



UPDATE FOR ARTICLE 27/27A OPT OUT SCHEMES

SEPA has written separately to Operators who are either eligible and have indicated an intention to apply to these schemes and to those who are eligible and have not indicated an intention to apply. A list of those Operators are in Table 1 and 2 below.

If you have not received such communication and believe that you should have, please contact SEPA at emission.trading@sepa.org.uk as soon as possible.

We are providing this update relating to the schemes to all EU ETS stakeholders in Scotland to inform you and ensure that we do not miss any potential Article 27/27A operators.

This information is relevant to operators who have indicated an intention to apply to the Article 27 opt out / Article 27a exemption scheme for Phase IV of the EU Emission Trading System (ETS). If you are eligible for these schemes, and have submitted a full NIMs return, SEPA has/will process the return accordingly.

Following the recent consultation on the Future of Carbon Pricing that ran 2nd May- 12th July 2019, the Government is now able to provide further information on these schemes.

If, after reading this information, you decide that you wish to change your indication of intention with regards the Article 27/27a schemes, you must email SEPA at emission.trading@sepa.org.uk by 31 August 2019.

For Article 27 installations

The Government will continue to offer the “UK Small Emitter and Hospitals Opt-Out Scheme” in Phase IV of the EU ETS. The changes proposed in the recent consultation, to reflect overall reforms to the ETS Directive, will be adopted. On approval by the Commission of the equivalent measures of our Scheme, and the list of eligible UK installations seeking exclusion under Article 27, approved installations will automatically be covered, from January 2021, by the legislative provisions applying to Article 27 in the amended Greenhouse Gas Emissions Trading Scheme Regulations 2012.

As offered in Phase III, a methodology based on historic emissions (‘the baseline’) will be used to calculate the annual emissions targets for Phase IV. The targets will reduce in line with the reduction of the emissions cap for Phase IV.

The application of this methodology will include the following updates:

- a) The annual reduction factor will be amended to align with the new linear reduction in the EU ETS cap in Phase IV (the linear reduction factor for the Phase IV cap is 2.2% of the original 2008-12 baseline rather than 1.74% as it was for Phase III); and
- b) The baseline will be recalculated for the second period (2026-2030) of Phase IV.

For the period 2021-2025:

The target for 2021 for each installation will be calculated according to that installation’s baseline, reduced by 8.45%. This is equivalent to the reduction of the EU ETS cap in 2021 when compared to the average EU ETS cap in 2016-18.

Year	Target equation
2021	$0.9155 * \text{baseline}_1$
2022	$0.9726 * \text{2021 target}$
2023	$0.9719 * \text{2022 target}$
2024	$0.9711 * \text{2023 target}$
2025	$0.9702 * \text{2024 target}$

* baseline_1 = baseline in the first period of Phase IV (2021-2025)

For the first period of Phase IV (2021-2025) the baseline emissions for installations that began operation before 2016 will be the average of 2016, 2017 and 2018 verified annual emissions. Where an installation was not in operation for all of 2016, 2017 and 2018 then the annual emissions in each full year during 2016- 2018 in which the installation was in operation will be used to set the baseline. Where the installation was not in operation for a full year at all during that period, the baseline for setting emission reduction targets will be reviewed by the regulator on request.

For all sectors, irrespective of carbon leakage status, subsequent annual targets will decline year on year by the same percentage as the reduction in the EU ETS cap. This is to ensure that the annual reduction trajectory will be consistent with the annual reduction in the EU ETS cap in Phase IV.

For the period 2026-2030:

The target for 2026 for each installation will be the calculated according to that installation’s baseline, reduced by 11.25%. This is equivalent to the reduction of the EU ETS cap in 2026 when compared to the average EU ETS cap in 2021-23.

Year	Target equation
2026	$\text{baseline}_2 * 0.8875$
2027	$0.9683 * \text{2026 target}$
2028	$0.9673 * \text{2027 target}$
2029	$0.9662 * \text{2028 target}$
2030	$0.9650 * \text{2029 target}$

* baseline_2 = baseline in the second period of Phase IV (2026-2030)

For the second period of Phase IV (2026-2030) the baseline emissions will be re-calculated using the same method as during the first period. For installations that began operation before 2021, the new baseline will be the average of 2021, 2022 and 2023 verified annual emissions. For

installations not in operation for all of 2021, 2022 and 2023, the method used for calculating the baseline in the first period of Phase IV will be applied.

For all sectors, irrespective of carbon leakage status, subsequent annual targets will decline year on year by the same percentage as the reduction in the EU ETS cap. This is to ensure the annual reduction trajectory will be consistent with the annual reduction in the EU ETS cap in Phase IV.

For Article 27a installations

The Government will implement a new provision for Phase IV under Article 27a of the ETS Directive, offering stationary installations emitting less than 2,500 tCO₂eq per year the option to be exempt from the main EU ETS scheme. The eligibility and implementation of the provision, proposed in the recent consultation, will be adopted.

Eligible operators who wish to take advantage of Article 27a have until the 31st August 2019 to declare to their regulator a preference, from the below options, for what happens should they exceed the 2,500 tCO₂eq emissions limit in any given year:

Option 1: If they are eligible, enter the Article 27 “UK Small Emitter and Hospitals Opt-Out Scheme”

Option 2: To enter the EU ETS main scheme

If a preference is not declared by the 31st August 2019, and an operator in the Article 27a scheme subsequently exceeds the thresholds in any compliance year, the default option for Article 27a operators will be Option 1. If an Article 27a operator is not eligible for the Article 27 scheme, then the default is option 2.

Further guidance on the schemes, and the Government’s response to the recent consultation on the Future of Carbon Pricing, will be issued in due course.

If you would like further information on the contents of this newsletter please contact SEPA at emission.trading@sepa.org.uk or call 0800 807060 and ask for someone within the Carbon Reduction Unit.

Table 1 – Operators Currently On the Article 27 Small Emitter Opt Out

Permit Number	Operator	Installation
EM12324	Superglass Insulation Limited	Superglass Insulation Limited
EM12334	Calachem Limited	CalaChem Limited
EM12339	NHS Lothian	St John's Hospital
EM12343	Ahlstrom-Munksjo Chirnside Limited	Ahlstrom-Munksjo Chirnside Limited
EM12351	Engie Services Limited	Royal Infirmary of Edinburgh
EM12352	Diageo Plc	Leven Bottling Hall
EM12353	The University Court of the University of Edinburgh	University of Edinburgh
EM12354	The University Court of the University of Edinburgh	University of Edinburgh
EM12355	Serco Limited	Forth Valley Royal Hospital

EM12357	Fourstones Paper Mill Company Limited	Sapphire Mill
EM12362	NHS Grampian	Foresterhill Health Campus
EM12367	Scottish Hydro-Electric Power Distribution Plc	Loch Carnan Power Station
EM12372	The University Court of the University of Aberdeen	University of Aberdeen
EM12378	Scottish Hydro-Electric Power Distribution Plc	Arnish Point
EM12380	Tennent Caledonian Breweries UK Limited	Wellpark Brewery
EM12394	Greater Glasgow & Clyde NHS Health Board	Glasgow Royal Infirmary
EM12629	Tarmac Trading Limited	Cairneyhill Asphalt
EM12781	Aggregate Industries UK Limited	Chryston Asphalt Plant
EM12918	Greater Glasgow & Clyde NHS Health Board	South Glasgow Hospitals
EM13259	NHS Tayside	Ninewells Hospital
EM13265	NHS Lothian	Western General Hospital
EM13712	Diageo Scotland Limited	Burghead Maltings

Table 2 – Operators Currently On the Article 27A Opt Out Scheme

Emitter ID	Operator Name	Installation Name
EM12381	EDF Energy Nuclear Generation Limited	Hunterston B Power Station
EM13409	The Royal Bank of Scotland plc	Melville Gate Data Centre
EM13410	The Royal Bank of Scotland plc	Macmerry Data Centre