

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



This summary of responses 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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Summary of Responses

This report acts to summarise the responses received in relation to the EU Emissions Trading System (EU ETS) Phase II Good Quality Combined Heat and Power New Entrant Reserve (NER) ring-fence review consultation.

Background

On 18th January 2010 a joint consultation was launched on two separate EU ETS issues. The consultation ran for 12 weeks closing on 12th April 2010, and covered the following:

- The first part of the consultation (Section 2, Questions 1 to 12) sought views on the potential exclusion of some or all small emitters and hospitals from Phase III of the EU ETS.
- The second part of the consultation (Section 3, Question 13) sought views on the Government's review of the Phase II Good Quality Combined Heat and Power (GQ CHP) New Entrant Reserve (NER) ring-fence review and the proposal to transfer some allowances to the main NER in 2010.

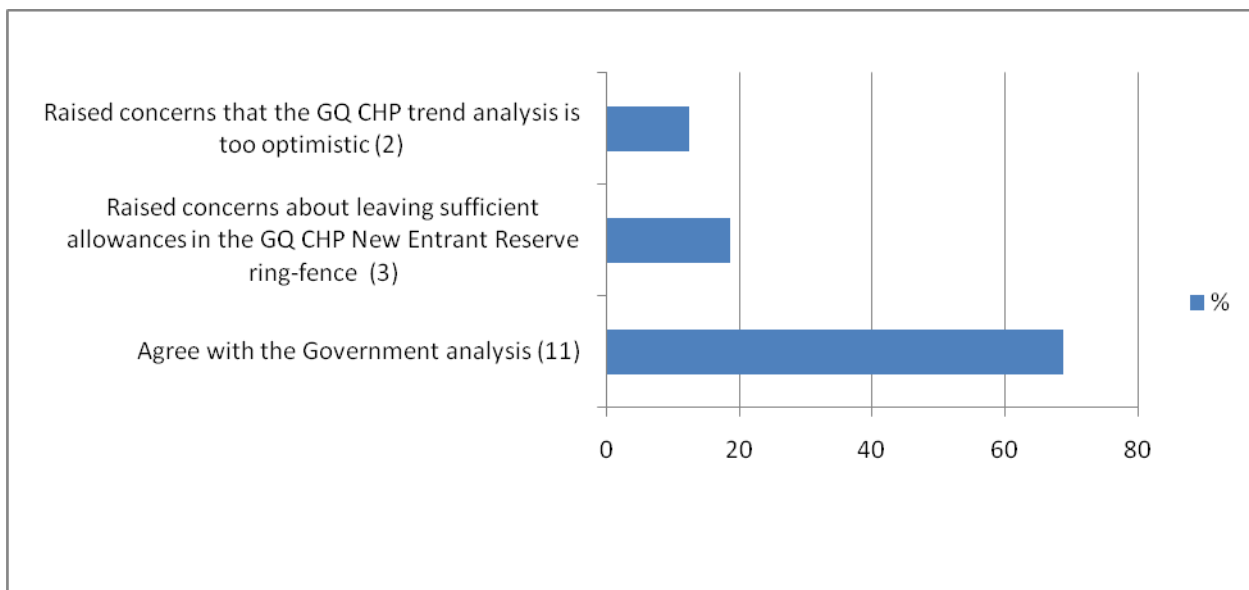
Only responses to the second part of the consultation, on the review of the Phase II GQ CHP NER ring-fence in 2010 (Section 3, Question 13), are included in this summary of responses.

Responses to the first part of the consultation, on the Phase III exclusion of small emitters and hospitals (Section 2, Questions 1 to 12), are **not** included in this document. A summary of these responses will be published at a later date when the Government publishes its response to this section of the consultation.

Summary of Responses to Question 13

Consultation Question	
13.	Do you have any comments on the analysis presented in section 3.2 on either the CHP trends or main New Entrant Reserve demand?

A total of 16 responses were received to this question in the consultation, namely from EU ETS operators and industry sector associations. These responses are summarised in the below chart.



Analysis

The majority of respondents (11 or 69%) to this question broadly agreed with the Government's analysis of the CHP trends and supported a transfer of allowances from the GQ CHP NER ring-fence to the main New Entrant Reserve in 2010. Almost all of these responses agreed with little or no comment.

A further three respondents (20%) broadly agreed with the Government's analysis in section 3.2 of the consultation document, but raised concerns that the proposed transfer of 5.3m allowances may not leave sufficient contingency should any unexpected GQ CHP schemes come forward before the end of Phase II. This, they argue, could potentially jeopardise the incentive for future GQ CHP development and the development of low-carbon technology. In addition, one of these respondents highlighted that as this is an annual review the level of transfer could be revisited thus reducing the chance of such a disincentive occurring.

Conversely two respondents (13%) argued that the Government's CHP trend analysis seem too optimistic and that greater transfer of allowances (i.e. 7m) from the GQ CHP NER to the main NER was more appropriate. One of these respondents argued that unless a large GQ CHP plant is being built now they are unlikely to be completed, and thus require a significant allocation from the GQ CHP NER, before the end of Phase II.

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