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Extending the UK ETS Cap Beyond 2030

techUK response

About techUK

techUK is the UK's leading technology membership organisation, with more than 1000 members spread across the UK. We are a network that enables our members to learn from each other and grow in a way which contributes to the country both socially and economically. By working collaboratively with government and others, we provide expert guidance and insight for our members and stakeholders about how to prepare for the future, anticipate change and realise the positive potential of technology in a fast-moving world. techUK launched in 2013 to champion the technology sector and prepare and empower the UK for what comes next, delivering a better future for people, society, the economy and the planet.

Answers to questions

1.1) Do you agree with the Authority's minded to position, as presented above, that the UK Emissions Trading Scheme should be extended into a Phase II to follow directly on from Phase I? (Y/N) Please explain your answer.

techUK welcomes government's commitment to reducing greenhouse gases and overall goal of reaching net zero by 2050. However, we would like to highlight some concerns with the UK Emissions Trading Scheme (ETS) were Phase II to follow directly on from Phase I as currently constructed, as we feel inclusion of the data centre industry does little to advance UK decarbonisation goals.

Data centres are included in the UK ETS due to the capacity of their on-site backup power generation, which acts as emergency backup in the unlikely event of grid failure. The majority of emergency generators are test fired regularly but rarely deployed. The energy source for data centres is electricity, not combustion of fuel. The scale of emissions associated with data centre operation is therefore small, as ETS compliance reports show.

While data centre installations may opt out of the UK ETS as ultra-small emitters (USE)—which many operators qualify for—until 2025, operators had to submit emissions data for at least three consecutive calendar years before they were eligible to apply for USE status. While we welcomed government's recent decision to amend this data verification period to one year and allow operators who began operations between 2 January 2021 and 1 January 2024 to apply for USE status for the 2026-30 period, we note that some operators could still face nearly seven years of full ETS compliance before qualifying for the exemption. This extended compliance period places an unnecessary administrative and financial strain on data centres. As one techUK member shares:

> *"the implications of the scheme are significant and complex enough to seriously consider deploying a number of generators <3MWth, though this is clearly at odds with the overall aims of the scheme and may increase emissions as well as fuel storage risks. We are a relatively small organisation, and ETS compliance would demand additional time commitments from the key individuals who are otherwise responsible for advancing efficiency and environmental progress".*

We therefore urge government to reevaluate the inclusion of data centres in the UK ETS as it considers an extension beyond 2030. The current rules fail to reflect the actual emission profiles of these facilities and impose a disproportionate burden on the industry. The European Union's recently released Omnibus package recognises the need for a more nuanced and simplified approach to reporting and is seeking to reduce the reporting requirements under the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) to make industry more competitive. The UK should take a similar approach to attract the investment needed to build and maintain critical digital infrastructure.

We appreciate that policymakers may be concerned a full exemption for data centres could create compliance loopholes. However, data centre emissions are easily validated via several other reporting avenues, including, but not limited to, NACE codes and the Climate Change Agreement. Moreover, the sector has recently been designated as Critical National Infrastructure and will be registered in the near-term, providing another verification mechanism.

By granting data centres a full exemption, government would support the continued growth of this essential sector. Addressing the broader inefficiencies and impracticalities of the current UK ETS framework is also aligned with the new government's ambition to reduce red tape. As the Prime Minister recently said, "We've got to look at regulation across the piece, and where it is needlessly holding back investment ... mark my words, we will get rid of it,". Exempting the data centre sector is a clear and easy way to make good on those words. It would be a win-win for all parties, fostering innovation and economic growth while maintaining the integrity of the UK's environmental goals.

2.1) Do you have a preference regarding the length of the post 2030-phase? (Y/N) Please explain your answer.

N/A

2.2) Beside the options outlined, are there other durations that should be considered for the length of Phase II? (Y/N) Please explain your answer.

N/A

Q.3.1) Do you agree with the Authority's minded to position to allow banking of allowances between phases of the Scheme? (Y/N) Please explain your answer.

N/A