



Department for  
Energy Security  
& Net Zero

The Rt Hon Lord Hunt of Kings Heath OBE  
Minister for Energy Security and Net Zero

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The Baroness Sheehan  
Chair of the Environment and Climate Change Committee  
House of Lords  
London  
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3 December 2024

Dear Lady Sheehan,

**UK Emissions Trading Scheme – changes to free allocation rules in cases of permanent cessations**

I am writing to inform you, as Chair of the House of Lords Environment and Climate Change Committee, that the Government, with our UK ETS Authority partners in the Devolved Governments, has today laid legislation implementing changes to free allocation rules for ETS sites that close during a scheme year. This follows the publication on 28<sup>th</sup> November of an initial Response to our December 2023 UK ETS Authority consultation, which confirms these changes.

This legislation will ensure that businesses who cease operations do not disproportionately gain from free allocation under the scheme. Free allocation is provided to eligible ETS operators to mitigate carbon leakage risks. Once legislation is in force from early 2025, UK ETS installations that cease operations will have their free allocation entitlement adjusted to reflect their actual activity levels in their final year of operation. To continue to incentivise decarbonisation, installations that close for the purpose of decarbonising their operations will be able to keep their final year's free allocation. The legislation laid in Parliament today forms part of the wider reforms to the scheme's free allocation rules that the UK ETS Authority is considering and will consult on further in due course.

The UK Government remains committed to the UK ETS as an essential part of our approach to cutting emissions and driving green investment. The UK ETS will be key to achieving the Government's mission to make Britain a clean energy superpower, delivering secure and clean electricity by 2030. By incentivising green investment as part of a broader industrial strategy the UK ETS will also help deliver a just transition, growing the UK's economy and securing good jobs for people across the country. We are committed to continuing the review of free allocation policy to ensure it can better target free allocations for sectors most at risk of carbon leakage.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Hunt'.

**THE RT HON LORD HUNT OF KINGS HEATH OBE**  
Minister of State for Energy Security and Net Zero  
Department for Energy Security & Net Zero