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CHP in Phase II of the EU ETS

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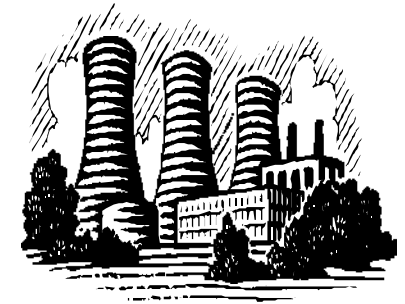
February 2006

Timetable for Development of UK NAP for Phase II

- Consultation on Phase II options – July 2005
- Announcement on early decisions – Nov 2005
- Consultation on projections – Feb 2006
- Consultation on draft NAP – Spring 2006
- Environment Agency data collection exercise – Spring 2006
- Submission of NAP to Commission with provisional installation level allocations – Summer 2006
- Consultation on installation level allocations – Summer 2006
- Commission approval of NAP – Autumn 2006
- Final Allocation Decision – December 2006

Context for CHP in Phase II

- Phase I CHP policy
- General aims and objectives for Phase II EU ETS:
 - Consistency with national goal and Energy White Paper commitments
 - Expansion to new sectors and gases where appropriate
 - Creation of an efficient EU-wide trading market
 - Competitive position of UK industry
 - Maintaining the reliability of energy supplies
 - Leadership position on climate change
 - Promote emissions trading as a policy instrument
- Climate Change Programme and Energy Review



Treatment of CHP incumbents (1)

- Eligibility criteria
 - Good Quality certification
- CHP and EU ETS boundaries
- Partial Good Quality CHP
- Projections
 - Consultation indicates intention to create separate CHP sector
 - CHP is 9% of total EU ETS sector emissions over 2008-2012
 - Sector Caps

Treatment of CHP incumbents (2)

- Allocation methodology
 - Historic emissions, capacity benchmark or combined benchmark to determine distribution?
 - CHPs in the ESI
 - Complexity and equity?
 - Fallbacks



Treatment of CHP new entrants

- Definitions of CHP New Entrants
- CHP ring-fence
- Allocation methodology
 - Benchmark
 - Level of allocation to CHP (e.g. 'bonus')
 - Combined benchmark
- Who pays and how?

Next Steps

- Continue to work through complex and detailed issues to implement ideas
- Tight timetable
- Further CHPQA and industry input
- Fallback options are still necessary

