

BEIS Consultation on Developing the UK Emissions Trading Scheme (ETS)



EFET consultation response – 17 June 2022

We would encourage the UK Government and the EU Commission to start talks on linking the UK ETS with the EU ETS as soon as possible. Linking the two schemes would bring clear benefits in terms of liquidity, price discovery, and the ability to attract abatement from across a larger area. It would also facilitate the implementation of the EU CBAM, as it would mean that UK imports of electricity into the EU can be exempt from its application.

Linking the two schemes would show commitment to the Paris Agreement. Moreover, there should be no two emissions trading schemes that are easier to link, given the similarities between the UK and the EU carbon trading regimes. What is needed is political will and alignment on environmental ambition, and the latter is already the case. Last but not least, the EU has already gained valuable experience through linking the EU ETS and the Swiss ETS, and this linkage agreement could provide a broad framework for similar negotiations with the UK.

1) Do you agree with the Authority's proposed range for the net zero consistent cap? (Y/N) Please explain your answer.

Yes, we agree with the proposed range. We support the Authority's initiative to align the cap with the UK's ambitious climate targets, as that would help to ensure that the UK ETS continues to provide an effective long-term signal for decarbonisation.

Regarding the range, from a market perspective, the most important thing would be to have clarity on the expected supply of allowances and sufficient notice when changes are being introduced, so that market participants can adjust their portfolios accordingly, without unnecessary market disruptions. We note that a more ambitious cap would strengthen the decarbonisation signal.

2) What do you expect the effect of the cap set at the bottom of the range (i.e. total of around 887 million allowances over the entire phase) to be on your plans for emissions reductions over the 2020s?

No comment.

3) What do you expect the effect of the cap set at the top of the range (i.e. total of around 936 million allowances over the entire phase) to be on your plans for emissions reductions over the 2020s?

No comment.

4) Do you agree with the Authority's minded to position to reset the industry cap, as presented above? (Y/N) Please explain your answer.

Yes, we agree with the proposal to reset the industry cap as a percentage of the overall cap. This will strengthen the environmental ambition of the UK ETS and will align it better with the carbon neutrality target.

The primary means for distributing allowances under the cap should be auctioning. This would help strengthen the decarbonisation incentive and would also increase the UK ETS revenues, which could be used for various purposes, from helping the decarbonisation effort to assisting vulnerable consumers with the high energy prices.

Provided that alternative carbon leakage mitigation policies are adopted, as suggested, we would also be supportive of a gradual phase out of free allocation, as that would help strengthen the ETS carbon abatement signal.

5) Do you agree with the rationale put forward to support decisions the Authority will make in the future if resetting the industry cap? (Y/N) Please explain your answer, and set out if there are any other aspects you think we should take into consideration.

Yes, we agree with the aspects to be considered when making decisions on resetting the cap. Nothing further to add.

6) Do you have a preference for a tighter or looser proportion than 37% for the industry cap? (Y/N) Please explain your preference.

No preference. This should be determined on the basis of the availability and affordability of decarbonisation technologies for industry, taking into account relevant benchmarks.

7) Do you agree with the principles set out above, by which we will propose future changes to free allocation policy? (Y/N) Please explain your answer or whether there are any others you would like us to consider.

Yes, we agree.

8) Do you agree with the proposal to not use a cross-sectoral correction factor to reduce free allocations proportionally for sectors, but to find alternative means of better targeting those allowances? (Y/N) Please explain your answer.

No comment.

9) Are there specific elements of free allocation design with regards to eligibility, calculations, or other rules where you would like to see changes made, if you have not already flagged these via your call for evidence response? (Y/N) Please explain your answer and how they would align with the principles we have proposed.

No comment.

10) Are there alternative areas you think we should consider making changes to, or alternative methodologies for the provision of free allocations which you would like us to consider? Please set these out and explain your rationale.

No.

11) Are there changes which you have not already flagged to us as part of your call for evidence response which you believe should be implemented sooner than the above timetables? (Y/N) Please explain your answer.

No comment.

12) Are there other carbon leakage mitigation policies which are not already being considered by the UK Government, Scottish Government, Welsh Government, and DAERA, as listed above, which you would like to flag to us? (Y/N) Please explain your answer.

No, a carbon border adjustment mechanism and mandatory product standards would be the key policy options to consider.

13) Should the current rules be maintained for the 2022 Activity Level Changes process? (Y/N) Please explain your answer.

No comment.

14) What accurate, robust and verifiable data could you provide to the Authority to evidence that the discrepancy between reductions in output and emissions was caused specifically by the COVID-19 pandemic?

No comment.

15) How should the determination of “significant discrepancies between reductions in output and emissions” be made? Which data should be used in making this determination?

No comment.

16) Should specific thresholds be set between the reduction in output levels and reduction in emission levels for operators to be eligible to have the 2020 Covid year omitted from the 2022 Activity Level Changes calculation? (Y/N) Please explain your answer.

No comment.

17) If the 2020 year is omitted, which years should be taken into account in the calculation of Activity Level Changes in 2022? Please explain your answer.

No comment.

18) Do you agree that no changes should be made to the Activity Level Changes Regulation to take into account the turn-off of activity? (Y/N) Please explain your answer.

No comment.

19) Do you agree with this proposed change? (Y/N) Please explain your answer.

No comment.

20) How can operators provide evidence that their increase in output is due specifically to investments to increase production capabilities?

No comment.

21) Do you agree with this proposed amendment? (Y/N) Please explain your answer.

No comment.

22) Do you agree with this proposed amendment? (Y/N) Please explain your answer.

No comment.

23) Should minimal or one-off electricity exports be excluded from the electricity generator classification? (Y/N) Please explain your answer.

No comment.

24) Should the current rules be maintained? (Y/N) Please explain your answer. If you answered 'Yes' please set out what the benefits of doing so are in your view.

No comment.

25) Should an amendment to the electricity generator classification be made to exclude installations that produced electricity for sale to third parties, if that electricity was produced by means of a CHPQA-certified plant, operating as part of an operator's industrial activity? (Y/N) Please explain your answer.

No comment.

26) Should a cap be set on the maximum amount of electricity that can be exported as a condition to this exclusion? (Y/N) Please explain your answer.

No comment.

27) Do you believe that the Option 2 proposal will support investments in long-term decarbonisation solutions? (Y/N) Please explain your answer.

No comment.

28) How can operators provide robust evidence that their CHPQA certified CHP plant operates as part of their industrial process, and does not operate independently for the sole purpose of generating electricity for sale?

No comment.

29) Do you agree that, should the industry cap be reset to a level that would fall below free allocation in 2024 and 2025, a portion of unallocated allowances and/or flexible share should be used, as currently legislated, to mitigate against the application of a cross-sectoral correction factor? (Y/N) Please explain your answer.

No, a cross-sectional correction factor should not be applied. Different industrial sectors will be more or less prepared to be exposed to the traded market. The government should take a sector-by-sector approach to reducing free allocations.

Unallocated allowances should be auctioned to smooth the transition to the net zero cap or put into a reserve fund to mitigate future market shocks.

30) Do you agree that a portion of unallocated allowances and/or flexible share should be auctioned to smooth the transition to the net zero cap? (Y/N) Please explain your answer.

In our view, auctioning a portion of unallocated allowances and/or flexible share to smooth the transition to the net zero cap would be proportionate, given the size of the anticipated drop and the low liquidity in the UK ETS. Transparency and predictability, however, would be critical, meaning early signalling of the timing and amount of additional allowances to be auctioned.

31) Do you agree we should consider auctioning a portion of unallocated allowances and/or flexible share before 2024 to support market liquidity? (Y/N) Please explain your answer.

Yes, we agree. See answer to question 30 above.

32) Do you agree that a portion of unallocated allowances and/or flexible share should be retained for market stability purposes? (Y/N) Please explain your answer.

Yes, carrying forward unallocated allowances can help mitigate market shocks. Government should create a mechanism that would protect against allowance prices falling too low by restricting supply, whilst also creating a reserve of allowances that can be auctioned to ease the market when supply is too tight.

The UK ETS suffers from low liquidity due to its small size. Whilst an allocation reserve would help buffer this, linking with the EU ETS would be the most effective means of countering the low liquidity problem.

33) Are there features of ETS markets that put them at greater risk of market abuse than other financial markets? (Y/N) If so, what features and why?

No, we do not think that the ETS market is at greater risk of market abuse than other financial markets and we do believe that the UK financial regulation regime applicable to trading in emission allowances contains the necessary safeguards to detect and prevent market abuse and ensure transparency in the UK carbon market.

However, the UK ETS does suffer from low liquidity due to its small size: the best means of countering this is to link the UK and EU ETSSs.

34) Are there other drivers of evolving market conditions that future UK ETS markets policy should take into account? (Y/N) If so, what are they? What evidence do you have to support your view?

If the market design of the UK ETS differs significantly from the EU ETS, it may lead to competitive distortions between the two markets and disadvantages for British businesses as participants in the smaller market. The best way to manage this would be by linking the UK and EU ETSSs.

Other drivers of evolving market conditions include the availability and accessibility of low carbon technology and fuel alternatives, such as CCS and hydrogen.

35) What impacts do you envisage that these drivers could have in the UK ETS in the coming years, particularly in relation to market stability and integrity? What evidence do you have to support your view?

We consider the current market integrity and transparency framework to be sufficiently robust to accommodate the expected changes in the policy design and scope, as well as changes related to the evolving international context.

Ensuring that the availability and cost of low carbon technology and fuel alternatives is taken into consideration when adjusting the UK ETS cap will help avoid market shocks.

36) Do you agree that these are the right objectives for markets policy as the UK ETS matures? (Y/N) Please explain your answer.

Yes, we agree.

37) On what timescale should we look to withdraw the ARP: as soon as possible; as part of the introduction of a potential wider markets policies package; alongside the introduction of the net zero consistent cap; or another timescale? If another timescale, what timescale? Why that timescale?

The ARP can be removed both as part of the introduction of a potential wider markets policies package or alongside the introduction of the net zero consistent cap.

38) Should the ARP be replaced by another mechanism? (Y/N) If so, what type of mechanism should replace it and why?

Yes, we think the UK ETS would benefit from an allocation reserve mechanism (supply adjustment mechanism) to help counter its low liquidity and respond to market shocks. The EU ETS, for instance, has a Market Stability Reserve for this purpose.

39) Do the thresholds for triggering the CCM remain fit for purpose? (Y/N) If not, how should they be amended?

Yes.

40) Do the intervention options available to the Authority remain fit for purpose? (Y/N) If not, how should they be amended?

Yes.

41) Following the triggering of the CCM in December and January, are there elements of the CCM process or design that could be improved? (Y/N) If so, what are they and how can they be improved?

Information provided following the triggering of the CCM in December 2021 and January 2022 made it difficult to understand what circumstances would result in intervention. We would welcome more transparency on timings of announcements and if the CCM is triggered, we believe it would be helpful for BEIS to publish the rationale for the decision taken on any intervention, so that market participants can understand the factors that led to any decision, including what criteria are used to assess this.

42) Does the current auction process remain fit for purpose? (Y/N) If not, how should it be amended?

Yes.

43) Are there other measures that the Authority should consider to further support liquidity in the UK ETS? (Y/N) If so, what are they?

Linking with the EU ETS would improve market liquidity and stability and should be progressed as soon as possible.

44) Should the Authority consider stocking the market stability mechanism account with allowances? (Y/N) Please expand on your answer and if Y, provide views on how the account should be stocked.

Yes. Allowances should be taken from the unallocated portion of the industry cap. Those allowances should be released to the traded market in a transparent and predictable way to reduce volatility and increase liquidity.

45) Does the current banking and borrowing policy remain fit for purpose? (Y/N) If not,

Yes

46) Do you agree with the conclusion of the study that risk of carbon leakage is minimal for the UK aviation sector under the current UK ETS scope? (Y/N) Please expand on your answer and give evidence where possible.

No comment.

47) Do you have any additional views on the economic research study and its conclusions? (Y/N) Please expand on your answer and give evidence where possible.

No comment.

48) Do you agree that if there are minimal risks of carbon leakage and competitiveness risks associated with carbon leakage from the UK ETS for the aviation sector, free allocation should be withdrawn or phased-out? (Y/N) Please expand on your answer and give evidence where possible.

No comment.

49) Are there any other reasons for maintaining free allocation in the UK ETS? (Y/N) Please expand on your answer and give evidence where possible.

No comment.

50) Please provide views on the three proposed options for aviation free allocation, as well as how the trajectory should be set, such as a linear or weighted approach?

No comment.

51) Should the UK ETS Authority consider free allocation trajectory options that could maintain aviation free allocation entitlement past the first phase of the UK ETS (2030)? Are there other free allocation trajectories you think the Authority should consider? (Y/N) Please expand on your answer and give evidence where possible.

No comment.

52) Should the UK ETS aviation free allocation methodology be updated to use a more recent year? (Y/N) If yes, which year and why? How often should UK ETS aviation activity data be updated in the future? Please expand on your answer and give evidence where possible.

No comment.

53) Do you think that the aviation benchmark should reflect UK ETS aviation activity? (Y/N) Please expand on your answer and give evidence where possible.

No comment.

54) Do you think the UK ETS aviation free allocation policy should account for changes in aviation activity and new entrants? (Y/N) Please expand on your answer and provide evidence where possible.

No comment.

55) How often should aircraft operators report their TKM data under the UK ETS? Alternatively, are there other appropriate data sources the UK ETS could use to monitor aviation activity? Please expand on your answer and provide evidence where possible.

No comment.

56) How can we ensure free allocation entitlements, including in a transition to full auctioning, are proportionate and equitable for all UK ETS aircraft operators?

No comment.

57) Are there ways we could mitigate any unintended impacts on regional connectivity that may arise due to changes to aviation free allocation, through the UK ETS or by other means? (Y/N) Please explain your answer and provide evidence where possible.

No comment.

58) How do we ensure that GHG emissions from SAF are accounted for appropriately with respect to aircraft operators' UK ETS obligations?

No comment.

59) Should emissions reductions delivered through SAF supplied to comply with the proposed SAF mandate contribute towards reductions in UK ETS obligations for aircraft operators? (Y/N)

No comment.

60) If so, how should supply of SAF and its emissions reductions be reported in a way that ensures SAF usage is only reported under one carbon pricing scheme, whilst minimising the administrative burden for aircraft operators?

No comment.

61) Do you agree that we should continue to ensure that UK ETS rules keep pace with the latest SAF sustainability criteria? This would include reflecting the latest amendments to the RTFO sustainability criteria. (Y/N) Please explain your answer.

No comment.

**62) Should we consider capturing aviation's non-CO₂ impacts in the UK ETS? (Y/N)
Please explain your answer**

No comment.

63) How could we treat NOx in the UK ETS to reflect its differing climate impact compared to CO₂?

No comment.

64) How could we monitor aircraft NOx emissions, whilst seeking to minimise the additional administrative burden for airlines?

No comment.

65) How could the UK ETS address additional non-CO₂ aviation impacts, such as contrail cirrus? Please explain your answer and give evidence where possible.

No comment.

66) Should we explore any other near term pricing measures, such as charges, to account for non-CO2 impacts whilst consideration is given to full incorporation into the UK ETS? (Y/N) How could these work in the UK ETS? Please explain your answer and give evidence where possible.

No comment.

67) Do you agree that flights from the UK to Switzerland should be included in the UK ETS from January 2023? (Y/N) Please expand on your answer and give evidence where possible.

No comment.

68) Do you agree that this aviation activity should be subject to the same free allocation rules and review outcomes as the rest of the aviation sector in the UK ETS? (Y/N) Please expand on your answer and give evidence where possible. #

No comment.

69) Do you agree that we should not adjust the current UK ETS cap to account for the inclusion of UK to Switzerland flights? (Y/N) Please expand on your answer and give evidence where possible.

No comment.

70) Are there any other flights departing the UK mainland that are not covered by carbon pricing schemes that we should seek agreement with the destination state or territory to include in the UK ETS? (Y/N) Please expand on your answer and give evidence where possible.

No comment.

71) What areas of co-operation between the UK ETS and other emissions trading schemes, such as the EU ETS, do you think should be prioritised for aviation?

No comment.

72) How can operational features of the UK ETS be simplified for aircraft operators through co-operation with other schemes?

No comment.

73) Should we permit verifiers of aviation activities to conduct remote site visits if an appropriate risk assessment has been carried out and any precautionary conditions, such as Regulator approval, have been met? (Y/N) Please explain your answer.

No comment.

74) Do you agree with the inclusion of CO2 venting from upstream oil and gas in the UK ETS, and with the approach outlined above regarding MRV, meter installation, point of obligation, and timings? (Y/N) Please provide evidence to support your answer where possible.

Yes, we agree with the proposed expansion of the scope of the UK ETS within the sectors already covered by the scheme, including CO2 venting from upstream oil and gas. Sending a uniform decarbonisation signal across the economy would encourage the uptake of least-cost emission reduction technologies and solutions at a greater scale and contribute to meeting the carbon neutrality objective.

75) What threshold, if any, should be set for CO2 from venting? Please give evidence to support your answer where possible.

No comment.

76) How would inclusion of CO2 from venting incentivise behavioural change and/or decarbonisation? For example, would it incentivise improved design, the use of Carbon Capture and Storage (CCS) or other abatement? Please explain your answer.

Yes, all of the above, as putting a price on emissions from CO2 venting would incentivise operators to seek technologies that would help them reduce emissions.

77) How would the inclusion of CO2 from venting interact with existing and announced policies and regulations (including any relevant non-decarbonisation policies)?

No comment.

78) Is the sector likely to be impacted by the inclusion of CO2 from venting in the UK ETS? (Y/N) If so, how would the sector be impacted? For example, could early decommissioning or security of supply be concerns? Please give evidence to support your answer.

No comment.

79) What other traded sectors, if any, vent CO2? What are the likely number of installations and scale of emissions? Should these proposals be applied to these sectors? Please provide evidence to support your answer.

No comment.

**80) Do you agree with the sources of methane from upstream oil and gas as venting, cold flaring, methane slip, fugitive emissions, and other process emissions? (Y/N)
Please explain your answer.**

No comment.

81) How could methane emissions from the sources identified above be accurately MRV'd? In particular, how could methane slip and fugitive emissions be accurately measured or estimated?

No comment.

82) Do you agree that the Methane Action Plan could be used to support and provide data for MRV to occur? (Y/N) Please explain your answer.

No comment.

83) How should methane emissions be converted into CO₂ using a common standard or other approach? In your answer, please consider Global Warming Potentials and atmospheric lifetime.

No comment.

84) Do you agree with the approach outlined above, regarding point of obligation and timings? (Y/N) Please provide evidence to support your answer.

No comment.

85) What, if any, is a suitable threshold for the inclusion of methane from upstream oil and gas in the UK ETS? Please explain your answer.

No comment.

86) How would inclusion of methane from upstream oil and gas emissions incentivise behavioural change and/or decarbonisation?

Putting a price on methane emissions would incentivise operators to seek technologies that would help them reduce these emissions.

87) What other traded sectors, if any, vent methane? What are the likely number of installations and size of emissions? Should these proposals be applied to these sectors? Please provide evidence to support your answer.

No comment.

88) Is some cold flaring and venting necessary for safety reasons? (Y/N) If so, how could we identify cold flaring and venting of methane conducted for safety reasons as opposed to routine cold flaring and venting? For example, should it be aligned to the Categories of Flaring and Venting defined by the OGA?

No comment.

89) Should there be a free allocation of allowances for safety cold flaring and venting of methane? (Y/N) Please provide evidence to support your answer.

We think that free allocation should be avoided where possible. Any decision on free allocation should be based on a careful assessment of leakage risks, based on industry benchmarks.

90) How should safety flaring be interpreted for the purposes of free allocation?

No comment.

91) Do you agree with the remaining sources of upstream oil and gas emissions as non-combustion processes (process emissions, oil/gas terminal storage, oil loading) and as N₂O (from combustion, non-combustion processes, and flaring)? (Y/N) Please explain your answer. 92) How could the GHG emissions identified above be accurately quantified? How could they be MRV'd?

No comment.

93) Do you agree with the Proposal that the UK ETS be expanded to allow for the transportation of CO₂ through other forms of non-pipeline transport (i.e. shipping, rail and road)? (Y/N) Please explain your answer.

No comment.

96) Do you agree with the proposal that we implement sustainability criteria for solid, liquid and gaseous biomass for installations? (Y/N) Please explain your answer.

Yes, we agree.

97) Which sustainability criteria should the UK ETS apply to solid, liquid and gaseous biomass (RO, CfD etc.), and would there be any value in developing UK ETS specific criteria? Please explain your reasoning.

We would recommend alignment with the EU and the sustainability rules set out in Article 29 of Directive 2018/2001.

98) What are your views on the proposal that for installations and combustion units which only burn biomass to be exempt from the UK ETS, operators must only use sustainable biomass?

We agree. Unsustainable biomass has multiple negative impacts.

We note that if waste combustion is included in the UK ETS, exempting biomass combustion could create distortions in the waste sector.

99) What are your views on the suggestion that from the start of the second allocation period in the HSE scheme, sustainability criteria will be applied to biomass for the purpose of assessing eligibility, when calculating an emissions target for the installation and when determining whether an installation's reportable emissions exceed the emissions target?

No comment.

100) Do you have any evidence regarding how applying sustainability criteria for solid and gaseous biomass in the UK as proposed may impact the UK ETS and/or other policy areas? (Y/N) If so, please provide this in as much detail as possible.

No comment.

101) Going forward, is there anything else you think we should consider regarding biomass in the UK ETS?

The risk of distortions in the waste sector if biomass combustion and EfW are not considered together.

102) Do you have data on the number, scale and/or emissions level of installations that are currently not monitored under the UK ETS because of the two thresholds? (Y/N) If so, please provide this where possible.

No comment.

103) Do you have data regarding the abatement costs of installations paying the carbon price and those not (i.e., exempt, USE, HSE)? (Y/N) If so, please provide this where possible.

No comment.

104) Do you have data regarding the compliance costs of installations and likely compliance costs of those outside of the UK ETS (i.e., exempt, USE, HSE)? (Y/N) If so, please provide this where possible.

No comment.

105) Do you have evidence of distortion in relevant markets caused by the 20MWth threshold (e.g., in the form of smaller installations coming on to the market at an increasing rate)? (Y/N) If so, please provide this where possible.

No comment.

106) Do you have evidence of adverse interactions of the current threshold level with other UK Government or Devolved Administration policies (e.g., with Carbon Price Support)? (Y/N)

No comment.

107) Do you believe there is other evidence that should be taken into account when considering lowering the 20MWth threshold? (Y/N) If so, please provide this.

No comment.

108) Do you believe that there is a case for lowering the 20MWth threshold to bring more operators of combustion units under the scope of the UK ETS? (Y/N) If so, please state why?

Yes. Exempting small plants gives them a competitive advantage and creates market distortions.

109) Do you have evidence of distortion in relevant markets caused by the 3MWth threshold for calculating total thermal input? (Y/N) If so, please provide this where possible.

The 3MW aggregation threshold allows operators to add multiple small generators resulting in an overall thermal capacity that far exceeds the 20MWth threshold. These sites are then used to participate in the GB Capacity Market and other flexibility markets, distorting these markets.

110) Do you believe that there is a case for removing the 3MWth threshold to bring more operators of combustion units under the scope of the UK ETS? (Y/N) If so, please state why?

Yes. The 3MW aggregation threshold allows operators to add multiple small generators resulting in an overall thermal capacity that far exceeds the 20MWth threshold. These sites are then used to participate in the GB Capacity Market and other flexibility markets, distorting these markets.

111) Do you believe the UK ETS is an appropriate policy to ensure the decarbonisation of small power generators in alignment with Net Zero? (Y/N) If yes, please say why. If no, what other policies do you think may be preferable?

Yes, where the small generators are competing with larger generators in the same market.

112) Do you agree with our proposal for calculating emissions, based on volume of fuel multiplied by the carbon intensity as per the most recent UK Government greenhouse gas reporting conversion factors? (Y/N) Please explain your answer considering: • Whether additional marine fuels need conversion factors developed • What consideration needs to be given to blended fuels, or renewable and partly renewable fuels.

No comment.

113) Do you agree that our lead option to extend emissions trading to domestic maritime based on vessel activity is the most appropriate? (Y/N) Please explain your answer considering: • Whether you agree with the proposed definition of a domestic journey, and whether this creates any loopholes which need to be addressed. • Whether the scheme should be applied to ship owners or ship operators.

No comment.

114) Do you agree with the proposed threshold for the lead option of 5000GT? (Y/N) Please explain your answer considering: • Whether there be a de minimis threshold within this, based on emissions or number of journeys, for example. • What other thresholds could be used instead, or in the future.

No comment.

115) Would applying MRV requirements on an activity basis be possible and practical within existing processes and data collection? (Y/N) Please explain your answer considering whether additional processes would be required to identify domestic journeys.

No comment.

116) How high do you consider the risk of gaming/non-compliance to be under the lead option? In your answer, please consider: • How could it be designed out of the system. • Whether the risk is lower under either of the alternative options.

No comment.

117) Do you think there should be any specific exemptions to applying emissions trading to domestic maritime? (Y/N) Please explain your answer including what, if any, exemptions there should be.

No comment.

118) Do you prefer one of the alternative options? (Y/N) Please explain your answer. It would be particularly helpful to understand: • For the fuel supplied approach, whether MRV requirements are possible and practical within existing processes and data collection.

- For the hybrid approach, how the split between the two approaches would be determined, and how a mechanism to avoid ‘double charging’ of emissions could be designed.

No comment.

119) Do you consider that providing carbon pricing will drive decarbonisation in the domestic maritime sector as outlined above? (Y/N) Please explain your answer.

Yes, we agree. Carbon pricing incentivises operators to adopt technologies which reduce emissions, thereby contributing to the decarbonisation of the economy. The expansion of the UK ETS to other sectors, such as the domestic maritime sector, would have positive effects on decarbonisation.

120) Besides carbon not being fully priced into the market, what other market failures and barriers are present and what policies would be needed to support the UK ETS in decarbonising domestic maritime? In your answer, please consider how this may change over time.

No comment.

121) How might the UK ETS interact with existing and planned policies in the maritime sector, including any relevant non-decarbonisation policies?

No comment.

122) How would application of the UK ETS to the domestic maritime sector impact participants (including ship owners, ship operators, fuel suppliers) and consumers? In your response, please provide evidence where possible and consider: • Small and medium size operators • Island communities • Competitiveness impacts and carbon leakage risks Decarbonisation impact for different vessel types and maritime sub-sectors.

No comment.

123) Have you identified any other impacts, distributional or otherwise, arising from this proposal, which have not been captured by other questions? (Y/N) Please explain your answer, including how any concerns could be addressed.

No comment.

124) Do you agree with the proposed timing for when waste incineration and EfW could be introduced into the UK ETS? (Y/N)

We do agree that the UK ETS should be expanded to include EfW, but we think this needs to be subject to consistent treatment of other waste management facilities as well. We think the government needs to address concerns over carbon leakage – for example, waste being diverted to landfill, biomass combustion without CCS, or flytipping.

Including EfW in the UK ETS ought to drive decarbonisation, but CCS – the only meaningful decarbonisation technology for EfW – will not be available by the 2025 date proposed. A date in the period 2028-2030 would be more appropriate.

125) For operators of waste incinerators, EfW plants, and local authorities (LAs), please outline the steps that you will need to take, and the time required to prepare for the expansion of the UK ETS to waste incineration and EfW.

No comment.

126) Do you agree that the UK ETS should be expanded to include waste incineration and EfW? (Y/N) Please outline your reasoning, including alternative options for decarbonisation of the sector outside of the UK ETS.

We agree that the UK ETS should be expanded to include EfW when the time is right, but government needs to address the waste and biomass sectors holistically to avoid unintended consequences.

127) Do you agree that all types of waste incinerators should be included in the UK ETS? (Y/N) If you believe certain incineration activities should be exempt, e.g. incineration of hazardous or certain healthcare waste, please provide details and specify which waste stream.

Yes. There is a risk of carbon leakage from waste being transferred from facilities included in the ETS to those excluded from it. To minimise this risk, the scope of the UK ETS should be as wide as possible within the waste sector.

128) Do you believe ATT should be included in the UK ETS? (Y/N) What challenges could arise as a result of including ATT, if any, that are different to conventional waste incineration plants?

Yes, although bringing ATT into the UK ETS ahead of other waste management facilities could result in carbon leakage, as ATT can deliver negative emissions through the permanent storage of biochar.

129) Do you agree that the point of MRV obligation for the UK ETS should be placed on the operators of waste incinerators and EfW plants? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.

No comment.

130) If the point of MRV obligation is placed on operators of waste plants, should waste companies/operators or customers (either LAs or commercial and industrial customers) be responsible for meeting compliance obligations? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.

No comment.

131) Do you believe that the Small and Ultra Small Emitter schemes that are currently available to eligible UK ETS participants should also be available to waste incinerators and EfW plants? (Y/N) Please provide details including, where relevant, whether your organisation is likely to be eligible for these schemes based on current rules.

No, they should not be available to anyone participating in the UK Capacity Market or contracting with network operators as they have a market-distorting effect.

132) Which MRV proposal do you believe should be implemented to determine the UK ETS obligation for waste incinerators and EfW plants? i) If Option A, please provide your views on which methods could be used, along with any information on the practicality of their implementation and likely costs. ii) If Option B, please provide your views on how these emissions factors should be calculated, along with any information on the practicality of implementation and likely costs.

No comment.

133) Do you believe that one of the MRV options proposed is more likely to lead to perverse incentives (e.g. more waste diverted to landfill) or to unintended consequences as a result of applying the UK ETS to waste incineration and EfW? Please consider different scenarios and provide evidence to support your views where possible.

No comment.

134) Do you believe any additional greenhouse gases, other than CO₂, that are emitted by EfW plants or incinerators, should be covered by the UK ETS? (Y/N) If so, please provide details on which gases and how it could work in practice.

No – unless other waste disposal facilities are also brought into the UK ETS, in which case methane should also be covered.

135) How would the application of an ETS to waste incineration and EfW impact stakeholders (including operators of waste incinerators, operators of EfW plants, LAs, consumers, customers)?

No comment.

136) Could the introduction of a carbon price incentivise waste operators and/or LAs to improve their operations or processes to reduce fossil waste being incinerated? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.

No comment.

137) Could the introduction of a carbon price incentivise LAs to support households to improve recycling practices? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.

No comment.

138) Is there opportunity (in the medium-long term) for the carbon price to incentivise waste operators and/or LAs to invest in carbon capture and storage infrastructure, to reduce fossil carbon emissions? (Y/N) Please outline your reasoning in as much detail as possible and provide evidence to support your views.

No comment.

139) In the event of the carbon price being applied to waste operators, will waste operators be able to pass through their costs to customers (including LAs)? (Y/N) Please explain in as much detail as possible why, how, and to what extent this may or may not occur.

No comment.

140) For LA owned plants, would unitary authorities and waste disposal authorities be the only authorities exposed to the carbon price – in the event of waste operators passing through costs? (Y/N) Please explain in as much detail as possible and provide evidence to support your views.

No comment.

141) Do you believe that government should consider phasing in ETS obligations to the sector over time? (Y/N) If yes, please outline why, how, and to what extent phasing options could be provided.

Yes, but in line with the treatment of the rest of the waste sector.

142) Would operators of incineration/EfW plants be exposed to competitiveness impacts abroad and carbon leakage risk, in the event of being exposed to the carbon

price? (Y/N) Please explain in as much detail as possible and provide evidence to support your views.

Yes, as wastes may be exported rather than sent to domestic EfW facilities. However, the risk of domestic carbon leakage and competitiveness impacts is more significant.

143) Have you identified any other distributional impacts (including wider environmental or social impacts) arising from this proposal? (Y/N) Do you have views on how government could address these concerns?

Yes. A piecemeal approach to the waste sector could lead to waste being diverted to more carbon intensive disposal. Flytipping can create a wealth of environmental issues.

144) What additional policies would be needed to support the UK ETS in decarbonising waste incineration and EfW? How would this change over time?

A whole sector approach. This would need to include landfill tax, aligned policy for biomass, and strengthening and enforcement of flytipping regulation.

145) How would the expansion of the UK ETS to waste incineration and EfW interact with existing and planned policies in waste incineration, EfW, and waste management more broadly, as well as any other relevant non-decarbonisation policies?

No comment.

146) Are there other parts of the waste management system that should be included in the scope of the UK ETS? For example, landfill or wastewater. (Y/N) Please explain in as much detail as possible and provide evidence to support your views.

The scope of the UK ETS should be as wide as possible within the waste sector, or other policies and measures aligned to eliminate competitive distortions.

147) Do you believe the UK ETS could be an appropriate long-term market for GGRs? (Y/N) Please explain why, highlighting benefits and risks where possible.

Yes, the UK ETS could be an appropriate market for GGRs. However, the right time for this merger should follow careful observation of the methodologies being developed in the voluntary markets and ensure credits accord with high integrity principles. These principles should cover good design, transparency and verification mechanisms.

148) How could the design of the UK ETS be adapted to include GGRs while still maintaining the incentive to decarbonise for ETS participants?

No comment.

149) To what extent could the UK ETS price signal incentivise development of the full range of GGRs, including engineered and nature-based GGRs, given the expected differences in the project costs?

The use of the UK ETS price signal would mean a technology-neutral approach, favouring the most cost-efficient solutions for decarbonisation at least cost. Further to this, ‘close to commercialisation’ technologies as identified by widely used ‘technical readiness levels (TRL)’ can be afforded a further boost in investment signals to provide near-term carbon capture.

150) What impacts or opportunities could arise for the UK voluntary carbon markets, if GGRs were included in a compliance market like the UK ETS? For example, what impacts, or opportunities could there be for voluntary carbon market schemes such as the Woodland Carbon Code?

No comment.

151) What impacts or opportunities could arise for the emerging markets for wider ecosystem services (e.g. biodiversity, flood management, water quality) if GGRs were included in a compliance market like the UK ETS?

No comment.

152) Are there any impacts, constraints or unintended consequences that need to be managed if incorporating GGRs within an ETS?

It would be important to ensure that the GGRs are subject to transparent and robust monitoring and verification mechanisms in order not to undermine the credibility of the UK ETS system.

It would also be important to ensure that GGRs are not employed instead of achievable mitigation, e.g. CCS or fuel switching.

153) Do you think there are other eligibility requirements we should consider and what are these?

We agree with the listed criteria.

154) What MRV criteria need considering for GGRs and what steps need to be taken to ensure a framework of criteria is robust, cost-effective, and scalable?

- a) For Nature-based GGRs**
- b) For Engineered GGRs**

No comment.

155) For GGRs that have a risk of carbon being re-released into the atmosphere, are there any potential solutions we should consider enabling market participation?

No comment.

156) What are challenges of integrating non-permanent removals alongside permanent removals in the UK ETS and how can these be overcome?

No comment.

157) Who should own the rights of a possible GGR allowance or credit in a possible future market - the buyer, or the seller?

The rights should be transferrable from the seller to the buyer. An audit trail via a registry would be required to illustrate title transfer, streamline credit issuance and ensure no double counting.

158) What can we learn from other countries on ownership and liability for greenhouse gas removals?

No comment.

159) Should GGRs be incorporated into the UK ETS or would it be preferable to establish a separate, but linked, market for GGRs?

Although establishing a separate GGR scheme is viable, we believe the integration of GGRs into the UK ETS can be efficiently implemented with minimal administrative burden by using existing certification methodologies that require pre-approval by the UK ETS authority (or an equivalent regulatory carbon body if established). The right time for this merger should follow careful observation of the methodologies being developed in the voluntary markets and ensure credits accord with high integrity principles. These principles should cover good design, transparency and verification mechanisms.

160) Are there other market designs or proposals we should consider for longer-term GGR deployment that would be preferable to inclusion in the UK ETS?

No comment.

161) How and when could eligible GGRs be phased into a market such as the UK ETS?

No comment.

162) Should any GGR approaches, or methods be considered for earlier inclusion in a market than others? Why should we consider these?

No comment.

163) Should we trial eligible GGRs in a market or scheme before fully integrating to an existing market like the UK ETS? How and when could this happen?

No comment.

164) Are there any relevant sources of evidence and expertise we should use to help inform our thinking?

No comment.

165) For farm businesses: Are you currently using carbon audit tools? (Y/N)

- If so which one(s), and what farm practices or management have you changed as a consequence of using the tool?
- If no, what has prevented you from using these tools?

No comment.

166) What are the barriers to implementing robust Monitoring, Reporting and Verification of greenhouse gas emissions, and how can we improve record-keeping?

- In the agriculture sector
- In the land use sector

No comment.

167) Remote sensing technologies and earth observation could be used to compliment carbon reporting tools. Do you have any concerns about utilising this technology and what could reassure you?

No comment.

168) How can carbon audit & reporting tools be used in conjunction with other business planning mechanisms?

No comment.

169) How can MRV be best utilised for the purpose of:

- Decarbonising agriculture
- Identifying both emissions mitigating and negative emissions opportunities, e.g. through carbon sequestration

- Attracting investment for carbon management in agriculture and the land use sector?

No comment.

170) Should eligibility to trade in sequestered carbon on farms be conditional on the vendor demonstrating that an acceptable level of farm emission reduction has been achieved? (Further work would be needed to define ‘acceptable’ levels of emissions reduction and could be sub-sector or farm specific).

No comment.

171) Which sectors within agriculture & land use should we prioritise to establish baseline data with MRV?

No comment.

172) What do you consider Government’s role should be in farm and land use based MRV?

- a) Should Government consider mandating the use of MRV for the sector or subsectors?
- b) To support this, should Government introduce standardised protocols or tools, beyond the voluntary PAS2050 code?
- c) Or alternatively, should Government provide a standardised framework for the market to develop protocols to achieve the data reporting outcomes required?

No comment.

173) Is voluntary monitoring, reporting and verification in the agricultural and land use sectors likely to achieve sufficient uptake and accuracy to improve business efficiency, decarbonisation and decision making by farmers, retailers and government?

No comment.

174) Should electricity generators who have not exported measurable heat produced by means of high-efficiency cogeneration in the “relevant period”, but start to do so in following scheme years, be eligible for free allocation once they can demonstrate that they meet the eligibility criteria? (Y/N) Please explain your answer.

No comment.

175) Over which period should the determination of whether the measurable heat is produced by means of high-efficiency cogeneration be assessed?

No comment.

176) Do you agree that in the case of new entrants that are classified as electricity generators and who wish to apply for a free allocation of allowances on the basis that they produce measurable heat by means of high-efficiency co-generation, they may not apply for a free allocation until the operator can provide a full calendar year of activity level data? (Y/N) Please explain your answer.

No comment.

177) Do you agree that the Authority should have the ability to create the total number of allowances from the flexible share in a scheme year in addition to the annual cap? (Y/N) Please explain your answer.

No comment.

178) Do you have any comments on the way that a verifier is defined in the legislation, and in particular do you agree that the phrase 'or another legal entity' should be deleted? (Y/N) Please explain your answer.

No comment.

179) Do you agree that in the case of a full transfer of a permit (with a merger), that allocations for the scheme year in which the transfer occurs should be treated differently based on the effective date of the transfer? (Y/N) Please explain your answer.

No comment.

180) Do you agree with our proposed approach? (Y/N) Please explain your answer.

No comment.

181) Is there an alternative approach that has not been considered? (Y/N) Please explain your answer.

No comment.

182) Do you agree that in the case of a partial transfer of a permit, that allocations for the scheme year in which the partial transfer occurs should be treated differently based on the effective date of the partial transfer? (Y/N) Please explain your answer.

No comment.

183) Do you agree with our proposed approach? (Y/N) Please explain your answer.

No comment.

184) Is there an alternative approach that has not been considered? (Y/N) Please explain your answer.

No comment.

185) Do you agree with the proposal that we should apply the AR5 without-feedback values for the purposes of the UK ETS? (Y/N) Please explain your answer.

No comment.

186) Do you agree that we should amend the Order to reflect EN ISO 14065:2020? (Y/N) Please explain your answer.

No comment.

187) For which other decisions made by the Authority would it be desirable to provide a statutory appeal route?

No comment.

188) Do you agree that current Hospital or Small Emitters should be offered a window for re-entry into the main UK ETS? (Y/N) Please explain your answer.

No comment.

189) Do you agree that they should be eligible to apply for Free Allocation on the condition that they had made an application for Free Allocation under Phase IV of the EU ETS? (Y/N) Please explain your answer.

No comment.

190) Do you agree with the inclusion of this £5000 penalty in the UK ETS? (Y/N) Please explain your answer.

No comment.

191) Do you agree with the recommendation that, instead of the deficit being added onto the next year's surrender obligation, the regulators should be empowered to issue a deficit notice to require operators/aircraft operators who fail to surrender allowances to cover any deficit? (Y/N) Please explain your answer.

No comment.

192) Do you agree that the deficit penalty should be applied in two parts, the first being a mandatory penalty when an operator or aircraft operator fails to make up a deficit by the date specified in a deficit notice, and the second a discretionary daily penalty that applies if the operator/aircraft operator has not made up the deficit within a month of the deficit notice deadline? (Y/N) Please explain your answer.

No comment.

193) Do you agree with the suggested penalty amounts, with the mandatory penalty calculated as the number of outstanding allowances multiplied by 1.5x the relevant carbon price and the additional daily penalty set at £1,000 a day until the operator/aircraft operator surrenders the deficit? (Y/N) Please explain your answer.

No comment.

194) Do you agree with the recommendation that the regulators should be empowered to issue further notice requiring operators who fail to surrender allowances in line with surrender / revocation notices to surrender the allowance deficit? (Y/N) Please explain your answer.

No comment.

195) Do you agree that penalties for the above should align with those proposed for the failure to surrender allowances to cover a deficit in non-surrender / revocation situations? (Y/N) Please explain your answer.

No comment.

196) What are your thoughts on implementing powers to pursue operators after their permit has been surrendered / revoked if historic errors are discovered in emissions reporting? Please explain your answer.

No comment.