

Meeting Notes
ETS Low Emitters Workshop with DECC
Held jointly with the Mineral Products Association



7th April 2016, 2-4.30pm
Ericsson Room, techUK, 10 St Bride Street, London EC4A 4AD

Attendees

Duncan Cockburn, BT
Stuart Lemmon, Carbon Clear
Lucy Taylor, CBRE
Naomi Scott-Mearns, CBRE
Harriet Dalrymple, DECC
Simon Squire, DECC
Simon Reed, Equinix
Billy McHallum, Equinix,
Stewart Bayrum, Global Switch
Nick Phillips, Global Switch
Rebecca Hooper, Mineral Products Association
Marientina Laina, Schneider Electric
Emma Fryer, techUK
Paul Ewins, Virtus

Apologies

Pip Squire, Ark
Ian Bitterlin, Critical Facilities
Paul Cranfield, Digital
Stephen Case, TCG

1. Welcome, Introductions and Order of March

All present introduced themselves. Emma noted that the core communities of interest were well represented: government, operators, individuals working in the technical space and industry associations. She was very pleased that the MPA were present to provide their low emitter perspective.

2. Defining the scope of the exercise

Simon explained DECC's objectives regarding ETS Phase IV. The UK government was aware that the scheme presented particular challenges to some participants and wished to address these as part of the wider review process.

Main points: UK Government Position

- DECC is looking at Phase IV in the round, and is conscious that while the scheme seeks to address carbon leakage it has to work for business as well.
- DECC is aware of the issues for low emitters and there is acceptance at EU level that something could be done about *de minimus* sources.
- If simplification at EU level proves elusive, improving the low emitters opt out scheme will be a priority.

Simon provided a helpful overview of the status of the negotiations for Phase IV. While other countries were keen to simplify ETS in principle, most had little to contribute in practice. The Dutch were an exception and had already produced a list of proposed simplifications. The Dutch presidency presented an opportunity to move things forward.

Main points - status of negotiations

- Several MS have put forward proposals about simplifying compliance procedures for simple emitters, where in some cases a verifier might not be necessary. Other proposals include automatic surrender of carbon allowances, simplification of rules around opt-out procedures and an increase of the small emitter threshold perhaps from 25,000 to 50,000 tonnes.
- The objective is to simplify the scheme without compromising its environmental integrity.
- Not all MS have low emitters schemes – only about 7, so priorities are unlikely to be aligned
- Political positioning is likely to be a major factor in the negotiations.

Simon clarified that some of the proposed changes – for instance the introduction of a *de minimus* threshold would require a change at EU level i.e. a change in the Directive and others – for instance those relating to the design of the low emitters opt out scheme, could be handled at UK level.

Simon reported that a workshop had been held in mid March and another was likely for May.

DECC was not planning a lengthy consultation. Instead they had sought the views of all ETS participants through a cost of compliance survey. There had been a 25% response rate, which was good. This would give them hard evidence for any negotiating position. They had analysed the findings, although these would not be published until June. Government outputs on other carbon taxes and schemes would also follow a similar timetable.

Main survey findings relevant to low emitters

- There were very significant variations in compliance costs per tonne of carbon.
- The scheme was disproportionately costly for low emitters
- There were issues regarding the way ETS handles its small emitters
- 50% of the costs for monitoring and verification related to only 2% of the emissions
- The low emitter opt-out scheme had saved money for some participants but it was not clear how to attribute this saving.
- The short window for entry had been problematic
- The findings from the survey were very much in line with comments, both formal and anecdotal, made separately.

3. Overview of the sector-specific issues for low emitters obliged under ETS

Rebecca explained that mineral products were covered by much of this legislation as a matter of course, and many suppliers were significant emitters. However, for a specific cohort of her members, those manufacturing asphalt, the provisions were very problematic. Their key issues were:

- The fact that the threshold was based on capacity rather than emissions was inconsistent with an emissions scheme.
- There were discontinuities in the way that the legislation was interpreted, applied and enforced which gave other regions competitive advantage and could lead to carbon leakage.
- Small source streams were a particular issues, where emissions had to be recorded on large number of very small emission sources. The effort involved was wholly disproportionate.

- A better mechanism for monitoring and verification was needed.

Emma explained that data centres were power hungry but relied on electricity. The installed generating capacity to ensure continuity of function in the unlikely event of power outages. Their key issues were:

- Disproportionate compliance costs
- Complexity and confusion regarding legislation and guidance
- Regulatory intransigence over negligible emissions
- Specific problems relating to reporting fuel use for very low emitters.
- Inconsistency in interpretation, implementation and enforcement.

These positions were followed by discussion where a number of points of principle were raised. Some were specific to the application of ETS to low emitters but others were more systematic shortcomings of the policy process. These points are captured below

Points of principle from industry

- Businesses that are not the intended target of regulation should remain out of scope.
- Policy tools should be limited to the policy objective: ETS, as an emissions related policy instrument, should be limited in scope to emissions. There are separate instruments to deal with generators - LCPD/IED and MCPD. Policy tools that attempt to do two jobs create duplication, complexity and contradiction.
- Policy failures should be addressed at source: not by widening scope to a “catch-all” scenario. There is a tendency to address policy failures by increasing the scope of the instrument or by gold plating its implementation instead of addressing the issue at source. The inclusion of facilities that are not scope 1 emitters in scheme targeting large emitters is an example. Efforts to remove or limit the MCPD exemption for diesel standby plant because of the growth in diesel farms stimulated by the contracts for difference is another.
- Ideology should not influence policy decisions, especially when it is misplaced: currently there are discussions that attempt to differentiate “genuine” emergency standby plant from standby plant that engages in STOR as though the former is ideologically preferable to the latter. In reality, dedicating under-used capacity to reduce peak load on the grid is entirely laudable. The primary function of the capacity is unchanged as emergency standby. The fact that it is being leveraged usefully should not compromise this: it is doing two useful things instead of one.
- Major businesses already implement advanced management tools and voluntary standards almost as a pre-requisite and are extremely reputation-conscious. There is a tendency to regulate as though every enterprise lacks governance. This is the equivalent of phoning your married son every night to check he has cleaned his teeth. Firstly he should be motivated to do it himself and if he isn’t his wife will sort him out one way or another.
- The current model, where it is up to a business to ascertain whether they are obliged under ETS on the basis of their generating capacity could equally well be applied on the basis of their emissions. Businesses that know they are near the threshold would have very strong incentives for monitoring emissions closely.
- Perverse incentives are frequently associated with climate change policy tools:

- The burdensome nature of ETS encourages operators to adopt less efficient generating options (multiple smaller units) to avoid it.
- ETS actually encourages carbon leakage in location agnostic sectors because it presents a disincentive to locate or expand operations where it is in force.
- Run time and very low emission thresholds deter businesses from committing unused plant to STOR and other demand side measures. As a result, standby generating plant for security of supply increasingly comprises new plant being installed bespoke for this purpose with its associated embodied energy and carbon burden, when existing capacity could be leveraged.
- ETS discourages consolidation of computing resource from a distributed model to a more efficient consolidated facility.

4. Lessons learned from the last Low Emitters Opt-Out Scheme

The last opt-out scheme was discussed. Comments focused on:

- The very restrictive single window for entry which was too short for participants to prepare and /or ensure that they were making an informed decision. For new participants entering the scheme during phase III the single window meant that there was no low emitters option.
- The relatively late announcement of the scheme which meant that many participants had already invested in preparing for entry to the main scheme.
- The inflexibility (in or out) of the low emitters scheme did not allow for changes in company status.
- The long lock-in timescale meant that the scheme was unresponsive to larger scale changes such as recessions.
- There should be scope for transitioning in and out of the low emitters scheme.
- The actual savings under the low emitters scheme had not lived up to the predictions of the impact assessment.

5. What we think “good” would look like in terms of options for low emitters

Operators considered that a good approach would be:

- Proportionate
- Consistent
- Predicated on emissions thresholds rather than capacity thresholds
- Clearly legislated and accompanied by clearly worded guidance
- Dynamic with respect to transitioning between low emitters and main scheme
- Flexible regarding the structure of reporting (ie not wedded to particular standards or approaches).
- Intelligent in its use of/reference to existing business management standards

Operators considered that if proposed simplifications to the scheme passed the following tests, it would be difficult to argue against them:

1. Are the policy objectives compromised?
2. Will the scheme remain robust?
3. Is the proposed approach transparent? Auditable?

Whilst this logical approach might work in domestic discussions, it was noted that EU negotiations between member states were likely to be immune to the application of logic. It was agreed therefore that this approach might work best in domestic discussions over the opt-out scheme.

6. Other ways we might be able to streamline the compliance process

Emma reported that techUK negotiations with EA on accounting for generator emissions had been much more productive than had been expected and a pragmatic approach for operators emitting under 1000 tonnes had been agreed. Calculations could be used based on run time, capacity and load. The golden rule was that the process must be transparent and auditable. Verification would still remain part of the process.

7. Recommendations and next steps

Actions agreed:

- Simon to send Emma email details for James Cox, leading the BIS work on carbon taxes.
- Emma to share the guidance note for accounting for generator fuel use together with the draft spreadsheet.
- Emma to share “Cones of Pain Roadmap” when ready.
- Emma to send Rebecca the German note on standby exclusion.
- Simon to provide an update on the direction of travel on the negotiations and, if possible, any developments and outcomes when available.
- Within the constraints of the negotiating process, industry would welcome some indication of DECC’s position and the points likely to be taken forward in the negotiations. (i.e. it is very helpful for us to know which points we have “landed” on behalf of our members).
- Low emitting sector associations to maintain contact.
- Those present to consider whether there were other sectors with whom cooperation might be productive. Aviation was a potential candidate because a *de minimus* was already being applied.

8. AOB

There was no AOB. Emma thanked everyone for attending and closed the meeting.