulations. Further guidance on EI CCAs can be found in guidance paper CCA-B05.
21. Where the installation (ie the STU plus DAAs) consumes 90% or more of a site's energy use, in primary terms, then all of the site energy use will be eligible to be covered by the CCA. This means you would be able to claim the full levy rebate on 100% of the energy used on your site including some energy use that would not be eligible in its own right. This is known as the 90/10 rule and is explained in detail in CCA B04. The three elements (STU, DAA and activities under the 90/10 rule) then comprise the **CCA facility**.

22. The **operator** of the installation is responsible for reporting to their association the data required by the agreements (ie on production throughput, fuel use and energy consumption). The calculations necessary to make these reports and the purchase of carbon allowances that may be required for meeting targets are often contracted to a consultant. The agreements may be signed by a representative of several operators on a site, but that representative will be responsible for meeting the obligations of the agreements. In such cases, operators must make their own arrangements for sharing information, including any necessary financial arrangements.

Checking eligibility for a Climate Change Agreement

23. When applying for an agreement, the first thing you should check is whether the process you carry out at your facility is eligible for a CCA. If it is, it will be listed in one of the following:
- Part A1 or Part A2 of Schedule 1 to the Pollution Prevention and Control (England and Wales) [Regulations 2000](#).
 - The Schedule to The Climate Change Agreements (Eligible Facilities)(Amendment) [Regulations 2006](#)
24. If you have a permit from the Environment Agency (for Part A1) or local authority (for Part A2) your process is likely to be eligible for an agreement . However, please note that only the process listed in the regulations, plus DAAs and energy that is permitted under the 90/10 rule will be eligible, even if the permit covers more of the site. If the process falls below the thresholds set out in the regulations for requiring a permit, you will still be eligible to enter an agreement provided the process description matches the description in the regulations. Please also note that as long as you meet the CCA targets, you will need to meet only basic requirements under the PPC regime.
25. If your process is listed in one or other of the above regulations, you will also need to check which sector association manages the agreement that covers your process. The simplest way to do this is to contact your sector association for advice. In addition, the definitions of the processes covered by each agreement are set out in clause 3.3 of the sector's umbrella agreement. All sector umbrella agreements are available at [Umbrella Agreements](#).
26. For example, the Surface Engineering Association (SEA) agreement covers surface treatment of products. In clause 3.3 of its umbrella agreement, the process definition states:
- '3.3 A facility belongs to the surface engineering sector if it is a facility which surface treats substances, objects or products using organic solvents, in particular for dressing, printing, coating, degreasing, waterproofing, sizing, painting, cleaning or impregnating or which surface treats metals and plastic materials using an electrolytic or chemical process.'

27. So, for a company to qualify for an agreement with this sector, it must either use solvents for surface treating items, or surface treat metals or plastic items using a chemical or electrolytic process in a vat. If solvents are used in another way (eg by being mixed into another material such as rubber), then surface treatment is not taking place and the process is not eligible for a CCA with the SEA, though it may be eligible through another sector.

Applying for a Climate Change Agreement

28. If you think your business may qualify for a CCA, you should contact your business/trade association. It will be able to advise you on your application or direct you to an alternative association. Companies that are not members of trade associations will be able to join the scheme without having to join the trade association if they wish. In this instance, sector or trade associations may charge additional administrative costs for non members when assisting with CCA applications and managing agreements. Applications have to be made through sector associations and DECC will not ordinarily accept applications directly from individual companies. Only when a sector has negotiated and signed a sector level, or umbrella agreement, can companies within that sector apply for a CCA. Communications with DECC should normally be conducted through the sector associations.
29. You should compile basic information on your energy use before making your application. This will be data for your energy use for all fuels for a complete 12-month period (usually, but not always, a calendar year). This should be a recent period, ending as close as practicable to the date you are making the application. This will form the 'baseline' from which your targets are calculated.
30. An application consists of:
- An eligibility form (PP4-IPPC) for PPC CCAs or (PP4-EI) for EI CCAs. Forms must be signed and dated by a representative of the company.
 - Two signed underlying agreements with your facilities and their facility numbers identified in Schedule 1 and the proposed targets in Schedule 2.
31. Applications for new CCAs must proceed through the following stages before applicants can claim CCL discount.

Step 1	Operator/consultant	Seek sector association guidance. Assess CCA eligibility and collate baseline data.
	↓	
Step 2	Sector association	Advise operator of targets and CCA eligibility.
	↓	
Step 3	DECC	Check and confirm eligibility of CCA application.
	↓	

Step 4	AEA	Check and approve targets.
	↓	
Step 5	DECC	Sign and return agreement to operator.
	↓	
Step 6	Operator	Apply to utility supplier to claim CCL discount once CCA has been certified.

32. You will also need to provide additional information with the eligibility form (PP4) including:
- A copy of your Environment Agency or local authority permit (if applicable).
 - A site map.
 - A floor plan of your business premises.
 - A description of the processes that you think are eligible for the discount.
 - A flow chart outlining the process(es).
 - Any additional information that you think would support your application.
33. Your sector association will be able to advise you further on this.
34. You will need **to enter the name of your company in the opening section of the agreement forms (PP3.O2 or PP3.O3) as well as signing it (and dating your signature if there is a line for this under the signature space)**. Please do NOT date the agreement in the first line of the front page. DECC will date the document when it is signed.
35. You will also need to complete:
- **Paragraph 2.3 of the agreement** stating to whom in your company you wish any notices under the agreement to be sent.
 - **Schedule 1** listing the facilities the agreement covers. The list should contain, for each facility, the reference code (as described in paragraph 7 above and known as the facility number), the site name and full postal address. The codes, site names and addresses should match the facilities listed in Schedule 1 of the sector umbrella agreement and in the PP4.
 - **The table in paragraph 1.1 of Schedule 2** listing the targets applying to the facilities. This should be filled in as follows:
 - Each set of targets may apply to a single facility or to a group of facilities (a 'target unit'). In the first column of the table, enter the numbers of the facility, or facilities, to which each group of targets apply.
 - Enter the relevant targets for the target unit. These should be expressed in the relevant units (eg kWh/tonne or kWh).
 - The accounting conventions for throughput in paragraph 4.1 of Schedule 4. This should describe the measure of production that you will use for the facilities covered by your agreement (eg 'Throughput shall be measured as [net/gross] tonnes of product manufactured in the facility [Net/gross is defined

as...]. Note that this is required irrespective of whether you have selected relative or absolute targets.

PP4 - Eligibility form

36. On this form you must describe the facilities that you believe are eligible to be included within the agreement (see CCA-B01). This will include activities described in the PPC regulations (see CCA-B01) and any additional operations that qualify for the reduced rate of levy under the 90/10 rule (see CCA-B04). **The eligibility form must be completed in full and signed by someone, such as the company secretary, who is able to represent the site in a legal capacity.**
37. DECC will satisfy itself that the facilities described conform to the guidance on eligibility and the 90/10 rule. The description of the facilities will be liable to audit at a future date.
38. Where the decision made by the regulator does not match the definition that you made when joining an agreement, the facility may need to be redefined to take account of the regulator's determination of the installation.
39. You should also recognise that if your facility is a PPC installation, it will be subject to environmental regulatory requirements. The implications of this are described on the [Pollution Prevention and Control](#) section of the DECC website.
40. DECC personnel will not visit your site at the time of the application (though you may be audited later) and will, therefore, rely on the information you supply to process your application. Try to ensure that it is clear, legible and detailed. Provide definitions or clarification of any technical terms or abbreviations.

What qualifies?

41. A CCA facility is defined as an STU and DAA plus any activities included under the 90/10 rule. Definitions of these terms can be found in CCA-B01.
42. Energy that is not eligible for the levy rebate, unless it is included under the 90/10 rule, includes energy used in offices, laboratories, staff canteens and rest rooms, lobbies and halls, and general storage or packing areas. If you wish to claim for the whole site under the 90/10 rule, you must send supporting information with your PP4.
43. If the energy used in the eligible process is less than 90% of the energy use for the whole site, only the eligible process energy, plus a further 10%, will be eligible to enter the scheme and qualify for the CCL discount. In these cases, the eligible energy uses must be submetered. See CCA papers CCA-B04 and CCA-C02.
44. Again your sector association will advise you on what is needed.

The agreement – setting targets

45. You should assess the potential for energy savings at your site when making the approach to your sector association. The association will help you to work out energy efficiency targets for your site, based on the overall targets for the sector. You should send the application form and proposed targets to the sector association which will then check the documents and forward to DECC for processing. If the information is not complete or not clear, we will ask for more information or clarification, which will delay your application. DECC's technical advisors, AEA, will assess the level of target you have proposed and advise DECC whether it is acceptable. You may be asked to revise your proposed targets.
46. You may operate a site which has processes that are eligible under PPC regulated agreements and EI agreements. Under these circumstances, you can combine both processes to form a single agreement. However, the targets must be based on the throughput and energy use for each separate process. You should consult CCA-B03 for further guidance on how to set up hybrid targets.
47. When eligibility and targets have been agreed, DECC will sign and date the CCA and return it to you. You should then complete forms PP10 and PP11 and send them to your energy suppliers, who will then arrange for the discount from CCL to be implemented.
48. You should note that if the processes do not fall within the prescribed definitions, the application will not be successful.

New entrants with no baseline data – Greenfield sites

49. This section sets out in more detail the practical procedures for submitting an application for a newly constructed or commissioned site. The TU will normally be certified for CCL reduction from the date of the underlying agreement. Targets may be set either at the outset by reference to design performance specifications or at a specified later date by reference to data gathered during a baseline period. In the latter case, the agreement will set out a timescale for the provision of baseline data and the agreement may be terminated if deadlines are not met. This includes the situation where the sector normally applies top-down targets, but the new entrant does not wish to adopt them. You should read this section in conjunction with CCA-E01² and, if you wish the new site to join an existing Target Unit, Table B on page 4 of CCA-B05.

² Reference Para 5 of CCA-E01. For sites needing a period in which to establish a baseline (e.g. greenfield sites), the applications must be completed and the agreement must be signed by DECC at a time prior to the start of TP5 for the relevant sector. The length of the time prior to start of TP5 is determined by the agreed duration of the baseline period plus four working weeks for the applicant, Sector Association, AEA and DECC to process the submission. Failure to have the agreement signed by these dates will mean the target unit will not be able to claim a rebate on the CCL under the current scheme.

50. DECC will require from you:

- A commentary on the facility, setting out the standards of energy efficiency to which the plant has been constructed, including design performance specifications and the extent of sub-metering.
- A plan for operating the plant in an energy efficient manner during the commissioning and bedding down phases, and for identifying opportunities for energy efficiency improvements.
- A proposal for actual targets based on the design performance specification or a proposal for the time period required to commission the plant and to establish a suitable baseline performance.
- Where possible, a comparison with sector benchmarks.
- A short assessment and opinion from an independent consultant.

51. If you wish to propose a target based on the design performance specification, you should supply any energy performance guarantees in the build and commissioning contract or the plant design specification for energy demand and throughput. Your proposal should be based on the anticipated optimisation of plant performance through management procedures and cost effective improvements to the eligible facility to take into account any differences between the plant design and current best available techniques. If you rely on providing design specification details for setting targets and you fail to provide sufficient evidence in time for the agreement to be signed before the start of the target period, you will not be able to establish an agreement. If you have doubts about what evidence is required you should contact AEA at the earliest opportunity to clarify what is needed.

52. The short assessment and opinion from an independent consultant, funded by your company, should meet the specification for a consultant's report is given in Annex 2. This will assist DECC in assessing the TP5 target and, if required, the period available for establishing baselines. DECC expects that the period to establish the baseline should normally be no more than six months. It is anticipated that this consultant assessment should take no more than one to three days to complete.

53. Towards the end of the baseline setting period, you should investigate what further energy efficiency measures can be implemented. Within a month following the completion of the baseline setting period, you must submit to AEA the baseline data for the target unit and proposed targets as described in Annex 1. If DECC is unable to set targets for the relevant target period because of lack of data, the agreement may be terminated. Deadlines given in CCA-E01 take precedence in 2009.

New entrants with no baseline data – Existing site with no suitable baseline data

54. This situation may occur if there have been major changes to the site or previous data are not available. The procedure for new entrants for existing

sites is the same as the section above, except that there may be a delay in certifying the facility.

55. If the site was previously the subject of a CCA, but is not certified because it failed to meet the previous target or did not submit data for the previous target period, then the target unit must achieve the next milestone target before it is certified.
56. If the site has never been part of an agreement, or has met its previous target, then certification will take place when the agreement is signed.

Running a Climate Change Agreement

Changes to the eligible process

57. If there are any changes to the process(es) you operate that are covered by a CCA, you must inform your sector, which, in turn, will contact DECC. As a result of these changes, the eligibility for an agreement could be affected (eg more of the site's processes could be included under the agreement or targets may have to be adjusted).

Changes to company name, contact details or ownership

58. Sometimes the sector association or DECC will want to contact you and will need up-to-date information to do so. Any changes to contact details should be notified on form V1.02 or V1.03. When a change of ownership takes place, you should complete a termination notice (T1.02 or T1.03) and two new agreements (form PP3.02 for PPC CCAs or PP3.02 (EI) for EI CCAs). If the eligible process remains unchanged, you should complete form PP4B to confirm that this is the case. If the process has changed, then a new PP4 and supporting information should be provided. Your sector association representative will help you with the paperwork. (Please see CCA paper CCA-B05).

Reconciliation and re-certification

59. Every two years, every target unit's performance against their targets will be checked to assess whether the facility should be recertified to continue to receive the CCL discount for the following two years. This process is referred to as reconciliation and is a major undertaking for target unit operators, sector associations and DECC alike. Reconciliation is based on the assessment of performance over a reference year defined as a Target Period. In the run up to reconciliation, your sector association will contact you and advise you to gather the relevant data together so your company's performance against its target can be assessed, and give you dates by which to do so. They may also advise you that, if it appears that you are going to fail your target, you should open a compliance account on the CCA trading registry (contact details in the CCA area on the DECC website) and buy carbon allowances, though responsibility for fulfilling the terms of the agreements rests with the operator. These carbon allowances will then be retired to make good the shortfall between the company's actual performance and the target. You must send all this

information to the sector by the deadline. They then forward the data to DECC for checking.

60. If you miss your target, you may buy and retire carbon allowances in the [UKETS](#) market to make good the shortfall between your performance and your target. Conversely, if you overachieve against your target, you will be able to 'ring-fence' or set aside the allowances you have earned. You may trade these allowances or keep them for reconciliation (see below) if they have been verified by an independent verifier. You should note that some sector associations will manage carbon allowances on their members' behalf.
61. If you pass your target, either by meeting your target through energy efficiency measures or by retiring carbon allowances, then you will enter the next two-year cycle of working towards your following target and receiving discount.
62. If you fail your target and have not bought allowances, then your facility will be decertified. Essentially, the agreement will remain in place, but you will not be allowed to claim the discount from CCL for two years until the next reconciliation. If you report at the next reconciliation and meet that target, then your facility will be recertified and be able to claim the discount again.
63. Failure to provide data to your sector association will result in your agreement being terminated. You must ensure that you buy allowances if they are needed and that they are placed in your compliance account in the UKETS trading registry in time for reconciliation. **The deadlines for submitting data and buying allowances are very strict.**

Audits

64. The CCA scheme requires that facilities in the scheme are audited. **You must comply with the audit – failure to do so may result in your facility being decertified and being unable to claim discount from CCL.** Audits can take two forms:
65. **Full site audit** – an auditor will contact you to arrange a date for a visit. They will want to check the eligibility of the site and check your recordkeeping practices, data collection and the data. When they arrive they will want to tour the facility to check the eligibility of the process(es) and to check your records, so these must be made ready for the visit. Following the visit, the auditor will prepare a report summarising the outcome of the audit. The report may contain recommendations, which are suggestions for improvement, as well as actions with which you must comply. When you have completed the actions, you must notify the auditor so they can close down the audit. You will receive a copy of the final audit report and a copy will be sent to DECC and your sector association. Sector associations will receive a copy of the report automatically, unless you specify that you do not wish them to see it. For more information see CCA paper CCA-C05.
66. **Desk-top audit** – these are remote audits that will be conducted by e-mail and telephone. The auditor will concentrate on record keeping and data. As with

the full site audit, the auditor will prepare a report with actions and recommendations. You should comply with the actions and notify the auditor when they have been completed. Again, you and your sector association will receive a copy of the audit report. A desk-top audit may result in a full audit being undertaken.

Disputes

67. CCAs are the mechanism by which a tax reduction is given effect so they are governed by public, rather than private, law. The Secretary of State's decisions may be challenged. The agreements themselves provide for independent adjudication if there is dispute on the facts of the case. Otherwise, the decisions may be challenged by judicial review. Any person with sufficient interest in the matter can apply for judicial review. Though it is for the courts to decide what this sufficient interest might be, an operator or sector association is likely to have sufficient interest in matters of decertification, for example. The High Court may grant various types of legal relief in a successful judicial review. For example, if the court were to quash a decision of the Secretary of State, the Secretary of State would be obliged to re-determine the matter.

How sector associations should submit Climate Change Agreement applications

Step 1 – Send the completed PP4 to DECC

The sector association should send the PP4 completed by the operator to DECC, either on paper, by fax or by e-mail. The relevant contact details can be found in the CCA area of the DECC website.

68. Any additional information needed to identify clearly what is being produced and how, should also be included (eg process flow maps and site plans identifying eligible, directly associated, ineligible and 90/10 areas.) In complicated cases, DECC requires a detailed description of the process from start to finish. You need to identify the activity or substance and the section of the PPC that makes the activities eligible. You need to demonstrate how DAAs meet the three criteria for DAAs. If the facility is regulated under PPC, a copy of the authorisation may also assist in evaluation.
69. If there are any eligibility queries at step 1, DECC will let the sector association know by e-mail as quickly as possible. Similarly, DECC will let the sector association know when it has accepted the facility as eligible and when DECC has certified it.

Step 2 – Send the targets and associated data to AEA

70. Once DECC has confirmed the eligibility, the sector association should e-mail the targets and associated data to its AEA contact and copy it to DECC (contact details in the CCA area of the DECC website)

71. Sites without data should send the additional information described in paragraphs 47 to 53 to AEA.
72. If there are any problems with the data or target, AEA will contact the sector association. If there are any queries about targets or base-year data, the sector association should contact AEA directly, copying the e-mail to DECC. AEA deals with most queries concerning targets or baseline data and sending it directly to them will speed up the process.
73. If, at any time, an error is discovered in base-year data or calculations, the sector association should notify AEA and DECC immediately. DECC's view is that it is important that the targets are demanding and realistic and will consider amending the targets if the operator has met corrected targets and the mistakes are genuine.

Step 3 – Submit underlying agreement

74. Once the eligibility has been agreed by DECC and the targets have been agreed by AEA, the sector association should send two signed copies of the underlying agreement to DECC.
75. In some circumstances it will be necessary to exit the old agreement and enter a new one. Wherever possible, the facility number and target unit identifier³ of the facility/company will remain the same, though this will depend on the circumstances. Sector associations should discuss this with the CCA team. To avoid breaks in eligibility for the reduced rate of levy, terminations and re-certifications should take place on the same date. Forms T1.O2 and T1.O3 for use by operators no longer require a date of termination to be given (as indeed the agreements do not require a date). So that DECC can ensure that termination and certification are contemporaneous, please send the termination notices in with the new entrant information along with a brief explanation accounting for all parties to the agreements.
76. Once DECC has checked the PP4 and the targets, it will either confirm that the facility is eligible or inform the sector association what additional information is required.

Step 4 – Certification

77. Once DECC has received the underlying agreement, it will be signed and one copy will be returned to the sector association. The operator is entitled to claim the reduced rate of CCL from the date the agreement is signed. They should send forms PP10 and PP11 to their energy suppliers using the date of the agreement as the start date of entitlement. DECC will publish a list of all facilities covered by the agreements, grouped by sector, updated periodically (usually monthly).

³ A Target Unit (TU) is a facility or group of facilities sharing one target. The Target Unit Identifier (TUI) is a number allocated to the TU to identify that TU in the reporting spreadsheet, DECC CCA database and UK ETS registry.

Annex 1

AEA Energy & Environment - procedure for assessing targets

Information requirements

78. We (AEA) use the following information from the applicant.

- Target profile.
- Throughput profile on which this is based.
- Performance in the base year and subsequent years to date.
- Energy saving action plan with implementation dates and expected savings – split into direct and indirect (grid electricity) energy saving measures.

Typical checks

79. We plot a graph of target energy and specific energy consumption (SEC), or actual and reference energy, against time to see if any obvious features stand out. There is no 'scoring system'. AEA forms a view of whether the target is stringent, yet realistic and consistent with the sector target. If we do not have sufficient information, then we will ask for further detail. We ask ourselves the following questions.

- Do we understand clearly how these targets will be achieved? If not, then what additional information will we need to be able to understand what is going on?
- How does the overall saving compare with the sector average? If it is less, what impact will it have on the sector average?
- How does the overall saving compare with the energy saving action plan? If the action plan does not account for all the savings, where will the remainder come from (eg from the throughput effect)? If, on the other hand, the targets are much less than the savings in the action plan, then why are the targets not harder?
- Is actual energy, as well as just the measure of 'efficiency' (SEC or EER), projected to increase or decrease over time? If actual energy increases, rather than decreases, then we need to review the energy saving measures more carefully.
- Are the projected efficiency improvements split evenly between the milestone periods or are they weighted towards one end or the other? Does most of the improvement take place between 2008 and 2010 or in the past between a long-distant base year and the current milestone?
- How much of the projected efficiency gain is the result of real energy saving measures and how much is due to the throughput effect? Could it be negated by throughput corrections?
- Check any calculations they may have provided (eg for correct conversion factors, units).

Annex 2

Specification for a consultant's report on a new entrant on a greenfield site

Introduction

80. For DECC to agree the timescale to determine targets for a new entrant and the targets themselves it requires:
 - Detailed information from the operator of the target unit (TU).
 - A consultant's report to provide an assessment of the information supplied by the operator.
81. This Annex clarifies the requirements of the consultant's report, which forms part of the TU submission. It should be noted that the company submission and the consultant's report are subject to audit by DECC at any time.
82. DECC requires from the operator
 - A commentary on the facility that sets out the standards of energy efficiency to which the plant has been constructed, including the extent of sub-metering, particularly in relation to the eligible processes, DDAs and any 90/10 rule claims.
 - A plan for optimising and operating the plant in an energy efficient manner during the commissioning and bedding down phases, and for identifying opportunities for energy efficiency improvements.
 - A proposal for the time period required to commission the plant and to establish its baseline performance.
 - Where possible, a comparison with sector benchmarks.
83. DECC requires an assessment of the facility's submission from the consultant. DECC is looking for a professional opinion from the consultant that the operator's commentary is accurate, that the plan seeks to ensure the plant is operated efficiently, that systems will be in place to identify opportunities for improvement, and that the timescale proposed to set baselines and establish targets is adequate, but not excessive. DECC's objective is to ensure that the facility operates in an energy efficient manner as soon as possible.

Qualifications of the consultant

84. The consultants must have recognised qualifications or experience in the relevant area. Specifically, the consultant must have a working knowledge of the processes and equipment used at the facility such that a knowledgeable opinion of how well the new installation approaches the 'state of the art' may be given. The consultant must also have experience of energy efficiency matters.

Consultant's report

85. The consultant's report should adopt the following format:

Section 1 Summary. A short section giving a brief assessment of the facility's submission. The section should include a declaration such as:

In my opinion, the information supplied by the facility as part of its submission to join a Climate Change Agreement accurately represents the energy efficiency performance of the equipment installed and that the plans and proposals submitted by the facility are comprehensive and realistic, but challenging in their planned achievements and timescales. [Adapt with qualifications where the consultant considers there are limitations in the facility's submission].

Section 2 - A commentary on the energy efficiency of the facility and how it measures up to state-of-the-art in energy efficiency terms.

Section 3 - A commentary on the optimisation and operating plan and a commentary on their plan for identifying energy efficiency opportunities.

Section 4 - A commentary on the reasonableness of the proposal of timescale to establish baselines and targets.

Section 5 – Consultant's CV - this should establish the consultant's credentials for making the judgements.

86. The consultant's report should be submitted as signed hardcopy and electronically to DECC and to the relevant AEA contact along with the facility submissions. It is anticipated that the consultant may have assisted the company to prepare its submissions. If this is the case, the consultant's report should declare it and then might only consist of the summary and consultant's CV, unless there were areas of disagreement between the company and the consultant.

Time required

87. The time required for the task will depend on many factors including the complexity of the site; this must be agreed between the consultant and the TU. As the task requires a review of the information supplied and a confirmatory visit, DECC anticipates that the consultant's task would probably require one to three days of effort, provided the facility has prepared the documentation in paragraph 78 above in advance.

New entrant with established site and no suitable baseline data

88. This situation may occur if there have been major changes to the site or previous data is not available, for example the site went into administration and the administrator refused the new owner access to previous records. The procedure for these new entrants is similar to new entrants on a greenfield site

except for the time to establish the targets may well be less as there is no commissioning period. Also there may be available information that reduces the requirements of the consultants report. Sector Associations should raise specific cases with AEA.

Annex 3

Definitions

90/10 rule – rule allowing for up to 10% of the energy covered by a CCA to be used outside an energy-intensive installation (ie the stationary technical unit and the directly associated activities). See CCA-B04.

Certification period – the period to which a certificate issued by the Secretary of State relates, stating that the facilities listed in it are eligible for the levy discount. Certification periods last for up to two years and end on 31st March 2009, 2011 and 2013.

Climate Change Agreement – agreement which provides for facilities to gain an 80% discount in the rate of CCL in exchange for meeting energy efficiency or carbon abatement targets.

Climate Change Levy – a levy on electricity, gas, petroleum gas, coal, lignite, coke, semi-coke and petroleum coke (but not mineral oils) used by non-domestic energy users, which took effect on 1st April 2001.

Energy-intensive installation – is defined as one of the following:

- An installation where an activity covered by Part A(1) 02 A(2) of Part 1 of Schedule 1 to the PPC Regulations and any directly associated activities are carried out. However, for the purpose of the CCAs, the thresholds in the PPC Regulations are usually ignored except for the 50 MW combustion plant threshold and the 3 MW limit for burning waste oil, recovered oil or fuel manufactured from, or comprising, waste. See CCA-B01.
- Where qualifying processes meet, or exceed, a 10% threshold of energy intensity or fall between a 3% and 10% threshold of energy intensity, provided they meet an import penetration of 50%. Energy intensity is the total value of sector energy cost divided by the total sector production value expressed as a percentage. See CCA-B02 for a detailed explanation of production value.

Facility – the sum of the stationary technical unit, directly associated activities and activities eligible under the 90/10 rule.

PP4 – This form needs to be completed for all new applicants (ie individual participants within each CCA). The form needs to be completed to prove that each facility can be included as part of the new agreement. Details of the process at each facility are required with evidence for the inclusion of eligible processes or activities permitted under the 90/10 rule. There are separate forms for entry under the PPC and EI criteria.

Sector association – trade association or other body representing a sector or industry. Some sectors have set up subsidiary or separate organisations to represent the sectors in the agreements.

Target period – 12-month period over which the energy efficiency of participating facilities are measured.

Target Unit – is a facility or a group of facilities with a target in a CCA that applies to that facility or group of facilities.

Umbrella agreement – the agreement between the sector association and the Secretary of State.

Underlying agreement – an agreement between the operator of one or more facilities and the Secretary of State or the sector association.