UK Government

Department of Agriculture, Environment and Rural Affairs
An Roinn Talmhaíochta, Comhshaoil agus Gnóthaí Tuaithe
Department o' Fairmin, Environment an' Kintra Matthers
www.daera-ni.gov.uk

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UK Emissions Trading Scheme: Main Authority Response to the Future Markets Policy Consultation

A joint response of the UK Government, the Scottish Government, the Welsh Government and the Department of Agriculture, Environment and Rural Affairs for Northern Ireland.

December 2025

Any enquiries regarding this publication should be sent to us at: emissions.trading@energysecurity.gov.uk

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Executive Summary

Background

The UK Emissions Trading Scheme (UK ETS) is governed by the UK ETS Authority (hereafter 'the Authority'). The Authority comprises the UK Government, Scottish Government, Welsh Government and Department of Agriculture, Environment and Rural Affairs (DAERA) for Northern Ireland. It was launched on the 1 January 2021 following the UK's departure from the EU Emissions Trading System (EU ETS).

When the UK ETS was first established, markets policies were implemented to support the stable launch of a new ETS market and the effective functioning of the scheme in its early years. The UK ETS currently features two market stability mechanisms: an Auction Reserve Price (ARP) set at £22 and a Cost Containment Mechanism (CCM).

In December 2023, the Authority consulted on existing markets policy and set out proposed changes to ensure that the policy remains fit for purpose and effective in managing the risks faced by an established and maturing scheme. The intention is to maintain stable and effective market conditions that will continue to incentivise decarbonisation in the traded sectors.

Linking the UK and EU ETS

Following the publication of the UK ETS Future Markets Policy Consultation in December 2023, it was announced at the 19 May 2025 UK-EU Summit that the UK and EU have agreed to work towards linking the UK ETS and EU Emissions Trading System (EU ETS) as set out in the Common Understanding[1].

There are many benefits to a linked scheme, including the creation of and access to a larger, deeper and more liquid carbon market. Overall, linking the UK and EU ETS would mean a cheaper path to net zero.

Linking has implications for the approach to managing risks identified in the Future Markets Policy Consultation. Any future link will require an effective and coordinated approach to market stability across both markets; as such, markets policy in a linked scheme will need to be determined through negotiations between the UK and EU.

The decisions in this document set out changes to markets policy for the UK ETS. The changes reflect policy the Authority considers proportionate to make at this stage to support an effective standalone market while negotiations to link the UK and EU ETS are ongoing. **The decisions do not represent UK positions for the negotiations, and they also do not preclude any changes**

[1] UK-EU Summit – Common Understanding, 19 May 2025.

that may need to be made in the event that the UK and EU agree to link their schemes.

58 stakeholders responded to the consultation[2]. Thank you to all stakeholders who have engaged in this review. This document sets out the final decisions made by the Authority and a summary of consultation responses.

Summary of Authority Decisions

In making these decisions, the Authority has analysed the consultation responses, gathered evidence and conducted its own analysis, and taken into account the latest Climate Change Committee (CCC) advice.

The Authority has also considered interactions with wider government priorities, such as the agreement to work towards linking the UK ETS and EU ETS, as set out in the text box above.

The changes to markets policy outlined in this document will only apply in the context of a standalone scheme. Markets policy in a linked scheme will be determined through negotiations between the UK and EU. The Authority is committed to maintain a robust, smooth-functioning market that supports cost-effective decarbonisation. We will continue to remain alert and will maintain our close watch of market developments to ensure markets policy remains fit for purpose.

Key decisions include:

- **To retain and inflation-proof the Auction Reserve Price (ARP).** The Authority has decided to retain the ARP and maintain its real value – thus implementing an inflation-based increase since its introduction (i.e. from £22 to £28) in 2026 and increase the value yearly by inflation from 2027.

- **To maintain the existing design and operation of the Cost Containment Mechanism (CCM) and retain discretion.** The CCM will continue to trigger if the average price for one allowance on the secondary futures market is more than an amount equal to three times the average price in the preceding two-year period for six consecutive months.

- **To discount the implementation of a quantity-triggered Supply Adjustment Mechanism (SAM) for a standalone UK ETS.** The Authority has concluded that retaining the existing price-based mechanisms (CCM and ARP) is sufficient to mitigate against key risks in a standalone UK scheme.

[2] Future UK ETS Markets Policy Consultation, December 2023.

Given the decision to retain existing market stability mechanisms, we are not making changes to the size or structure of the reserve at this moment in time.

Next Steps

Following this response, the Authority will proceed with implementing the changes to the ARP. The initial increase from £22 to £28 will take place in 2026, and the yearly inflation increase will occur from 2027. We will ensure the market receives advance notice ahead of the increase taking place. The CCM will continue to operate in line with current rules[3].

[3] Operation of the Cost Containment Mechanism (CCM).

Summary of Risks

This section sets out an overview of the key risks to market functioning.

Risks to Market Stability

In the consultation, the Authority sought views on the three main risks to the effective functioning of the UK ETS market that policy should be designed to address. A summary of stakeholder responses is set out on page 15.

Risk 1: Demand shift with long-term impacts

This risk could be caused by changes to the degree of surplus in the market as a result of unexpected changes in demand. The effective functioning of the UK ETS market is supported by a degree of surplus in the scheme. Surplus is defined as the volume of allowances present in the scheme in excess of the volume of allowances required for annual compliance. The amount of surplus depends on supply and demand over time. A shift in demand in a given year will affect the size of the surplus – the surplus will grow if supply exceeds demand and the surplus will shrink if demand exceeds supply.

Insufficient or excessive surplus can have adverse effects on market functioning. This can be caused by developments which change demand in unexpected ways (i.e. developments that have not been forecast/have not informed structural decisions on scheme design).

An excessive surplus can arise if demand for allowances over time is lower than the supply of allowances to the market. This could occur due to e.g., a macroeconomic downturn reducing output and demand for allowances. An excessive surplus could depress allowance prices over time, reducing the incentive for participants to invest in abatement technologies. An insufficient surplus can arise if demand for allowances over time is greater than the supply of allowances to the market. This could occur due to e.g., a macroeconomic boom increasing output and demand for allowances. An insufficient surplus could lead to higher costs and the erosion of market participants' ability to invest in emissions reductions while they are exposed to more expensive compliance obligations.

Risk 2: Sudden, significant and sustained price decrease

This risk could be caused by a market shock that depresses demand, resulting in sudden, sustained price decrease. This type of shock would materially decrease the compliance cost for operators which would lower the decarbonisation signal set by the UK ETS and could lead to emissions reductions being postponed while prices remain low.

If there is significant potential for prices to be lower in the future, the investment case for a specific decarbonisation project could be undermined. An example of a driver

that could cause this type of shock is temporarily elevated energy prices, reducing output and demand for UK allowances.

Risk 3: Sudden, significant and sustained price increase

This risk could be caused by a market shock that amplifies demand resulting in sustained price increase, materially increasing the cost of emissions for operators, adversely impacting their competitiveness and risk placing an excessive cost on operators with minimal added benefit in terms of decarbonisation. An example of a potential driver for this type of shock is a delay to a large, anticipated decarbonisation project that would have resulted in significant emissions reductions. This delay would result in greater demand for allowances in the short term than the market anticipated.

Details of Authority Response

The Authority has carefully considered stakeholder responses and internal analysis and has decided to make the below policy changes that are suitable for a standalone UK ETS.

- **To retain and inflation-proof the Auction Reserve Price (ARP).** The Authority has decided to retain the ARP and maintain its real value – thus implementing an inflation-based increase since its introduction (i.e. from £22 to £28) in 2026 and increase the value yearly by inflation from 2027.

- **To maintain the existing design and operation of the Cost Containment Mechanism (CCM) and retain discretion.** The CCM will continue to trigger if the average price for one allowance on the secondary futures market is more than an amount equal to three times the average price in the preceding two-year period for six consecutive months.

- **To discount the implementation of a quantity-triggered Supply Adjustment Mechanism (SAM) for a standalone UK ETS.** The Authority has concluded that retaining the existing price-based mechanisms (CCM and ARP) is sufficient to mitigate against key risks in a standalone UK scheme.

The decisions have been made in the context of the stated intention to work towards linking the UK ETS to the EU ETS. We see these as proportionate but valuable amendments to support the effective functioning of a standalone scheme and have avoided the implementation of larger or more complex changes to allow for negotiations to take place.

Future markets policy in a linked scheme will be determined through negotiations between the UK and EU. The Authority's proposals do not restrict future linking of the UK and EU schemes, and we consider this approach takes a proportionate approach to policy changes through the negotiation period.

The Authority has concluded that both the ARP and CCM are effective for continued mitigation against demand shifts, and sudden, significant and sustained price decreases and increases. The rationale for these decisions is set out below.

Auction Reserve Price

Policy Decision

The Authority has made the decision to retain the ARP and increase it from £22 to £28, which will come into effect in 2026. The ARP will increase yearly with inflation from January 2027 based on the GDP Deflator. The ARP will remain in place for a standalone UK ETS. Advice from the CCC supports a rolling increase to the ARP.

Rationale

The Authority previously expressed a minded-to position to retain the ARP and sought views on whether to make a singular or evolving uplift to the value. In reaching the final decision, we assessed the existing ARP alongside different design options set out in the consultation.

Our analysis has concluded that an ARP remains an effective policy for managing sudden, significant and sustained price decreases and provides a long-term minimum price investment signal for decarbonisation.

The Authority recognises that any potential future linked market will require a different approach to market management than a standalone scheme. We therefore consider it proportionate to retain and bring the ARP up to date, whilst negotiations to link the UK ETS and EU ETS take place, instead of introducing new mechanisms.

The ARP of £22 was introduced in 2021 and has remained at the same value. Increasing the ARP from £22 to £28 reflects the value of inflation since 2021, and a rolling annual uplift based on the GDP deflator will ensure the level of the ARP continues to reflect inflation. The GDP deflator, provided by the Office for National Statistics[4], was chosen as the appropriate inflation measure as allowances are not a consumer product, and other models for projecting emissions and traded carbon values use the GDP deflator. For more information, please refer to the impact assessment published alongside this response.

Stakeholder Views

The Authority has acknowledged the strength of support for retaining the ARP in a standalone UK ETS, with 87% of respondents agreeing, alongside 66% who wanted the ARP level to be raised and 67% for it to be an evolving value rather than static.

Respondents noted the ARP provides predictability for the market by continuing to establish a minimum bid price, sending a long-term investment signal to the market. There was limited support for moving away from the ARP as the lower-bound mechanism given the simplicity of the current mechanism and familiarity to the market.

[4] GDP – data tables - Office for National Statistics

Climate Change Committee Advice

In reaching these decisions, we have taken into consideration the latest CCC advice[5]. The CCC state that the UK ETS Authority should work towards market stabilisation which best aligns the UK and EU schemes, to maximise the benefits of linking. The main technical recommendation sets out that the ARP should be set at a level that is sufficiently close to the expected cost of decarbonisation.

The decisions set out in this document seek to reflect the policy intent of the CCC's recommendation of supporting the effectiveness of the scheme; however, the methodology used to determine the uplifted ARP aims to retain the fundamental principle of the market setting the price.

Implementation

The Authority will increase the ARP to £28 in 2026 and will provide the market sufficient notice ahead of the increase taking effect. This means that auctions will have a new minimum bid price and all bids under £28 will not be accepted.

The ARP will then increase each year on a rolling basis to reflect inflation, using the GDP deflator measure. Each year, the Authority will publish the new level of ARP for the following year, alongside the publication of the auction calendar. For example, the ARP value for 2027 will be published alongside the auction calendar in 2026[6] and then will take effect from 1 January 2027.

Cost Containment Mechanism (CCM)

Policy Decision

The Authority has decided to retain the current design and operation of the CCM for a standalone UK ETS. The Authority recognises the strength of feeling expressed through the consultation, including on specific areas where the CCM can be improved, such as threshold reactivity and the introduction of automation into the decision-making process. We want to reassure the market that the Authority takes these concerns seriously and will continue to monitor the market closely. The Authority remains prepared to take timely and proportionate action, within the rules of the scheme, to support its effective functioning should the CCM be triggered.

Rationale

The Authority previously expressed a minded-to position to retain the CCM and sought views on design features such as the trigger thresholds and use of discretion.

[5] CCC advice on UK ETS markets policy, July 2025.
[6] An example of the Auction Calendar publication - 2025 UK ETS Auction Calendar, published in October 2024.

In reaching the final decision, we assessed the existing CCM alongside different design options set out in the consultation.

We have concluded that the design of the CCM is favourable over other forms of upper-bound design options. The existing mechanism reflects historic prices instead of setting a fixed price, allowing for natural price discovery in the secondary market. We consider that retaining discretion on intervention in a standalone scheme allows for tailored intervention according to the context at the time.

The UK and EU have agreed to work towards linking the UK ETS and EU ETS. In the event of a linking agreement being reached, future markets policy will need to be carefully coordinated between the two parties. The Authority has therefore decided it would not be proportionate to implement technical reforms (i.e. threshold reactivity) to the CCM at this current time, while negotiations are ongoing. We will continue to maintain our close watch of market developments to ensure the policy remains fit for purpose.

Stakeholder Views

The Authority recognises 74% of respondents stated the CCM should not be retained without significant adjustments, with 67% of respondents advocating for threshold reductions to make the CCM more reactive, and 62% supporting the introduction of automation into the decision-making process. The Authority acknowledges these issues but remains confident that the current CCM is equipped to mitigate against sustained price increases during the ongoing negotiation period.

Quantity-Triggered Supply Adjustment Mechanism

Policy Decision

The Authority assessed the merits of both quantity and price-triggered Supply Adjustment Mechanisms (SAMs) as mechanisms to address demand shifts with long-term impacts. After a thorough assessment process, the Authority concluded that retaining the existing price-based mechanisms (ARP and CCM) is both appropriate and proportionate to mitigate against key market risks in a standalone UK scheme.

Rationale

The Authority previously expressed a minded-to position to implement a quantity-triggered Supply Adjustment Mechanism (SAM) and sought views on design features. The Authority considered academic literature and consultation responses from stakeholders and concluded that the introduction of a quantity-triggered SAM would not be the most effective way of addressing some types of demand shifts. Academic literature pointed to limitations with these mechanisms of addressing expected shocks, seen in advance, following the setting of the cap, i.e. pending closure of a site. For more information, please refer to the impact assessment published alongside this response.

In addition, in the context that the UK and EU have agreed to work towards linking the UK ETS and EU ETS, the Authority has sought to avoid making large and complex changes to the UK ETS in the short term. The Authority considers retaining existing mechanisms offers stability during negotiations and ensures the UK ETS remains flexible to adapt to potential linking outcomes.

The Authority remains confident that the two existing price-based mechanisms, ARP and CCM, will continue to be effective in risk mitigation in a standalone UK ETS.

Stakeholder Views

The Authority acknowledges strong support for the introduction of a quantity-triggered SAM, as 71% of respondents agreed with the minded-to position. A key theme within responses was that a quantity-triggered mechanism may support the possibility of linking the UK ETS to the EU ETS. There was less support for a price-triggered SAM due to potential negative impacts on linking and concerns regarding this being too interventionist.

These views have not gone unheard, and we want to reassure the market that the Authority has carried out an extensive assessment process of a quantity-triggered SAM before confirming this decision. This decision has also been made in the context of the stated intention to work towards linking the UK ETS to the EU ETS, which will require a coordinated approach to market stability across both markets. We have avoided the implementation of larger or more complex changes to allow for negotiations to take place.

Summary of Consultation Responses

Questions

1. Do you agree with the key risks we have identified? (Yes/No). Please provide any supporting evidence in your response.

2. Are there any alternative risks to those listed above that the Authority should consider? (Yes/No). Please provide any supporting evidence in your response.

Summary of Stakeholder Responses

38 stakeholders responded to Question 1 on risk identification. **31/38 (82%)** respondents agreed with the risks identified, whilst **7/38 (18%)** disagreed. Many respondents suggested the risks could be mitigated through linking or scope expansion, making the UK ETS a larger and more liquid market less vulnerable to price and demand shocks. Additionally, some respondents felt that the current mechanisms operational in the UK ETS are sufficient to mitigate against the risks listed.

38 stakeholders responded to Question 2, whereby **25/38 (66%)** respondents provided alternative risks. Several respondents noted that carbon leakage was a key risk as UK businesses are disadvantaged compared to international competitors, who do not face comparable decarbonisation policies. Moreover, respondents stated the rate of decarbonisation and reduction of allowance availability is a key risk as some industries/companies cannot decarbonise quickly enough due to scalability and affordability issues. Finally, some respondents noted that the implementation of overly complex policies is a risk that will reduce market functioning and understanding.

Risk 1: Demand shift with long-term impacts

Summary of Proposal

In the consultation, the Authority sought views on a minded-to position to introduce a quantity-triggered Supply Adjustment Mechanism (SAM) to address Risk 1 (demand shift with long-term impacts). The Authority sought stakeholder views on the benefits of introducing a SAM in the UK ETS and preferences between a price or quantity-triggered SAM.

A summary of responses covering the technical aspects of a quantity-triggered SAM operation and design is in the Annex.

Questions

3. Do you believe that the UK ETS would benefit from the introduction of a supply adjustment mechanism to address demand shift with long-term impacts risk? (Yes/No). Please explain the reasons for your response.

4. If so, do you have a preference for a) a quantity-triggered supply adjustment mechanism or b) a price-triggered supply adjustment mechanism, as the best means of addressing this risk? Please give your reasons for your preference and response.

5. Do you agree with the Authority's minded-to position on the introduction of a quantity-triggered SAM? (Yes/No). Please give your reasons for your response.

Summary of Stakeholder Responses

44 stakeholders responded to Question 3. **34/44 (77%)** respondents supported the introduction of a SAM in the UK ETS. Respondents suggested the introduction of a SAM could resolve instances of excessive surplus or undersupply of allowances and mitigate against significant carbon price fluctuations. In addition, some respondents noted that a SAM could work well alongside the CCM and ARP and expressed a view that it could support linking discussions with the EU, as the EU ETS has a SAM in operation. **10/44 (23%)** stakeholders did not believe the UK ETS would benefit from a SAM, raising concerns that the introduction of a SAM could add unnecessary complexity, be more interventionist, and that current mechanisms are sufficient to address any concerns.

46 stakeholders responded to Question 4, whereby **33/46 (72%)** respondents preferred the implementation of a quantity-triggered SAM (SAM). Reasoning included that it is less interventionist than a price-based version, allows for natural price discovery and does not negatively affect the possibility of linking with the EU ETS as the EU has a similar mechanism in operation. **6/46 (13%)** respondents preferred the implementation of a price-triggered SAM as it less complex than a quantity-triggered SAM and addresses the main concern of operators, the carbon price. **7/46 (15%)** respondents did not want either SAM to be implemented as the CCM and ARP are sufficient to mitigate against risks. 42 stakeholders responded to Question 5. **30/42 (71%)** respondents agreed with the Authority's minded-to position and **12/42 (29%)** disagreed due to the reasons above.

Risk 2: Sudden, significant and sustained price decrease

Summary of Proposal

In the consultation, the Authority set out a minded-to position to retain the Auction Reserve Price in response to Risk 2 (sudden, significant and sustained price decrease).

The Authority set out an assessment of different policy options that could be implemented to respond to the risk and sought views from stakeholders on the proposal to retain the ARP and possible design changes, such as adjusting the trigger level and intervention approach.

Questions

21. Do you agree with the Authority's assessment of each of the options considered? (Yes/No). Please provide any evidence in support of your answer.

22. Are there any alternative options to those listed above that could be implemented by the Authority to address the risk of a sudden, sustained and significant price decrease in the UK ETS market? If so, please describe how the mechanism functions.

23. Do you agree with the Authority's minded to position to retain the ARP? (Yes/No). Please provide any evidence in support of your answer.

24. Do you think that an alternative policy option, such as any of the options previously discussed in this chapter, should be implemented in conjunction with the ARP? (Yes/No). If so, please elaborate.

25. Do you think the ARP trigger level should be changed? (Yes/No). What level do you think the ARP should be set at? Please provide a rationale for your answer.

26. Do you think the ARP trigger level should remain static or should it evolve over time? If you think it should evolve, how do you think the Authority should design this evolution? Please provide a rationale for your answer.

27. Do you think the Authority should alter the way an ARP trigger affects auction supply? If so, please explain how you think this should be changed.

28. Are there any other ways the Authority could alter an ARP to make it more effective? If so, please explain these alterations.

Summary of Stakeholder Responses

22 stakeholders responded to Questions 21 and 22. **18/22 (82%)** respondents agreed with the Authority's assessment, noting that an Absolute Price Floor is too interventionist, whilst the Emissions Containment Reserve is not appropriate as it removes allowances permanently from the market. Only **4/22 (18%)** disagreed with the assessment primarily due to their view that the ARP is not required anymore, as 1 respondent suggested a price-triggered SAM provides greater market stability than an ARP.

46 stakeholders responded to Question 23. **40/46 (87%)** respondents supported the minded-to position to retain the ARP for a variety of reasons, which included: provision of stability and predictability to the market, provides a long-term signal for the market to continue decarbonising, and supports a stable carbon price by setting a minimum price. 29 stakeholders responded to Question 24. **25/29 (86%)** respondents did not want to implement alternative policy options alongside the ARP as it adds too much complexity and wanted to retain the ARP as a single mechanism to deal with low prices.

32 stakeholders responded to Question 25 regarding the ARP trigger level. **21/32 (66%)** respondents advocated for an increase in the ARP trigger level, and stated it should increase over time to incentivise operators to decarbonise. Also, several respondents stated the ARP trigger should increase inversely alongside the long-term, decreasing cap trajectory, and raising the ARP may bring the prices closer with the EU ETS and could aid any linking discussions. **11/32 (34%)** respondents did not want an ARP increase due to concerns around increased market intervention.

33 stakeholders responded to Question 26 on the ARP trigger type. **22/33 (67%)** respondents advocated for the ARP to change from a static to an evolving trigger. Within this group, reasoning included: the trigger should adjust upwards to mirror rises in carbon price, it better reflects the rising costs of decarbonisation and sends a long-term signal that emissions will become more expensive, and many international schemes have successfully implemented an evolving trigger. **11/33 (33%)** respondents stated the ARP should remain static, primarily because it provides predictability for the market and is less complex than an evolving trigger.

23 stakeholders responded to Question 27, and most respondents did provide suggestions to alter auction supply following a trigger. **12/23 (52%)** respondents proposed alterations, including rolling over allowances into future auctions may keep prices lower for longer in comparison to permanent removal from circulation. Also, several respondents noted any unused allowances should be added to the reserve or be cancelled immediately and not reallocated to future auctions. 24 stakeholders responded to Question 28, whereby most respondents did not provide any suggestions to alter the ARP. **9/24 (38%)** respondents recommended alterations,

including removal of the ARP once a SAM has been established and linking the price to the market rather than retaining an arbitrary number.

Risk 3: Sudden, significant and sustained price increase

Summary of Proposal

In the consultation, the Authority set out a minded-to position to retain the CCM in response to Risk 3 (sudden, significant and sustained price increase).

The Authority set out an assessment of different policy options that could be implemented to mitigate against the risk. The Authority also sought views on design elements of the CCM, including the reactiveness of the trigger thresholds and the trigger level methodology (historic vs. absolute price trigger). The Authority expressed a minded-to position to retain the use of discretion on whether to act upon the trigger but wanted to explore whether automation should be introduced, and the most effective way to do so.

Questions

29. Do you agree with the Authority's assessment of each of the options considered? (Yes/No). Please provide any evidence in support of your answer.

30. Are there any alternative options to those listed above that could be implemented by the Authority to address the risk of a sudden, sustained and significant price increase? If so, please describe how the mechanism functions.

31. Do you believe the CCM should be retained with no adjustments? (Yes/No). Please provide any supporting evidence in your response.

32. Do you believe the current CCM thresholds should remain? (Yes/No). Please provide any supporting evidence.

33. If no, should the CCM thresholds be made more reactive by changing the multiplier, trigger period and/or reference period? Please provide any supporting evidence.

34. Do you believe the CCM trigger methodology should be based on historical comparisons or a fixed price? Please provide any supporting evidence.

35. Are there alternative methods we should consider when setting the CCM trigger price? Please provide any supporting evidence.

36. Do you believe that the CCM should retain discretion in its decision-making processes? (Yes/No). Please provide any supporting evidence.

37. If no, do you believe the CCM should have a fully or partially automated response following a trigger? If so, please describe how this could function.

38. Are there any other design changes not listed above that would improve the effectiveness of the CCM?

Summary of Stakeholder Responses

28 stakeholders responded to Question 29, whereby **26/28 (93%)** respondents agreed with the options assessment. 17 stakeholders responded to Question 30, and there were limited responses regarding alternative options to the CCM, but some respondents noted that aspects of international mechanisms, such as increased automation and improved transparency, should be included within the CCM.

42 stakeholders responded to Question 31 on retaining the CCM. **31/42 (74%)** respondents stated that the CCM should not be retained without adjustments, this view was centred around three key themes. Firstly, respondents suggested amendments to the CCM trigger threshold (including the multiplier and trigger period), so it becomes more reactive. Several respondents called for discretion to be removed from the CCM process and replaced with automatic, rules-based responses. Finally, respondents noted that automation may provide greater transparency and predictability. **11/42 (26%)** respondents did not advocate for CCM adjustments, as a revised mechanism could be more interventionist, and should only be revised if a SAM is implemented as that can manage allowance shortage.

33 stakeholders responded to Question 32, whereby **22/33 (67%)** respondents stated the CCM thresholds should be amended. Several respondents noted the CCM does not protect participants enough from rising prices as the carbon price must increase substantially to activate the CCM. Additionally, there were concerns around how quickly the mechanism can respond to short-term shocks as prices need to be maintained for 6 consecutive months. For Question 33, of the 22 respondents who previously stated the CCM thresholds should be amended (Question 32), 16 preferred to implement changes to the trigger period (6-consecutive months), 15 to the multiplier (3x the preceding 2-year average). 6 respondents also advocated for a change to the 2-year reference period.

27 stakeholders responded to Question 34, whereby **22/27 (81%)** respondents stated the CCM trigger should be based on historical comparisons, as a fixed trigger is significantly more interventionist and sets a cap on prices rather than allowing for natural price discovery. **5/27 (19%)** respondents advocated for a fixed trigger and suggested that a fixed price will provide greater certainty and predictability for the market. 18 stakeholders responded to Question 35, and there were limited suggestions on alternative CCM trigger methodologies. However, most responses centred on linking the trigger price to recent auction prices as it is more

representative of market conditions, or linking the multiplier to the carbon price, whereby the multiplier reduces when the price increases.

39 stakeholders responded to Question 36, whereby **15/39 (38%)** respondents wanted to retain discretion as the risk of market intervention is minimised and enables for natural price discovery. Also, discretion provides the Authority with the flexibility in how to respond to different price increase scenarios. Alternatively, **24/39 (62%)** respondents did not want to retain discretion, and noted two previous instances of inaction by the Authority, which did not provide the market with confidence that the Authority will intervene when prices increase. Respondents also stated the lack of transparency as to how and why decisions are made led to a lack of certainty for participants.

31 stakeholders responded to Question 37 on automation implementation. Several respondents in support of automation as it will provide high levels of transparency and predictability. Alternatively, some respondents suggested that discretion could be incorporated alongside automation. For instance, the Authority must inject allowances following a trigger, but the volume remains at the Authority's discretion. Additionally, other automation suggestions included a greater focus on timing, whereby time to reach a decision should be reduced and standardised.

16 stakeholders responded to Question 38 on other CCM design changes, with **13/16 (81%)** respondents providing suggestions. Several respondents stated the time required to make a decision must reduce and ensure this is standardised. Moreover, many respondents called for the Authority to improve transparency by outlining the assessment undertaken and the evidence used to make decisions.

The Reserve

Summary of Proposal

The Authority has a volume of allowances put aside in a flexible reserve. The instances where allowances from this flexible reserve can be drawn upon include activation of market stability mechanisms, such as the CCM, or to mitigate the application of a Cross-Sectoral Correction Factor (CSCF) to support levels of free allocation. In the consultation, the Authority asked for views on the size and structure of the reserve.

Question

39. Do you have any views on the approach to reserve allowances in the UK ETS or anything you would like the Authority to consider when making decisions on its size and structure?

Summary of Stakeholder Responses

27 stakeholders responded to Question 39, whereby **12/27 (44%)** respondents provided views. Some respondents suggested if large volumes of allowances are unused within the reserve after a certain period, they should not be allowed to re-enter the market as a surplus of allowances destabilises the carbon price. There was a range of views in relation to the size of the reserve. Multiple respondents suggested the reserve should be a finite pot that preserves the cap when allowances are released, while other respondents noted the reserve should not be allowed to grow out of proportion relative to the size of the market, and should decrease proportionally alongside the cap. Multiple respondents suggested that the reserve should be used solely to mitigate the application of a Cross-Sectoral Correction Factor (CSCF) in support of free allocation.

Annex: Quantity-triggered SAM Responses

Questions

6. Do you agree with the proposed approach for calculating the UK ETS TNAC? (Yes/No). Please give reasons for your response.

7. If you disagree with the proposed approach, please suggest an alternative approach and your rationale for this?

8. What is your view on what level of surplus constitutes a) an optimum level of surplus in the scheme, that would allow for effective functioning of the market and b) how could this be assessed including in terms of methodology? Please give your reasons and evidence you may have for your response.

9. Do you have a view on what level a) the upper quantity trigger threshold and b) the lower quantity trigger threshold should be in a UK ETS SAM? (Yes/ No). Please give your reasons and any evidence to support your response.

10. How reactive should the upper and lower thresholds be, for example should each threshold have a sliding scale of supply adjustment? Please give your reasons and any evidence to support your response.

11. Has the Authority identified all types of triggers that should be considered; or are there any other types of trigger thresholds that should be considered? Please give your reasons for your response.

12. Do you agree that relative trigger thresholds would be more appropriate than absolute static thresholds? (Yes/No). Please give your reasons for your response.

13. If you agree, what is your preference – relative trigger threshold values a) as a proportion of the annual UK ETS cap or b) relative to annual auction volume?

14. What is your view on what the appropriate level of auction volume adjustment should be? Please give your reasons and any evidence for your response.

15. Do you have a preference for this adjustment to be a percentage of annual auction volume, or other fixed amount, a combination of both or any other metric? Please give your reasons for your response.

16. Do you agree with the proposed TNAC publication timing of post compliance in Spring? (Yes/No). If not, please explain your reasons.

17. What is your view on auction supply adjustment timings if the SAM is activated? Please give details of your preferred timings and rationale for this.

18. Should auction volume require adjustment due to SAM activation, do you agree that the Authority should endeavour to preserve approximate equal auction volume distribution in the time period affected by this adjustment? (Yes/ No). Please give your reasons for your response.

19. In your view, when, in terms of scheme year, should any quantity-triggered SAM be implemented into the UK ETS, meaning the SAM would begin operating the following year post compliance period? Please explain your reasons for your response.

20. Do you have any views on the interactions between any quantity-triggered SAM and the ARP and CCM? Please give your reasons and any evidence for your response.

Summary of Stakeholder Responses

32 stakeholders responded to Questions 6 and 7, whereby **26/32 (81%)** respondents agreed with the proposed approach to calculate the total number of allowances in circulation (TNAC), noting the TNAC calculation could be aligned with the EU's approach with the Market Stability Reserve (MSR). The proposed methodology to calculate the TNAC was also viewed as transparent. **6/32 (19%)** respondents disagreed, and stated further consideration must be given towards the number of allowances held by non-compliant participants to calculate a reliable TNAC. There were limited responses on alternative TNAC calculations, as suggestions included allowances held in the reserve should be subtracted from the total allowance numbers so the TNAC represents true market supply, and the TNAC could be calculated more frequently, e.g. on a quarterly basis, so it could respond to shocks more quickly.

32 stakeholders responded to Question 8, whereby respondents provided views on what constitutes as an appropriate surplus. Several respondents suggested applying the EU's methodology for their MSR to calculate the optimum level of surplus. Many respondents also suggested the surplus must account for the hedging demands of non-participants.

23 stakeholders responded to Question 9 on the upper and lower bound trigger thresholds, as **15/23 (65%)** respondents provided a view. Some respondents referenced the EU's methodology to calculate thresholds for the MSR could be used in the UK ETS. Furthermore, multiple respondents stated that thresholds need to account for future hedging requirements, and the potential for further UK ETS scope expansion.

29 stakeholders responded to Question 10, and 21 responded to Question 11. Several respondents supported a sliding scale of supply adjustment as basing reactivity on the extent the thresholds have been exceeded ensures the quantity-

triggered SAM does not shock the market with a disproportionate response. Multiple respondents noted adjustment calculations should be predictable, thus minimising market volatility. Finally, respondents suggested that the EU ETS' methodology for the MSR, with a 24% cap, could be utilised. There were no other trigger thresholds identified by respondents.

29 stakeholders responded to Question 12 on threshold types. **24/29 (83%)** respondents stated relative thresholds are more appropriate than static, as several respondents noted that the cap is dynamic and will reduce over time; therefore, any thresholds need to adjust accordingly. Respondents also stated that relative thresholds can respond appropriately if the UK ETS changes through scope expansion or linking. **5/29 (17%)** respondents preferred a static threshold, and suggested it provides predictability for the market, and can act similarly to relative thresholds by implementing a fixed annual threshold with an automatic yearly decrease alongside the cap.

16 stakeholders responded to Question 13, whereby **12/16 (75%)** respondents preferred relative thresholds to be a proportion of the annual UK ETS cap, and noted that thresholds linked to the annual cap makes it predictable for participants, and reduces the risk of market illiquidity. **3/16 (19%)** respondents preferred thresholds to be relative to the annual auction volume.

23 stakeholders responded to Question 14, and 22 responded to Question 15. There were minimal suggestions on the appropriate level of auction volume adjustment, but several respondents suggested aligning with the EU's methodology for their MSR. Multiple respondents stated any adjustment should not be disruptive enough to introduce volatility into the market, and adjustments must account for the small size of the UK ETS market and not effect liquidity. There were no responses to analyse whether the adjustment should be a percentage of annual auction volume.

27 respondents responded to Question 16 on the TNAC publication timing. **25/27 (93%)** respondents agreed with the proposed TNAC publication of post compliance in Spring, with only **2/27 (7%)** who disagreed. Most respondents agreed the TNAC should be calculated as soon as possible once the emissions data for the previous year is confirmed.

23 stakeholders responded to Question 17 on auction supply adjustment timings. Several respondents suggested any adjustments to auctions should be done as soon as possible following TNAC publication. Multiple respondents noted that any auction supply adjustments should start from the September auction, thereby aligning with the EU ETS. Some respondents noted they don't have sufficient information to provide a view. 22 stakeholders responded to Question 18 on supply distribution following a quantity-triggered SAM activation. **21/22 (95%)** respondents stated auction supply adjustments should be spread equally over a 12-month period, aligning with EU methodology, providing predictability for participants and minimising volatility.

18 stakeholders responded to Question 19 on the scheme year a quantity-triggered SAM should be introduced. There were a range of responses, whereby **6/18 (33%)** respondents suggested 2025, **4/18 (22%)** stated 2026, **1/18 (6%)** stated 2027, **1/18 (6%)** suggested 2028, and **6/18 (33%)** respondents stated 'as soon as possible'. The respondent group who voted for 2025 noted a quantity-triggered SAM should be implemented to address the excessive surplus of allowances in the market. Respondents who suggested 'as soon as possible' stated it is needed to help mitigate against dramatic carbon price swings, and any delays may exacerbate the issue.

29 stakeholders responded to Question 20 on the interactions between a quantity-triggered SAM with the CCM and ARP. There was an even split between respondents, as some stated that the CCM and ARP are no longer needed, whilst others stated that both mechanisms complement a quantity-triggered SAM.

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