

## REPORT TO SUSTAINABILITY COMMITTEE – 15 JUNE 2022

### UK EMISSIONS TRADING SCHEME (UK ETS) UPDATE

#### 1 Executive Summary/Recommendations

1.1 This report updates the Sustainability Committee on the proposals for the development of the UK Emissions Trading Scheme (UK ETS) as set out in the UK Government consultation [Developing the UK Emissions Trading Scheme \(UK ETS\)](#). The UK ETS is a significant scheme for various economic sectors which is why this report is being presented to the Committee.

1.1.1 As the proposals have limited direct interaction with Council business the Council is not planning to submit a full consultation response (deadline 17 June 2022). However, Chapter 7 of the proposals covers a call for evidence on expanding the UK ETS to include waste incineration and energy from waste and this report does highlight the draft response to these proposals from the [NESS Energy Project](#) in which Aberdeenshire Council is a partner.

#### 1.2 The Committee is recommended to:

**1.2.1 Note the proposals for development of the UK ETS;**

**1.2.2 Consider and comment on the potential for the proposals under the scheme to impact upon future activities in Aberdeenshire; and**

**1.2.3 Note the draft response to Chapter 7 of the proposals as set out at Appendix 1.**

#### 2 Decision Making Route

2.1 After leaving the EU Emissions Trading Scheme (EU ETS) the UK had a choice between establishing UK carbon taxes or a UK ETS. A UK ETS was chosen and commenced on 1 January 2021. The open consultation [Developing the UK Emissions Trading Scheme \(UK ETS\)](#) was published on 25 March 2022.

2.2 The UK ETS is a significant scheme which impacts and has potential to impact a number of industries, either directly or indirectly. Being aware of this scheme would allow Councillors to understand the potential impacts on local sectors and to potentially provide support and direction to the Council and local businesses as the scheme evolves.

#### 3 Discussion

3.1 The UK ETS is a system where the government sets a total permitted amount of greenhouse gas emissions for selected areas of the economy and then sells 'allowances' to emit, which can be used to cover generated emissions or sold on. Within the scheme there is also a number of free allowances given to selected industries or areas of the economy based on perceived need.

3.2 This discussion section provides key points from the nine chapters of the [Developing the UK Emissions Trading Scheme \(UK ETS\)](#) document, as well as referencing (**Appendix 1**) the proposed response to Chapter 7 from the [NESS Energy Project](#) in which Aberdeenshire Council is a partner.

### Glossary of terms

Allowance	A permit under the UK ETS that allows the owner to emit a certain amount of specified greenhouse gas emissions.
The Authority	UK Government, Scottish Government, Welsh Government and the Department of Agriculture, Environment and Rural Affairs for Northern Ireland, (DAERA).
Cap	Upper limit on the total amount of certain greenhouse gases that can be emitted by sectors covered by the scheme.
Carbon leakage	Where production and associated greenhouse gas emissions are offshored to other jurisdictions with different policies.
Free allocation	Free Allowances awarded by the Authority selected industries or areas of the economy based on perceived need. Free Allocation is considered a mechanism to prevent carbon leakage.
Stationary sector	The UK ETS applies to energy intensive industries, the power generation sector and aviation. The stationary sector refers to the non-aviation sectors.

### 3.3 Chapter 1: Net zero consistent cap

*'Sets out proposals for changes to align the UK ETS cap and trajectory with our net zero target.'*

3.3.1 The cap trajectory is based on the recent UK Government's Net Zero Strategy and provides the foundation for the net zero consistent cap trajectory from 2024. The current cap will remain in place until the end of 2023 to maximise the period of notice to the market from the date of this consultation. It would allow a total cap for the entire first Phase (2021-2030) of between 887 million allowances and 936 million allowances. Compared to the current legislated cap for the whole phase – 1365 million allowances – this would equate to a reduction of between around 30-35% over the course of the phase. The range reflects the fact that there is some degree of uncertainty in expected sectoral emission reductions and in other key assumptions. The Authority is currently minded to set the cap towards the higher end of the range. However the final trajectory, wherever it is set within this range, will be subject to consultee views and updated assessments of emissions abatement progress across all

sectors and regions, reflecting different nations' ambition in the 2020s. The Authority will assess the final level of the cap needed in order to achieve the four nations' carbon targets, taking all this evidence into account, and a finalised position will be set out in the government response to this consultation.

### 3.4 Chapter 2: Free allocation review

*'Considers the role of Free Allocation policy as a carbon leakage mitigation tool in the context of the net zero aligned cap. It also puts forward potential improvements to the current Free Allocation regime based on stakeholder views expressed in response to the 2019 consultation on carbon pricing and the call for evidence on free allocation in 2021.'*

- 3.4.1 This chapter focuses on changes to free allocations for the stationary installations energy intensive industries and the power generation sector (excluding aviation). It also puts forward potential improvements to the current free allocation regime. This is based on stakeholder views expressed in response to the 2019 consultation on carbon pricing and the call for evidence on free allocation in 2021.
- 3.4.2 The review from the call for evidence will be conducted in two phases. The first phase will look at aligning the share of free allocation within proposed changes to the overall UK ETS cap. These top-down changes will be implemented during 2024. In addition, some technical amendments will be made to the scheme to address discrepancies. The second phase will focus on the methodology for distributing free allocation to participants. These bottom-up changes will be implemented by 2026 to align with the second allocation period of the UK ETS.
- 3.4.3 The industry cap sets an upper bound on free allocations that can be issued each scheme year. Under current scheme rules the industry cap is set at the UK's notional share of the EU ETS industry cap for Phase IV of the EU ETS. This equates to around 58 million allowances in 2021 and will reduce annually by around 1.6 million allowances.
- 3.4.4 As the overall cap tightens to align with our net zero targets, fewer allowances will be available each year over the course of the first phase of the UK ETS (2021-2030). To avoid any unintended impacts to market functioning, stability, or liquidity which could arise if free allocations made up the majority of allowances under the cap, the Authority is considering changes to the industry cap. As part of this consultation, it is setting out the broad options and guiding principles it will use to decide which industry cap is most suitable for the scheme going forward. The Authority's preferred industry cap option will be decided upon following analysis of consultation responses and presented alongside a decision on the absolute level of the cap and impacts analysis.
- 3.4.5 To maintain the market signal which the UK ETS sends to incentivise participants to decarbonise, it is desirable that auctioning continues to be the main way of bringing allowances to the market, ensuring that a price on

emissions is established. Resetting the industry cap to make up a percentage of the overall cap rather than being set as fixed numbers, as in current legislation is the approach being pursued by the Authority. This is due to the impacts to market functioning and liquidity, credibility of the UK ETS as an environmental policy, and as an incentive to decarbonise.

- 3.4.6 The Authority is mindful of the impacts that may be felt by operators which receive free allocations as the net zero consistent cap is implemented. It is committed to ensuring that these impacts are mitigated in the near term, giving industry time to adapt and factor these into their investment decisions. The Authority will use its reserve of unallocated allowances or the flexible share to mitigate against any reduction to free allocations for the first allocation period, 2021-2025. The Authority will also consider using a lower or higher proportion of the overall cap than 37% and will set out the exact figures as well as reasoning as part of the government response.
- 3.4.7 As part of the next stage of the review the Authority will look at the current methodology for distributing free allowances and will explore ways to better target free allocations for those most at risk of carbon leakage and ensure they are fairly distributed. They aim to consult on the future changes in 2023 with implementation ready for 2026. A range of approaches could potentially help to address carbon leakage which is caused by different countries mitigating emissions at different rates. The Authority will be publishing more analysis on the possible risks of carbon leakage from the UK in further consultations as part of the Free Allocation Review. This will inform possible changes to free allocation policy to better improve carbon leakage mitigation within the UK ETS.

### 3.5 **Chapter 3: Unallocated free allowances and flexible share**

*‘Sets out proposals for bringing in unallocated allowances and/or the flexible share to the market.’*

- 3.5.1 Unallocated allowances result from the number of free allowances distributed to operators being below the industry cap, which sets the maximum number of free allowances that can be allocated to stationary operators, in a given scheme year. The flexible share is a pot of allowances representing 3% of the cap for the 2021-2030 trading period. Unallocated allowances and the flexible share currently serve two legislative functions:
1. They can be used to mitigate the application of a Cross-Sectoral Correction Factor (CSCF) which is applied when a number of allowances allocated for free in a scheme year is higher than the industry cap applying a proportionate reduction to each participant’s free allocations.
  2. They can be drawn from by the Cost Containment Mechanism (CCM) which is a tool for the Authority to intervene if auction prices are elevated for a sustained period, causing market instability.
- 3.5.2 Neither unallocated allowances nor the flexible share have so far been utilised through existing mechanisms in legislation. This pool of allowances is

expected to grow in the 2022-2023 period, as free allowances will continue to be below the industry cap. The Authority is considering options to bring these allowances to market in this consultation.

- 3.5.3 The implementation of the net zero consistent cap in 2024 will require a significant drop in allowances reaching the market in 2024 compared to previous years. The Authority is considering bringing a portion of 2021-2023 unallocated allowances and/or flexible share to auction, to smooth the transition to the net zero cap. The exact timing of the release of additional allowances into auction would also need to be considered. This would provide a level of support to market participants in the transition to a net zero consistent cap by increasing the supply of auctioned allowances. It would also provide a direct route to market for unallocated allowances and/or the flexible share, supporting market liquidity. The Authority also intends to retain a portion of unallocated allowances and/or flexible share for market stability uses.

### 3.6 **Chapter 4: A call for evidence on future markets policy**

*'Calls for evidence on potential drivers of evolving market conditions in the UK ETS and objectives for market stability policy as the scheme evolves.'*

- 3.6.1 The launch of the UK ETS has created a new marketplace for buying and selling 'allowances' to emit certain greenhouse gases. Markets can be inherently volatile but stability in the market for allowances would instil confidence and allow for better planning from those involved in the market. This section includes consultation on policy measures to regulate various aspects of the allowances market.

### 3.7 **Chapter 5: Aviation**

*'Sets out the scope of the review into UK ETS aviation policy. This includes proposals on the future of aviation free allocation, considering responses to the 2019 consultation on carbon pricing, the 2021 call for evidence, and UK government commissioned economic research. It also considers how the use of Sustainable Aviation Fuels (SAFs) could be incentivised under the UK ETS and options for expanding the coverage of the scheme within the aviation sector.'*

- 3.7.1 Aviation is one of the sectors covered by the UK ETS. The UK ETS covers domestic UK flights, flights from the UK to the European Economic Area (EEA), and flights between the UK and Gibraltar. In 2019, these flights made up 44% of all commercial flights to and from UK airports. The aviation sector currently receives a proportion of UK ETS allowances for free, which they can use towards their scheme obligations. The free allocation policy instrument in general aims to mitigate carbon leakage (definition below) and support industry competitiveness.
- 3.7.2 The consultation questions around free allocation include the ways in which the free allocations should be distributed among the industry to be as fair as

possible and also over what timescale these free allocations should be phased out.

3.7.3 Question 57 of the consultation asks about ways that any unintended impacts on regional connectivity through the UK ETS could be mitigated.

3.7.4 The Council officers who link to the aviation sector via economic development and transport will ensure that the links between the UK ETS proposals are flagged to key partners.

### 3.8 **Chapter 6: Expanding UK ETS coverage within covered sectors**

*'Sets out proposals and calls for evidence on possible changes to the rules for sectors currently covered by the UK ETS to ensure more greenhouse gas emissions are covered by the scheme.'*

3.8.1 The inclusion of venting and flaring (releasing and burning respectively) of excess gas is included in the UK ETS consultation. Although focused on the oil and gas sector it is of relevance to other sectors that vent or flare. Council landfill sites include passive venting and flaring of methane and carbon dioxide so there is potential for these to be considered for inclusion and officers will provide comments to the consulting Authority.

3.8.2 There is a proposal to expand the UK ETS to allow for transportation of CO<sub>2</sub> through other means than pipeline (e.g. shipping, rail, road) for onward carbon capture without surrendering allowances. The status quo would negatively affect those looking to capture carbon when having to use alternative transportation (i.e not a pipeline) to the carbon capture site. This could potentially impact carbon capture and storage projects in Aberdeenshire, such as [The Acorn Carbon Capture and Storage Project](#) and officers are engaging with the promoters of that project on this matter.

3.8.3 Proposals are to apply sustainability criteria to biomass use in all installations to ensure a consistent approach between the UK ETS and other biomass policies. Power generating installations that are biomass only would be exempt from the UK ETS but those using fossil fuels in addition to biomass would be captured. There are also questions relating to the thresholds in terms of thermal energy produced for installations that would be required to participate in the UK ETS. Depending on the set thresholds there is potential for Council generators to be impacted and officers are keeping this under review.

### 3.9 **Chapter 7: Expanding the UK Emissions Trading Scheme to new sectors**

*'Sets out proposals to expand the scope of the UK ETS to the domestic maritime sector and calls for evidence on expanding the UK ETS to include waste incineration and energy from waste.'*

- 3.9.1 The Authority has committed to continue exploring options for expanding carbon pricing beyond energy intensive industries, the power generation sector and aviation, to which the UK ETS currently applies.
- 3.9.2 For the domestic maritime sector the aim of the Authority is to price in some of the externalities of conventional marine fuels, encouraging investment in energy efficiency and alternative fuels. It is proposed that emissions would be calculated based on the volume of fuel multiplied by the carbon intensity of the fuels. The consultation covers proposals to expand the UK ETS to domestic maritime by the mid-2020s under either a vessel activity basis, a fuel supplied basis or a hybrid approach.
- 3.9.3 There is also a proposed UK ETS expansion to cover waste incineration with no energy recovery, and energy from waste (EfW) by the mid to late 2020s. The consultation on this area covers the scope of proposals, monitoring, the reporting and verification of emissions, impacts on the market and interaction with planned and existing policies.
- 3.9.4 The proposed response from the [NESS Energy Project](#), in which Aberdeenshire Council is a partner, to the calls for evidence on expanding the UK ETS to include waste incineration and energy from waste is given in **Appendix 1**.

3.10 **Chapter 8: Calls for evidence on greenhouse gas removals (GGRs) and agriculture and land use emissions**

*'Calls for early views on the incorporation of greenhouse gas removal (GGR) into the UK ETS and the monitoring, reporting and verification requirements necessary to address greenhouse gas emissions in the land use and agriculture sectors. We do not propose expanding the UK ETS to agriculture.'*

- 3.10.1 It is recognised that certain industries, such as aviation and agriculture, will be difficult to totally decarbonise by 2050, and using GGRs will be crucial in compensating for the residual emissions coming from the most challenging areas of the polluting sectors. An object of the consultation is to assess whether and how the UK ETS can be used as one potential approach to support GGR growth and deployment, and how this would impact the functioning of the UK ETS.
- 3.10.2 A further consultation in 2022 will seek preferred business models to incentivise early investment in engineered GGRs with the aim of deployment from the mid-to-late 2020s. There is also ongoing academic research looking at integrating GGRs into cap-and-trade markets and how they should be approached as a path to Net Zero.
- 3.10.3 Six key opportunities of integrating GGRs into the UK ETS are outlined, including: helping UK meet net zero targets; greater focus on co-benefits from increased nature-based solutions; and ramping up of GGR development and deployment. There are however several key considerations including: GGRs

possibly weakening the overall incentive to decarbonise; and issues surrounding monitoring, reporting and verification.

- 3.10.4 It is noted that agriculture has the potential for positive and negative emissions. Some farms may store and sequester carbon through afforestation or sell carbon services to supply chain partners. For agriculture an object of the consultation is to assess the potential for Monitoring, Reporting and Verification (MRV) in agriculture to improve business level decisions and productivity, and to reduce greenhouse gas emissions from food growing (excluding transportation and processing). The proposed benefits of MRV are transparency and confidence in traded carbon, better informed decisions by food producers, retailers, and government, understanding of source and scale of emissions, and prioritisation of mitigation efforts.

### 3.11 **Chapter 9: Operational amendments to UK ETS**

*'Sets out proposed amendments to support effective operation of the UK ETS by addressing a number of operational issues identified during the development of policy and legislation for the scheme.'*

- 3.11.1 This section calls for views on a number of different issues related to the operation of the UK ETS and proposals including the following:
- Electricity Generators exporting heat for district heating but who have not been able to export measurable heat produced in the 'relevant period' do not currently qualify for free allocation. Responses are being sought to ascertain if they should be able to demonstrate eligibility and over what period this would be necessary.
  - New entrants to the UK ETS can potentially have their free allocation for a year based on a very limited time frame if they begin operations late in the previous year. The proposal states that they should wait until a full calendar year of information is available before being able to apply for the free allocation.
  - Proposal for additional statutory appeal routes against Authority decisions which would apply to specific decisions impacting individual operators (rather than appealing against the overall policy).
  - Proposal to introduce two new penalties for 'Failure to submit information' and 'Failure to comply with notification requirements'.

## 4 **Council Priorities, Implications and Risk**

- 4.1 This report links to the Economy and Enterprise Priority under the Our Economy Pillar of Aberdeenshire Council's strategy on account of the UK ETS being a significant national scheme with potential to impact a number of industries, either directly or indirectly. It also links to the Infrastructure Priority under the Our Environment Pillar through the NESS Energy Project, in which



Aberdeenshire Council is a partner. Additionally, it also relates to the climate and sustainability principle underpinning the Aberdeenshire Council priorities.

4.2 The table below shows whether risks and implications apply if the recommendations are agreed.

<b>Subject</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Financial			<b>X</b>
Staffing			<b>X</b>
Equalities and Fairer Duty Scotland			<b>X</b>
Children and Young People's Rights and Wellbeing			<b>X</b>
Climate Change and Sustainability			<b>X</b>
Health and Wellbeing			<b>X</b>
Town Centre First			<b>X</b>

4.3 The screening section as part of Stage One of the Integrated Impact Assessment process has not identified the requirement for any further detailed assessments to be undertaken. This report is only providing an update on a UK Government consultation and providing opportunity for Councillors to review and provide comment.

4.4 The following Risks have been identified as relevant to this matter on a Corporate Level:

- ACORP002 Changes in government policy, legislation and regulation

## **5 Scheme of Governance**

5.1 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

5.2 The Committee is able to consider this item in terms of Section R paragraphs 1.1a and 1.1c of the List of Committee Powers in Part 2A of the Scheme of Governance as it relates to approving, reviewing and monitoring the Council's work in respect of sustainable development and climate change.

**Alan Wood**  
**Director of Environment and Infrastructure Services**

Report prepared by Joel Evans, Circular Economy Officer  
Date 6 June 2022

### **List of Appendices:**

Appendix 1 - NESS Energy Project proposed response to UK ETS consultation



Aberdeen City Council | Aberdeenshire Council | Moray Council

## **Draft Response by the Ness Energy Project to UK ETS Consultation – Inclusion of EfW in ETS**

1. The UK Government Department for Business, Energy and Industrial Strategy is undertaking a consultation on the UK Emissions Trading Scheme (UK ETS), essentially a UK only version of the existing EU Emissions Trading Scheme.
2. The consultation addresses a number of areas of proposed change with one area of direct impact to Local Authorities in particular. The consultation includes the intention to expand the scope of ETS to include fossil carbon emissions from Energy from Waste (EfW) facilities, which have hitherto been exempt.
3. The UK ETS is a 'cap and trade' scheme, where in scope facilities/activities that emit carbon dioxide have to make a payment for each tonne emitted beyond its allowance. The trading element means that the value of this payment varies according to market conditions.
4. The key impact for the Council is that the gate fee for delivering waste to the Ness EfW facility being developed under the Inter-Authority Agreement between Aberdeen City, Aberdeenshire and the Moray Councils is likely to increase significantly.
5. The consultation proposes that the inclusion of EfW into the UK ETS will occur in the mid-late 2020s. Accordingly, there is no direct financial impact until that point and estimating the cost to the Authority would be speculation at this point.
6. Draft Consultation responses have been developed as outlined below. The key points can be summarised as:
  - The response agrees that the inclusion of EfW into the UK ETS is compatible with the objectives of achieving Net Zero.
  - That there is currently no viable and affordable carbon sequestration supply chain and it is uncertain when this will develop.
  - Introducing UK ETS without viable mitigation options for the industry simply results in a tax income for UK government at the expense of increased costs for Local Authorities.
  - Introduction of UK ETS should be phased alongside the development of carbon sequestration outlets and that no date should be fixed at this stage.
  - Local Authorities should be compensated for their increased costs.

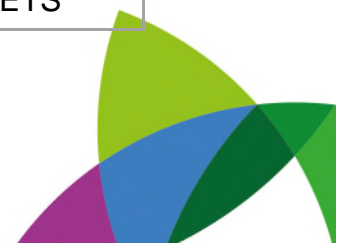
- A mechanism for rewarding facilities that achieve negative emissions (such as EfW with carbon capture) should be developed immediately in order to make investment viable.

7. The consultation document can be found here:

<https://www.gov.uk/government/consultations/developing-the-uk-emissions-trading-scheme-uk-ets>

Question	Draft Response
<p>Question 93. Do you agree with the Proposal that the UK ETS be expanded to allow for the transportation of CO2 through other forms of non-pipeline transport (i.e. shipping, rail and road)? (Y/N) Please explain your answer.</p>	<p>Yes, achieving Net Zero will require more than connecting those facilities conveniently close to a pipeline, as a result all facilities across the UK should have as equal treatment under the Scheme as possible in order to maximise CO2 emissions reduction.</p>
<p>Question 94. Do you have any evidence to suggest how expanding the UK ETS to include other forms of CO2 transport may impact the wider UK ETS or other policy areas of the Governments of the UK, either positively or adversely? For example considering the impacts of emissions produced by chosen means of transport. (Y/N) Please explain your answer.</p>	<p>No specific evidence to offer, however, there is logic in considering the net impact for all delivery methods including pipelines, which require significant energy inputs in themselves. Such a measure should encourage the development and utilisation of non-carbon emitting means of shipping (e.g. using hydrogen or electricity derived from renewable sources).</p>
<p>Question 95. What mitigation strategies, if any, do you believe should be applied in relation to CO2 emissions associated with all forms of CO2 transport for CCUS (eg. emissions produced by a cargo ship or those associated with the operation of pipelines)? For example, a mitigation strategy might include the requirement for</p>	<p>Net carbon delivered to sequestration should be adopted as the key measure. Mitigation in transport should be achieved by decarbonising the electricity and hydrogen production sectors, which can then be used to power transport modes.</p>

<p>a chosen means of transport to adhere to emissions standards, net proportion of emissions delivered criteria (after deduction of emissions from transportation) or similar sustainability criteria.</p>	
<p>Question 124. Do you agree with the proposed timing for when waste incineration and EfW could be introduced into the UK ETS? (Y/N)</p>	<p>No.</p>
<p>Question 125. For operators of waste incinerators, EfW plants, and local authorities (LAs), please outline the steps that you will need to take, and the time required to prepare for the expansion of the UK ETS to waste incineration and EfW.</p>	<p>No date should be fixed for the introduction of EfW into UK ETS until there is more clarity on the implications for the sector, the waste industry and the development of suitable carbon capture utilisation and storage opportunities as an alternative to what otherwise can be characterised as a simple tax raising exercise. Furthermore, UK ETS should not be introduced until a clear mechanism is established for valuing carbon negative solutions in EfW - this issue has not been addressed in this consultation and that is considered a significant lost opportunity. The right time to introduce UK ETS is when outlets that permanently sequester carbon dioxide and reward investment in carbon negative solutions are clearly established. It may be that this can be achieved by the late-2020s, however existing facilities and contracts will require significant modification and investment to achieve carbon negative performance and this should be factored into the timing of implementation. Local Authorities are a significant tonnage contributor to UK EfW with government policy, especially in Scotland, driving local authorities to invest in EfW in recent years. UK ETS introduces a new fiscal burden they are poorly positioned to be able to absorb and therefore are likely to face very significant financial hardship from UK ETS</p>



	<p>introduction. The consultation provides no explanation of how local authorities will be compensated for the imposition of an additional central government tax and therefore steps will be required to resolve this net reduction in local authority funding. The clear, obvious and fair solution is for the UK and devolved Governments to amend local authority fiscal settlement. Without such a step it is impossible to identify what steps local authorities would have to take to achieve their statutory requirement to achieve balanced budgets, however it is inevitable that an increase in spending in one area requires a reduction in another, as a result, other areas of local government spending, for example education and social care may need to be reduced.</p>
<p>Question 126. Do you agree that the UK ETS should be expanded to include waste incineration and EfW? (Y/N) Please outline your reasoning, including alternative options for decarbonisation of the sector outside of the UK ETS.</p>	<p>Yes. Local Authorities are committed to achieving Net Zero and therefore it is recognised that steps must be taken to reduce and eliminate carbon emissions from EfW. Indeed, the sector has the rare opportunity to be carbon negative. There are currently irreconcilable financial challenges in achieving decarbonisation not to mention the lack of viable outlets for carbon captured. Applying a cost to the release of CO<sub>2</sub> to atmosphere from EfW can be argued to be a logical extension from the current scope, however, certain conditions must be in place to achieve a fair and successful transition to Net Zero. Firstly, realistic and financially comparable decarbonisation solutions must be available, secondly, as EfW is only a small element of the resource management sector, the impact of introduction of UK ETS for EfW must be fully understood for all other residual waste treatment alternatives, especially landfill and export of waste to jurisdictions where the costs arising from UK ETS do not apply, for example the EU and thirdly the financial impact on local</p>



	<p>authorities must be mitigated to avoid unintended consequences, such as other services local authority services being degraded in order to pay the tax. Achieving these requirements will take time and careful policy making from UK and Devolved Governments, accordingly, the timing of the introduction of UK ETS should not be arbitrarily set at this time.</p>
<p>Question 127. Do you agree that all types of waste incinerators should be included in the UK ETS? (Y/N) If you believe certain incineration activities should be exempt, e.g. incineration of hazardous or certain healthcare waste, please provide details and specify which waste stream.</p>	<p>Yes. If the scheme is to be introduced then it should apply to all areas. The climate impact is the same irrespective of where carbon is emitted. There is a case to argue that the impact of UK ETS on high-value waste streams such as hazardous and health care waste is proportionally less than for household waste and therefore the sector will be better placed to absorb the impact.</p>
<p>Question 128. Do you believe ATT should be included in the UK ETS? (Y/N) What challenges could arise as a result of including ATT, if any, that are different to conventional waste incineration plants?</p>	<p>Yes. Any facility treating residual waste and emitting fossil carbon should be included in the UK ETS if it is to be introduced. There is no evidence that so-called Advanced Thermal Treatment (ATTs) deliver significant carbon reduction performance compared to proven technologies. Indeed, despite significant subsidy and favourable market conditions these technologies have, on the whole, actually resulted in adverse outcomes through low availability and requirement to divert wastes to higher carbon emitting outlets such as landfill.</p>
<p>Question 129. Do you agree that the point of MRV obligation for the UK ETS should be placed on the operators of waste incinerators and EfW plants? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.</p>	<p>Yes. The operator is the only body that has access to all the information required to undertake monitoring, reporting and verification. The operator controls the inputs, processing and emissions and has data capture capability. The operator will, of course, require to be regulated in this regard and this role should be undertaken by SEPA or the relevant regulators in other jurisdictions.</p>



<p>Question 130. If the point of MRV obligation is placed on operators of waste plants, should waste companies/operators or customers (either LAs or commercial and industrial customers) be responsible for meeting compliance obligations? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.</p>	<p>No. The Polluter Pays Principle should apply as this is the best way to influence the behaviour of the producer to reduce the carbon impact of its waste, however, at this early stage, there is not an obvious mechanism for how such obligations could be applied when there may be dozens of suppliers of waste to an EfW Facility - whilst tonnage of inputs is identifiable, fossil carbon content is not and would require significant costs and complication in measuring this prior to combustion. For this reason, the obligation should sit with the facility operator initially. The operator has the opportunity to reflect the financial impact of UK ETS in its gate fee and thereby recover its costs.</p>
<p>Question 131. Do you believe that the Small and Ultra Small Emitter schemes that are currently available to eligible UK ETS participants should also be available to waste incinerators and EfW plants? (Y/N) Please provide details including, where relevant, whether your organisation is likely to be eligible for these schemes based on current rules.</p>	<p>Yes. Simply for consistency. EfW carbon is not different to any other carbon.</p>
<p>Question 132. Which MRV proposal do you believe should be implemented to determine the UK ETS obligation for waste incinerators and EfW plants?</p> <p>i) If Option A, please provide your views on which methods could be used, along with any information on the practicality of their implementation and likely costs.</p>	<p>Option A is preferred as it more clearly reflects the actual emissions of each facility. Given that waste composition and the mix of waste types accepted at EfW facilities are highly variable the use of emissions factors is considered to be too crude an instrument. The respondent is not sufficiently qualified to comment on how Option A would be implemented.</p>



<p>ii) If Option B, please provide your views on how these emissions factors should be calculated, along with any information on the practicality of implementation and likely costs. In your answer, please outline how frequently fossil emissions should be monitored under both options and consider whether there are other suitable MRV options that we have not identified.</p>	
<p>133) Do you believe that one of the MRV options proposed is more likely to lead to perverse incentives (e.g. more waste diverted to landfill) or to unintended consequences as a result of applying the UK ETS to waste incineration and EfW? Please consider different scenarios and provide evidence to support your views where possible.</p>	<p>No comment.</p>
<p>134) Do you believe any additional greenhouse gases, other than CO<sub>2</sub>, that are emitted by EfW plants or incinerators, should be covered by the UK ETS? (Y/N) If so, please provide details on which gases and how it could work in practice.</p>	<p>No. The EfW UK ETS should, at least initially, mirror the established UK ETS approach. Any change should be applied across sectors.</p>
<p>135) How would the application of an ETS to waste incineration and EfW impact stakeholders (including operators of waste incinerators, operators of EfW plants, LAs, consumers, customers)?</p>	<p>Local Authorities are a significant tonnage contributor to UK EfW with government policy, especially in Scotland, driving local authorities to invest in EfW in recent years. UK ETS introduces a new fiscal burden they are poorly positioned to be able to absorb and therefore are likely to face very significant financial hardship from UK ETS introduction. The</p>





	<p>consultation provides no explanation of how local authorities will be compensated for the imposition of an additional central government tax and therefore steps will be required to resolve this net reduction in local authority funding. The clear, obvious and fair solution is for the UK and devolved Governments to amend the local authority fiscal settlement. Without such a step it is impossible to identify what steps local authorities would have to take to achieve their statutory requirement to achieve balanced budgets, however it is inevitable that an increase in spending in one area requires a reduction in another, as a result, other areas of local government spending, for example education and social care may need to be reduced. Ultimately, the introduction of carbon pricing into waste management should contribute to the implementation of carbon reduction measures. These measures would include seeking to reduce the fossil carbon content of incoming waste streams, which in turn will change the operating capacities of EfW facilities with uncertain impacts on operation and profitability. At this stage it is difficult to see how the introduction of additional financial burden on the industry will directly lead to carbon reductions when there is no established treatment or sequestration network in place and so the negative impact of increased cost will not be balanced by environmental improvements. Many local authorities, taking their lead from national policy and regulation have invested in EfW solutions and will have to enter into contractual negotiations with operators of EfW facilities to manage the change in cost base and, should the Carbon Capture Usage and Storage (CCUS) industry develop sufficiently, potentially modify facilities to incorporate carbon capture. Such contract change will require very significant resource to</p>
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	negotiate and finance additional infrastructure, such resources not being available at a time of severe financial constraint.
<p>136) Could the introduction of a carbon price incentivise waste operators and/or LAs to improve their operations or processes to reduce fossil waste being incinerated? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.</p>	<p>Yes, depending on the price set and the availability of reliable and affordable techniques to decarbonise waste inputs and emissions. It is recognised that more can be done to remove more fossil carbon from input wastes, however, the fate of such fossil carbon (mostly poor quality and currently unrecyclable plastic) must be considered. Shifting the plastic into a sector which potentially leads to carbon emissions not covered by the ETS (for example, 'chemical recycling' or landfill of mixed wastes) is a real risk. However successful upstream actions to reduce fossil carbon content in mixed waste are, they are unlikely to result in the complete removal of fossil carbon from the mixed waste stream. As a result, EfW - an essential part of the resource management system - will continue to be required. Decarbonising these emissions can only be achieved if the downstream sequestration/utilisation sector is mature. EfW facilities are typically small to medium scale producers and therefore are reliant on these sectors, so operators and local authorities can only be 'second-movers' in this scenario.</p>
<p>137) Could the introduction of a carbon price incentivise LAs to support households to improve recycling practices? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.</p>	<p>Yes, depending on the price set and the availability of reliable and affordable techniques to remove more fossil carbon from input wastes, however, the fate of such fossil carbon (mostly poor quality and currently unrecyclable plastic) must be considered. Shifting the plastic into a sector which potentially leads to carbon emissions not covered by the UK ETS (for example, 'chemical recycling' or landfill of mixed wastes) is a real risk.</p>



<p>138) Is there opportunity (in the medium-long term) for the carbon price to incentivise waste operators and/or LAs to invest in carbon capture and storage infrastructure, to reduce fossil carbon emissions? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.</p>	<p>Yes. Local Authorities are committed to achieving Net Zero and therefore will be inclined to implement affordable measures that contribute to that goal. Key issues are timing and funding. The absence of a viable downstream carbon sequestration sector for most EfW facilities means that such investment is certainly not viable without significant financial and risk underwriting by national governments. Should such a sector develop, the cost of carbon capture and shipping is considered to be significantly higher than the current carbon price. This situation may change over time but it is not currently possible to envisage a business case that recommends investment. A major opportunity to shift the financial balance is available if the UK ETS recognised that value of carbon negative 'emissions'. EfW is one of few sectors where actions to remove fossil carbon from emissions also delivers sequestration of biogenic carbon. UK and devolved governments recognise that carbon negative activities will be essential to achieving Net Zero and should therefore develop as quickly as possible a mechanism to reward negative emissions. This development would significantly close the gap between the cost of compliance with UK ETS and the cost of implementing carbon capture.</p>
<p>139) In the event of the carbon price being applied to waste operators, will waste operators be able to pass through their costs to customers (including LAs)? (Y/N) Please explain in as much detail as possible why, how, and to what extent this may or may not occur.</p>	<p>There is no Yes/No answer to this question as it will depend on the nature of the contracts held between operators and customers, including Local Authorities. Many larger, longer-term contracts are believed to include Change of Law provisions and that this may enable cost recovery by the operator.</p>
<p>140) For LA owned plants, would unitary authorities and waste disposal authorities be the only authorities exposed to the carbon</p>	<p>Yes, although part of the municipal waste stream comprises business waste and therefore the Authority would be expected to</p>



<p>price – in the event of waste operators passing through costs? (Y/N) Please explain in as much detail as possible and provide evidence to support your views.</p>	<p>recover the cost associated with this waste from business</p>
<p>141) Do you believe that government should consider phasing in ETS obligations to the sector over time? (Y/N) If yes, please outline why, how, and to what extent phasing options could be provided</p>	<p>Yes. UK ETS implementation should be mirrored to the availability of mitigation measures. For local authorities, unless and until viable carbon sequestration outlets are available (for fossil carbon produced both pre- and post- EfW), the UK ETS simply becomes a means to increase UK government tax revenues and reduce local authority incomes. Consequently, as access to sequestration options develop, the obligations should increase.</p>
<p>142) Would operators of incineration/EfW plants be exposed to competitiveness impacts abroad and carbon leakage risk, in the event of being exposed to the carbon price? (Y/N) Please explain in as much detail as possible and provide evidence to support your views.</p>	<p>Yes. This issue is not just a case of leakage abroad but also within the UK. Whilst landfill remains an option for household waste outwith Scotland, waste produced in Scotland that should be managed in EfWs may leak to England where landfill is allowable. Leakage is dependent on a combination of EfW costs in the UK and capacity availability and price abroad. Timing introduction of UK ETS for EfW through a coordinated, harmonised approach to match similar measures in likely destinations for RDF/SRF export (largely European countries) would obviate this risk.</p>
<p>143) Have you identified any other distributional impacts (including wider environmental or social impacts) arising from this proposal? (Y/N) Do you have views on how government could address these concerns?</p>	<p>Increasing cost of EfW is likely to have adverse impact on existing District Heating schemes, which currently struggle to compete with the gas market and would likely face an increase in heat supply costs. In addition, UK ETS is likely to degrade the ability of public bodies to invest in new or expanded District Heat schemes. Furthermore, leakage of tonnage abroad (or in Scotland's case to English landfills) could also jeopardise the viability of</p>



	EfW facilities that support District Heat schemes.
144) What additional policies would be needed to support the UK ETS in decarbonising waste incineration and EfW? How would this change over time?	Policies/mechanisms that recognise the value of negative emissions to achieving Net Zero should be introduced as soon as possible in order to assist in closing the financial gap between paying the carbon price and installing carbon capture systems. If leakage is considered a significant issue, the Trans-frontier Shipment of Waste Regulations would also need to be reviewed to dissuade this activity.
145) How would the expansion of the UK ETS to waste incineration and EfW interact with existing and planned policies in waste incineration, EfW, and waste management more broadly, as well as any other relevant non-decarbonisation policies?	Increasing the cost base of EfW either through UK ETS costs or through installation and operation of carbon capture increases the incentive to divert more material from EfW. This is double-edged as it reduces waste input security which is essential to underpin a business case to install carbon capture capacity whilst increasing the ability to spend more on pre-treating waste to capture more recyclables, especially plastics.
146) Are there other parts of the waste management system that should be included in the scope of the UK ETS? For example, landfill or wastewater. (Y/N) Please explain in as much detail as possible and provide evidence to support your views.	Yes. Landfill should be included as it is a significant carbon emitter within the Resource Management sector. It is recognised that to do so would be complex, so an alternative would be to use other regulatory and fiscal tools to minimise the competitiveness of landfill. A UK-wide adoption of the Scottish landfill ban is one option and increases in landfill tax is another.

