

EU ETS Phase 4 Baseline, New Entrant and Activity Level Verification Process

CLIENT INFORMATION NOTE

Overview

This Client Information Note explains the main stages of our process for EU Emission Trading System Phase 4 (EU ETS4) Baseline Data Report (BDR) verification, New Entrant Report (NER) verification and Activity Level Report (ALR) report verification. EU ETS4 BDR, NER & ALR verification refers to verification of the data report upon which the free allocation of emission allowances to be submitted to the Competent Authority is based.

Baseline Data Report (BDR)

The BDR compiles the activity level data for each sub-installation and for each 5 baseline years (2014-2018 and every 5 years thereafter) in order incumbents operators get free allocation of emission allowances and the Commission to revise the benchmark factors of the product, heat, fuel sub-installations. The submission of the BDR is to be completed initially by 30 May 2019 to obtain free allocation of emission allowances during the first allocation period (2021-2025) and every five years thereafter (2026-2030). The BDR verification must be conducted every 5 years for those installations who claim for free allocations.

New Entrant Report (NER)

A new entrant refers to an operator who has obtained a new GHG permit: new installation, mergers, splitters etc. The NER compiles the activity level data for each sub-installation of the first full calendar year of operation of the installation. The submission of the NER is to be completed at the beginning of the subsequent year of the first full calendar year of operation, for new entrants to obtain free allocation of emission allowances. The NER verification must be conducted only once for new entrants who claim for free allocations.

Allocation Level Report (ALR)

The ALR compiles the activity level changes of each sub-installation of the last calendar year of operation (the last 2 years 2019 and 2020 for the first ALR submission). The submission of the ALR is to be completed each year by 31/03 (the closing date may change depending on each Member State national legislation), for incumbent installations to get their free allocation of emission allowances adjusted.

The ALR verification is usually conducted together with the EUETS Annual emissions verification (see the corresponding Client Information Note for more details).

2-stage process

Those reports (BDR or NER or ALR) need to be verified by an accredited Verification Body. The verification process normally includes two stages before the Verification Opinion Statement can be finalised and issued to the client and /or the relevant EU Member State Competent Authority. These two stages are:

- Initial Review - comprising document review, methodology report audit for conformity, strategic analysis, risk audit, sampling plan, Verification Planning
- Verification - comprising data verification, compliance, conclusion and reporting.

At each stage, our Lead 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 ETS4 BDR, NER & ALR verification, 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 monitoring methodology plan and the EC template used to report the BDR or the NER or the ALR.
- 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 FAR (Commission Delegated Regulation (EU) 2019/331 on Free Allocation Rules of emission allowances) and requirements of the RALC (Commission Implementing Regulation (EU) 2019/1842 on adjustments to free allocation of emission allowances due to activity level changes).

Also, in this stage, we will identify the source and magnitude of any misstatements of data and / or non-conformity and / or non-conformance 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 LRQA Lead Verifier will explain our verification approach to your management team and be introduced to the company. The Lead Verifier will also agree a plan for the visit with you.

The Lead Verifier will then:

- review your GHG data, 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 ETS4
- 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 Lead 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 allocations of emission allowances.
- **Organisational activities** – a site tour is normally conducted to verify the completeness of the data, identify current controls and performance, and to familiarise the Lead Verifier in readiness for the Verification stage.
- **Data and information management systems** – including any sampling and laboratory analysis conducted by the Operator (if relevant).
- **Quality control procedures** – audit 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 FAR and the RALC and the approved monitoring methodology plan.
- **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 BDR or NER or ALR** – in the format of the EC template or any other format as specified by the national legislations

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 Lead 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 Lead 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 Lead Verifier will visit areas with company representatives who can act as guides and witness findings during the verification.

The Lead 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 as to 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 misstatement is reported, a 'verified as satisfactory' VOS (Verification Opinion Statement) can be prepared, subject to an independent technical review by authorised LRQA personnel. However, if material misstatements are reported, a 'non-verified' VOS is issued and action to be taken will be discussed and agreed between the Operator and the Lead Verifier, and a follow-up arranged.

Gradings

Misstatement: A misstatement means an omission, misrepresentation or error in the operator's reported data. A misstatement does not include the uncertainty permissible under the FAR.

If a non-material misstatement is outstanding at the end of verification process, this will result in a 'verified with comments' opinion statement.

Material Misstatement: A misstatement that, in the opinion of the verifier, individually or when aggregated with other misstatements, exceeds the materiality level (5%) or could affect the treatment of the operator's report by the competent authority.

NOTE: It is important to note that even

if the materiality level is not exceeded, misstatements, non-conformities and non-compliances with the MRR 2012 can still have material effect on the reported data.

If a material misstatement is outstanding at the end of verification, this will result in a non-verified 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 approved MMP (Monitoring & Methodology Plan).

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-conformity is outstanding at the end of verification process, this will result in a 'verified with comments' opinion statement.

Noncompliance: A non-compliance is any issue of non-compliance with the GHG Permit, the FAR, the RALC or any national legislation, which have become apparent during the verification.

If a non-compliance is outstanding at the end of verification process, this will result in a 'verified with comments' opinion statement.

If a no finding (misstatement, non-conformity or non-compliance) is raised at the end of verification process, this will result in a 'verified as satisfactory' opinion statement.

Recommendations for improvements:

A recommendation for improvement is a suggestion from the Lead Verifier to improve the operator's performance in monitoring and reporting data.

If only recommendations for improvement are outstanding at the end of verification process, this will result in a 'verified as satisfactory' opinion statement.

Use of the Assurance Statement

It is your responsibility to ensure that:

- the Verification Opinion Statement (VOS), 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 original 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 LRQA's possession before disclosure by your organisation, information which is in the public domain or that which is made available to LRQA from an independent source.

Further information

To find out more visit lrqa.com.

Get in touch

Visit lrqa.com for more information

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The LRQA logo consists of the letters 'LRQA' in a bold, sans-serif font. The 'L' and 'R' are white, while the 'Q' and 'A' are a teal color. The logo is enclosed in a teal square border.

YOUR FUTURE. OUR FOCUS.