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# UKETS16A FAR – Guidance for installations ceasing operation



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# Contents

1	Overview.....	4
2	Determining a “Cessation” .....	6
2.1	Circumstances in which an installation or sub-installation has ceased operation .....	6
2.2	Effect of a “Regulator’s Notice” - determination that a (sub-) installation has “ceased operation” .....	7
3	The cessation permit condition .....	8
4	Requirement to surrender permit if an installation has “ceased operation” .....	9
5	Free allocation rules and cessations.....	10
5.1	Activity level report requirements .....	10
5.2	The “Final Year Rule” .....	10
5.3	The “Decarbonisation Condition” .....	11
6	The process for determining free allocation in your final year of operation.....	16

# 1 Overview

[The Greenhouse Gas Emissions Trading Scheme \(Amendment\) Order 2025](#) (the 2025 Order) was made on 5 February 2025 and updated the UK ETS legislation relevant to circumstances in which a UK ETS installation or sub-installation has ceased operation.

This document provides guidance to operators of installations in receipt of free allowances in relation to the following:

- The definition that is used to determine when an installation or sub-installation has “ceased operation” for the purposes of the UK ETS. For these purposes an installation has “ceased operation” as at the date on which all regulated activities permanently ceased to be carried out. A sub-installation has “ceased operation” as at the date on which operations permanently ceased to be carried out;
- The “cessation condition” which requires operators to notify the regulator in circumstances in which all regulated activities cease to be carried out at an installation on or before the relevant notification date (whether that is on a temporary or permanent basis);
- The power for the regulator to issue a notice (a “Regulator’s Notice”) which determines that an installation or sub-installation is to be treated as having “ceased operation” for the purposes of the UK ETS;
- The duty for an operator to surrender its permit following the cessation of all regulated activities carried out at the installation within the relevant timeframe;
- The ‘Final Year Rule’ which applies to circumstances in which a “FA installation” (which is an installation which receives free allocation) or sub-installation has “ceased operation” (or in circumstances in which the operator’s permit is surrendered or revoked), the effect of which includes that:
  - regulators are required to calculate an operator’s entitlement to Free Allocation in respect of scheme year in which the Free Allocation installation or sub-installation “ceased operation” on the basis of the actual activity levels of that Free Allocation installation or sub-installation in that final year;
  - sub-installations are not entitled to Free Allocation in the years following the year in which they “ceased operation”;
- The requirement on operators of Free Allocation installations to report on the Activity Levels of a sub-installation in the year in which it “ceased operation” (which

applies in relation to the 2025 scheme year<sup>1</sup> and beyond) in order to enable the application of the Final Year Rule;

- The exemption from this Final Year Rule (the “decarbonisation condition”). An operator can make an application to benefit from this exemption if it can demonstrate to the satisfaction of the UK ETS Authority that the sub-installation ceased operation in connection with a series of changes which will result in a material reduction in the specified emissions associated with production at the relevant installation.

More information can be found in the [initial Authority Response](#) and the [Greenhouse Gas Emissions Trading Scheme Order Amendment](#) and the [Explanatory Memorandum](#).

The relevant legislation in this area is:

- **The Greenhouse Gas Emissions Trading Scheme Order 2020 (the UK ETS Order)** <https://www.legislation.gov.uk/ukxi/2020/1265/contents> as amended from time to time
- **The Activity Level Changes Regulation (ALCR)** (<https://www.legislation.gov.uk/eur/2019/1842/contents>) as it forms part of domestic law and as amended by the UK ETS Order
- **The Free Allocation Regulation (FAR)** ([Commission Delegated Regulation \(EU\) 2019/331 of 19 December 2018](#)) as it has effect in domestic law and as amended by the UK ETS Order
- **The Verification Regulation (VR)** ([Commission Implementing Regulation \(EU\) 2018/2067 of 19 December 2018](#) on the verification of data and on the accreditation of verifiers pursuant to Directive 2003/87/EC of the European Parliament and of the Council (disregarding any amendments adopted after 11 November 2020), as given effect for the purpose of the UK ETS by Article 25 of the Order, subject to the modifications made for that purpose from time to time
- **The Monitoring and Reporting Regulation (MRR)** ([Commission Implementing Regulation \(EU\) 2018/2066 of 19 December 2018](#)) on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council (disregarding any amendments adopted after 11 November 2020) as given effect for the purpose of the UK ETS by Article 24 of the Order, subject to the modifications made for that purpose from time to time.

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<sup>1</sup> The 2025 scheme year is referenced here as the year in which the legislative change came into force.

## 2 Determining a “Cessation”

### 2.1 Circumstances in which an installation or sub-installation has ceased operation

An installation has “ceased operation” when all regulated activities<sup>2</sup> have permanently ceased to be carried out at the installation (see paragraph 3 of article 4 of the [Greenhouse Gas Emissions Trading Scheme Order](#) 2020 (the “UK ETS Order”) as amended by the 2025 Order).

A sub-installation has “ceased operation” when all operations have permanently ceased to be carried out at the sub-installation (see paragraph 3 of Article 2 of Commission Implementing Regulation (EU) 2019/1842 (the “Activity Level Changes Regulation”)).

This means that an (sub-) installation has “ceased operation” as on the date upon which the regulated activities / operations were last carried out.

If an installation has ceased carrying out regulated activities because its capacity has dropped below the relevant threshold (as set out in paragraph 3 of Schedule 2 to the UK ETS Order), the installation will have ceased operation from the date on which the capacity threshold was exceeded for the final time.

An operator is required to notify the regulator of a cessation of all regulated activities whether it considers that the cessation is permanent or temporary (see sections “3 The cessation permit condition” and “5 Free allocation rules and cessations” below). The regulator has the power to give the operator notice determining that the cessation will be treated as permanent for the purposes of UK ETS legislation.

A notice may be given in circumstances in which the regulator is not satisfied that:

- the operator intends to resume regulated activities (in the case of an installation) or operations (in the case of a sub-installation); and
- either:
  - the installation or sub-installation is technically capable of resuming those regulated activities (in the case of installation) or operations (in the case of sub-installations) without physical changes being made; or

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<sup>2</sup> The UK ETS applies to regulated activities which result in greenhouse gas emissions, including combustion of fuels on a site where combustion units with a total rated thermal input exceeding 20MW are operated (except in installations where the primary purpose is the incineration of hazardous or municipal waste). **Northern Ireland electricity generators** remain in the EU ETS under the Ireland / Northern Ireland Protocol.

- the operator intends for the technical capability for those regulated activities (in the case of installations) or operations (in the case of sub-installations) to resume to be restored at the (sub-) installation.

The consequences of an (sub-) installation having “ceased operation” are set out in sections “3 The cessation permit condition” and “5 Free allocation rules and cessations” below.

## 2.2 Effect of a “Regulator’s Notice” - determination that a (sub-) installation has “ceased operation”

The regulator may give an operator a notice (a “Regulator’s Notice”) determining that an installation or sub-installation has ceased operation if at any point it is not satisfied the each of the conditions above are met (see paragraph 10A of schedule 6 to the UK ETS Order (in the case of installations) or Article 2a of the ALCR (in the case of sub-installations)).

The regulator may form that view on the basis of information provided to the regulator in connection with a cessation of all regulated activities (see section “3 The cessation permit condition” below), activity level reports (ALRs) (see section “5.1 Activity level report requirements” below in relation to the requirement to provide information in relation to sub-installations which have ceased operation), or any other information relating to the circumstances of the cessation available to it.

The regulator may give a Regulator’s Notice in circumstances in which the regulator has previously confirmed that it was satisfied that the relevant condition was met but, due to a change in circumstances, the regulator no longer considers this to be the case. For example, if you notify your regulator that you have ceased regulated activities but you intend to re-start those activities by a certain date, the conditions in section 2.1 are met. However, if circumstances change and you decide not to resume activities, the regulator may at that point give you a notice.

The effect of a Regulator’s Notice is that the relevant (sub-) installation is treated for the purposes of UK ETS legislation as having ceased operation as at the date on which regulated activities (in the case of an installation) or activities (in the case of a sub-installation) were last carried out.

## 3 The cessation permit condition

If all regulated activities authorised by a permit have ceased to be carried out at an installation, the operator must notify the regulator in accordance with the permit condition (as described in the legislation – see paragraph 4(8) of Schedule 6, and paragraph 11(1)(ha) of Schedule 7 to the UK ETS Order), by the notification deadline. This condition applies in respect of any cessation in all regulated activities, whether that cessation is temporary or permanent. The notification deadline is either one month from when all regulated activities ceased, or by 31 December within that scheme year (whichever is later).

The operator must notify the regulator of all of the following:

- the date of the cessation
- whether or not it intends to resume carrying out one or more of its regulated activities
- where it does intend to resume activities, (a) the date by which it intends to resume, and (b) whether the installation is technically capable of resuming the activities without physical changes being made or it intends for the technical capability to be restored

However, the operator does not have to notify the regulator if it has applied to surrender the permit, or if it has resumed carrying out activities before the notification deadline.



## 4 Requirement to surrender permit if an installation has “ceased operation”

In the event that an installation has ceased operation (i.e. all regulated activities have permanently ceased to be carried out at the installation) the operator must apply to surrender its permit by the “relevant surrender date” or such later date as may be agreed with the regulator (see paragraph 11(1) of Schedule 6 to the UK ETS Order).

The “relevant surrender date” is:

- if the regulator has given an operator a Regulator’s Notice determining that the installation has ceased operation, one month from the date on which that notice was given;
- in any other case, the later of:
  - one month from the date on which the installation ceased operation;
  - one month from the date on which the operator no longer intends for one or more regulated activities authorised by the permit to resume at the installation.

Note that the regulator is required to revoke a permit in circumstances in which the operator fails to comply with the obligation to apply to surrender by the relevant surrender date or such later date as agreed with the regulator (see paragraph 12 of Schedule 6 to the UK ETS Order).

Notwithstanding the above, an operator may apply to surrender its permit at any point in time at which all regulated activities have ceased to be carried out (see paragraph 11(2) of Schedule 6 to the UK ETS Order). If an operator wishes to restart activity, a permit must be applied for so that a permit is in force before the re-start of regulated activities. The operator may also be entitled to an allocation from the new entrant reserve.

Note that if an operator holds a Hospital or Small Emitter (HSE) permit and decides to voluntarily surrender its permit, it should carefully consider any implications for its future status under the UK ETS and impacts on emissions target calculations<sup>3</sup>.

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<sup>3</sup> Guidance on Hospital or Small Emitter schemes can be found here: <https://www.gov.uk/government/publications/participating-in-the-uk-ets/participating-in-the-uk-ets#simplified-provisions-for-hospitals-small-emitters-and-ultra-small-emitters>

# 5 Free allocation rules and cessations

## 5.1 Activity level report requirements

Where all operations have ceased to be carried out at a sub-installation (whether or not that cessation is permanent) the relevant ALR must include:

- the date of the cessation;
- whether or not the operator intends for operations to resume at the sub-installation.

If the operator intends for operations to resume at the sub-installation, the report must also include (as per paragraph 9 of Article 3 of the ALCR):

- the date by which it expects operations to resume;
- whether the sub-installation is technically capable of resuming operations without physical changes being made or the operator intends for that technical capability to be restored.

If an installation receives free allowances and it has ceased operation, the operator is required to submit a report on its installation's activity levels in the final year of operation (see paragraph 1a of Article 3 of the ALCR). This is to facilitate the application of the Final Year Rule.

This obligation applies in relation to Activity Level Reports to be prepared in relation to the 2025 scheme year and beyond.

## 5.2 The “Final Year Rule”

The Final Year Rule applies where, on or after 6 February 2025 (the date on which the relevant provisions of the 2025 Order came into force) either:

- a FA installation ceases operation in a scheme year (i.e. all regulated activities permanently cease to be carried out at the installation);
- the surrender or revocation of a FA installation's greenhouse gas emissions permit takes effect in a scheme year; or
- a sub-installation of a FA installation ceases operation in a scheme year (i.e. all operations permanently cease to be carried out at that sub-installation), (the “Final free allocation year”).

The effect of this rule is that the regulator must re-calculate the allocation for each sub-installation that has ceased operation (or, where the relevant permit has been surrendered or revoked, each sub-installation which makes up the installation).

Where an installation or sub-installation has not “ceased operation” (and where the permit has not been surrendered or revoked), including where the relevant cessation is temporary only, the normal ALC rules apply. Your regulator will re-calculate the allocation for each relevant sub-installation on the basis of activity levels set out in the ALR covering the Final free allocation year (Article 3za of the ALCR, as inserted by the 2025 Order).

All free allocation entitlements in respect of scheme years after the final free allocation year are set to zero.

The regulator will send the calculations to the UK ETS Authority for approval. Once approved, the regulator will inform the operator of its final free allocation year’s allocation for each relevant sub-installation. (Article 6a of the ALCR, as amended by the 2025 Order).

The UK ETS Authority will then update the allocation table to reflect the change in the installation’s entitlement (Article 34C of the UK ETS Order as amended by the 2025 Order).

Where the application of the Final Year Rule results in an installation’s entitlement to free allocation being reduced, the regulator will require the operator to return the excess allowances (Article 34S of the UK ETS Order).

An exemption from the Final Year Rule is described at section 5.3 “The “Decarbonisation Condition”” below.

## 5.3 The “Decarbonisation Condition”

### **Applying to benefit from the decarbonisation condition**

This section describes the rules that would enable an operator to apply to be exempted from the Final Year Rule. This exemption can apply in relation to a **PB sub-installation which has ceased operation** (the “old PB sub-installation”) as part of a series of changes which results in the decarbonisation of production at the installation.

To benefit from this exemption the operator must submit an application for there to be no adjustment to free allocation for the old PB sub-installation for the last free allocation year alongside the ALR prepared in relation to the year in which the old PB sub-installation ceased operation (see section 5.1 above in relation to the obligation to report on the activity levels of a sub-installation in the year in which it ceased operation).

That application must include evidence that the “decarbonisation condition” will be met in relation to that old PB sub-installation on or before the restart date stated provided in the application.

The decarbonisation condition will be assessed by the regulator and is likely to be satisfied where:

- the old PB sub-installation has ceased operation
- new infrastructure has been installed at the installation resulting in either:
  - a new sub-installation with a different product benchmark, or
  - a change to the system boundaries of the existing sub-installation (other than a product-benchmark sub-installation);
- there has been no material reduction in the overall level of production of “pre-cessation products” produced at the installation (whether or not there has been a change to the proportion of products which make up that overall level of production); and
- the new infrastructure installed at the installation has resulted in a material reduction in the emissions per unit of production of those pre-cessation products which continue to be produced at the installation.

For these purposes a “pre-cessation product” is a product that was produced at the installation involving a process within the system boundaries of the old PB sub-installation.

Examples of the kinds of evidence which an applicant may wish to include in its application are included below:

- evidence that the old PB sub-installation has ceased operation – this may take the form of suitably detailed records of decisions which demonstrate that, as a result of the wider series of changes, operations have permanently ceased at the old PB sub-installation;
- evidence relating to the new infrastructure to be installed at the installation – this may take the form of suitably detailed plans or records of decisions relating to the installation of the new infrastructure and details of the new sub-installation (or impact on an existing sub-installation) which the new infrastructure is expected to have;
- evidence that the overall level of production of pre-cessation products will not materially reduce – this may take the form of evidence that the overall production capacity of the installation will not be reduced as well as suitably detailed business plans demonstrating a clear intention to maintain overall production levels. Although the UK ETS Authority will consider each application on its merits, it will typically consider a reduction in activity of 15% or more compared to pre-cessation levels to

be material. This is consistent with the threshold for recalculation of free allocation entitlements for the purposes of the ALCR;

- evidence that the new infrastructure installed at the installation will result in a material reduction in the emissions per unit of production – this may take the form of detailed projections of emissions based upon the technical specifications of the new infrastructure and pre-cessation product mix.

### **Application considered by UK ETS Authority**

Having received an application to benefit from the decarbonisation condition, the regulator will assess the evidence and send its assessment and the evidence to the UK ETS Authority.

The UK ETS Authority or regulator may require further information from the operator but will then decide whether it considers that the decarbonisation condition will be met in relation to the old PB sub-installation:

- If the UK ETS Authority considers that the decarbonisation condition will not be met in relation to the old PB sub-installation then the Final Year Rule will apply in respect of that sub-installation (such that the operator's entitlement to free allocation is re-calculated based on the actual activity levels of the sub-installation in that final year of operation).
- If the UK ETS Authority considers that the decarbonisation condition will be met in relation to the old PB sub-installation then that re-calculation will not be performed (such that the operator retains their entitlement to free allocation in respect of that sub-installation in its final year of operation where operations have permanently ceased to be carried out). Free allocation entitlements in respect of scheme years after the final free allocation year are set to zero.

This retention of entitlement to free allocation in respect of that sub-installation in their final year of operation is subject to the UK ETS Authority being satisfied that the decarbonisation condition is met on or before the restart date.

### **Evidencing that the decarbonisation condition has been met by the restart date**

If the UK ETS Authority considers that the decarbonisation condition will be met in relation to the old PB sub-installation, the operator must notify the regulator of the date (which must be before the restart date) on which it considers that the decarbonisation condition has been met.

That notification must be accompanied by the following evidence:

- an ALR submitted in accordance with the Article 3 of the ALCR which contains data for the period of at least 6 months prior to the date on which the decarbonisation

condition was met, including information referred in section 3 of Annex 4 to the FAR);

- any further evidence that the decarbonisation condition which the UK ETS Authority required the operator to provide when considering its application.

The regulator will assess the evidence and send its assessment and the evidence to the UK ETS Authority.

The UK ETS Authority will then determine whether it considers that the decarbonisation condition has been met in relation to the old PB sub-installation.

### **Circumstances in which the decarbonisation condition does not apply**

The decarbonisation condition will not apply (such that the Final Year Rule applies in respect of that sub-installation) if any of the following apply (see paragraph 9 of Article 3za of the ALCR):

- the UK ETS Authority determines that the decarbonisation condition has not been met in relation to the old PB sub-installation on or before the restart date,
- the operator's permit is surrendered or revoked before the restart date, or
- the operator fails to notify the regulator on or before the restart date (or extended date) that the decarbonisation condition is met.

### **Application for extension of time to meet the decarbonisation condition**

An operator may apply to the regulator to extend the restart date (the date on or before which the decarbonisation condition will be met in relation to the old PB sub-installation).

Such an application must be made at least six months before the original restart date and can only be made once.

An application must include:

- an explanation as to why the decarbonisation condition will not be met by the original restart date, and
- evidence that the condition will be met by the extended date.

The regulator will assess the application and supporting evidence and send them to the UK ETS Authority.

An application to extend the restart date only takes effect if approved by the UK ETS Authority.

The regulator will notify the operator of the UK ETS Authority's determination in either event (see article 3zc of the ALCR).

## 6 The process for determining free allocation in your final year of operation

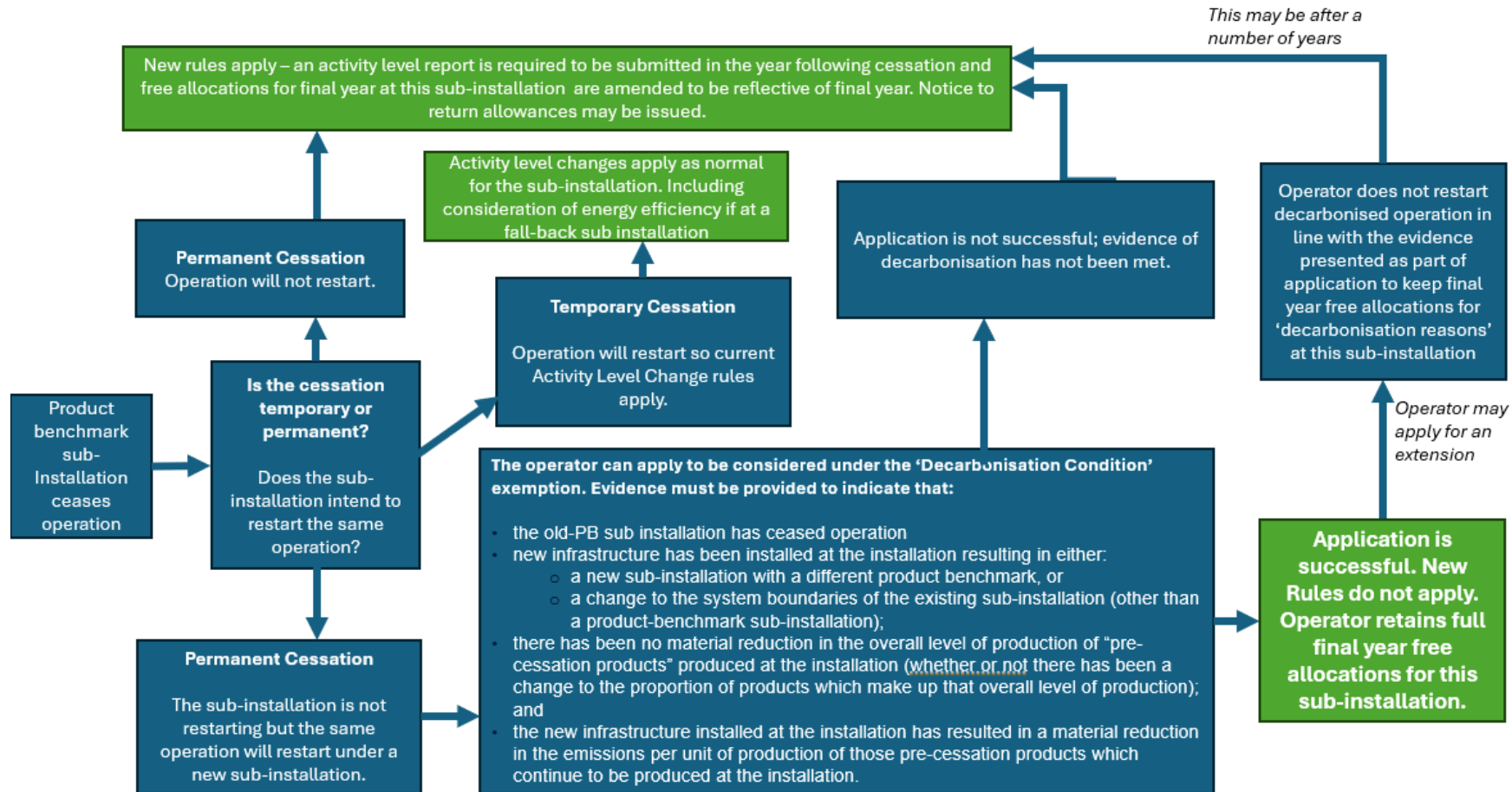


Figure 1 Flow chart showing how an operator's Final Year free allocation will be determined.



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