26 September 2004

Dear Participants

UK EMISSIONS TRADING SCHEME – ADMINISTRATIVE RULE CHANGES (2)

Further to my letter of 29 December 2004 advising of administrative rule changes, I can now confirm that the UK ETS Scheme Rules have been amended.

The following, summarised, rule changes are reflected in the Scheme Rules:

i. Where a DP’s source is closed or divested after 30 June, the DP would be allowed to retain half of their allocation for the closed or divested source for that commitment year and they will be required to retire allowances against their emissions from that source up to 30 June.

ii. Where a DP’s source is closed or divested in a commitment year Defra will take responsibility for cancelling the appropriate allowances.

iv. All DPs are required to repay all incentive monies that have been allocated to an incorrectly included source which has been removed from the UK ETS with interest.

vi. The UK ETS allocation for a temporarily excluded installation will be compared to its EU ETS allocation and whichever is the lower allocation will be used within the total annual UK ETS allocations for 2005 and 2006.

vii. UK ETS installations temporarily excluded from the EU ETS will be required to monitor, report and verify those EU emissions to Defra on an annual basis to the same standard as if they were within the EU ETS, in addition to their existing requirements under the UK ETS.

viii. For any UK ETS source whose EU emissions transfer to the EU ETS, Defra will not require the complete removal of the source from the UK ETS. The remaining UK ETS emissions will stay in the UK scheme.

ix. Defra will require any new source acquired by a DP, that is not already temporarily excluded, which is subject to the EU ETS, to enter the EU ETS.
x. Defra reserves the right to withhold the 2005 allocations for the temporarily
excluded installations until final EU ETS allocations for these installations
are known.

The Scheme Rules have already been changed to reflect rule changes (iii) and (v). Both
sets of Scheme Rules amendments are available on the UK ETS website at:
www.defra.gov.uk/environment/climatechange/trading/uk/documents.htm

Defra apologises for the delay in finalising the rule changes and a revised ‘Scheme Rules’
document will be available shortly incorporating all changes so far. We will notify all
Participants when this has been completed.

In the meantime may I remind you that Direct Participants are required to notify Defra of

If you have any queries with the rule changes please do not hesitate to contact me.

Yours sincerely

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UK Emissions Trading Scheme