

5.4. European Union's Emissions Trading Scheme (EU ETS)

Background

The EU ETS is a cornerstone of European Union policy to meet Kyoto Protocol and future Paris Agreement commitments to reduce greenhouse gas emissions. The EU ETS also has a similarly significant role in helping the UK Government to meet carbon budgets set out under the Climate Change Act 2008.

We are responsible for regulating operators and aircraft operators, ensuring compliance and enforcement of the EU ETS in England. We also administer the EU ETS Registry (a database hosted by the European Commission where EU ETS allowances can be transferred and surrendered) for the whole of the UK.

The work is split into three broad areas:

- EU ETS installations – electricity generation and the main energy-intensive industries – power stations, refineries, iron and steel, cement and lime, paper, food and drink, glass, ceramics, engineering and the manufacture of vehicles
- EU ETS aviation – mainly commercial airlines but some private and business jets
- Registry – the registry used to trade and surrender allowances
- There are several types of registry accounts including:
 - operator accounts required as part of EU ETS participation
 - trading accounts opened by financial institutions and some private individuals to trade carbon allowances - the opening of trading accounts is voluntary and is for the purpose of trading in carbon allowances

In the UK there are about 1,000 installations participating in the EU ETS of which about 740 are regulated by the Environment Agency. There are a further 140 aviation operators that are regulated by the Environment Agency.

The Environment Agency charges for determining permits and emission plans. These charges provide for:

- the opening of a registry account (required to trade and surrender allowances)
- annual subsistence for the maintenance of accounts
- additional events such as transfer, surrender or revocation of the permit, and project activities

Rationale for New Charges

The current charges reflect a scheme that was largely designed for the first phase of the scheme in 2005. This has been added to incrementally since then as policy and legislative changes have brought in new sectors, types of permit, a big reduction in the number of aircraft operators, a Union Registry, and increasingly sophisticated trading facilities. Our charges under this scheme have not been reviewed since 2011. However, the requirements of the scheme have changed and we are no longer recovering the cost of our work.

The permitting and subsistence charges were originally based on the polluter pays principle with the largest emitters paying the most and the smallest the least. Three bands of charges were established which aligned with EU ETS thresholds specified for monitoring and reporting requirements.

We propose to move from tiered subsistence charges for all our ETS customers to two flat charges for operators of installations and aircraft. This change reflects the automation of our delivery of the

EU ETS since 2012 as well as changes to EU policy on aviation in 2013. Our automation has reduced the administrative effort we expend on our larger emitters. As a result, there is no significant difference in effort expended on customers regardless of their emissions.

We propose to remove the variation charge and include this in the subsistence charge. This will simplify the charging scheme and reduce the administrative burdens to customers.

We propose to increase charges in relation to the opening of registry accounts. Enhanced security checks for those opening an account and approving users have been introduced to the regulations to counter banking and money laundering. This has resulted in an increased effort for both account applications and new user determination, and as such we propose to increase these charges to reflect our increased costs.

Charges proposals

We propose to retain the structure of the existing scheme with the following changes:

- replace the current tiered subsistence charge with flat charges
- remove the aviation and installations variation charges
- remove redundant charges for non-emitters
- change to registry charges as set out below

All other charges will remain the same.

Annual subsistence charges

The new flat rate charge for operators of installations will be £3,065.

The new flat rate charge for aviation customers will be £3,135.

The charge for non-emitters will also be removed.

Registry charges

Opening a registry account

The charge for opening a registry person holding account or trading account is proposed to be increased from £190 to £915. The charge for opening a verifier account is proposed to be increased from £190 to £500. These are cost reflective.

Change of registry authorised representative

We propose to apply a charge of £880 for a change of registry authorised representative. This will apply to all installation and aviation operators, verifiers and holders of person holding and trading accounts.

There is currently no charge for this work for operators. The charge for person holding and trading account holders is currently £55.

Annual registry subsistence charge

The cost of maintaining a registry person holding or trading account has reduced, so the annual subsistence charge is proposed to be reduced from £380 to £255 per year. Again, this is cost reflective. This charge will also apply to those with former operator holding accounts