

EU EMISSIONS TRADING SCHEME

UK DRAFT NATIONAL ALLOCATION PLAN FOR 2005-2007

January 2004

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INTRODUCTION

- A. This document sets out the consultation draft of the National Allocation Plan (“UK NAP”) for UK installations which are subject to the European Union Emissions Trading Scheme (the “EU ETS” or the “Scheme”) for the period 2005 to 2007.
- B. The EU ETS is a Community-wide scheme established by Directive 2003/87/EC¹ (“the Directive”) for trading allowances to cover the emissions of greenhouse gases from permitted installations.
- C. Under Article 9 of the Directive, each Member State must periodically develop a National Allocation Plan stating:
- the total quantity of allowances that the Member State intends to issue during the period concerned²; and
 - how it proposes to distribute those allowances among the installations which are subject to the scheme.
- These plans must be based on objective and transparent criteria, including those listed in Annex III of the Directive.
- D. National Allocation Plans developed for the period 2005 to 2007 must be published and notified to the European Commission by 31 March 2004.³ The Commission, together with the other Member States, will then consider each National Allocation Plan. The Commission may reject any aspect of any plan on the basis that it is incompatible with the Directive, giving reasons, and may propose amendments.
- E. Once accepted by the Commission, the National Allocation Plans will form the basis for the final decisions made by each Member State on the total quantity of allowances to be issued and their distribution to installations subject to the Scheme under Article 11 of the Directive. For the period 2005 to 2007, these final allocation decisions must be made by 1 October 2004.
- F. Implementation of the EU ETS is a devolved matter in the UK. Accordingly, the UK NAP has been developed by the UK Government and the Devolved Administrations for Scotland, Wales and Northern Ireland pursuant to their respective obligations under regulation 18 of the Greenhouse Gas Emissions Trading Scheme Regulations 2003⁴ (“the ETS Regulations”), which transpose the Directive into domestic law.

¹ Directive of the Council and European Parliament establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Directive 1996/61/EC.

² Referred to in Article 11(1) and (2) of the Directive – the first phase will run from 1 January 2005 until 31 December 2007.

³ For those Member States joining the Union on 1 May 2004, the obligation to publish and notify a national allocation plan arises only with the date of accession.

⁴ SI 2003/3311

- G. In developing the UK NAP, the UK Government and Devolved Administrations have taken into account the guidance published by the Commission to assist Member States in the implementation of the criteria listed in Annex III of the Directive⁵. Where we describe the UK position in the remainder of this document, this should be read as meaning the agreed view of the UK Government and the Devolved Administrations.

1. DETERMINATION OF THE TOTAL QUANTITY OF ALLOWANCES

Methodology

1.1 The latest provisional projections of UK CO₂ emissions⁶ suggest that, taking into account the impact of the measures set out in the UK Climate Change Programme which have already been implemented or for which firm plans are already in place (referred to as the “with CCP” projections)⁷, total UK emissions of CO₂ in 2010 will be around 512.4 MtCO₂ (139.75MtC)⁸ (a reduction of 15.3% from 1990 levels).

1.2 The Climate Change Programme envisaged that emissions trading would deliver CO₂ reductions of 2 MtC (equivalent to 7.3 MtCO₂) by 2010. Sources participating in the direct participant element of the UK Emissions Trading Scheme are expected to lead to CO₂ reductions of about 1.8 MtCO₂ (0.5 MtC) and these reductions have already been incorporated into the “with CCP” projections. The UK has decided that it will use the EU ETS to ensure that the remaining savings of 1.5 MtC (5.5 MtCO₂) will be achieved. Therefore, the total quantity of allowances for the first phase of the EU ETS will be determined on the basis that the installations covered by the Scheme will deliver the remaining 1.5MtC (5.5 MtCO₂) by 2010. This approach means that “with CCP” projections should be adjusted downwards by 5.5 MtCO₂ leading to expected emissions in 2010 of 506.9 MtCO₂ (a 16.3% reduction on 1990 levels). For Phase 1 of the Scheme, total UK emissions are assumed to approach this level following a straight line, and this forms the basis from which provisional emission allowances have been derived for Phase 1 of the scheme. The “with CCP” projections continue to be refined and the overall level of allowances to be included in the final draft of the National Allocation Plan will be reviewed in light of the latest projections available.

1.3 The UK is firmly committed to its domestic goal of moving towards a 20% reduction in CO₂ emissions below 1990 levels by 2010. Subject to a review of the effectiveness of the Scheme as a vehicle for delivering cost-effective emissions reductions, it is intended that the total quantity of

⁵ COM (2003)830

⁶ Details on these projections and plans for future revisions are set out at paragraphs 1.14 to 1.16 below.

⁷ Details of the UK Climate Change Programme are set out at paragraphs 1.13 and 1.17ff below.

⁸ This projection is consistent with the *with CCP* projections and includes an adjustment for Land Use Change and other CCP measures in full (e.g. EEC 2 & 3).

allowances to be issued for the second phase of the Scheme from 2008 to 2012 will be set consistent with achieving that goal. In determining the total quantity for the second phase, the UK will ensure that installations covered by the Scheme make an appropriate contribution to that goal. This will be taken into account in the review of the UK Climate Change Programme which will take place later in 2004.

1.4 The provisional total quantity of allowances to be issued to EU ETS installations for 2005 to 2007 will be 714.5 MtCO₂ (to be allocated in three equal annual instalments). This amount has been calculated as follows:

$$\text{Total quantity} = (\text{EU ETS projected emissions}) - (\text{Residual ET reduction})$$

Where –

EU ETS projected emissions means the aggregate emissions from all activities covered by the EU ETS from 1 January 2005 to 31 December 2007, calculated on the basis of the “with CCP” projections. (This figure is the aggregate of the individual activity-specific totals which have been determined in accordance with section 2 of this document.)

Residual ET reduction means a reduction equivalent to achieving the 5.5 MtCO₂ reduction by 2010 referred to in paragraph 1.2 above.

1.5 The total quantity of allowances to be allocated is subject to further revision as a result of ongoing work. In particular, the figure will be reviewed in light of the following:

- a. the completion of the ongoing work on the UK’s energy projections (see paragraph 1.14 to 1.16). This process is due to be completed before the end of March;
- b. the receipt of revised data on historic emissions from individual installations – *either* as a result of clarification of the emission points covered by the Scheme in the permits to be issued by the relevant regulators *and/or* as a result of the verification of the historic emissions data. This process is likely to continue over the summer;
- c. the review of the Climate Change Agreements targets on which some of the activity level calculations were based (see further section 2 below); and
- d. the identification of additional installations.

1.6 The UK plans to allocate 94.3% of the total quantity of allowances to existing installations. The remaining 5.7% will form a new entrant reserve of 34.7m allowances which will be made available to new installations as detailed in section 5.2 below.⁹ This new entrant reserve will be split into an annual proportion for each of the three years of the first phase of the scheme. If there are any allowances remaining in the new entrant reserve at the end of any year, these will be auctioned.¹⁰

⁹ The proposed rules on the operation of the new entrant are set out in Chapter 4 of the accompanying consultation paper.

¹⁰ The detailed rules on the implementation of the auction are under development.

Consistency with relevant Annex III criteria¹¹

1.7 The UK considers that the total quantity of allowances set out in paragraph 1.4 above is consistent with the relevant criteria set out in Annex III of the Directive for the reasons set out below.

Criterion 1 – Kyoto commitments, national energy policies and climate change programmes

Kyoto and domestic targets

1.8 The overall EU commitment under the Kyoto Protocol is to reduce emissions of greenhouse gases by 8% on 1990 levels by 2008-12. The UK's commitment under the Burden Sharing Agreement¹² is to reduce its emissions of greenhouse gases by 12.5% on 1990 levels.

1.9 In addition to these international commitments, the UK has a domestic goal of moving towards a 20% reduction in CO₂ emissions by 2010. This goal was confirmed in the UK Climate Change Programme, published in November 2000. The UK Energy White Paper which was published in February 2003 sets the framework for putting the UK on a path to a reduction in CO₂ emissions of 60% by 2050, with significant progress by 2020.

Historic emissions of greenhouse gases and CO₂

1.10 The most recent year for which the UK has published emissions data is 2001 when total annual emissions of all greenhouse gases were estimated to be 183.3 MtC (672.1 MtCO₂ equivalent) and emissions of CO₂ were estimated to be 572.4 MtCO₂.¹³ Provisional figures submitted by the UK under the provisions of the EU Monitoring Mechanism suggest falls of slightly less than 3.5% for all greenhouse gases between 2001 and 2002 and slightly more than 3.5% for CO₂ emissions in that period.

1.11 As part of the development of the National Allocation Plan, the UK government has requested all operators of installations covered by the EU ETS to submit historic emissions data. On the basis of the data received prior to 31 December 2003, the installations within the scope of the Scheme were responsible for 46% of UK CO₂ emissions in 2002.¹⁴

¹¹ A copy of Annex III of the Directive appears at Annex B of this draft. The sections on consistency with Annex III criteria are likely to be expanded and revised in the final NAP submitted to the Commission.

¹² Council Decision 2002/358/EC.

¹³ See *UK Greenhouse Gas Inventory 1990 to 2001*, National Environmental Technology Centre, 2003 (Report reference AEAT/ENV/1396, available electronically at <http://www.naei.org.uk/>)

¹⁴ This data may be subject to further revision – see paragraph 1.5 above.

Projected emissions of greenhouse gases and CO₂

1.12 The UK published projections of carbon dioxide¹⁵ and non-CO₂ greenhouse gas emissions¹⁶ alongside the Climate Change Programme in November 2000. These formed the basis of the UK's Third National Communication under the United Nations Framework Convention on Climate Change (October 2001)¹⁷. The baseline *with measures* projection in the Communication estimated that the UK's emissions of the basket of greenhouse gases was expected to be 14.8% below 1990 levels in 2010, with emissions of carbon dioxide measures 8.2% below.

1.13 The UK Climate Change Programme published in November 2000 set out the policies and measures designed to secure the delivery of the Kyoto target and to move towards the domestic goal.¹⁸ These policies and measures were estimated to reduce the UK's emissions of the Kyoto basket of greenhouse gases to 23% below 1990 levels and reduce the UK's carbon dioxide emissions to 19% below 1990 levels.¹⁹

1.14 The UK has been updating the energy and emissions projections used as the basis for considering the likely impact of the policies contained in the Climate Change Programme. The updated projections will show the expected level of total UK emissions of CO₂ over the next few years taking account of latest forecasts of emission reductions from the policies in the CCP. Estimates of CO₂ emissions will then be available for 2005, 2010 and 2020. This exercise is ongoing and is currently referred to as the updated energy projections or "UEP". An initial draft of UEP was published for consultation in July 2003. This can be found at www.dti.gov.uk/energy/sepn/euets.

1.15 The July projections show that, with allowance for measures set out in the UK Climate Change Programme which have already been implemented or for which firm plans are already in place (set out in more detail at paragraphs 1.17ff below), total UK emissions of CO₂ in 2010 would be around 512.4 MtCO₂, a 15.3% reduction on 1990 levels.

1.16 The most recent projections for non-CO₂ greenhouse gases are those published in the UK's Third National Projection. These indicate a fall of about 38% between 1990 and 2010, or about 39% over the same period if 1995 is used as the base year for the fluorinated compounds. Emissions projections are currently being updated for non-CO₂ gases.

¹⁵ *Energy Paper 68: Energy Projections for the UK*, November 2000, The Stationery Office: www.dti.gov.uk/energy-projections.htm

¹⁶ *Projections of Non-CO₂ Greenhouse Gas Emissions for the United Kingdom and Constituent Countries*, November 2000, WS Atkins Consultants Ltd.

¹⁷ See <http://www.defra.gov.uk/environment/climatechange/3nc/default.htm>

¹⁸ See <http://www.defra.gov.uk/environment/climatechange/cm4913/index.htm>

¹⁹ Moreover the Programme could ensure that emissions fall still further, through the impact of unquantified measures.

*CCP policies and measures*²⁰

1.17 The UK Climate Change Programme sets out the approach that the UK is taking to reduce greenhouse gas emissions across the UK economy. The following paragraphs summarise the main policy measures being used to reduce emissions in the UK.

1.18 Emissions from the **energy supply** sector include those from the production of fuel for final consumption by other sectors. This includes electricity generation, oil production and refining, gas production and transmission, and the production of coal and other solid fuels. The energy supply industry (ESI) is still largely reliant on fossil fuels and, unless they can be replaced by plant with low or no emissions, emissions from ESI will increase after 2010 as existing nuclear power stations close.

1.19 The Energy White Paper, published in February 2003, defines a long-term strategic vision for energy policy. It has four goals for energy policy, putting the UK on a path towards a 60% reduction in CO₂ emissions by about 2050 with real progress by 2020; maintaining the reliability of energy supplies; promoting competitive markets in the UK and beyond; and ensuring that every home is adequately and affordably heated.

1.21 In 2002, renewable energy accounted for 3% of electricity generated in the UK. The target for England, Scotland and Wales under the Renewables Obligation²¹ is that 10.4% of all sales from licensed electricity suppliers will be generated from eligible renewable sources by 2010, subject to the cost to the consumer being acceptable. In the absence of the Obligation, renewables might have expanded towards perhaps 5% of generation in 2010. Achievement of a 10% target for renewable electricity in 2010 is therefore estimated to save around an additional 9.2 MtCO₂.

1.21 CHP technology is a key element of the UK strategy for the energy supply sector. In 2002, the UK's installed CHP capacity was around 4,700 megawatts. The UK has set itself a target to achieve an installed capacity of at least 10,000 megawatts of Good Quality CHP by 2010. The carbon savings from increased use of CHP are reflected among a range of other policies within the Climate Change Programme, particularly the climate change levy, climate change agreements and community heating.

1.22 Measures that will reduce emissions from the **business** sector include:

²⁰ It is anticipated that further detail on the basis for the projections of effectiveness of these policies will be included in the Final NAP submitted to the Commission.

²¹ Introduced in April 2002, the Renewables Obligation requires all licensed electricity suppliers in England & Wales to supply a specified and growing proportion of their electricity sales from a choice of eligible renewable sources. The Obligation is enforced by [the Renewables Obligation Order \(SI 2002/914\)](#). The Renewables Obligation Scotland is the equivalent instrument in Scotland enforced by the Renewables Obligation (Scotland) Order 2002 (SSI 2002/163).

- a) the climate change levy, including an exemption for renewables and CHP, and discounts for certain sectors when accompanied by negotiated agreements (or “climate change agreements”);
- b) an integrated programme of measures run or administered by the Carbon Trust to accelerate the take up of cost effective, low carbon technologies and other measures by business and other levy payers;
- c) the UK Emissions Trading Scheme;
- d) permits issued under the Integrated Pollution Prevention and Control (IPPC) Directive²² which impose both emissions limit values on greenhouse gases where these are likely to be emitted in significant quantities and energy efficiency requirements;
- e) amendment of the energy efficiency requirements of the building regulations to raise performance standards, including new requirements for non-domestic buildings for lighting, air conditioning, space heating and meters; and
- f) the proposed EC F-gas Regulation will contain measures to further reduce emissions of HFCs, PFCs and SF₆ resulting from their use in refrigeration, air conditioning and fire protection equipment and it will introduce some marketing restrictions on certain products containing HFCs, PFCs and SF₆, indirectly leading to reduction in emissions as consumption of these products is reduced and then banned.

The total target savings for 2010 from all policies is 20.2 MtCO₂ per year.

1.23 There are four main policies for improving energy efficiency in the **residential** sector:

- a) the Energy Efficiency Commitment (EEC) is an obligation on domestic energy suppliers to assist electricity and gas customers to take up energy saving opportunities. Under the first EEC, which runs from April 2002 until March 2005, each supplier has an energy saving target, which they can meet by assisting householders to install energy saving measures. The UK confirmed in the Energy White Paper that it would consult on an expansion of the EEC to run from 2005 to at least 2008, at possibly twice the current level of activity;
- b) the Community Energy Programme to promote community heating through grants to install new schemes, and to refurbish obsolete infrastructure and equipment;
- c) although the primary goal of the New Home Energy Efficiency Scheme (New HEES) is to alleviate fuel poverty, it could generate additional carbon savings by 2010. Equivalent schemes in Scotland - the Central Heating Programme and the Warm Deal - will provide additional savings; and
- d) in addition, various enabling or supporting policies include the work of the Energy Saving Trust (EST), and the product policies of the Market Transformation Programme (MTP).

²² Council Directive 96/61/EC concerning integrated pollution prevention and control which was transposed by the Pollution Prevention and Control Regulations 2000 (S.I, 2000/1973).

Overall, the targeted savings are 18.3 MtCO₂ per year by 2010.

1.24 The non-EU ETS sector with largest emissions is **transport**, which in 2001 was responsible for about 18.3% of the UK's greenhouse gas emissions and about of 21.5% of CO₂ emissions. The key policies to reduce emissions from this sector are the 10 Year Plan for Transport and the European Commission's voluntary agreements with car manufacturers, backed up by the changes to vehicle excise duty and its reform of company car taxation, which are now estimated could together save up to 18.3 MtCO₂ by 2010.

1.25 The **public** sector is subject to the same pressures as others to improve its energy efficiency. The climate change levy applies to this sector, together with energy reduction targets for buildings in the Government estate, schools and hospitals. In total, the UK estimates that 1.8 MtCO₂ per year could be saved from the public sector in 2010.

1.26 Emissions of methane and nitrous oxide from **agriculture** are projected to fall by about 6.6 MtCO₂ between the base year and 2010. Changes to the Common Agricultural Policy and the shift away from production related subsidies should mean that livestock numbers continue to fall; agri-environment schemes will continue to encourage more extensive farming; implementation of the EC Nitrates Directive²³ will help to limit the amount of nitrogen applied to the land; and, implementation of the IPPC Directive, which will apply to larger intensive pig and poultry farms, should also reduce emissions of nitrous oxides and methane.

1.27 In relation to emissions from **waste**, increased collection of landfill gas for energy recovery and environmental control have resulted in lower methane emissions from UK landfill. In 2000, 1750kt of methane was abated by energy recovery or flaring. This capacity is forecast to increase to 2465 kt of methane in 2005. In addition, implementation of Article 5 of the EC Landfill Directive²⁴ restricting the amount of biodegradable municipal waste disposed of in landfill from 2010, will result in further reductions of methane production of between 7 kt and 15 kt of methane in 2010 with increasing reductions until 2020.

[Summary table of measures and envisaged savings
to be included in Final NAP submitted to Commission]

1.28 The likely effects of all of the above policies and measures have been incorporated into the "with CCP" projections in the UEP projections (see paragraphs 1.14 to 1.16 above).

²³ Council Directive 91/676/EEC concerning the protection of waters against pollution caused by nitrates from agricultural sources.

²⁴ Council Directive 1999/31/EC on the landfill of waste. Article 5 of the Directive, which sets targets for the reduction of biodegradable municipal waste sent to landfills was transposed by the Waste and Emissions Trading Act 2003.

National energy policy

1.29 As set out earlier, the Energy White Paper, published in February 2003, set out the overall goals for UK energy policy for the long-term and set four new goals for energy policy. Amongst these is a commitment to put the UK on a path to cut CO₂ emissions by some 60% by about 2050, with real progress by 2020.²⁵ These longer-term commitments build on the UK's existing goal to move towards a 20% reductions in CO₂ emissions below 1990 levels by 2010.

1.30 The UK has not set targets for the share of total energy or electricity supply to be met from different fuels. The UK prefers to create a market framework, reinforced by long term policy measures, which gives investors, business and consumers the right incentives to find the balance that will most effectively meet our overall goals. However, recognising that specific measures were needed to stimulate growth in renewable energy, in January 2000 the UK set a target that 10.4% of our electricity requirements should be met from renewables by 2010, subject to the costs being acceptable to the consumer. More recently, the Energy White Paper set out the ambition of doubling the share of electricity generation from renewables provided for in the 2010 target by 2020. The UK is committed to pursuing policies to achieve that and recently announced an extension of the Renewables Obligation to 15% of electricity from renewables by 2015.

1.31 Nuclear power is currently an important source of carbon-free electricity in the UK, but its share of the generating mix will decline markedly from 2008 as existing nuclear power stations reach the end of their licensed lifetimes. The Energy White Paper concluded that its current economics make nuclear power an unattractive option for new, carbon-free generating capacity. It did not contain any specific proposals for building new nuclear power stations, nor did it rule out the possibility that at some point in the future new nuclear build might be necessary.

1.32 As mentioned above, Combined Heat and Power (CHP) is a key element of the UK strategy for the energy supply sector. The UK's installed CHP capacity is currently around 4,700 MW. As reconfirmed in the Energy White Paper the UK remains committed to the target of 10,000 MW of Good Quality CHP capacity being installed by 2010.

Proportion of overall emissions from EU ETS installations

1.33 As indicated at paragraph 1.11 above, the installations covered by the EU ETS were responsible for around 46% of UK CO₂ emissions in 2002. If the total quantity of allowances for the first phase was extrapolated to 2010,

²⁵ The other three goals are: maintaining the reliability of energy supplies; promoting competitive markets in the UK and beyond; and ensuring that every home is adequately and affordably heated.

based on projected emissions, the installations covered by the EU ETS would still account for around 46% of UK's total emissions by 2010²⁶.

The path towards achieving the UK Kyoto protocol target

1.34 Given that the projections set out above demonstrate that the UK will over-achieve its Burden Sharing Agreement target as a whole, the UK has some flexibility when deciding upon the total quantity of allowances to be allocated in the first period of the scheme. In particular, the UK may decide (a) what level of over-achievement its policies will aim to achieve and (b) the time by which any level of emissions reductions below the Burden Sharing Agreement target will be reached (provided that the total takes into account national energy policies and is consistent with the national climate change programme).

1.35 As indicated at paragraph 1.4 above, the UK has decided that the level of allowances to be allocated for the first phase of the Scheme should be based on the "with CCP" projections of UK emissions, adding into that the additional 5.5 MtCO₂ reduction which the Climate Change Programme anticipated would arise from emissions trading but for which there are currently no firm plans in place.

Summary on Criterion 1

1.36 The UK considers that its approach to setting the total quantity of allowances is consistent with criterion 1 for the following reasons:

- it is consistent with the latest projections of UK greenhouse gas emissions which suggest that the UK will over-achieve its Kyoto target (see paragraphs 1.12 to 1.16 above).
- these projections take account of the projected impact of the measures aimed at non-EU ETS activities (see paragraph 1.17 to 1.28 above);
- it is consistent with the UK Climate Change Programme and national energy policy as set out in the recent Energy White Paper (see paragraphs 1.29 to 1.32); and
- the quantity of allowances to be issued to EU ETS installations does not deviate substantially from the proportion of actual emissions for which those installations are currently responsible (see paragraph 1.33).

Criterion 2 - Consistency with Monitoring Mechanism Assessment

1.37 The 2003 *Report from the Commission under Council Decision 93/389/EEC as amended by Decision 99/296/EC for a monitoring mechanism of Community greenhouse gas emissions*²⁷ concluded that in 2001 the UK

²⁶ Although of course through trading actual emissions from these installations could be rise above that figure as a result of net purchase of allowances from installations in other Member States or fall below it freeing up allowances for net sales to other Member States.

²⁷ COM(2003) 735 final

was “on track” towards reaching its specific target under the Burden Sharing Agreement.

1.38 [More detailed text to be included in Final NAP submitted to Commission.]

1.39 Since the total quantity of allowances is not more than would be necessary taking into account actual and projected emissions contained in the 2003 and earlier Reports, the UK considers that the total quantity of allowances that it has decided to allocate in the first phase is consistent with criterion 2.

Criterion 3 – Potential to reduce emissions

1.40 Please see section 4.1 below.

Criterion 4 – Consistency with other legislation

1.41 Please see section 5.3 below.

Criterion 5 – State aids

1.42 [As explained in paragraph 1.2 above, the total quantity of allowances represents an additional reduction in emissions from EU ETS activities over and above policies and measures which have already been implemented. As a result the setting of the total quantity of allowances cannot be said to raise any State aid issues as the number of allowances to be issued is likely be less than EU ETS activities would require on the basis of existing projections. Further discussion of State aid issues is set out in sections 2 (activity level) and 3 (installation level).]²⁸

2. DETERMINATION OF THE QUANTITY OF ALLOWANCES AT ACTIVITY LEVEL

Overview:

2.1 The UK has decided to use a two stage approach to allocate allowances to EU ETS participants. First, the total number of allowances has been allocated to the activities in Annex I. The activity level allocated have then been further distributed to individual installations in those activities. This section describes the principles on which the allocation of allowances at activity level have been determined.

²⁸ More detailed consideration of State aid issues will be included in the Final NAP submitted to the Commission.

2.2 In determining the allocation of allowances at activity level, the UK has used provisional updates of CO₂ emissions projections from the DTI's updated Energy Projections (UEP). The UEP projections are calibrated with historic data and model emissions on a 5 yearly basis (for the years 2005 and 2010) for individual sectors.

2.3 The wide scope of the "combustion installation" activity means that it encompasses many different types of installation with different projected emissions profiles. Therefore, this activity has been split into the following sectoral groupings: Chemicals; Food & Drink; Non-Ferrous Metals; Offshore²⁹; Power Stations; and Other Combustion Installations.

2.4 To estimate annual CO₂ emissions for each year of phase 1, straight line interpolation between current emissions and these sectoral projections has been used. These annual projections are then adjusted to reflect the proportion of emissions covered by the EU ETS. The contribution to the further 5.5 MtCO₂ savings by 2010 in the first phase is also taken off the generator allocations. A reserve for new entrants is then created by subtracting different amounts from all activities. This gives the total number of allowances to be allocated to each EU ETS activity.

2.5 To determine the projected emissions for some activities, the UK government has also used historic emissions data for those installations. This data will be verified in advance of the Final Allocation Decision in September, 2004 and that decision will accordingly reflect the verified data.³⁰

Allocations to individual activities and sectors

2.6 Ideally, the UEP projections would be used directly to derive the activity level allocations. In some cases, the UEP sectoral definitions precisely match the definitions of Annex I activities. However, most of the definitions of activities under Annex I of the directive do not reflect the UEP sectoral definitions³¹. Due to these differences, it has not been possible to use sectoral projections directly for allocations to some activities.

2.7 We have therefore split activities into the following categories;

- a. activities and sectors that directly match UEP modelling sectors (Power stations, Mineral oil Refineries and Offshore);
- b. activities expressly listed in Annex I which have relative CCA targets (including Cement, Lime, Glass, Bricks and Pulp & Paper);

²⁹ Including gas for own use.

³⁰ For further details on proposed verification arrangements see paragraphs 88 to 91 of the accompanying consultation paper.

³¹ This is to be expected as all Annex 1 activities have a threshold value whereas UEP sectoral projections cover those installations below the threshold as well. In addition, UEP models some sectors at a more aggregated level than in Annex 1; e.g. the UEP sector minerals covers glass, ceramics, cement and bricks from Annex 1.

- c. sectoral groupings within the “combustion installation” activity which have relative CCA targets (including include Chemicals, Food and Drink and Non-Ferrous Metals);
- d. activities expressly listed in Annex I which have absolute CCA targets (e.g. Iron and Steel); and
- e. other installations within the “combustion installation” activity which do not have CCAs

The method used to determine the activity level allocations to each of these groups is explained below.

Category (a) - Power stations, Mineral Oil Refineries and Offshore Installations

Power stations

2.8 Power stations are part of the Annex I combustion installation activity. Their emissions are modelled separately in UEP and the UK has therefore decided to base their allocations directly on the UEP projections.

2.9 The UK has decided that the power generation sector will be responsible for the additional “emissions trading” savings which it expects the EU ETS to deliver beyond the “with CCP” projections (see paragraph 1.2 above). This reflects the fact that this sector faces limited international competition and is thought to have a relatively large scope for low cost abatement opportunities. For example, electricity imports in 2002 amounted to only around 2% of total electricity supplied. Exports of electricity were considerably lower than that. This trade is also concentrated in the EU market, all of which is affected by the EU scheme. The lack of effective competition from electricity producers that are not affected by the EU scheme means that the electricity sector may be better placed to incorporate the marginal cost of carbon to reflect the higher marginal costs of generation from fossil fuels resulting from the scheme. The possibility of being able to incorporate the marginal cost of carbon in this way suggests that the sector can be given a tougher target to encourage reductions in emissions.

2.10 Annual allocations to ‘Power Stations’ have therefore been adjusted downwards by an increasing amount each year so that by the end of the first phase (i.e. in 2007), their allocations are 2.75 MtCO₂ below the UEP projections.

2.11 The resulting activity level total has then been reduced by the relevant contribution to the new entrants reserve³² to derive the total number of allowances to be allocated to this activity.

³² Currently explained in Chapter 4 of the accompanying Consultation Paper but to appear in section 5.2 of the final NAP submitted to the Commission.

Mineral oil refineries and offshore

2.12 Mineral oil refineries are modelled separately in UEP. Therefore their allocations are directly derived from the *with CCP* UEP projections less the contribution to the new entrant reserve³³.

2.13 Offshore is part of the Annex I 'combustion installation' activity but is modelled separately in UEP. Their allocation is calculated in the same way as mineral oil refineries.

Categories (b) and (c) - Annex I activities with relative targets in CCAs

2.14 Most carbon intensive sectors (apart from refineries and generators) in the UK are covered by Climate Change Agreements ("CCAs"). These are voluntary agreements with the Government at sectoral and operator level providing for discounts from the climate change levy where energy efficiency improvements are undertaken. These agreements cover emissions from both electricity use (indirect emissions) and combustion (direct emissions). The EU ETS is only relevant to the direct emissions portion of the CCAs. In relation to these direct emissions, installations will, subject to satisfaction of the equivalence tests in Article 27 of the Directive, have a choice between opting out of the EU ETS during the first phase and retaining their CCAs completely. If an installation does not opt out, (i.e. it stays in the Scheme) the CCAs will remain in place but will be amended so that it only covers the indirect emissions of the installation. For the purposes of this draft NAP, we have estimated the proportion of the CCA sectoral target which relates to direct emissions, using historic sector level CCA data.³⁴

2.15 The activity level allocations to categories (b) and (c) (both of which have CCAs) as defined above have been derived in a similar way. The allocations are based the "with CCP" UEP projections. In order to adjust their allocations to reflect the differences in the coverage of the sectors and activities between UEP, the EU ETS and the CCAs, a combination of UEP projections, their CCA targets and historic emissions have been used.

2.16 The allocations have been derived from historic data for EU ETS installations to which UEP growth rates have been applied and then adjusted by the relevant CCA targets. CCA targets are biannual and are expressed in terms of emissions per unit output or Specific Energy Consumption (SEC).

2.17 There are currently sectoral CCA SEC targets for 2002, 2004, 2006, 2008, 2010 and 2012 for each of the activities in these two groups. For 2002, CCA sectors have submit performance data to Defra in order to verify whether they have achieved their targets. Therefore, for each CCA sector, there is a *SEC 2002 target* (referred to as original SEC in calculations below) and also *actual 2002 SEC* data. A number of CCA sectors improved their energy

³³ See footnote 32.

³⁴ CCA participants will have an opportunity to agree alternative proportions relevant to direct emissions.

efficiency beyond that required by their targets (i.e. 2002 actual SEC is lower than 2002 SEC target) and a smaller number did not achieve their energy efficiency improvement targets.

2.18 For the purpose of calculating the Phase 1 allocations, the 2006 CCA targets have been used as a basis for calculating the allocations throughout that phase. The CCA targets for 2006 and subsequent year are due to be reviewed by end of 2004. The revised CCA targets will lead to a revised projected emission level for the CCA sectors during phase 1 of the EU ETS as a result of revised CCA targets. Since the process of reviewing CCA targets has not yet been completed, the allocations at activity level have been derived using an estimate of the revised 2006 SEC targets (see paragraph 2.21 below for detail on how the estimates have been determined). The estimate of the revised SEC target has then been applied to the projected 2006 output to calculate the projected activity level emissions allocations.

2.19 Installations covered by CCAs will have the opportunity to agree their revised CCA targets for 2006 in advance of the Final Allocation Decision in September, 2004. The allocation in the final decision will reflect the agreed 2006 targets if these targets have been finalised by July 2004. If not, the estimated 2006 targets presented here will be used as default targets for the purposes of the final decision for these activities³⁵ whether they opt out or not (unless there is alternative evidence suggesting that there is a different potential for cost effective energy savings).

2.20 The generic formula used to calculate activity level allocations is expressed below:

$$Allocations = Output_{2006}^{projected} \times SEC_{2006}^{revised}$$

2.21 The way in which each of the above terms in the equation have been calculated is explained in more detail below.

- Revised 2006 SEC target

$$SEC_{2006}^{revised} = \frac{SEC_{2002}^{actual}}{SEC_{2002}^{original}} \times SEC_{2006}^{original}$$

The purpose of the CCA target review is to ensure that the sector targets continue to represent the potential for cost effective energy savings between 2006 and 2010 taking into account any changes in technical or market circumstances. The starting point for revising the 2006 SEC targets will be that each sector's target shall be reduced by the higher of actual overachievement (represented by the fraction in the equation above) or 5% (representing an average of overachievement by all CCA

³⁵ These default targets will apply to CCA installations whether or not they are temporarily excluded from the EU ETS. Please refer to Chapter 5 of the accompanying consultation document for more details of the opt-out arrangements.

sectors). For the purpose of the calculations in the draft NAP, this starting point has been used.

- Projected Output for EU ETS installations in each year of phase 1

$$Output_{2006}^{projected} = Output_{2002}^{actual} \times g_{2002-2006}^{UEP}$$

Projected output for 2006 is derived by applying the UEP output growth rate for the relevant period to the actual output level in 2002 for EU ETS installations. Operators of installations have supplied historic emissions data from all EU ETS activities. Actual output has been derived by dividing the submitted emissions data by the actual 2002 SEC.

$$Output_{2002}^{actual} = \frac{Emissions_{2002}^{actual}}{SEC_{2002}^{actual}}$$

2.22 The resulting activity-level total will then be reduced by the relevant contribution to the new entrant reserve before distribution to individual installations.

Category (d) – Annex I activities with absolute CCA targets

2.23 The only sector covered by both the CCAs and the EU ETS with an absolute target is Iron and Steel. This sector has been treated in a similar way as categories (b) and (c) in principle but that the absolute nature of the targets means that the actual calculation is different. For this sector, the UEP growth rate has simply been applied to EU ETS installations' historic data.

2.24 As with other CCA sectors, the review of the CCA target for 2006 will be taken into account in calculating the projected emissions from this sector. Because of the absolute nature of the Iron and Steel target, a different approach to calculating the starting point of its review has been used to take projected output into account. The sector will still have the opportunity to agree its revised target in advance of the final Allocation Decision. The final allocation to this activity will reflect the re-negotiated 2006 targets if agreed in sufficient time.

2.25 Again, the activity's contribution to the new entrant reserve has then been taken off the figure for projected emissions to give the final figure for the activity-level allocation.

Category (e) – Activities/sectors with no CCA targets

2.26 The only group of installations remaining is the Other Combustion Installations group which includes universities, hospitals and commercial sites with large on-site generation or boiler capacity. The projected emissions for this category has been calculated by applying the UEP emissions growth projections to the historic activity level data supplied by the installations

making up this group. As for the other activities, this has been reduced by the sector's contribution to the NER.

Activity/sectoral level totals

2.27 The following table shows the provisional level of allowances to be allocated to the different activities and sectors in the first phase.

Table 1: Activity/sectoral level totals for 2005-7

<u>Annex 1 Activity</u>	<u>Total Phase 1 Allocations</u>
Power Stations	438708916
Iron & Steel	65849490
Refineries	54340000
Cement	28044055
Lime	7447051
Bricks/Ceramics	9170338
Glass	5261717
Pulp & Paper	13933911
Offshore ³⁶	41360000
Food & Drink	11053149
Chemicals	22832002
Non-Ferrous	7971154
Other Combustion Activity	8481933
<u>Total Phase 1 Allocations</u>	<u>714453715</u>

Consistency with relevant Annex III criteria

Criteria (3) - potential to reduce emissions

2.28 See section 4.1 below.

Criteria (4) – consistency with other legislation

2.29 See section 5.3 below.

Criteria (5) – non-discrimination between companies or sectors

2.30 [State aid issues will be addressed in detail in the Final NAP submitted to the Commission.]

Criteria (10) – competition from outside the European Union

2.31 [This issue will be addressed in detail in the Final NAP submitted to the Commission along with discussion of the State aid issues.]

³⁶ Including gas production own use

3. DETERMINATION OF THE QUANTITY OF ALLOWANCES AT INSTALLATION LEVEL

3.1 The activity level allocations are then allocated to the individual installations that fall within these activities. The UK has asked the operators of installations included in the EU ETS to provide relevant historic data to be used in drawing up the NAP. This data will be verified by third party verifiers before making the final allocation decision which has to be made by 1 October 2004. Since the allocation to every plant within an activity depends on the data provided by all other installations, changes to one installation's data as a result of updated information supplied or following verification will affect the allocation to each installation within that activity. **As a result, the allocations presented in the draft NAP are indicative and should be treated as such.**

3.2 The activity level allocations are divided between installations according to each installation's average share of annual emissions over the period 1998 to 2002. To calculate each installation's allocation, we have taken an average of the historic data provided, excluding the lowest year's emissions for each installation. Therefore, for an installation that has provided five year's data, the average of the four maximum years for that installation has been used. Similarly, for an installation that has provided four year's data (i.e. their first year of operation is 1999), we have used the average of three maximum years and so on. Where an installation has provided only a single year's data, that data has been used without adjustment.

3.3 A historic measure has been chosen to allocate at the installation level due to the complexity of projecting installation level emissions consistently and accurately. The use of an historic average also provides some compensation to potentially stranded assets. The exclusion of the lowest year's emission is intended to minimise the impact of an anomalous year with unusually low emissions on an installation's allocation.

3.4 There are a small number of installations that began operations during 2003. These installations are considered 'existing installations' for the purposes of the NAP, although historic data for the period 1998-2002 is not available. As a result the methodology described above is not appropriate. It is proposed that allocation will be calculated from actual 2003 emissions. These installations have therefore been asked to provide actual emissions data for 2003. Where an installation was only operational for part of 2003, the time period to which the data applies can be taken into account.

3.5 Installations that have commenced operations after 31 December 2003 will be allocated allowances from the new entrant reserve. The treatment of these installations is described in more detail in section 5.2 below.³⁷

3.6 Once the total allocation of allowances for each installation for the first phase of the scheme has been calculated, it will be divided into three equal

³⁷ The proposed rules on the operation of the new entrant reserve are set out in Chapter 4 of the accompanying consultation document.

parts and the respective number of allowances will be issued to the operator of each installation on 28 February of each year of the Scheme.

Consistency with relevant Annex III criteria

Criteria (5) – non-discrimination between companies or sectors

3.7 [State aid issues will be addressed in detail in the Final NAP submitted to the Commission.]

Criteria (6) – new entrants

3.8 See section 5.2 below.

Criteria (7) – early action

3.9 See section 4.2 below.

Criteria (8) – clean technology

3.10 See section 4.3 below.

4. TECHNICAL ASPECTS

4.1 Potential, including technological potential

4.1.1 The potential of different sectors to achieve emissions reductions by using technologies which are cost-effective has already been reflected in the policies and measures set out in the UK Climate Change Programme. The UK Climate Change Programme is based on a number of principles, including taking a balanced approach, with all sectors and all parts of the UK playing their part, and focusing on flexible and cost effective policy options that work together to form an integrated package. The review of the Climate Change Programme which will take place during 2004 will take into account the potential of different sectors to achieve reductions.

4.1.2 The updated emissions projections which have been used as the basis for calculating the total quantity of allowances to be issued and the distribution of those allowances between sectors incorporate the current estimates of CO₂ savings for each measure described in the CCP. These projections reflect the costs faced by the different sectors in adopting alternative measures to reduce emissions. Please refer to paragraphs 1.14 to 1.16 for more details on UEP.

4.1.3 The Climate Change Agreements were designed with the feasibility of emissions reductions in each sector in mind. The CCA target review in 2004 is aimed at ensuring that the targets continue to reflect the potential for cost

effective energy savings. Thus, the use of the CCA targets as the basis for calculating sectoral allocations means that feasibility and overall potential of sectors to reduce emissions is reflected in distribution of allowances at that level.

4.1.4 The decision to place the responsibility for achieving the remaining savings anticipated from emissions trading on the power generation sector reflects in part that sector's potential for low-cost abatement opportunities.

4.1.5 As a result, the potential to reduce emissions has been taken into account in determining both the total quantity of allowances and the distribution of those allowances at the activity level.

4.2 Early action

4.2.1 The use of averaged emissions information from 1998 to 2002 to distribute allowances to individual installations (see paragraph 3.2 above) avoids the penalty for earlier action which would result from using a single recent year (e.g. 2002) or from basing allocations on forecasts of emissions. The UK has elected not to take any further express account of early action at the installation level as it believes a robust methodology for establishing and defining early action is not feasible.

4.3 Clean technology

4.3.1 The UK considers that one of the principal effects of establishing the EU ETS will be to provide an incentive for clean, energy efficient technologies by putting a price on emissions of carbon. Therefore, the UK has not considered it necessary to take any express steps to take account of clean technologies in the allocation process to existing installations.

4.3.2 However, in its approach to new entrant allocation, incentives for clean technology are being consulted on. Where possible, the use of benchmarks to allocate to new entrant investment will favour clean technology. Equally, the establishment and operation of the ring-fenced reserve of free allowances for investment in new Combined Heat and Power (CHP) installations ensures the incentive for new investment in this type of clean technology is secured. The size of the CHP set-a-side will be based on the UK's assessment in the UEP of the likely new Good Quality CHP capacity coming on line during phase one of the EU Emissions Trading Scheme.

5. COMMUNITY LEGISLATION AND POLICY

5.1 Pooling (Competition policy)

5.1.1 The UK's general position is that the establishment of pools of installations as provided for under Article 28 of the Directive is unnecessary

and may hinder the development of a transparent and liquid market in allowances.

5.1.2 However, the UK does consider that operators of smaller installations (specifically those carrying out combustion activities that fall within the scope of the EU ETS due to the requirement to aggregate several activities which fall within the same heading in Annex I of the Directive if they are carried out by the same operator on the same site) should be offered the opportunity to apply to form a pool. This would allow these “smaller operators” to coordinate the carrying out of the administrative tasks associated with trading. The UK implementing regulations therefore permit operators of installations which are carrying out activities which do not fall within the scope of Annex I of the IPPC Directive to make a joint application to the appropriate authority form a pool³⁸. In practice therefore, the ability to form a pool is limited to operators of combustion installations with a rated thermal input of less than 50MW.

5.1.3 Since pooling will only be available to smaller operators with relatively low levels of emissions, the UK does not consider that pooling as provided for in the UK transposing legislation will raise any competition issues. However, the UK will of course submit any pooling application received to the Commission in accordance with Article 28(5).³⁹

5.2 Treatment of new entrants (Internal Market Policy)

5.2.1 The UK has decided to set aside a quantity of allowances to be distributed for free to installations which commence operation after 31 December 2003 but before the end of 2007. The total size of this reserve will be 40.7m allowances (roughly 5.7% of the total allowances to be issued). Further details of how this new entrant reserve will operate and how the total quantity of allowances to be set aside has been determined will appear in the final NAP.⁴⁰

5.2.2 In order to facilitate consistency with the rule on new entry, the UK has decided that installations that close during Phase 1 of the scheme would give up any entitlement to future allocations of allowances. This avoids the potential for windfall gains for operators replacing existing plant with new plants that are given free allowances from the new entrant reserve. Further details on how this rule will operate will appear in the final NAP.⁴¹

5.2.3 The new entrant reserve will be split into an annual proportion for each of the three years of the first phase of the scheme. If there are any surplus

³⁸ Regulation 21 of the Greenhouse Gas Emissions Trading Scheme Regulations 2003 (SI 2003/3311).

³⁹ See also regulation 21(4) of the ETS Regulations.

⁴⁰ We are currently consulting on the rules for New Entrants (see Chapter 4 of the Consultation Paper).

⁴¹ We are currently consulting on the rules for Closures (see Chapter 4 of the Consultation Paper).

allowances remaining in the new entrant reserve at the end of any year, these will be auctioned.⁴²

5.3 Community legislative and policy instruments considered

5.3.1 The energy projections which form the basis for determining the total quantity of allowances and the distribution of those allowances at sectoral level (see sections 1 and 2 above) incorporate the emission reductions which are projected to take place as a result of a wide variety of Community and domestic legislation and policy instruments. The following table comprises an indicative list of Community instruments that have been taken into account in those projections, together with a brief summary of the relevant impact on emissions:

Legislative or policy instrument	Impact on emissions ⁴³
Directive 96/61/EC concerning Integrated Pollution Prevention and Control	[.]
Directive 2003/96/EC on the restructuring of the Community framework for the taxation of energy products and electricity	[]
Directive 2001/91/EC on the energy performance of buildings	[]
Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market	[]
Directive 2003/30/EC on the promotion of the use of biofuels or other renewable fuels for transport	[]
[Voluntary agreements with motor manufacturers on emissions of Greenhouse Gases]	[]

⁴² The detailed rules on the implementation of the auction are still under development but will be included in the Final NAP submitted to the European Commission.

⁴³ Work on this table is ongoing. Additional detail on the likely impact on emissions of the listed legislation and policies, and others if appropriate, will be included in the Final NAP submitted to the Commission.

Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants	[]
Directive 2001/81/EC on national emission ceilings for certain atmospheric pollutants	[]
Directive 91/676/EEC concerning the protection of waters against pollution caused by nitrates from agricultural sources	[]
Directive 91/271/EEC concerning urban waste water treatment	[]
Directive 1999/32/EC relating to the reduction of the sulphur content of certain liquids fuels and amending Directive 93/12/EEC	[]

5.3.2 The only policy that has been incorporated in UEP that leads to an – unavoidable increase in CO₂ emissions is the Liquid Fuels Directive. The Directive requires the refineries to produce sulphur free fuel – as a consequence of which refineries have unavoidable increases in emissions. This effect has already been incorporated in the UEP projections and therefore are reflected in UK inventory emissions.

6. PUBLIC CONSULTATION

6.1 Consultation on allocation methodologies and other issues

6.1.1 In August 2003, the UK undertook a consultation on the allocation methodologies to be used for the purposes of developing the National Allocation Plan for the first phase of the EU ETS (2005-2007). At the same time, the UK also requested views on several other issues including:

- the treatment of new entrants;
- the treatment of installations on closure;
- banking between the first and second phases of the Scheme;
- auctioning allowances;
- temporary exclusion; and
- the interpretation of the Directive.

6.1.2 [Summary of consultation responses and decisions taken as a result to be inserted in the final version of the NAP submitted to the Commission.]⁴⁴

⁴⁴ Currently this issue is addressed in Annex C of the accompanying consultation document).

6.2 Consultation on draft National Allocation Plan

6.2.1 In January 2004, the UK is undertaking a further consultation on a draft of this National Allocation Plan. Consultees were asked to express views in particular on:

- the allocation methodologies;
- the feasibility of the arrangements proposed for managing new entrants;
- the proposals for dealing with plant closures;
- the proposals for making use of the auctioning provision.

6.2.2 [Summary of consultation responses and decisions taken as a result will be inserted in the final version of the NAP submitted to the Commission.]

6.3 Consultation arrangements for final National Allocation Plan⁴⁵

6.3.1 Comments will be invited from the public on the contents of the final NAP. Due account of all comments received will be taken into account in the Final Allocation Decision, which the UK must take by 1 October 2004.

6.3.2 In addition, operators of installations have been requested to confirm or correct the data submitted in respect of preparation of the NAP. Where an operator indicates that the data was incorrect or incomplete, the data used to produce the allocations set out in Annex I of the NAP will be adjusted in the Final Allocation Decision.

6.3.3 Allocations in the NAP will also, if necessary, be adjusted in the Final Allocation Decision as a result of verification of the baseline data.

7. CRITERIA OTHER THAN THOSE IN ANNEX III TO THE DIRECTIVE

7.1 [To be addressed in Final NAP submitted to Commission (if appropriate).]

⁴⁵ To be finalised and included in the Final NAP submitted to the Commission.

ANNEX A
LIST OF INSTALLATIONS

See separate document

ANNEX B**Annex III of the Directive**

- (1) The total quantity of allowances to be allocated for the relevant period shall be consistent with the Member State's obligation to limit its emissions pursuant to Decision 2002/358/EC and the Kyoto Protocol, taking into account, on the one hand, the proportion of overall emissions that these allowances represent in comparison with emissions from sources not covered by this Directive and, on the other hand, national energy policies, and should be consistent with the national climate change programme. The total quantity of allowances to be allocated shall not be more than is likely to be needed for the strict application of the criteria of this Annex. Prior to 2008, the quantity shall be consistent with a path towards achieving or over-achieving each Member State's target under Decision 2002/358/EC and the Kyoto Protocol.
- (2) The total quantity of allowances to be allocated shall be consistent with assessments of actual and projected progress towards fulfilling the Member States' contributions to the Community's commitments made pursuant to Decision 93/389/EEC.
- (3) Quantities of allowances to be allocated shall be consistent with the potential, including the technological potential, of activities covered by this scheme to reduce emissions. Member States may base their distribution of allowances on average emissions of greenhouse gases by product in each activity and achievable progress in each activity.
- (4) The plan shall be consistent with other Community legislative and policy instruments. Account should be taken of unavoidable increases in emissions resulting from new legislative requirements.
- (5) The plan shall not discriminate between companies or sectors in such a way as to unduly favour certain undertakings or activities in accordance with the requirements of the Treaty, in particular Articles 87 and 88 thereof.
- (6) The plan shall contain information on the manner in which new entrants will be able to begin participating in the Community scheme in the Member State concerned.
- (7) The plan may accommodate early action and shall contain information on the manner in which early action is taken into account. Benchmarks derived from reference documents concerning the best available technologies may be employed by Member States in developing their National Allocation Plans, and these benchmarks can incorporate an element of accommodating early action.

- (8) (The plan shall contain information on the manner in which clean technology, including energy efficient technologies, are taken into account.
- (9) The plan shall include provisions for comments to be expressed by the public, and contain information on the arrangements by which due account will be taken of these comments before a decision on the allocation of allowances is taken.
- (10) The plan shall contain a list of the installations covered by this Directive with the quantities of allowances intended to be allocated to each.
- (11) The plan may contain information on the manner in which the existence of competition from countries or entities outside the Union will be taken into account.