

# “National Allocation Plans: Issues and Concerns from the viewpoint of a large CHP operator in the UK”

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Berlin January 2004



## BRITISH SUGAR

### Associated British Foods plc

Associated British Foods  
is an international food,  
ingredients  
and retail group  
with annual sales  
of £4.4 billion  
and 34,000 employees.

PRIMARK

BRITISH SUGAR

RYVITA

SILVER  
SPOON

KINGSMILL  
TASTE CRUST

TWININGS

Mazola



Speedibake

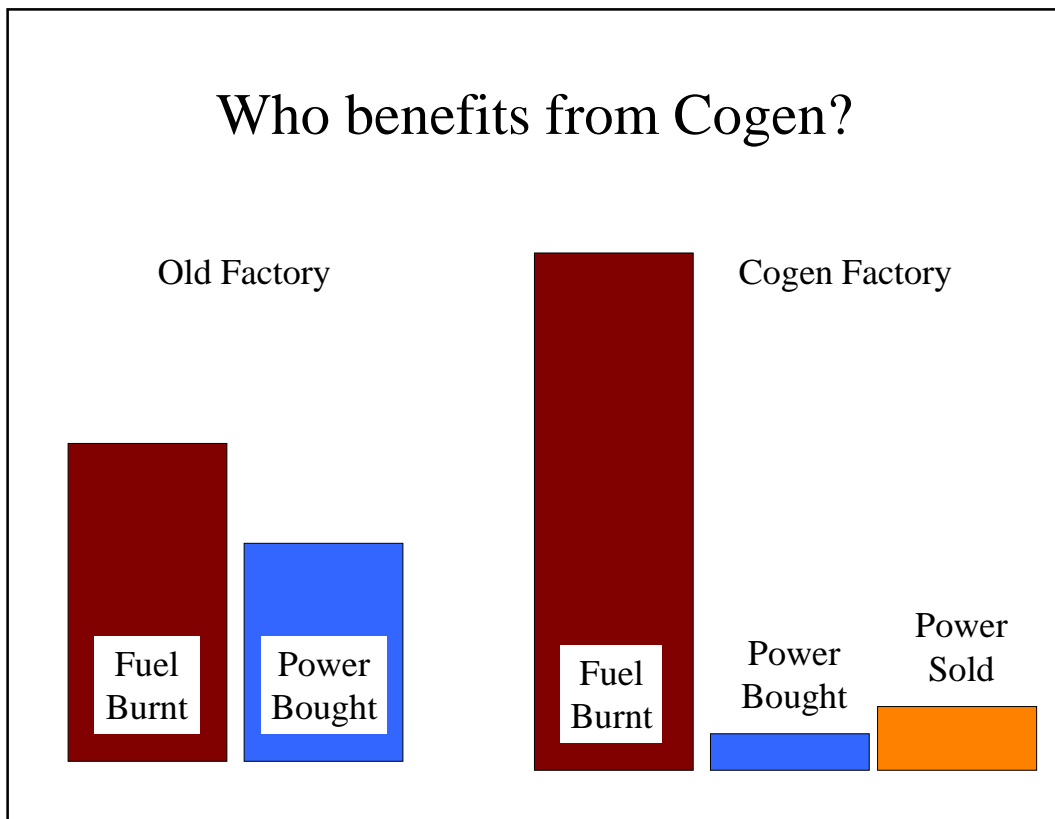
## British Sugar

- Part of Associated British Foods
- 6 factories with simple cycle CHP-1970/80s
- 5 can be upgraded with Gas Turbines
- 2 (80MW each) built by 2000
- €100m, purchased directly
- Active in the UK ETS

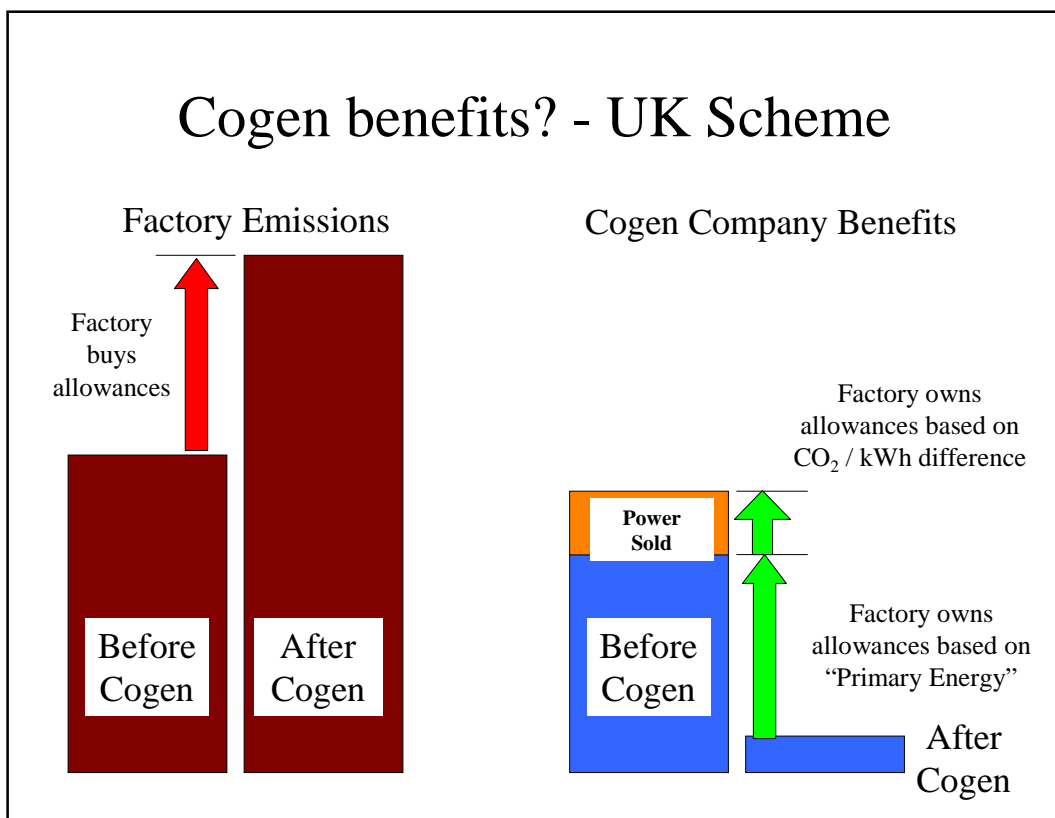
## Agenda

- The Cogen Issues
- The UK Draft National Allocation Plan
- Concerns with the UK draft NAP

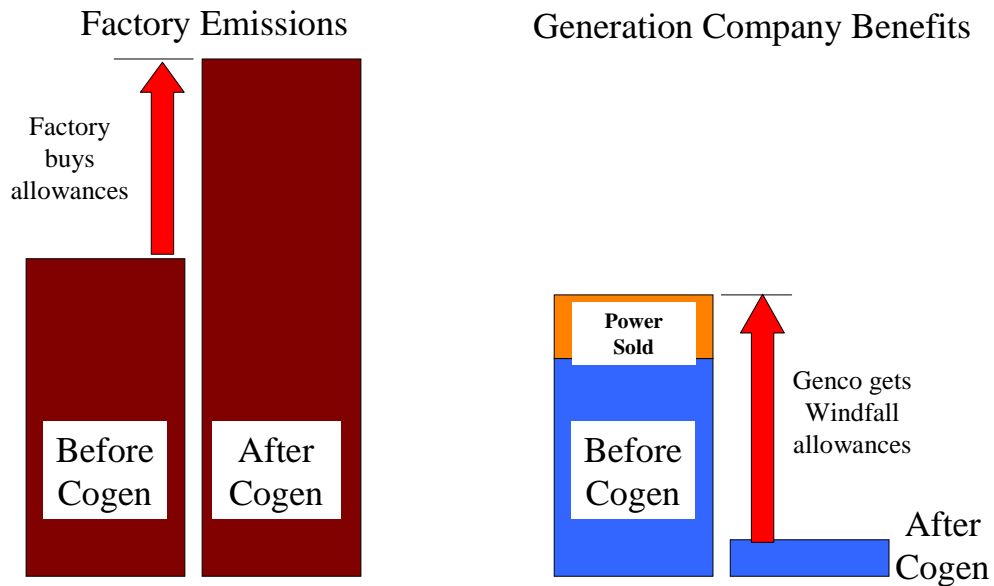
## Who benefits from Cogen?



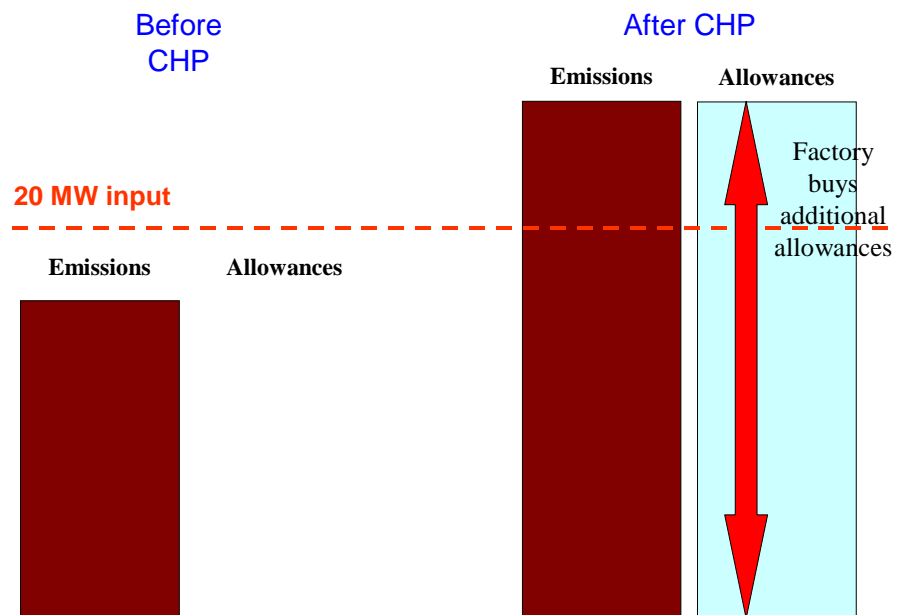
## Cogen benefits? - UK Scheme



## Cogen benefits? - EU Scheme



## The 20 MW<sub>th</sub> Problem



## The CHP Allocation Solutions

- Benchmarking
  - Allocate allowances for heat **and** power
- Grandfathering
  - New Entrant Reserve for CHP
  - Full allocation for early action CHP

## The UK's approach to developing the EU ETS National Allocation Plan

**CHRIS LEIGH**  
**UK DEPARTMENT FOR ENVIRONMENT,  
FOOD AND RURAL AFFAIRS**



## Principles underlying the NAP

### UK leadership on climate change

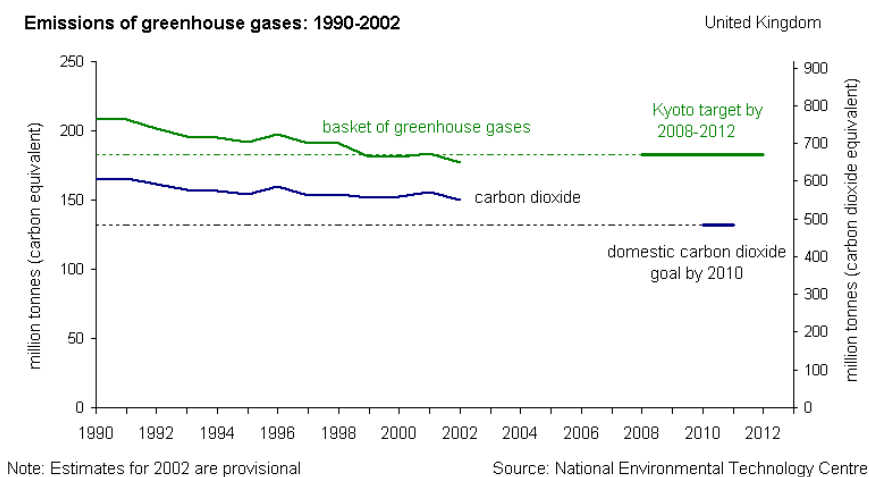
- Kyoto target – greenhouse gases 12.5% below 1990 levels by 2008-12
- National goal – carbon dioxide move towards 20% below 1990 levels by 2010
- UK Climate Change Programme
- Energy White Paper long term target - UK on path to a reduction in CO<sub>2</sub> emissions of some 60% from current levels by 2050.

### Competitiveness

### Security of supply

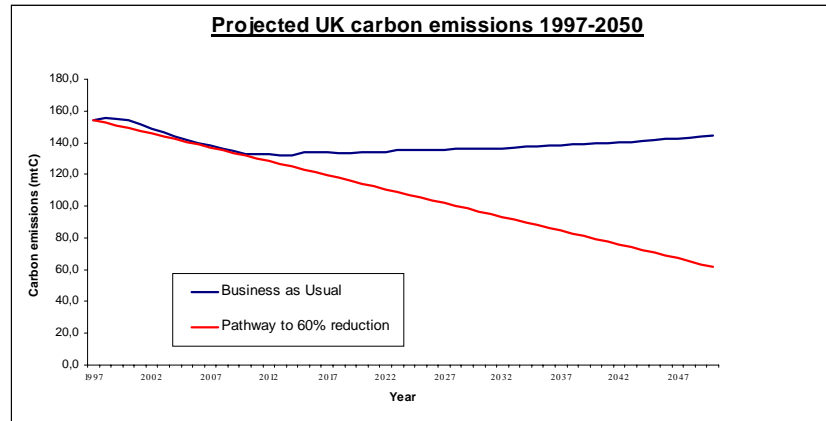


## UK emissions of greenhouse gases 1990 – 2002



## Energy White Paper target

Emissions trading as a central plank of policy for long term carbon reductions to 2050



## National Allocation Plan

- UK consultation draft published 19 January 2004
- Sets out provisional total allocation of allowances, sector allocations and allocations to installations
- New entrants, plant closures and auctioning
- Temporary exclusion

## Principles of UK allocation (Phase 1 2005-7)

overall emission levels (including policies already in place) minus savings expected from emissions trading in the climate change programme

sectors exposed to international competition allocated “with measures” needs

generation sector to deliver the squeeze



## Principles of UK allocation (Phase 1 2005-7)

Allocations to installations pro rata to historic emissions (1998-2002 excluding lowest year)





## New entry and closure arrangements

- new entrant reserve of free allowances:  
5.6% of total allowances
- access on a benchmarked basis in most sectors
- new entry not discouraged – reduces price rises
- closed plant allowances cancelled for subsequent years



## Managing the new entrant reserve: option to auction

1. CHP ring fenced allocation
2. Planned installations with indicative allocations
3. Other new entrants
4. Surplus in reserve auctioned at year end



## Banking

No banking between phases 1 and 2



## Temporary exclusion

CCA and UK ETS direct participants able to apply for opt-out on case by case basis



## Phase one to phase two decisions

- Signals key for EU ETS sectors with long investment cycles.
- Flexibility to reflect on Phase 1 experience and other member states decisions
- Firm indications on direction of cap in Phase Two; auctioning



## Tight deadlines

- Consultation closes on **March 12<sup>th</sup>**
- Final numbers in draft to Commission on March 31<sup>st</sup> will change
- Exact allowances to installations not finalised until September/October 2004
- See consultation documents at:  
<http://www.defra.gov.uk/corporate/consult/eu-etsnap/index.htm>
- Respond to [euets.consultation@defra.gsi.gov.uk](mailto:euets.consultation@defra.gsi.gov.uk)



## Issues with the UK draft NAP

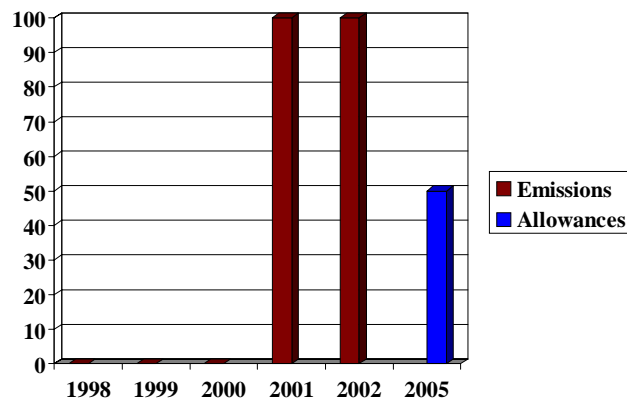
- Coverage uncertainty
- Baseline issues
- Closure treatment
- NAP 2 Investment certainty

## Coverage uncertainty

- Driers and Furnaces OUT in the UK
- And IN in Sweden, Spain, Germany, Denmark, Austria, Belgium

## Baseline issues

- Plants built in 1998-2002 (many CHP!) are penalised



## Closure treatment

- Site rationalisation not recognised as abatement
- Still being debated

## NAP 2 Investment certainty

- CHP New Entrant Reserve is good, but only helps investment if in NAP2
- There is no guarantee of similar treatment of new entrants and CHP in NAP2

## Summary

- UK draft NAP a first step towards addressing the CHP issues
- BUT: Early action penalty (commissioning plants in baseline) needs addressing
- CHP should be considered to be a sector