



13<sup>th</sup> February 2024

To Whom it may concern,

## Introduction

The UK ETS was established on 1st January 2021 by the UK ETS Authority (UK Government, Scottish Government, Welsh Government and the Department of Agriculture, Environment and Rural Affairs for Northern Ireland, (DAERA)). We are committed to increasing the ambition of the scheme and ensuring it plays a crucial role in achieving ambitious climate targets across the UK.

The UK ETS Authority has recently consulted on changes to free allocation policy as part of our review. In the [Authority Response to the Developing the UK ETS consultation](#), the UK ETS Authority set out that final decisions on future changes to free allocation policy would be published in a response to the next stage of the [free allocation review consultation](#) by the end of 2024. Currently, the application windows for free allocation, for the Hospital and Small Emitters (HSE) and Ultra Small Emitters (USE) schemes, and for installations not applying to any of the above to submit information, are all between 1 April 2024 and 30 June 2024.

## Summary of proposal

To provide certainty to UK ETS operators about what free allocation rules will be during the second allocation period from 2026, we are proposing to move these application windows back by one year, to 1 April 2025 – 30 June 2025.

This will enable the UK ETS Authority to put forward final proposals on future free allocation rules, allowing operators to determine their eligibility, what free allocations they are applying for, which data to submit, and to decide whether they should apply under the HSE or USE schemes.

We do not anticipate that this will result in any delay to 2026 free allocation distribution and the UK ETS Authority will endeavour to distribute free allocations ahead of the 28 February 2026 deadline. We will also update the timings for calculation of free allocations and publication of the allocation table to ensure this occurs on or before the 28 February 2026 free allocation distribution.

## **Summary of Responses**

The UK ETS Authority received six responses pertaining to the proposal. Of these, four respondents agreed with the proposal and two neither agreed nor disagreed. The main reason given by respondents who agreed was a recognition that moving the application windows would avoid unnecessary reporting burden and having to make decisions before completion of the free allocation review. Respondents welcomed the opportunity to apply for free allocation with clarity on the rules of the scheme.

Three respondents noted that lack of clarity on levels of free allocation for the 2026-2030 allocation period was causing uncertainty and risk for industry. Operators noted that they are having to make investment decisions, including on decarbonisation, without yet knowing what level of carbon leakage mitigation will be in place.

## **The Authority Response**

In line with the responses to the proposal, the UK ETS Authority will be moving forward with the change to the application windows. We will amend UK ETS legislation to move these application windows back by one year, to 1 April 2025 – 30 June 2025. We will also update the timings for calculation of free allocations and publication of the allocation table to maintain the target 28 February 2026 free allocation distribution date.

The UK ETS Authority has responded directly to other queries raised that were not specifically related to the proposals. We have attempted to address concerns regarding final decisions on future changes to free allocation policy via the recently opened free allocation review consultation. Through this consultation, the UK ETS Authority aims to be clear on the impact of any changes, transparent in how those proposals have been formulated and underline its commitment to meeting the scheme's objectives and goals.

For any questions, please email [emissions.trading@energysecurity.gov.uk](mailto:emissions.trading@energysecurity.gov.uk).

The UK ETS Authority