

Title: Climate Change Agreements: proposals for a future scheme

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Department for Business, Energy and Industrial Strategy consultation: Climate Change Agreements: proposals for a future scheme

The National Farmers' Union of England and Wales (NFU) and its energy consultancy NFU Energy.....(summary to be added here)

The NFU represents 55,000 members across England and Wales. In addition, we have 20,000 NFU Countryside members with an interest in farming and rural life. NFU Energy is one of Britain's leading energy consultancies, uniquely specialising in the agricultural energy market and helping both NFU members and non-members with everything from buying and selling energy through to securing new connections and upgrades, energy regulation, compliance and energy efficiency.

Our trade association is the largest farming organisation in the UK, providing a strong and respected voice for the industry and employing hundreds of staff to support the needs of NFU members locally, nationally and internationally. We are engaged with government departments covering agriculture, rural affairs, environment, energy, climate change, employment, infrastructure and transport issues, directing policy into real economic opportunities for rural diversification and job creation. The NFU champions British agriculture and horticulture, to campaign for a stable and sustainable future for our farmers and growers.

With 75 per cent of national land area in the agricultural sector, NFU members have a significant interest in land-based renewable energy production, where they can benefit directly as energy producers themselves or as hosts for energy plant developed by others. Market research conducted by ourselves and others suggests that nearly two-fifths of farmers and growers have already invested in some form of renewable energy production for self-supply or export to other users. We estimate that farmers own or host about 70% of Britain's solar power capacity, over half of AD capacity and the majority of wind power, while playing a significant role in the supply or fuelling of renewable heat.

In 2019 the NFU set out its vision for agriculture to achieve a net zero contribution to climate change across the whole of agricultural production by 2040, focussed on three key areas or 'pillars':

- Improving the productive efficiency of farming across all sectors
- Increasing on-farm carbon storage in vegetation and soils
- Boosting production of land-based renewable energy, including bioenergy for processes coupled to CCUS, to generate credits for GHG emissions avoided and GHG removal.

NFU Energy (and its predecessor Farm Energy Centre) has been responsible for the administration of the agricultural CCAs for more than 15 years, and also heavily involved in the implementation of the non-domestic Renewable Heat Incentive (RHI) scheme in over 1500 rural facilities, with first-hand experience of the challenges of implementing complex renewable heating systems.

Consultation background

The Climate Change Agreements (CCA) scheme, first established in 2001, serves the dual purpose of making energy and carbon savings through energy efficiency targets, whilst also helping to reduce energy costs in eligible industrial sectors by providing a significant discount to participating businesses on the Climate Change Levy (CCL). The NFU is the trade association responsible for the existing CCAs (due to end in March 2025) which cover certain eligible energy-intensive sectors (horticulture, pigs and poultry). NFU Energy administers these schemes for the NFU, and provides expert help and guidance to scheme members. Overall, these CCAs have proven effective in driving energy efficiency uptake for participating NFU members, and we have shown that the discipline of regularly reporting energy performance can result in business gains, and may also enable compliance with future regulations on energy efficiency.

As a long standing, well understood scheme which is supported by industry and has proven to be effective in delivering energy savings, the Government believes that there continues to be a place for a voluntary agreement scheme as a part of how to reach net zero emissions for UK industry. The Government is therefore consulting on following the current CCA scheme with a new, reformed scheme after the end of the current targets (31 December 2022) and reduced rates of Climate Change Levy (31 March 2025).

Our general comments on this consultation

In the opinion of the NFU and NFU Energy, this is one of the few government incentive schemes that has consistently incentivised energy users to do the 'right thing', making progressive energy efficiency improvements that boost resource use efficiency and productivity, as well as reducing environmental impact. We are keen to see it (or a similar replacement scheme) continue in the long term.

If possible, a replacement scheme needs to be made more inclusive to farmers and growers that use significant amounts of energy in their process, but fall outside the currently targeted sub-sectors (poultry, pigs and horticulture). For example, large dairy enterprises could benefit from access to a discount on energy bills if they met certain approved energy and carbon saving goals.

To make the replacement scheme more inclusive, the challenge would be to establish measurable targets, e.g. in terms of specific energy consumption or carbon intensity of production. This may require a degree of delegation to trusted administrators to set, certify and report faithfully on energy / carbon performance improvements. We suggest that proposals could be invited for voluntary participation by businesses that met certain qualifying criteria to join a group scheme, including proposed methods for how to measure and report individual improvements.

Consultation questions

Q1. What are your views on the proposal to follow the current CCA scheme with a new, reformed CCA scheme?

The NFU and NFU Energy would welcome a follow-on scheme, and we believe this provides an opportunity to link incentive and reward to action on reducing both energy use and carbon emissions in

agri business. The CCA is a well-established scheme that many end users understand, and some reform is necessary to keep it appropriate and ensure it meets clear objectives.

Scheme length

Q2. What is your view on the appropriate length for a new scheme?

At least 10 years, with potential to extend (RHI was 10 years, FiT was 10, CCL has been 10, etc.). We believe it important however to establish rules from the outset – specifically the method for establishing targets for any extension, to avoid changes in scope that could put off ongoing participation.

Q3. What would be the appropriate length for target periods?

Our cautious opinion is that annual reporting against targets would keep the scheme in focus, and keeping the Target Periods at two-year intervals would give a good balance. However, the scheme needs to be more flexible about penalising underperformance and 'banking' overperformance. In consideration of 2-year target periods, we note there are advantages associated with smoothing of unexpected events and the fit with production cycles that are not annual, such as the 7-week cycle of broiler poultry production, or the >2 year cycle of egg production. Reporting based only on annual cycles would risk poor weather or trading conditions significantly affecting results, whilst also not allowing time for implemented measures to take effect. Allowing any penalties to lag by 12 months would allow a degree of buffering.

Q4. When a mid-scheme review is undertaken, what aspects of the scheme do you think should be under evaluation?

All aspects of the scheme should be available to review, apart from any potential decision to curtail the scheme early. Crucially, decisions on extending the scheme should be made at this mid-term review, to allow time for new target-setting and reforms to be analysed and established.

Eligibility

Q5. Do you agree with the proposal to review sector and facility eligibility for any future CCA scheme?

Yes. It is our view that the scheme success relies on participation and engagement, so the more inclusive the scheme can be, the more likely it is to deliver on intent. The sector/sub sector approach means that some energy intensive businesses are individually left out of the scheme. This feels at odds with the policy intent: for example, it would be more inclusive to have one broad agricultural industry agreement, allowing the NFU and NFU Energy as agreement holder and data administrator to determine whether individual business/facilities would be admissible, would benefit, and are appropriate in consideration of the overall scheme rules, with energy use have high importance in their business.

Q6. Do you agree that energy intensity and trade intensity metrics should be used as part of this criteria?

Energy – should be a metric; however, energy intensity as a measure of company turnover can miss the importance of energy to the business. In helping to drive energy reductions, it may be more appropriate to consider a minimum energy consumption threshold to qualify.

Trade – in consideration of encouraging wider participation of agricultural producers, we believe that trade intensity metrics are less likely to be a consideration, and therefore would prefer greater weighting of energy intensity over trade intensity in the qualifying criteria.

Other additional criteria could be used for qualification, such as allowing those who participate in Environmental Permitting or other mandatory reporting schemes such as ESOS or SECR.

Q7. What are your views of the options for measuring trade openness (trade intensity and import penetration ratio) and which do you believe would be most appropriate for determining scheme eligibility?

We agree that both energy intensity and trade intensity metrics are desirable components of the qualifying criteria, given the need to avoid unfair competition in highly trade-exposed sectors such as agriculture. While import penetration ratio is conceptually easier to comprehend, we can see the logic in using trade intensity in the eligibility criteria to harmonise with EII compensation/exemption and ETS measures.

Q8. Are there any specific considerations you believe should be made in reviewing existing process definitions?

These need to be broad enough to capture the high energy consuming parts of the process/facility and not be purely limited to matching 'usual' sectoral requirements. Additionally, the greater the inclusivity the greater the opportunity for making energy savings.

Q9. Are there any other criteria that should be considered?

Potential additional criteria might also include commitments to sustainability and participation in other environmental schemes such as the Sustainable Farming Initiative.

Continued scheme focus on energy efficiency

Q10. Do you agree that targets should remain primarily focused on energy efficiency?

The concept that the scheme focuses on driving energy efficiency is ultimately a good one – as mentioned in the consultation document, there are indeed other schemes and incentives that drive decarbonisation through the adoption of low carbon sources of energy.

However, purely expressing targets in energy terms means that impacts of measures where lower carbon sources of energy are used may be mis-stated or disproportionate in practice. Perversely, this then acts as a disincentive for continued participation in the scheme, which pushes back against overall government policy goals.

Q11. How could the impacts of implementing decarbonisation technologies on energy efficiency targets be managed in the scheme?

It would seem appropriate to apply carbon intensity corrections to targets as an alternative measure of success – perhaps through weighting targets based on carbon intensity achieved by facility (in consideration of how much energy is supplied by different sources).

Q12. What are your views on making compliance with a recognised energy management system a mandatory part of the scheme?

We think this would be overly burdensome, especially for small and micro businesses (many horticultural sites for example are micro businesses but have energy consumptions equal to large organisations). We also assert that CCL participation should be recognised as a management tool within other voluntary or mandatory schemes to aid compliance with them.

Incentivising facilities to achieve a set result (i.e. target reduction) should allow easy participation in the scheme, and not put additional barriers in the way. Ultimately we believe that mandatory compliance with energy management systems will reduce participation and therefore decrease the likely impact of the scheme.

Q13. Should such a requirement be applied to all participants or a subset? If the latter, what would be appropriate criteria for this?

See also Q12 above. We think any energy management scheme mandate would be a retrograde step. If such a requirement were introduced, it would be better to apply it only to medium and large enterprises, and not to judge size based on energy use, as medium and large enterprises are more able to cope with recognised energy management systems and get more benefit from them. In the horticulture sector, energy can represent 35% of turnover with a micro business having multi-million pound energy bills. Some will have bespoke energy management systems specifically for their particular operations, which may not be considered recognised energy management systems, but which nevertheless, of necessity, achieve a very detailed and effective level of energy management.

Q14. How long do you expect it would take participants who do not currently have an energy management system to adopt one?

At least 12 months, and more likely 2 years.

Increasing uptake of energy efficiency technologies & transparency of action taken

Q15. Do you agree that additional reporting mechanisms should be introduced to monitor action taken and action planned?

Yes – this would align the scheme to similar requirements for ESOS and SECR, and ideally lead to better awareness of obligations and understanding the differences that can be made.

Q16. Do you agree that reporting of energy and throughput data should be reported annually?

Yes – see our response to Q3 above.

Q17. What are your views on potential synergies and efficiencies that should be considered between a future CCA scheme and other auditing and reporting schemes?

Broadly, we agree it would be sensible to align reporting and requirements under other, similar, schemes to CCA and vice versa – but see also our response to Q12 above. Information provided elsewhere (such as under ESOS), whilst useful, may not always be appropriate to implement, and the timescales of implementation are not firm, so to use these for target setting could easily lead to unrealistic targets.

Q18. Do you agree that mandatory disclosure of the annual financial benefit from reduced rates of CCL should form part of a new CCA scheme?

We see little risk in mandated disclosure of benefit to the Scheme administrator – however we question why participants would need to provide this information, as the scheme administrator could calculate this from returns or by query to HMRC. However, there would be some benefit in the company management understanding the benefit of the CCA to their business, and this should form part of partnership or board approval in making returns.

Q19. Would this disclosure be helpful in business decision making on energy efficiency investment?

Yes.

Q20. Do you agree that the ratio relative/'novem' target type should be the only relative target type in a future scheme?

Yes

Q21. Do you have any specific views on potential changes required regarding throughput measures used within any CCA?

Any non-novem target can be represented as a single product novem target, so there is no loss of utility, and a great deal of simplification, to be gained with this change, especially in sectors with a mix of novem and non-novem target units.

Q22. Should the scheme continue to have a surplus mechanism to allow overperformance to offset underperformance in future Target Periods?

Yes.

Q23. What reforms should be considered for the surplus mechanism?

See also our response to Q12 above. Historic overperformance can be booked against future underperformance, however if annual targets are to be adopted, being able to offset historic overperformance against current year potential underperformance would be useful in smoothing out influences outside of facilities' control.

Q24. What reforms should be considered for the buy-out mechanism?

We appreciate why the time from issuing the buy-out memorandum of account to the operator needing to pay is short. However, the chain – of BEIS noting a payment has been made, and in turn updating the Environment Agency, who then pass it on to the sector association, who then contact the operator – is long and labour intensive. Automated emails from BEIS to both EA and sector association when payment has been received, with a list of those still outstanding would be one way of shortening the chain and making it less labour intensive. Payment via a website would simplify the process for many SMEs who have difficulty doing a bank transfer quoting a reference specific to the individual transfer.

Q25. Has the pricing for buy-out in the current scheme been effective at discouraging underperformance?

No – it just means that when costs get greater than perceived savings, participants exit the scheme.

Q26. Do you agree that any buy-out calculation should be based on kWh rather than tonnes of carbon dioxide equivalent of underperformance?

No – see our response to Q10 and Q11 above.

Mechanism for claiming relief

Q27. Please provide any views in respect of the mechanism for claiming the CCL relief.

It is not obvious on energy bills what percentage relief of CCL has been applied. As a result, operators sometimes do not realise they are not getting CCL relief. In addition, operators frequently have problems getting energy suppliers to act on a PP11. The first problem could be overcome if energy suppliers charging CCL had to state on the invoice the percentage relief which has been applied, even when zero. The best way of overcoming the second issue would be if the PP10 and PP11 were combined and submitted on-line rather than on paper: and by the operator stating the energy supplier's VAT number, HMRC could then instruct the supplier directly. Alternatively, the PP11 once complete should appear more like an instruction from HMRC to the energy supplier to apply the stated rate of relief to CCL for the operator.

Q28. Please outline any specific aspects of the scheme not covered in the proposals above where reform should be considered

For the scheme to work, information must flow between two Government departments (BEIS and HMRC), a Government agency (Environment Agency), 53 sector associations, 160 organisations with 'directed utility' status and thousands of operators. Much of the information flow is inefficient, and too often it involves manual transcription of data from one computer system to another. A study is needed on how the scheme and its information flows can be made more efficient.

Many operators are microbusinesses, saving a few hundred pounds of CCL costs a year, but the amount of energy they save between them is large. Many more microbusinesses would join if the scheme was simpler for those with modest amounts of energy to report.

Q29. Please provide any comments on the indicative timeline set out above.

We are generally satisfied with the indicative timeline. However, we are concerned about the target negotiation periods, especially with regard to the proximity to target period reporting under CCL2. We are not sure why legislation needs to be in place from 2023, on the basis that the current scheme continues until 2025, so there is potential to take more time to complete sections as needed.