

TRANSCRIPT

EFFECTIVELY MEETING THE CHALLENGE OF MRV UNDER REVISED MRG GUIDELINES

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Introduction

It is a good tee-up because Dr Anne-Marie Warris is going to talk about monitoring, reporting and verification in the scheme.

Anne-Marie is Vice Chair of the ETG Ltd, the Emissions Trading Group in the UK, and she Chairs the Working Group on verification, monitoring and reporting. She is also Global Product Manager – Climate Change for LRQA Centre.

Speaker – Dr Anne-Marie Warris

James, thank you very much. Good afternoon everyone. We are completely changing topic of conversation. We go from what is a national allocation plan, what are the main challenges faced by industry, to looking at some of the technical detail.

So, before I go into this let me remind you about why these technical details matter. The example I have is quite simple. There was a review of the Monitoring, Reporting Guidance document - “Monitoring Reporting Decision” as I call it, since this is a European law, and the revision that occurred for Phase II, involve an oxidation factor going from .95 to .97. You might not think that matters. It matters in reality because emissions for the installation has just gone up by 2 per cent. Most of you probably didn’t even spot it. If you didn’t, the installation is going to impacted – suddenly find that 2 per cent more emissions they have to account for in 2008 to 2012, as compared to

what they did in 2005 to 2007. So yes, I'm afraid monitoring, reporting and verification matters to the bottom-line.

Today I am actually here as the UK Emissions Trading Group. You will find in your pack a short description of what the UK Emissions Trading Group is about. It is a non-lobbying organisation where we aim to have conversations, discussions with consumers, with organisations, with industry and with Government about where emissions trading should be going, what are the critical things about emissions trading and how it should be pursued.

What I want to talk about today specifically is:

- Looking at what are the learning lessons from monitoring, reporting and verification from year 2. Perhaps we will have some answers, I am not sure we do.
- Look at the main differences between the MRG Annex I Phase II. With Phase II I just want to give you some hands-up on what is going to happen, what you are facing when you come into 2008. For a lot of you 2008 is a long way away. As David reminded us it is actually only about 9 months down the line, so it is going to be quick.
- I want to look at some issues to do with Phase III for the MRV. What is it going to mean? What are the things we are facing in terms of the Government's consultation and the European Union's consultation?
- I want to look a little bit about, if you are thinking about year 2 to year 3 of a verification and if you are thinking about Phase II, what should you be doing in terms of completing and finalising things?

I wanted to start on a positive note. I think it is really important to do that. I think it is important to recognise that what we all think about emission trading, what we all might think about the bureaucracy of it, in reality we have some real fundamentals. It's put a price on a ton of CO₂. Yes it might only be £2.40 as of last night, but it is still a price on CO₂. It is beginning to change the business culture within organisations where they are beginning to say - actually we need to think about a price on carbon. I think the de-connection

we have between the fact that for a lot of people, and Philip is a good example of it, you do not look at what CO₂ is worth in the market, you worry about how you are going to reduce it in reality. You don't have that link, that the economic theory think we have between what I as an individual may do if I had control of the price and what I could get out of selling it.

The problem with EU ETS is something we have heard today. It is an administrative burden. There is a question which has been hovering in the room, but we haven't actually said anything about, and that is - is the rigour in all member states the same? Do we do things the same way? Is monitoring, reporting and verification the same? Are they treated the same way? I can see from Philip's face that he thinks like me, that no it is not the case. I have used the UK quote in here, which is: in the UK the claim is that the system asks too much of the UK and too little of some of the other main developers of the scheme. Of course the main issue at the moment is: are we actually seeing any emission reductions whatsoever?

This slide, which is quite busy, and I am not going to look at it in detail, gives you some sense of what I found when going round doing EU ETS verification last year and what I found in talking to my colleagues who have done it. David makes the point very well. It is the first experience of verification at this level. For a lot of people the preparation is unbelievable. Predominantly because, as I know having done emission report verification for a long time, people believe that they can add two and two together and they find that to their shock that actually they can't add two and two together. They believe their spreadsheets have been copied across correctly and they haven't been copied across correctly. They believe that they are actually applying rules when they are not. So there is a sense of it becoming a big job because you are taking certain things for granted. The other thing is small installations are not always as simple verification. They are very simple if I have got a gas meter in and a gas meter out and twelve gas bills in-between - it is a really quick job. But, some of the installations in the ceramic industry and elsewhere that is not the case. There is also an issue about calibration records (really boring subject and I shall send you to sleep) which you need to

think about and be sure that you have got available to meet the requirements for the scheme. There is the whole issue of retention of documents and updating and maintaining on secure spreadsheets. I get really worried when I walk into an installation and I find that the Energy Manager has looked after the spreadsheet. It is built on his computer. It sits on his computer and not on the corporate hard drive. If he leaves, if he goes and wins the lottery and leaves the next day, where is that spreadsheet? Who is going to be into it? How do you get into it if something happens? How do you stop, if you put it on the corporate drive, other people fiddling with it and therefore changing your potential? So there are some issues that need to be thought about.

What I want to do next is to look at the main differences. These are the main differences between the MRG Phase I and MRG Phase II. I haven't given you all of them. I have not in any way attempted to cover Annex II onwards. So those specific requirements for your industry sector are not here. Here are the requirements on MRG Annex I and only a few of them have some headlines to give you some sense.

The first one, and I know we have some large installations in the room and you probably didn't spot it, but the materiality level has been reduced for large installations to 2 per cent. Somebody did some sophisticated calculations that actually it will mean that I am going to be spending longer at a large installation, but you won't be paying much more money than a smaller installation will be for a 5 per cent materiality threshold. Now I don't know how you like that, but that is the case. Fundamentally we are going to have to spend longer on data sampling, on making sure that things meet reasonable assurance.

There is a realigning focus on "source streams", rather than a "source" approach, which will start taking into account towards fuels.

The other thing, that for me is the big challenge in Phase II, there is a stronger emphasis on proper uncertainty analysis. So far we have got away, and got away in inverted commas, with looking at uncertainty analysis in terms of how

the system works. In terms of whether the meter has been installed properly. Except for certain large installations where uncertainty analysis was a necessity to demonstrate that it was being met, we haven't dealt with it. There is now a need for installations above 25,000 tonnes to do a proper uncertainty analysis. Again, not necessarily complicated for twelve gas bills, but a lot of them deal with other things coal weighbridges, weighbridge on limestone and all other things that come into that situation.

Monitoring plan requirements. Now I don't expect you to read this lot, but I wanted to put up the list to give you a sense of it.

The other thing that has happened is we now have a requirement for a written monitoring plan which are somewhat different and in fact more stringent than what used to be in Section 7.1 of the existing MRG Annex I.

So there is an issue on much more detailed descriptions of calculation measurements based on the methodology to be used.

There is an issue of how to deal with non-accredited laboratories we will come up to that later and a comprehensive description of any "fall-back" approaches and related uncertainty analysis. To put it in simple English, if a meter fails what are you going to do? I did like David's table. I would like it David. I can use it for other things.

The other thing that has happened, and everybody cheered at this point, the de-minimis source stream has been increased to 1,000 tonnes of CO₂ or less than 2 per cent of the total annual emission. It has also been capped at 20,000 tonnes. The challenge in there is the word I have highlighted. It is not an individual source stream, it is the **group** of source streams that makes up the minimus. There are a lot of organisations that had lots of little source streams that made up less than 2 per cent, but now it is the group of them. The same thing applies to minor source streams. This is less than 5,000 tonnes, so we doubled it again (as compared to MRG I), or less than 10 per

cent of the total annual emissions, but again there is now a maximum threshold.

We then get on to other esoteric subject of pure bio mass. Pure in this case means 97 per cent. The UK Government has indicated that that means that what they are going to do is if you can prove that it is 97 per cent, then the other 3 per cent will not be subjected to the same rigour as it would have been for a large installation. We will wait and see how this is going to come out in permits. You have got something else that for the UK is pretty obvious and that is that clearly all sources and source streams shall be listed in the permit. We knew that.

We have got the accredited laboratory issue. What has happened is the MRG II says that actually you don't need to use an accredited laboratory if you can't, but if you can't you have got to meet certain requirements and those include annual validation and inter-comparison between an accredited laboratory and the laboratory you are using that is non-accredited.

In terms of sampling methods and frequency. There is a new definition for batch as well that I haven't made a list of here, but the criticality here is representative samples of batches. What are you going to do if you have got coal trains, or limestone, or other materials coming in batches, rather than gas coming in as a stream? What is a representative sample? How many are you going to have to do? What they have said is you should either meet the annual uncertainty. So if you meet the total uncertainty on each individual sample, and that is 1/3 or less, then you only need to take that many samples. Otherwise you have to use the table, which actually comes out of the Austrian proposal, which makes some people go green because it is not friendly. Or you need to get an agreement from a competent authority to do anything different.

There is a whole host of changes to what used to be QA/QC section, section 7 (of MRG I). That section is now completely new, introduces some new terms and some new ideas. I would recommend any of you who have been

through EU ETS Phase I to go back and look at what it says in there. Make sure you update your language and you speak the language of what it says in there. That may sound tedious, but it might help when it comes to verification that you actually know what the verifier is talking about when he uses the new language.

The new section, section 16, relates to small installations less than 25,000 tonnes. It includes minor easing of requirements. A lot of them are in the give of the competent authority. They are not automatic, so they will have to be applied for rather than being assumed.

Those are the main differences in Annex I.

There are changes to the other Annexes. I am also pointing out to you that you have had a new Annex, Annex 12, dealing with continued emission measurement, methods and their uncertainty which we are still expecting to see more data on.

In terms of Phase III the issues that I think we need to think about, if you look at the report on the Article 30 that came out in the Autumn, the thing that matters to me in terms of MRV and this is just a short list of them.

There is a discussion on making the monitoring, reporting, guidance document into a Regulation. A European Union Regulation is what they mean by that. I think you can all imagine the consequences of making it into a legally binding document. It already is, but making it into a regulation that has to be consistently applied across Europe has its benefits. Talking to the Commission they are actually recognising they probably won't get it ready as a regulation on time, so what we may find is that we will continue with an MRG Phase III for a couple of years and then Phase III will be converted into a regulation.

There will be stronger control. Regulation here is not the same as the previous for no submission of verified emission reports. If you haven't done it there is going to be much tighter penalties on you.

The other one is a lovely little quote. 'They are looking at cost effective solutions to provision of data to the market on actual emissions more regularly'. What they mean is they want the market to have information about what your emissions are more frequently than every year. That doesn't mean verify, it means the same as it means in terms of financial statements, perhaps every three months or every six months you will have to disclose information about where you are with your emissions to a certain deadline. We don't know what is going to come out of this, it is only a consultation at the moment.

There is some discussions about including non CDM and JI projects i.e., projects in the European Union that do not qualify for CDM or JI credits. There is going to be interesting issues about how we are going to deal with monitoring, reporting and verification of that as far as I can see.

There is a discussion about an overall overarching European accreditation body. One only, just like we have for CDM. Some really interesting challenges. How that is going to work. How it will impact on you as industries, not just me as the verification body.

The whole issue of the European Union accreditation verification requirements are also being converted into a Regulation i.e., Union legal document. So there are some issues about how that is going to work out.

Then there is trading between systems. We still have got to look at that. Are we going to trade tonne is a tonne? How are we going to prove that a tonne is a tonne across the universe?

That was a very quick canter through Phase II and some issues for Phase III. What I wanted to do, apart from very quickly looking at some other voices on Phase III that I pick up, that I think we have also picked up today.

Harmonisation – what does it mean? We keep talking about it, but what do we mean? How are we going to accept common monitoring, reporting across Europe if we do not accept that the UK system may not be the accepted system. Or the German's don't accept that theirs won't be, or whatever. It doesn't matter who doesn't accept it, it is all about how we are managing the expectations.

We talk a lot about certainty. Should Phase III be five years, ten years? How long should it be? How long will be acceptable given that in that ten-year period things cannot then be changed?

We have already talked aviation. Other gases. I think there is an issue - can you measure them? Can you actually monitor them to that level of accuracy that we are dealing with? Auctioning and all of those issues come up as well.

What I want to do now is to look at some of the technical issues that hits us all and you might not be aware of.

The first one is cross border operation of verification bodies. I just want to flag this loud and clear because it is a major issue. There is no automatic authority or recognition for a body accredited in one member state to be allowed to work in others. In fact there are some member states, Germany being one of them, that does not allow somebody who does not hold German accreditation to operate in that member state. There are also other member states that have separate bodies to do this. They are not accreditation bodies in the sense we recognise it. So there are bodies that are controlled by Government, but does this include in Government inspections. What it says here it is very important if you want to use a common accreditation, an accredited verification body across everything. You need to make sure that if you take them across boundaries that the local competent authority has

agreed for them to operate in that country and that they have told the local accreditation body. It matters to you because ultimately your emission reductions, your emission report may not be recognised as being verified unless you bear this in mind.

So, what are my learning lessons? What I have learned? What do I think you need in terms of year two and three?

A good system makes all the difference. By a good system I do not mean the good old-fashioned ISO9001 system where I ended up with a shelf from there to here with Manuals on it. That is not what I am talking about. I am talking about something that works for you. A good process that sets out how it is going to be done, making sure that everybody who is playing a part in this scheme knows what they are doing and you keep track of changes.

Start early. Collect data from the 1st January. I find it really embarrassing when I walk into installations and they say to me: “Anne-Marie we decided not to collect our data until you turned up”. It is now October. What has happened in the last ten months? Have we had a meter failure? Has anything else happened? Where are you? You haven’t got a clue. You don’t even know what your CO₂ position is.

Be aware of when things change. Be aware of requirements. Be aware that you have got to tell the competent authority if you shut down a bit of your plant, or you change your meter, or something goes wrong.

Understand the timelines. David made the point; don’t start verification in October/November when you have got to get ready for March the following year.

Understand the interaction and relationship between the bodies involved in monitoring, reporting and verification. It is a need for you to understand both your own role, the role of the competent authority, the role of your trade

association, the role of people who might trade for you and the role of verifiers in this whole game and what we all can do.

As far as I am concerned there are still across European Union issues to do with harmonisation, consistency with monitoring and consistency with verification. No they are not the same. A tonne verified here is not a tonne verified elsewhere.

Before I leave you I wanted to just very quickly flag to you what you need to think about, if you haven't already thought about. What you are going to do in year 2 and 3? So start thinking before you even have anyone turn up on your site to do the verification.

Just make sure you know what the spreadsheet data for 2006 is, assuming you have a spreadsheet.

Make sure you have actually submitted those improvement reports on the 30th June, because if you haven't you better get your skates on and do them quickly before the Environment Agency or anybody else comes chasing you.

Have you actually got everything you need?

What has happened to your greenhouse gas permit from 2005?

What has happened to your monitoring methodology from 2005?

What has happened to your emission report from 2005?

Any changes? Anything we need to be aware of?

I am also trying in terms of Note 2 to find out what the competent authorities ruling is in terms of variation of greenhouse gas permits. From which point do they start counting? So, what we have to do with the emission report from year 2.

OK. You have now got to the point where you have got to soar ahead. You are going: where am I going? What is she talking about? I want to have a short list of what I have got to do when I leave here to get me ready for February's Phase II. So here goes. Two slides.

First of all get yourself a good strong cup of coffee, lots of daylight and the Monitoring Reporting Guidance document for Phase II. It is available on the European Union web site. Sit down and read it and work out what the has changed since I looked at this last. Look at your own Annex. Pen and paper is a useful little tool as well.

Develop project plans to implement the changes on time for Phase II and remember that starts the 1st January 2008. Do not wait until a year down the line, by which time you may not be able to meet the requirements.

Develop the monitoring plan it talks about and the documents to meet those requirements.

Consider developing a meter matrix to track calibration. One of the things that the Irish Government is very keen on is a meter matrix. It is document by the way. It has the meter, the meter relevant numbers, identity, what it meters, how it meters, when it is calibrated, and all sorts of other things that you sign off. A document like that makes the job of a verifier much easier if you have complicated metering.

Calculate your uncertainty level based on the issues affecting your monitoring system. Keep it simple if you can. I don't really want to be spending days looking at uncertainty analysis if I don't have to.

Review section 10 of Annex I, which is the one that deals with QA/QC and its impact on your processes for monitoring reporting. So we now have got data handling in. Other terms that we didn't used to have. It is much longer. You used to have seven short bullet points. You now have three or four pages.

Most of it is the same, but you need to understand that there are no consequences.

Report any variation or changes that you identify, that affects your existing greenhouse gas permit, to the competent authority.

Ensure you can document compliance with amended requirements by the time the Scheme starts. That is it.

Thank you very much.

End of presentation

Question and Answers

Thank you very much Anne-Marie. We have got some time for some questions.

Question (22:14)

One thing that struck me is that in a sense it is good management. Once you have set your systems up upfront and you have a good robust monitoring plan going forward MRV should be less of an issue. Is that fair or do you think that these changes in the rules will mean that it will be an ongoing concern for some companies?

Answer

Let me tell you some history from UK ETS. Then I will answer your question.

One of the things I learned from UK ETS, which is verifying on the UK ETS, was the incredible temptation installations have. They develop a nice system. They develop a nice spreadsheet. They do everything. Everything works.

You verify them in year 1 and they go “yes it is going to be dead easy next year”. You walk in, in year 2, and they have changed the system. They have invented a new spreadsheet. They will do things differently and it is like OK, take ten steps back and start again. They normally haven’t documented why they have made the changes and in some cases they have made changes without understanding the consequences of those changes.

So, historically I don’t think you are right, but I want to think you are right. I think if people actually get their processes and systems working properly then dealing with the changes we are talking about, which whilst they are there are not fundamental, should be much easier and it should be much smoother going forward. But you are all in this thing - do you actually make your system work for you or are you actually going the other way and trying to run around the system and working around it, rather than saying: I will design a system that works and stick with it. We are all human beings.

Question (24:24)

Another related question. I think we have spoken a little bit about whether or not the EU ETS creates an incentive for firms to reduce their emissions and clearly energy costs are a significant driver as we have talked about before, but I was very interested in what you were saying about Mr Energy. Suddenly it is a higher profile for the senior management. They are taking these issues seriously. Allocated more resources to Energy Managers. Far more focus on measuring the emissions and then coming up with the tactical and maybe investment opportunities that might be cost effective sense to implement. You go out and talk to a lot of companies. Do you find that in your conversations with them actually measuring their emissions actually helps them to identify cost effective opportunities to reduce them?

Answer

James I think there are two things going on. Yes, I think measuring helps them to identify what is going on. The first thing you have got to work out is

what you have got to count and then count it properly. If you counted it properly then you have got a chance that it is actually going to tell you where you are. If you remember to look at the trend analysis, and if you remember to understand the consequences of the data and that angle is correct. There is a huge disconnect in my experience between the Energy Managers and the installation for whom the trading side is actually nothing they understand at all. They do not get involved in the trading side. It is a complete mystery to which they do not want anything to do with. It doesn't impact on their bottom-line. Therefore, trading is a different issue. The few installations that I know where the Energy Manager directly benefits in terms of money in his pocket i.e., not in his personal pocket, but in his energy budget for what he achieves in energy reduction. So, if he achieves an energy reduction that means that they can sell their EU ETS lines for a certain price he can have that money inputted towards future energy performance. Does it make a difference? Yes, it does. When he doesn't see the money, it doesn't make any difference to him. He has got other things to worry about.

End of Question and Answers

Excellent. I think we will call it a day for lunch.