

EU Emission Trading System Phase 3 Baseline Verification Process



Overview

This Client Information Note explains the main stages of our process for EU Emission Trading System Phase 3 (EU ETS3) baseline verification. EU ETS3 Baseline refers to verification of free allocation of emission allowances for the period 2013-2020. Those emission allowances were initially based upon baseline data (years 2005 – 2008 or optionally 2009 – 2010) that need to be verified by an accredited Verification Body by July 2011. However, during the whole phase 3 period (2013 – 2020) new entrants and operators involved with capacity change, merges and splits are in the scope of NE&C (New Entrant & Closure) and shall apply for a baseline verification by an accredited Verification Body.

The verification process normally includes two stages before the Verification Opinion Statement can be finalised and issued to our client and /or the relevant EU Member Competent Authority. These two stages are:

- Initial Review - comprising Document Review, Methodology Report assessment for conformity, Strategic Analysis, Risk Assessment, Sampling Plan, Verification Planning; and
- Verification - comprising Data Verification Compliance Conclusion and Reporting.

At each stage, our verifiers will be open and helpful, and will follow a practical approach. In this way, we can add value to the verification process.

Before each stage we will discuss and agree with you the dates, how long the stage will last, team members and where the verification will take place, as well as any health and safety, security and administrative issues. For EU ETS3 Baseline, site visits are mandated unless otherwise authorised by the applicable EU Member State Competent Authority.

Initial review stage

Purpose

We carry out this stage to find out whether the scope, objectives, criteria, level of assurance, materiality and any additional specific requirements, as defined within the contract, are appropriate to your organisation, systems and the verification activity. We confirm this by reviewing the key information provided, including:

- the nature, scale and complexity of your organisation, greenhouse gas (GHG) inventory, organisational and operational boundaries
- the systems in place to provide confidence in your organisation's GHG data and information management used in preparing the Methodology Report and the EC template (or any other template as required by national legislation)
- the effectiveness of the systems in place for

managing data collection and collation, calculation and/or measurement, monitoring and reporting methodologies

- initial compliance with the requirements of the CIMs (Decision 2011/278/EU) as reflected in your Methodology Report

Also in this stage, we will identify the source and magnitude of any potential errors, omissions and / or misstatements of data and information in your system that may impact on our Verification Opinion Statement (VOS) and that will require corrective action before the Verification stage. These will be recorded in a detailed Initial Review Report, together with a Verification Plan for you to prepare for the next stage.

Carrying out the initial review stage

The duration of this stage depends on the complexity of your organisation, the number and nature of sub-installations, GHG data and information management. We can conduct it remotely or on site. Before this stage, your organisation will be required to provide at least the information defined within an Evidence Pack Requirements document provided at the contracting stage. When carried out on-site, we will start with an opening meeting, at which the Lloyd's Register (LR) Verifier will explain the LR verification approach to your management team and be introduced to the company. The Verifier will also agree a plan for the visit with you.

The Verifier will then:

- review your GHG data and information management documentation and the proposed verification scope
- conduct a site tour, if appropriate
- undertake an initial review of conformance to the requirements of EU ETS3
- produce a focused report which describes both positive findings and those issues requiring your attention before the verification stage
- produce a detailed plan for the Verification stage

To effectively complete this stage the Verifier will need to review:

- **Organisational and operational boundaries** – the organisational boundaries will define the sub-installations that are to be included in the verification; the operational boundaries will define the scope of the GHG inventory in relation to the submission of free allowances.
- **Organisational activities** – a site tour is normally conducted to verify the

completeness of the data, identify current controls and performance, and familiarisation for the Verification stage

- **Data and information management systems** – including any sampling and laboratory analysis conducted by the Operator (if relevant)
- **Quality control procedures** – assessment of the procedures relating to:
 - the sequence and interaction of data acquisition and handling
 - routine checks of accuracy and completeness of the GHG inventory, and identification and correction of errors and omissions
 - requirements in the CIMs and the Methodology Report
- **Quantification methodologies and calculations** – including explanation of, and justification for, any factors or assumptions used (for example, conversion factors, fuel calorific values, emissions factor, etc.)
- **GHG Inventory** – the collation of data
- **Draft GHG Report** – EC template

The visit ends with a closing meeting to present the findings, report and verification plan, and to agree the next stage of the verification process.

Documentation, data and data management systems reviewed at this stage will be referred to again at the Verification stage. However, you should continue to amend these as a result of your internal improvement activities. At each stage, we will need to know the changes between the latest issue and the originals.

Verification stage

In this stage, the Verifier will focus on the implementation of your systems and verify the data supporting the EC template. The Verification stage will confirm:

- selection and management of GHG data and information
- processes for collecting, calculating, collating, and reporting GHG data and information
- systems and processes that ensure the accuracy of the GHG data and information
- design and maintenance of the GHG data and information system
- systems and processes that support the GHG data and information system
- results of previous GHG verifications (if available and relevant)
- conformance with the GHG verification criteria.

The Verifier will do this by reviewing actions taken to address any findings raised at the Initial Review stage and by following the verification plan to completion. The Verifier will visit areas with company representatives who can act as guides and witness findings during the verification.

The Verifier will hold review meetings with you each day to discuss any findings raised. Appropriate company representatives should be present to confirm that you accept these findings. Please see below in the 'Gradings' section how we define findings. We finalise the grade of any findings at the end of the Verification stage which ends with a closing meeting to present a summary of the findings and a Verification Report to your company. If no material misstatements or material nonconformities are reported, a positive VOS (Verifier Opinion Statement) can be prepared, subject to an independent technical review by authorised LR personnel. However, if material misstatements or material nonconformities are reported, a positive VOS cannot be issued and action to be taken will be discussed and agreed between the Operator and the Verifier, and a follow-up arranged.

Gradings

Misstatement: A misstatement is an error, omission or misrepresentation in the operator's reported data. A misstatement does not include the uncertainty permissible under the CIMs. If a non-material misstatement is outstanding at the end of verification process, this will result in a 'Satisfactory' verification report.

Material Misstatement: There are two types of Material Misstatement:

- Quantitative: individual and aggregated misstatements exceeding the materiality level as considered by the verifier when compared to the total declared value in the operator's report. The materiality level is 5% of the total allowances reported.
- Qualitative: a misstatement or non-conformity (individually or combined) that can influence, as considered by the verifier, the decision of the Competent Authority.

NOTE: As non-conformity with the CIMs can also constitute (material) misstatements, the same observations can be made for non-conformity with the CIMs. It is important to note that even if the materiality level is not exceeded, misstatements and non-conformities can still have material effect on the reported data.

If a material misstatement is outstanding at the end of verification, this will result in an 'Unsatisfactory' verification report.

Nonconformity: A non-conformity is any act or omission of an act that is not in line with the GHG permit or with the CIMs requirements.

If non-conformities are also misstatements, they must be reported as non-conformities and as misstatements if these are not corrected by the operator.

If a non-material non-conformity is outstanding at the end of verification process, this will result in a 'Satisfactory' verification report.

Use of the Assurance Statement

It is your responsibility to ensure that:

- the Verification Opinion Statement, once issued, is presented to the EU Member State Competent Authority and only accompanies the GHG Report to which it refers, and
- if translated into another language, it is clearly communicated during its use that the English version of the Verification Opinion Statement is the authorised version.

Confidentiality

As defined by our contract, we will not pass on any of the data or information we gather about your organisation (including the contents of your GHG Reports) to any other person or organisation without your permission (except as required by the accreditation bodies, or EU Member State Competent Authorities).

This confidentiality will be maintained during the term of and following any termination of our Agreement, with the exception of information which was in LR's possession before disclosure by your organisation, information which is in the public domain or that which is made available to LR from an independent source.

Further information

To find out more about how LR can help you to increase performance and reduce risk, please visit our website www.lr.org. From here you can also visit one of our country specific websites to find out about LR in your count.



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