

APPENDIX C ALLOCATION METHODOLOGY RULES

Introduction

1. This Appendix sets out the details of the Allocation Methodology (AM) Rules that will be used for Phase II. The rationale for each rule and a general description of its objective is set out in Section 3. Parts A to F set out each rule in detail – including eligibility criteria, any further specific definitions, and the methodology for calculation of allocations that results from the application of each rule and part G sets out some useful common definitions. The complete guidance for each rule is set out in Section 2 of the Detailed Guide to Phase II Allocation Methodology¹.

Allocation Methodology Rules

A. Changes during the baseline period rule

Eligibility criteria:

2. This rule may be used to account for the “addition” of one or more “units” at an installation during the baseline period of 2000-2003 (i.e. 2001 onwards) that led to a step change in emissions at the installation.
3. For the purpose of this rule an “addition” is defined as:
 - The addition of a unit falling within the scope of the Directive. For example, a boiler/turbine/CHP commencing operation (i.e. began to emit CO₂).
 - This does **not** include changes in emissions due to:
 - changes in product mix;
 - changes in market conditions;
 - re-fitting, rebuilding existing units; or
 - any kind of changes within a unit.
4. This rule may also be used to account for “closures” of units during the baseline period of 2000-2003 if operators verify that they are unable to provide data relating to the configuration of the installation at 31 December 2003 (i.e. they verify that they are unable to extract data for “closed” units from their baseline data). Operators that are required to submit 2004 data for Phase II are not required to account for any “closures” of units in 2004.

Calculation of allocations:

5. If this rule is applied, and disaggregated data is available, in order to take account of a step change in emissions resulting from an addition during the baseline period, the relevant emissions for each additional unit are

¹ See: http://www.defra.gov.uk/environment/climatechange/trading/eu/pdf/euets_guide.pdf

calculated separately (while relevant emissions for those units to which the rule is not being applied are calculated on an aggregated basis).

6. However, if disaggregated data is unavailable, in order to take account of an addition or closure during the baseline period, the installation's relevant emissions are calculated using only historic emissions data after and including the year in which the most recent addition and/or closure during the baseline period was made.
7. Under this rule, if the most recent addition or closure occurred during 2003, 2004 emissions data are used to calculate relevant emissions for the unit concerned or entire installation (depending on the ability to disaggregate data).

B. Changes after the baseline period rule

Eligibility criteria:

8. This rule may be used by all installations commencing operation before 1 January 2004 (including those that are temporarily excluded during Phase I and those affected by expansion activities) to apply for eligible "increases in net capacity" between 1 January 2004 and 30 June 2006 to be taken into account in the allocation methodology.
9. For the purpose of this rule an "increase in net capacity" is defined as an extension to an Annex I Activity between 1 January 2004 and 30 June 2006 that fulfils the detailed eligibility criteria for allowances from the Phase I New Entrant Reserve (NER)².

Calculation of allocations:

10. If this rule is applied, the installation's relevant emissions are calculated as the sum of (i) a benchmark relating to the increase in net capacity between 1 January 2004 and 30 June 2006 (ii) the standard allocation methodology applied to the rest of the installation for its configuration up to 31 December 2003, to avoid double counting.

C. Rationalisation during the baseline period rule

Eligibility criteria:

11. This rule may be used to account for instances where an operator fully closed one or more installations and transferred production to other installation(s) (the "receiving installations") during the baseline period (i.e. between 1 January 2000 and 31 December 2003).

² Please see especially Paragraphs 18 and 21 of Appendix C of the Phase I Approved NAP to examine the detailed eligibility criteria for applications to the NER in Phase I. It is available at <http://www.defra.gov.uk/environment/climatechange/trading/eu/nap/pdf/annexc.pdf>.

12. This rule only applies to permanent closures of entire EU ETS installations. It does not apply to closures of units.
13. For the purpose of this rule “rationalisation” is defined as:
- a) There was a closure (as defined above);
 - b) Production was transferred to an installation(s) that is covered by the EU ETS (the “receiving installation(s)”);
 - c) The closed installation(s) and the receiving installation(s) were operated by the same operator at the point of transfer (the year ‘t’);
 - d) The closed installation(s) and the receiving installation(s) were located in the UK;
 - e) The product whose production was transferred to the receiving installation(s) could have been produced with the technology that was available at the closed installation(s);
 - f) The product(s) transferred is classified as the same product according to the SIC code taken to the three digit level; and
 - g) Total emissions from the receiving installations in the year t+1 were/are at least 70% of the total EU ETS emissions that arose at all the installations involved in the year t-1 (i.e. at least 70% of the sum of emissions from the closed installations(s) and the receiving installations(s) in the year t-1).
14. Installations that are classified in the LEP sector and CHP installations that meet the criteria for inclusion in the LEP sector in Phase II are not eligible to apply for this Rationalisation rule (for the reasons set out in Paragraph 3.31 of Section 3).

Calculation of allocations:

15. If this rule is applied, only the emissions data for years following the completed rationalisation are used to calculate relevant emissions for the receiving installation(s). For example, this implies that if the transfer of production occurred in year ‘t’, only the emissions data from (and including) the year ‘t+1’ are used for the receiving installation(s), instead of data for the entire baseline period.
16. If the transfer of production occurred during 2002 (i.e. 2003 = t+1), the relevant emissions for the receiving installation(s) are calculated using 2003 and 2004 emissions data.
17. If the transfer of production occurred during 2003 (i.e. 2004 = t+1), the relevant emissions for the receiving installation(s) are calculated using a benchmark relating to the configuration of the entire installation at 31 December 2003.

D. Rationalisation after the baseline period rule

Eligibility criteria:

18. This rule may be used to account for instances where an operator fully closed one or more installations and transferred production to other installation(s) (the “receiving installations”) after the baseline period between 1 January 2004 and 30 June 2006.
19. Only those installations that fulfil the detailed eligibility criteria for rationalisation under the New Entrant and Closure rules from Phase I, for rationalisation occurring between 1 January 2004 and 30 June 2006 are eligible for this rule³, noting that this rule does apply to installations that are temporarily excluded from Phase I⁴ as well as those affected by expansion activities.

Calculation of allocations:

20. If this rule is applied, the relevant emissions for the receiving installation(s) are calculated using a benchmark relating to the configuration of the receiving installation(s) after rationalisation up to 30 June 2006, in place of historic emissions data.

E. Temporary closure during the baseline period rule

Eligibility criteria:

21. This rule may be used to account for periods of temporary closure during the baseline period (2000-2003) that lead to at least one year of zero emissions for an installation or a unit at the installation.
22. For the purpose of this rule, “temporary closure” is defined as instances where an installation or unit, for which historic emissions data is being used to calculate allocations, ceases to carry out an Annex I Activity for a temporary period spanning at least one calendar year (i.e. January-December inclusive) within the period 1 January 2000 to 31 December 2003. This implies that there is at least one year with zero emissions for the installation or unit concerned.
23. This rule does not apply to periods of temporary closure that do not span a full calendar year (e.g. April 2001 – October 2002). This is because such periods of temporary closure do not lead to a calendar year of zero emissions for an installation or unit.

³ Please see Appendix C of the Phase I Approved NAP to examine the detailed eligibility criteria for applications for rationalisation during Phase I. It is available at: <http://www.defra.gov.uk/environment/climatechange/trading/eu/nap/pdf/annexc.pdf>.

⁴ i.e. The exemption for temporarily excluded installations in paragraph 65 of Appendix C does not apply here.

24. This rule cannot be applied to temporary closure of units for which historic emissions data cannot be disaggregated. This is because it is not possible to clarify whether a year of zero emissions for the unit has occurred if data is not disaggregated.

Calculation of allocations:

25. In the standard methodology any years with “zero” emissions are included in the calculation of relevant emissions. Therefore, if this rule is applied, all years of temporary closure for an installation or unit are marked as “blank” emissions (rather than “zero”) so that they are excluded from the calculation of relevant emissions.
26. If an installation or unit was temporarily closed in 2003 and recommenced operation between 1 January 2004 and 30 June 2006, and has more than one year’s historic data between 2000-2002, relevant emissions for the installation or unit are calculated using that historic data prior to 2003 only (i.e. relevant emissions will simply exclude 2003 from the baseline emissions).
27. If an installation or unit was temporarily closed in 2003 and only has one year’s historic data between 2000-2002 their treatment depends on when they recommenced. If they recommenced operation in 2004, relevant emissions for the installation or unit are calculated using that one year’s historic data prior to 2003, **and** 2004 data (i.e. excluding 2003). If they recommence operation between 1 January 2005 and 30 June 2006, relevant emissions for the installation or unit are calculated based on a benchmark relating to their configuration at 31 December 2003.

F. First year of operation (FYO) during the baseline period rule

Eligibility criteria:

28. This rule may be used to account for entire installations that began operations (i.e. first began emitting CO₂, including periods of testing and commissioning) during the baseline period (i.e. 2000-2003).
29. This rule may also be used to account for units that began operations (i.e. first began emitting CO₂, including periods of testing and commissioning) during the baseline period. For a unit to be eligible for this rule, the operator must also apply for the changes during the baseline period rule for that particular unit. The first year of operation rule may be applied whether or not disaggregated data is available for the unit concerned.

Calculation of allocations:

30. If this rule is applied to an installation or unit, only the years following (i.e. excluding) the first year of operation for the installation or unit concerned are used to calculate relevant emissions for that installation or unit (for the latter, using disaggregated data).

31. If an operator cannot provide disaggregated data for units, and the FYO rule is applied to an addition that represents the *most recent change* at the installation, the relevant emissions for the installation are based on all historic data after the year in which the *most recent addition* was made.
32. If the first year of operation of an installation or unit was 2002, then 2002 data has to be disregarded for that installation or unit. Therefore, relevant emissions for the unit or installation are calculated using 2003 and 2004 data.
33. If the first year of operation of an installation or unit was 2003, then 2003 data has to be disregarded for that installation or unit. Therefore, relevant emissions for the unit or installation are calculated based on a benchmark relating to the configuration of the installation (or unit) at 31 December 2003.

G. Common Useful Definitions

34. Stationary Technical Unit (STU)⁵ – This can be taken to mean something that is functionally self contained in the sense that the unit – which may consist of one component or a number of components functioning together – can carry out the Annex I Activity or Activities on its own. However, if there are two or more such units on the same site, these units should be regarded as a single technical unit for the application of the EU ETS:
- if they carry out successive steps in one integrated industrial activity;
 - one of the Annex I Activities is a directly associated activity of the other;
 - both/all units are served by the same directly associated activity; and/or
 - both/all units are operated by the same operator, carry out the same Annex I Activity and occur on the same site.
35. Unit – This is a technical unit that is, or is aggregated to form, a Stationary Technical Unit, as defined in Guidance Note 1⁶.
36. Closure – This is the 100% cessation of production. An installation is considered to have ceased production when: the Annex I Activity at the installation has ceased operating; or the capacity of the Annex I Activity at the installation has dropped below the thresholds as defined in Annex I of the Directive. A unit is considered to have undergone closure when it has ceased to carry out an Annex I Activity or has ceased to form part of an aggregated Stationary Technical Unit.

⁵ This definition is taken from Guidance Note 1 – Guidance on Inclusion

See: <http://www.defra.gov.uk/environment/climatechange/trading/eu/info/guidance.htm>

⁶ See: <http://www.defra.gov.uk/environment/climatechange/trading/eu/info/guidance.htm>