

Government Response to the EU Emissions Trading System Phase II Good Quality Combined Heat and Power New Entrant Reserve Ring- Fence Review Consultation



This Government response has been issued by the Department of Energy and Climate Change, together with the Devolved Administrations for Northern Ireland, Scotland and Wales.

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Government Response

1. Background

The joint consultation which opened on 18th January 2010 and closed on 12th April 2010 considered two separate EU Emissions Trading System (EU ETS) issues:

- Firstly, the potential exclusion of some or all small emitters and/or hospitals from Phase III of the EU ETS (Section 2).
- Secondly, the review of the Phase II Good Quality Combined Heat and Power (GQ CHP) New Entrant Reserve (NER) ring-fence in 2010 (Section 3).

The responses to both issues in the joint consultation have been very helpful in informing the Government's views on the issues involved and the Government thanks all those who have taken the time to respond.

This document only sets out the Government's response to the Phase II GQ CHP NER ring-fence review section of the consultation (Section 3). The other issue which was under consultation, the potential exclusion of small emitters and/or hospitals from Phase III (Section 2), is not covered by this document. A separate Government Response on this issue will be published in due course.

A summary of responses to the consultation question on the review of the EU ETS Phase II GQ CHP NER ring-fence is available as a separate document.

2. Government Response to the GQ CHP NER review

2.1 Decision on the GQ CHP NER review in 2010

This section of the consultation sought views on the Phase II Good Quality Combined Heat and Power (GQ CHP) New Entrant Reserve (NER) ring-fence review in 2010. The UK Phase II National Allocation Plan places an obligation to review the GQ CHP NER ring-fence each year from 2010 onwards and in the light of emerging trends in CHP and general new entry, allowances from the ring-fence may be transferred to the main NER.

The majority of respondents that considered this section of the consultation agreed with the analysis presented on Phase II CHP trends and main NER demand, and consequently supported the transfer of allowances from the GQ CHP NER ring-fence to the main NER in 2010 (89%). In addition, the majority of respondents agreed with the Government's proposed transfer of 5.3m allowances (69%).

The consultation also requested operators planning new GQ CHP schemes that are likely to be included in the EU ETS and are planned to commence operation before the end of Phase II (31st December 2012) to notify the CHPQA administrator. As a result of the consultation a number of small new CHP schemes came forward. However, these were not considered material to the CHP trend analysis, as an estimation of additional installed GQ CHP capacity for unknown small projects under 3MWe was included in the consultation CHP trend analysis.

Since publishing the consultation the developers of a number of new GQ CHP schemes included in the analysis have notified us that their project start dates have been delayed. However, given that some uncertainty exists over the amount of new GQ CHP that will be developed before the end of Phase II of the EU ETS the Government has decided to transfer 5.3 million allowances from the GQ CHP NER ring-fence to the main NER in 2010.

2.2 Future GQ CHP NER reviews

The GQ CHP NER ring-fence will be reviewed again in 2011 and 2012 in line with the requirements set out in the Phase II UK National Allocation Plan and the approach established in the consultation. The Government does not intend to carry out public consultations for these reviews, as we expect that the uncertainty over the likely growth of new CHP capacity before the end of 2012 will reduce when we again review the GQ CHP NER in 2011 and 2012. These future reviews could potentially see the return of further allowances to the main NER, should any surplus be identified.

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