

To:
The Rt Hon Kwasi Kwarteng MP
Minister for Business, Energy and Clean Growth Department for Business, Energy and
Industrial Strategy 1 Victoria Street
London SW1H 0ET

06 January 2021

MARKET PARTICIPANTS URGE BEIS TO ACCELERATE THE PRIMARY AUCTIONS FOR THE UK ETS

Dear Minister,

The European Federation of Energy Traders (EFET)¹ welcomes the establishment of a UK Emissions Trading System (ETS), which replaced the UK's participation in the EU ETS on 1 January 2021. It is a crucial step for UK's transition towards carbon neutrality, as a UK ETS constitutes a key tool to achieve the UK's target for net zero carbon emissions by 2050 cost-effectively. We also fully support the UK Government's openness to linking the UK ETS internationally. Opting for a UK emissions trading system ahead of COP 26 reaffirms the UK as a climate leader, and show that the UK remains a strong advocate for international carbon markets.

At the same time, we would like to express market participants' concerns over the functionality of the standalone UK ETS in the short to medium term. In particular, the adverse consequences that the delay to auctioning of UK ETS Allowances (UKAs) has on the functioning of the UK carbon market, as well as the GB power market, as it creates a significant challenge for risk hedging for UK installations.

With that in mind, we urge the UK Government to accelerate the primary auctions for the UK ETS and launch them as soon as possible in Q1 2021 (rather than in Q2 2021), as well as to frontload at least 60% of the estimated volumes of 2021 in the initial auctions. This will not only reduce market uncertainty but also provide UK generators with the opportunity to hedge January deliveries which are already underway.

We encourage UK Government to publish the auctioning calendar as a matter of urgency.

We would be delighted to discuss the abovementioned issues at more length. We very much look forward to hearing from you.

Yours sincerely,

Jan van Aken
Secretary General



¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org