Energy UK

The voice of the energy industry

Energy UK response – CBAM Carbon Price Recognition: Call for Evidence

10 June 2026

About Energy UK

Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs.

From growing start-ups to major electricity generators, grid and infrastructure developers and energy suppliers, our members are driving change across power, heat, transport and flexibility.

We provide a collective voice for the sector working with governments, regulators, charities and other organisations to provide crucial insight that shapes policy, offers solutions and promotes best practice.

Our broad view across the whole system supports evidence-based positions which are not tied to particular technologies, and are focused on delivering strategic benefits for people, businesses and the economy.

We champion initiatives such as our Vulnerability Commitment, which pushes suppliers to go beyond regulation to support customers with additional needs, and TIDE, the industry's drive for greater inclusion and diversity. Through our Young Energy Professionals Forum, we support the development of future leaders.

We are equally committed to our team and are proud to be recognised as a 'Gold' Investors in People employer.

Executive Summary

Energy UK welcomes the publication of the draft implementing regulation on the conversion of carbon prices paid in third countries into a reduction in CBAM certificate obligations. We support the EU's climate ambition and the carbon leakage objectives underpinning CBAM. However, the regulation as drafted contains critical gaps that are particularly acute for electricity imports, and which, if not remedied, risk creating a framework that is simultaneously unworkable for operators and miscalibrated as a carbon leakage prevention tool.

This response sets out ten areas of concern specific to electricity imports:

- Timing: the regulation applies from 1 January 2026 but the guidance, calculation methodology and updated default carbon prices remain unpublished, leaving operators to accumulate liability they cannot definitively calculate or anticipate, leading to distortions in electricity trading;
- Inaccurate liability calculation: annual averaging of both carbon prices and the CBAM reference price creates basis risk and unpredictable over- or under-payment, with the full liability unknown until year-end 2026 and due in early 2027;
- Carbon price granularity and harmonisation: the legislation introduces wording that bases both third country carbon price paid and the CBAM price paid on an annual average. An annual weighted average methodology produces inaccurate liability calculations for interconnector flows, creating the risk of either over- or under-payment, as does the use of default values based on five-year averages of national system emissions. Sub-annual (ultimately weekly)

attribution of carbon prices and CBAM certificate prices would reduce assessed exposure for exporters and better align liability with electricity market operation;
- Recognition of layered national carbon pricing instruments, including the UK Carbon Price Support alongside the UK ETS;
- Harmonisation of reporting standards with electricity market frameworks including REMIT;
- Grid-level attribution: the regulation's installation-based methodology does not translate to cross-border electricity flows, with the absence of grid-level default values creating unquantifiable exposure for interconnector operators;
- Importer of record: UK entities trading via EU-UK interconnectors face material structural barriers arising from the requirement for an EU-established declarant, with early exemption under Article 2.6 needed upon ETS linking;
- CBAM reference price: the yearly average certificate price (Article 6(2)) creates basis risk as operators purchase at prevailing prices (see Section 1);
- Foreign exchange rates: yearly average FX rates prevent importers from understanding their CBAM cost exposure at the time of trading, introducing currency risk on cross-border electricity trades; and
- Netting of imports and exports: in the absence of a netting mechanism, CBAM charges risk applying to gross volumes that do not result in net imports, which does not reflect physical or economic reality.

We urge the Commission to address these concerns in the final regulation or through sector-specific guidance published no later than Q3 2026. In the absence of such action, Energy UK supports the position set out in the March 2026 joint call from the European electricity sector that application of CBAM to electricity should be postponed until the necessary implementing framework is in place. Energy UK also calls on the Commission and EU institutions to prioritise swift publication of outstanding guidance, and to ensure that any UK–EU ETS linking agreement provides an early and comprehensive exemption for UK electricity from CBAM obligations.
If you would like to discuss anything noted in this response in more detail, please do get in touch.

Sincerely,

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Consultation Response

1. Carbon Price Granularity: The Case for Harmonisation with CBAM Certificate Price Updates

The draft regulation calculates the effective carbon price paid using reporting-period (annual) averages under Article 6(2) of the draft regulation and also introduces an annual average CBAM price to be used in the calculation. For electricity, this methodology produces inaccurate CBAM liability calculations and a miscalibrated carbon leakage signal, creating the risk of both over- and under-payment that is impossible to hedge or predict at the time of trading. While we understand the rationale of using an annual average for consistency across declarants, this approach creates significant practical problems for electricity market participants as it is not harmonised with the operation of the electricity market or the quarterly (and soon weekly) updates to CBAM values.

Cross-border electricity exports from carbon-intensive grids are not distributed uniformly across the year. They are disproportionately concentrated in hours when thermal generation is running at high output, precisely the hours of highest carbon intensity and, in many systems, highest carbon price. Annual weighted averages smooth prices across all hours including the many hours when no

exports occur and when renewable generation is dominant. The result is that the carbon price attributed to actual exported electricity does not accurately reflect the carbon cost of what was actually imported.

In practice, CBAM certificates are purchased at the market price prevailing at the time of the transaction, not at a yearly average. As it stands, these prices are updated quarterly and will be updated weekly from 2027. This means that at the point of trading a cross-border electricity contract, the importer does not know the annual average reference price that will apply to their deduction calculation it will only be published after year-end. This prevents meaningful mark-to-market valuation and forward pricing of CBAM exposure and introduces basis risk between the price at which certificates are purchased and the reference price used for calculating deductions.

For electricity specifically, annual aggregation obscures the continuous variation in carbon intensity and prices that determines trading exposure. Operators face a large, difficult-to-quantify liability crystallising at year-end with very limited time to arrange certificate purchases.

For 2026, reporting is on an annual basis, meaning parties will not know their total liability until year-end. For UK parties, this is further compounded by the absence of published guidance and the unresolved question of exemption following UK-EU ETS linking.

Industry analysis indicates this uncertainty is already causing trading distortions at the EU's borders, including with the Western Balkans, limiting available capacity. Liability that can only be known retrospectively makes rational trading and risk management impossible.

For a sector like electricity, these issues would be alleviated if the average prices for CBAM certificates and effective carbon price paid in a third country were updated more regularly and harmonised i.e, updated quarterly for 2026 and weekly from 2027.

More temporally granular default values would also more accurately reflect emissions from electricity imports, given rapid grid decarbonisation in markets like Great Britain. A feasible step would be moving from the current five-year trailing average to annual averages of emissions per country.

The current framework in Annex I Section 3 provides no mechanism for sub-annual attribution: Equation 1 (CPDIR) divides total carbon price paid by total CPM emissions over the reporting period, an inherently period-level calculation. Similarly, the default value calculation method provides no flexibility for electricity importers to use more granular emissions data that better reflects actual grid conditions.

Energy UK calls on the Commission to:

- Change the wording in Article 6(2) to have the CBAM price paid based on the quarterly average, then weekly from 2027.
- Introduce an explicit pathway in the implementing regulation for sub-annual carbon price attribution for electricity imports, quarterly for 2026, moving to weekly from 2027, in line with the planned update frequency of CBAM certificate prices;
- Consider moving from five years average default values for electricity emissions from third countries to an annual average; and
- Commit to reviewing the time granularity provisions for electricity no later than the first scheduled review of the CBAM regulation.

2. Recognition of Layered National Carbon Pricing Instruments

The regulation does not adequately address third countries with overlapping carbon pricing instruments. The UK is the most significant example, with both the UK ETS and the Carbon Price Support (CPS) applying to electricity generation. The issue is the same for traders. It is incredibly difficult to prove they have paid UK ETS and CPS due to the difficulty of attributing the exact origin

of electricity procured. Both UK ETS and CPS need to be recognised for GB electricity imports to the EU in order to avoid double taxation.

While the December CBAM package indicated the UK CPS would be accounted for in liability calculations, the fuel-based carbon tax algorithm in Annex I Section 3.3.3 requires an "emission factor for the fuel" consumed at the installation. This is impossible to apply to grid-level electricity imports: fuel split and quantities can be determined at the level of a specific power plant, but grid-level electricity cannot be attributed to a single fuel source, and this information is not readily available for entire national grids. The Commission must explicitly address this gap.

The UK ETS covers large generators and is in principle recognisable under Section 3.3.1 of Annex I. The CPS is a fuel duty supplement levied on fossil fuels used in power generation, functioning as a fuel-based carbon tax under Section 3.3.3. It interacts with the UK ETS to create a de facto carbon floor price for electricity generation. This architecture fits neither Section 3.3.3 nor Section 3.3.4 of Annex I cleanly, creating several specific problems:

- Section 3.3.3 requires default emission factors from national inventory submissions. For the CPS, the tax rate is set per unit of fuel, but the relationship between the CPS rate and CO2e content uses a specific UK regulatory conversion that may not be consistent with IPCC default factors as required by Annex I.
- Section 3.3.4 provides a weighted average approach for mixed compliance, but is designed for a single mechanism with multiple compliance routes, not two legally distinct mechanisms interacting to produce a floor price.
- Evidence requirements under Section 3.5 for fuel-based taxes require official records of tax paid on fuel quantities from fuel suppliers or tax authorities. For the CPS, which is collected upstream in the fuel supply chain, obtaining installation-level evidence may be practically difficult for generators.

Energy UK requests that the Commission publish specific guidance on the treatment of the UK CPS within the CBAM carbon price recognition framework, covering: how the CPS and UK ETS are to be aggregated; what constitutes sufficient evidence of CPS payment at installation level; and how the fuel emission factors used for CPS purposes are to be treated relative to the Annex I requirements.

3. Harmonisation of Reporting Standards

The draft regulation introduces standard electronic templates (Article 7) (as well as English as the working language (Articles 7(3) and 17(9))). These are welcome steps. However, they do not address the deeper harmonisation challenges facing the electricity sector.

Misalignment with electricity market timelines

CBAM certificate pricing is updated quarterly (and weekly from 2027) and reporting obligations are structured around annual periods that do not correspond to electricity market operational and settlement cycles. Cross-border electricity trade operates on day-ahead and intraday, as well as long-term timeframes. Settlement, nomination, and balancing are done on timelines incompatible with CBAM's current reporting architecture, and there is no provision in the regulation to align CBAM liability data collection with the data streams that electricity market participants maintain under REMIT. This is already causing distortions in market trading.

Without such alignment, CBAM reporting time horizons that do not map onto existing market operation increase compliance costs and risk. Ideally the EU CBAM regulation should be amended to apply charges only on netted positions across all nomination timeframes per market participant.

Divergent interpretation across Member States

CBAM declarations are assessed by national competent authorities, and there is a demonstrated risk of divergent interpretation of ambiguous requirements across competent

CBAM reporting bodies in the Member States. For electricity, where a net cross-border flow may involve multiple Member States as well as a third country (or multiple third countries), this could give rise to declarations in multiple Member States, inconsistent interpretation, competitive distortions and legal uncertainty.

Currently, customs declarations at different borders do not use any standardised way of reporting power imports from GB. The reporting can vary between volume of power at point of exit from GB, mid-channel point, or volume at entry into an EU MS. Depending on what methods are used, this means reporting may or may not take into account technical losses over the cables. This may lead to inconsistencies between customs' declarations and CBAM declarations, especially when it comes to verifying the quantities that need to be subject to the CBAM declaration and the respective CBAM financial obligations that need to be met. As a result, this would lead to a potential risk of overestimation of the MW imported to the EU which would be subject to CBAM charges.

Energy UK urges the Commission to:

- Develop electricity-specific reporting templates and guidance aligned with REMIT data definitions and electricity market settlement timelines; and
- Establish a coordination mechanism between CBAM competent authorities and national energy regulators (NRAs/ACER) to ensure consistent interpretation of electricity-specific provisions.

5. Interconnectors and Grid-Level Emissions Attribution

The regulation is built around operators of specific installations producing identifiable goods. This architecture does not translate to electricity flowing through interconnectors. Imports cannot be traced to a specific installation but are a product of the entire synchronised grid and electricity trading occurs anonymously on power exchanges, making it virtually impossible to trace the carbon price paid on specific electricity units imported into the EU.

For electricity flows through an interconnector, it is not clear who the 'operator' is for CBAM purposes, how emissions are attributed to specific flows rather than the grid as a whole, what evidence could be assembled for flows from grids without qualifying carbon price mechanisms, or how certification would work without installation-level data.

Without a grid-level attribution framework and updated default values, interconnector operators and electricity traders face unquantifiable and potentially uninsurable exposure. This creates direct disincentives to cross-border trade and investment in interconnector capacity, outcomes that run directly counter to the EU's energy security, market integration, and decarbonisation objectives.

Energy UK calls on the Commission to:

- Publish an updated annex for reporting carbon price paid for electricity, recognising the unique nature of the good. A simplified regime would be adding a recognised scheme's value, like the UK CPS's value (£18/tCO2e), to the liability already accounted for in the default value; and
- Publish robust, updated, and legally certain default emission factors for all relevant third-country electricity systems, including the UK, as a matter of urgency;

6. Foreign Exchange Rates and Trading Uncertainty

Article 5 requires operators to convert the carbon price effectively paid into euros using the yearly average exchange rate for the reporting period, based on rates published by the Commission using ECB or Eurostat data. While this is appropriate for goods with long production and trade cycles, it creates material difficulties for electricity trading.

Cross-border electricity is traded continuously on day-ahead and intraday markets. At the time a trade is executed, the trader prices the CBAM cost on the basis of the prevailing or forward FX rate. The yearly average rate is unknown at execution and is only published retrospectively. This means that trades which appear profitable at the time of execution may become loss-making once the annual FX average is applied to the CBAM cost calculation. This is particularly acute for UK-EU interconnector flows given the volatility of the GBP/EUR exchange rate.

The same issue applies to third-country carbon prices used in the deduction calculation: where a third country's carbon price is denominated in local currency, the conversion to EUR at a retrospective annual average rate creates additional pricing uncertainty that cannot be hedged at the time of trading.

Energy UK recommends that the Commission:

- Publish indicative yearly average FX rates on a rolling basis (e.g., updated monthly or quarterly) so that market participants can track their expected CBAM cost exposure during the year;
- Move to quarterly average FX rates for 2026, with a commitment to transition to weekly average rates from 2027 to align with the planned update cadence of CBAM certificate prices; and
- Include FX rate publication timelines in the broader guidance on publication of key CBAM values.

Wider CBAM Framework: Issues Beyond the Scope of this Implementing Regulation

The following two sections address concerns that fall outside the direct scope of this implementing regulation, but which bear materially on the electricity sector's ability to comply with the broader CBAM framework. They are directed to the Commission and EU institutions in the context of the primary Regulation (EU) 2023/956 and ongoing UK-EU energy policy discussions.

7. Timing and Regulatory Completeness

The regulation states a 1 January 2026 application date. This Call for Evidence was published in May 2026, and finalised implementing guidance, including the default carbon prices that the Commission is required to publish under Article 9(5) of Regulation (EU) 2023/956, is not expected until later in 2026. Importers are already accumulating CBAM liability for 2026 electricity flows without the ability to calculate, verify, or hedge that exposure. Certificate surrender obligations fall due in late 2027, leaving a very short window to adapt once guidance is published.

This timing problem is more acute for electricity than for other CBAM goods for two reasons. First, the majority of electricity importers are expected to rely on default carbon price values rather than actual certified values, yet those defaults remain unpublished. Unlike industrial goods operators who can build certification processes with third-country suppliers, electricity traders have no equivalent pathway. Second, many commercial arrangements giving rise to part of the 2026 CBAM liability, like long-term cross-border contracts (what few exist), were made before the rules became clear and cannot be retrospectively renegotiated.

Energy UK requests that the Commission:

- Commit to publishing the updated default carbon prices for all relevant third countries no later than Q3 2026;
- Introduce explicit transitional provisions for the electricity sector acknowledging the difficulty of full compliance in 2026; and
- Clarify that enforcement discretion for CBAM liabilities will be applied proportionately in the first compliance year (2026) where operators have acted in good faith under conditions of regulatory uncertainty.

8. Importer of Record: Structural Barriers for UK Entities Trading via Interconnectors

A significant concern raised by Energy UK members relates to the structural barriers created by CBAM's 'importer of record' requirement for UK-based entities trading electricity via EU–UK interconnectors. This concern is not addressed anywhere in the draft regulation.

The CBAM framework, including this implementing regulation, requires the 'authorised CBAM declarant' to be established within the EU. Where a UK entity nominates interconnector trades into an EU market, it is typically treated as the importer for customs purposes. EU authorities require the liable entity to be established within their jurisdiction, meaning UK traders face two options:

- Establish a legal entity in the relevant EU Member State to act as importer of record and assume liability for CBAM obligations and any associated penalties; or
- Partner with an EU-based indirect customs representative willing to assume this liability, a service for which there is currently very limited market capacity and expertise.

Both options create material operational and financial barriers. Establishing an EU legal entity is time-consuming and costly, particularly for smaller traders. Engaging indirect representatives requires those parties to assume significant and uncertain financial liability. They typically demand substantial collateral, where they are willing to act at all, and this uncertainty itself makes it harder to find willing counterparties, reducing traded volumes and raising costs across interconnector markets.

We note that the expected convergence of UK and EU ETS prices over time, as a result of the two scheme linking, may reduce and ultimately eliminate the magnitude of material CBAM liabilities for UK electricity exporters. However, convergence is not guaranteed, and the residual risk remains significant from a counterparty perspective in the near term. Without explicit regulatory accommodation, these barriers are already affecting trading behaviour and undermining the efficient use of interconnector capacity.

In this context, Energy UK supports the position that early lifting of CBAM obligations for the UK should be considered in the event of a UK-EU ETS linking agreement, with the objective of securing an exemption for electricity as soon as an agreement is concluded, whether under Article 2.6 of Regulation (EU) 2023/956 or via a transitional or a separate, international provisional arrangement. This reflects both the close integration of UK and EU electricity markets and the inherent difficulty of applying CBAM to electricity given its technical characteristics. EU institutions should prioritise the urgent publication of outstanding implementing guidance in parallel, so as to avoid compounding regulatory uncertainty in the interim.

Energy UK requests that the Commission:

- Provide explicit clarification in the final regulation or accompanying guidance on the treatment of UK entities nominating interconnector trades for CBAM purposes, including who bears declarant liability and how it may be allocated by contract;
- Engage with HMRC, Ofgem, and the relevant EU competent authorities to develop practical guidance on EU entity establishment and indirect representation for UK electricity traders in the near term; and
- Consider a clarification and simplification mechanism for reporting from markets effectively exempt from the EU CBAM in line with Article 2.6 of Regulation (EU) 2023/956, which permits the Commission to exempt countries from CBAM obligations by equivalence determination, or through a transitional arrangement upon conclusion of a UK-EU ETS linking agreement, that allows for streamlined CBAM reporting of UK interconnector flows.

9. Netting of Imports and Exports

The CBAM framework focuses on imports of goods into the EU customs territory and does not explicitly address the treatment of net positions where an entity imports and exports during the same day via the same or adjacent interconnectors. While we acknowledge this issue is not strictly within the scope of this implementing regulation, it has a direct bearing on how the carbon price deduction is applied in practice and we urge the Commission to provide clarity. We note the Commission's published CBAM Q&A (point 6.11) addresses related questions on electricity flows, and ask that this guidance be extended to cover net positions explicitly.

In the absence of a netting mechanism, CBAM charges could apply to gross import volumes even where the same entity is exporting equivalent or greater volumes of electricity in the opposite direction over the same period. This does not reflect the physical or economic reality of cross-border electricity trading, where traders often take positions on both sides of an interconnector to capture price differentials. Applying CBAM to gross rather than net flows would overstate the carbon leakage risk being addressed and impose disproportionate costs on market participants who are not net importers.

Energy UK calls on the Commission to:

- Confirm whether netting of import and export volumes is permitted for electricity at the level of an individual interconnector or border point for the purposes of calculating CBAM liability; and
- If netting is not currently permitted, assess whether a netting provision specific to electricity could be introduced, given that electricity is unique compared to other CBAM goods as unless you declare netting quantities, one has to declare flows that might not actually happen, as electricity is traded in multiple timeframes.

Conclusion

The concerns set out in this response are not objections to CBAM in principle. They are evidence that the current implementing framework is not yet fit for purpose as applied to electricity imports. The regulation was designed primarily for industrial goods produced at identifiable installations by operators subject to well-defined third-country carbon pricing regimes. Extension to electricity, a good with unique physical characteristics, grid-level attribution challenges, a distinctive carbon pricing landscape in neighbouring markets, and structural barriers for UK-based traders, requires explicit accommodation that the draft regulation does not yet provide.

Energy UK remains committed to engaging constructively with the Commission and stands ready to provide further technical input, including on the design of an electricity-specific attribution framework, the treatment of the UK CPS, and the importer of record issue for interconnector traders. We are available for bilateral discussions at the Commission's convenience.