

<b>Title:</b> <b>Introduction of Charges for Designated National Authority (DNA) and Designated Focal Point (DFP) and Transferral to Environment Agency.</b>  <b>Lead department or agency:</b> DECC <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>
	<b>IA No:</b> DECC 0055
	<b>Date:</b> 11/02/2011
	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary legislation
<b>Contact for enquiries:</b> laura.blizzard@decc.gsi.gov.uk	

## Summary: Intervention and Options

**What is the problem under consideration? Why is government intervention necessary?**  
Currently the UK's Designated National Authority (DNA)/Designated Focal Point (DFP) does not charge a fee to companies applying for a Letter of Approval for CDM and JI projects. Introducing fees via secondary legislation will enable DECC to follow best practice in line with HMT's request to move to full cost recovery, whilst making overall administrative reductions to government. This is a 100% cost recovery mechanism, which will save the UK government approximately £70k per year. We will also be able to transfer the running of the DNA/DFP to one of DECC's delivery bodies - the Environment Agency,

**What are the policy objectives and the intended effects?**  
The purpose of this policy is to introduce fees to recover the costs of running one of the statutory functions that the UK has to operate under the Kyoto Protocol i.e. processing and issuing approvals. Applications for projects in Least Developed Countries will be exempt from these charges. The requirement to pay fees will enable DECC to make overall administrative reductions to government and the tax payer. This will also create certainty for applicants as with the introduction of a fee we would ensure applications are processed within a set time. We also plan to transfer this function to the Environment Agency from 1<sup>st</sup> June in order to transfer this delivery function to a delivery body, creating greater efficiency for the DNA/DFP application

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

Option one is to do nothing and continue to process voluntary applications for Clean Development Mechanism (CDM) and Joint implementation (JI) free of charge.

Our preferred option is to introduce a fee to make the function self-sustaining (recover costs) thereby reducing cost to government, and to outsource this function to the EA. All applicants would be asked to cover the cost of processing their voluntary applications to DNA/DFP. Stakeholder views collected to date show that they are happy to meet the costs proposed for the fee as long as service levels are maintained.

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** 06/2012  
**What is the basis for this review?** Duty to review. **If applicable, set sunset clause date:** Month/Year

<b>Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?</b>	Yes
--	-----

**SELECT SIGNATORY Sign-off** For consultation stage Impact Assessments:

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible SELECT SIGNATORY: \_\_\_\_\_ Date: \_\_\_\_\_

# Summary: Analysis and Evidence

# Policy Option 1

## Description:

Price Base Year 2011	PV Base Year 2011	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -0.1

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0.009	0.082	0.7

### Description and scale of key monetised costs by 'main affected groups'

The introduction of fees will transfer costs from government and the taxpayer to business. The proposed fees range from a £250-£700 charge per application depending on the type of application. These fees are estimated to cover the direct and indirect costs of the EA delivering the UK DNA/DFP function of processing Letter of Approval applications for CDM and JI projects. These costs distributed across all companies applying for the service of DNA/DFP are considered to be minor. The level of fees will be reviewed on an annual basis to ensure they are at the appropriate level for full cost recovery.

### Other key non-monetised costs by 'main affected groups'

N/A

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0.07	0.6

### Description and scale of key monetised benefits by 'main affected groups'

Key benefit is a cost saving to government and the tax payer.

### Other key non-monetised benefits by 'main affected groups'

- Greater efficiency to the DNA/DFP function where applications for CDM/JI projects are processed more quickly under the new regulation i.e. a timeline of 2 weeks (CDM excl large hydro) and within 2 months for CDM (large hydro) and JI applications. Allows companies to progress CDM/JI projects more efficiently.
- Reputational Value of UK Letter of Approval (LOA).
- Applications to develop projects in Least Developed Countries (LCD) will be free of charge.

### Key assumptions/sensitivities/risks

Discount rate (%)

Risks:

- That the rate of applications coming to UK DNA/DFP will decline.
- Applications for projects in LCD's increase and costs are not recovered.

<b>Direct impact on business (Equivalent Annual) £m):</b>			<b>In scope of OIOO?</b>	<b>Measure qualifies as</b>
<b>Costs:</b> 0.08	<b>Benefits:</b> 0	<b>Net:</b> -0.08	No	NA

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?		Options UK			
From what date will the policy be implemented?		06/04/2011			
Which organisation(s) will enforce the policy?		DECC			
What is the annual change in enforcement cost (£m)?		NIL			
Does enforcement comply with Hampton principles?		Yes			
Does implementation go beyond minimum EU requirements?		Yes			
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)		Traded:		Non-traded:	
Does the proposal have an impact on competition?		No			
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?		Costs:		Benefits:	
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties</b> <sup>1</sup> <a href="#">Statutory Equality Duties Impact Test guidance</a>	No	
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	No	
Small firms <a href="#">Small Firms Impact Test guidance</a>	No	
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	No	
Human rights <a href="#">Human Rights Impact Test guidance</a>	No	
Justice system <a href="#">Justice Impact Test guidance</a>	No	
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	

<sup>1</sup> Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

## Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

### References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or OUTs measures.

No.	Legislation or publication
1	The Secretary of State acts as the UK's Designated National Authority (DNA) for the Clean Development Mechanism (CDM) and Designated Focal Point (DFP) for Joint Implementation (JI) under the Kyoto Protocol. In its capacity as the DNA, the Secretary of State for Energy & Climate Change issues Letters of Approval (LOA) to entities who wish to become participants in CDM and JI projects. The Secretary of State's functions in relation to the above approvals are conferred by Part 3 of the Greenhouse Gas Emissions Trading (Amendment) and National Emissions Inventory Regulations 2005 (S.I. 2005/2903) ("the 2005 Regulations").
2	
3	
4	

+ Add another row

### Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

#### Annual profile of monetised costs and benefits\* - (£m) constant prices

	Y <sub>0</sub>	Y <sub>1</sub>	Y <sub>2</sub>	Y <sub>3</sub>	Y <sub>4</sub>	Y <sub>5</sub>	Y <sub>6</sub>	Y <sub>7</sub>	Y <sub>8</sub>	Y <sub>9</sub>
<b>Transition costs</b>	0.009	0	0	0	0	0	0	0	0	0
<b>Annual recurring cost</b>	0.082	0.082	0.082	0.082	0.082	0.082	0.082	0.082	0.082	0.082
<b>Total annual costs</b>	0.091	0.082	0.082	0.082	0.082	0.082	0.082	0.082	0.082	0.082
<b>Transition benefits</b>										
<b>Annual recurring benefits</b>	0.07		0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
<b>Total annual benefits</b>	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07

\* For non-monetised benefits please see summary pages and main evidence base section

## **Evidence Base (for summary sheets)**

There is discretion for departments and regulators as to how to set out the evidence base. However, it is desirable that the following points are covered:

### **Problem under consideration;**

The Secretary of State has a statutory obligation under domestic legislation implementing the Kyoto Protocol to consider applications from third parties for the approval of participation in Clean Development Mechanism (CDM) and Joint Implementation (JI) projects. This function is performed in DECC through the UK DNA and DFP which reviews the applications against the relevant CDM and JI rules and legislation, and decides whether or not to issue a letter of approval (LOA). CDM and JI projects must receive a letter of approval from an Annex I country in order to get credits transferred into their registry account.

The running of the DNA/DFP is currently approximately £70k per annum. We have one member of staff processing applications full time - in 2010 we received 445 from approx 75 different companies. We will be asking the private sector to cover the costs of running this service by requesting applicants to pay a small fee before making an application (of between £250 to 700 per application). The introduction of a fee will save money for government and will transfer these costs to business. Total costs currently incurred to DECC are approximately £70,000 per year. Compared to the total cost of business processing a CDM application (up to £20,000) the proposed charges are very small.

### **Rationale for intervention;**

We previously offered LOA's free of charge to encourage participation in the carbon market, however the market has now matured and The City of London is the global hub of the carbon market (over 80% of total carbon trades). Other EU countries already charge, including Germany, Netherlands and Belgium. We are now proposing to introduce charges to recover the administrative costs of determining applications for the approval of CDM and JI projects. We have carried out an informal consultation with our main stakeholders who have been supportive of our proposal. The charges will need to be set out in secondary legislation.

The introduction of the proposed secondary legislation will enable DECC to follow best practice (charging for publicly provided good and services) and outsource this delivery function to the Environment Agency (EA) whilst making overall administrative reductions to government. This is 100% cost recovery mechanism, which will save the UK government £70k per year.

### **Policy objective;**

DECC would like to outsource this policy function to the EA in mid 2011. As part of that work we also would like to introduce a fee to recover the administrative costs of this mainly process-driven task. EA and DECC have a common interest in ensuring that we act to reduce climate change and its consequences and we play a full part in meeting our greenhouse gas targets in ways that minimise other environmental impacts. The transfer of the DNA & DFP to EA will facilitate closer co-operation in these areas and separate the delivery function of the DNA & DFP from policy making in DECC.

### **Description of options considered (including do nothing);**

Option 1 is to do nothing and continue to process voluntary applications for CDM and JI free of charge, with a continued cost to the DECC and the tax payer.

Option 2 - our preferred option - is to introduce a fee as it will make the function self-sustaining and reduce cost to government/tax payer. There will be an exemption for CDM projects in Least Developed Countries (LDCs) in order to continue to encourage greater take up in these regions. The cost to be recovered from other applications is expected to be minimal as we have only ever received 8 applications for projects in LDCs. This exemption is consistent with UK policy and the actions of the Clean Development Executive Board. Consequently, a proportion of external stakeholders involved in the project development business would be asked to cover the cost of processing their voluntary applications to DNA/DFP. Stakeholder views collected from an informal consultation to date show that

they are happy to meet the costs proposed for the fees as long as the DNA/DFP maintains current service levels.

### **Costs and benefits of each option (including administrative burden);**

Option 1:

DECC would continue to incur costs of approximately £70k per year to cover the cost of delivering the DNA/DFP function. DECC calculations show that the cost of delivering the DNA/DFP function are the equivalent of one member of staff working at Executive Officer (EO) level. These calculations based on the various costs that incurred on employing, supporting and providing the staff member with desk, equipment, pension contributions etc, these costs totalling approximately 70k per annum.

Under this option applicants will continue to benefit from being able to submit their applications in the UK free of charge.

Option 2:

DECC would recover the costs through the introduction of fees, which would then be transferred to a delivery body the Environment Agency (EA), who would recover the costs of running the function.

The EA have estimated the cost of delivering the DNA/DFP function in the first year at £91,005. This includes a set up cost of £9,000.

To recover these costs, the following fee structure has been proposed.

- |                              |      |
|------------------------------|------|
| 1. CDM (non large hydro)     | £250 |
| 2. CDM (large hydro) and JI  | £700 |
| 3. Least Developed Countries | Free |

It is estimated that this charging structure will generate £90,822. This estimate is based on an assessment of the average number of applications received each year to date.

The main benefit will be the annual saving of approximately £70k that is currently incurred by DECC.

The administrative burden to applicants of paying a fee for processing their applications is considered to be negligible. Compared to the total cost of business processing a single CDM application (up to £20,000) the proposed charges are relatively small.

The policy (and charging structure) will be reviewed on an annual basis.

### **Risks and assumptions;**

1. The rate of applications coming to UK DNA/DFP will decline and the charges do not cover the costs.

*To mitigate this we have projected figures based on a 17% decline of applications throughout 2011. Costs can then be reviewed after 12 months and adjusted accordingly.*

2. Applications for projects in LCDs increase and costs are not recovered because we have set the charge for LCD applications as free of charge.

*If applications increase, this will have met a key objective of the carbon markets workstream; 'to increase carbon market flows to least developed countries'. Charges can be reviewed and amended accordingly.*

### **Direct costs and benefits to business calculations (following OIOO methodology);**

**N/A** – it has been agreed with the Better Regulation Executive that this measure is not subject to OIOO due to its low impact.

### **Wider impacts;**

These are considered to be negligible. Applications for CDM and JI are voluntary and approval authorities operate in a number of other countries

### **Summary and preferred option with description of implementation plan.**

The purpose of this legislation is to require payment of fees to recover the costs of running one of the small statutory functions that the UK has to operate under the Kyoto Protocol. This will enable DECC to follow best practice and outsource this delivery function to the Environment Agency whilst making overall administrative reductions to government.

1. DECC plans to pass legislation to require payment of fees in time for the common commencement date of 6<sup>th</sup> April 2011. This legislation will prescribe the charges which applicants must pay for an LOA. There are two important things to note:
  - There will be a gap between the date the legislation starts and the transfer of responsibilities to EA (likely to be June 2011), which means that DECC will start charging before the relevant functions are transferred to EA.
  - Over the longer term, we would propose giving the EA a free-standing power to make charging schemes itself to cover the costs of the relevant functions (as opposed to prescribing the charges in legislation).
2. In addition, in order to encourage greater take up of CDM projects in Least Developed Countries (LDCs), we would propose that no fee would be charged for an LOA granted for these projects. The cost to be recovered from other applications would be minimal as we have only ever received 8 applications for projects in LDCs. This is consistent with UK policy and the actions of the Clean Development Mechanism Executive Board and could be reviewed after 12 months.

## Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

### Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted before the expiry date. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p><b>Basis of the review:</b> [The basis of the review could be statutory (forming part of the legislation), i.e. a sunset clause or a duty to review, or there could be a political commitment to review (PIR)];</p> <p>There will be an informal monthly assessment to assess number of applications, funds recovered and time it takes to process the applications, this will lead to a formal review at 12 months.</p>
<p><b>Review objective:</b> [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p>
<p><b>Review approach and rationale:</b> [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p> <p>There will be an informal monthly assessment to assess number of applications, funds recovered and time it takes to process the applications, this will lead to a formal review at 12 months.</p>
<p><b>Baseline:</b> [The current (baseline) position against which the change introduced by the legislation can be measured]</p> <p>We have one member of staff processing applications full time - in 2010 we received 445 from approx 75 different companies, costs to DECC totalled 70k.</p>
<p><b>Success criteria:</b> [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p> <p>Administrative cost to DECC has reduced and DECC can focus on policy development rather than delivering and overseeing this mainly process driven task</p>
<p><b>Monitoring information arrangements:</b> [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]</p> <p>Monthly reports will be expected from Environment Agency to assess number of applications, funds recovered and time it takes to process the applications, so that we can get early indications of change in trends.</p>
<p><b>Reasons for not planning a review:</b> [If there is no plan to do a PIR please provide reasons here]</p>

Add annexes here.