

Update on Phase III and Introduction to the New Regulations for Monitoring, Reporting and Accreditation and Verification

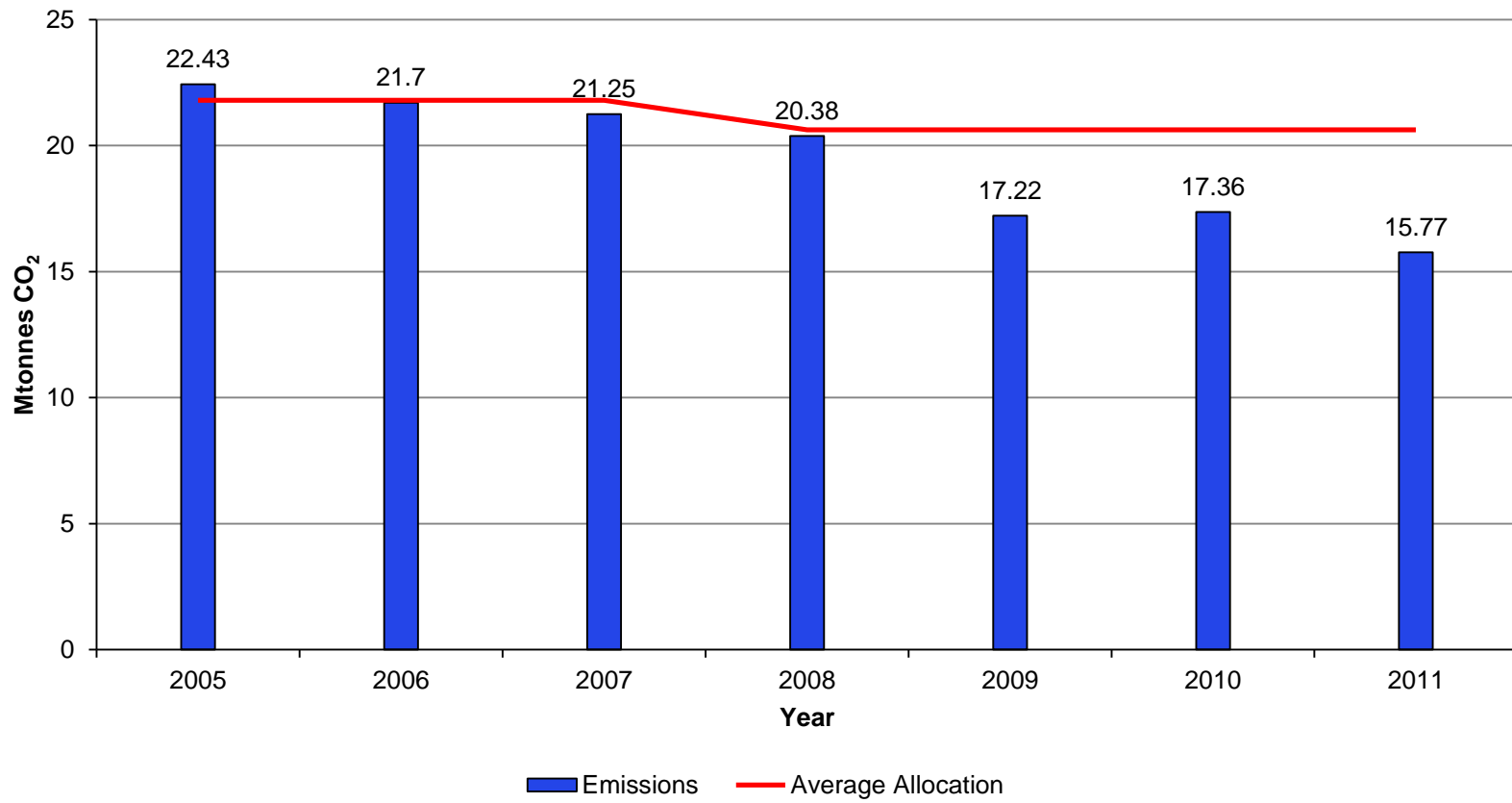
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Content

- Background – evolving system
- 2011 compliance
- Phase III changes
- NIMs – free allocation for Phase III
- Auctioning
- MRR
- AVR

Verified ETS Emissions - Ireland

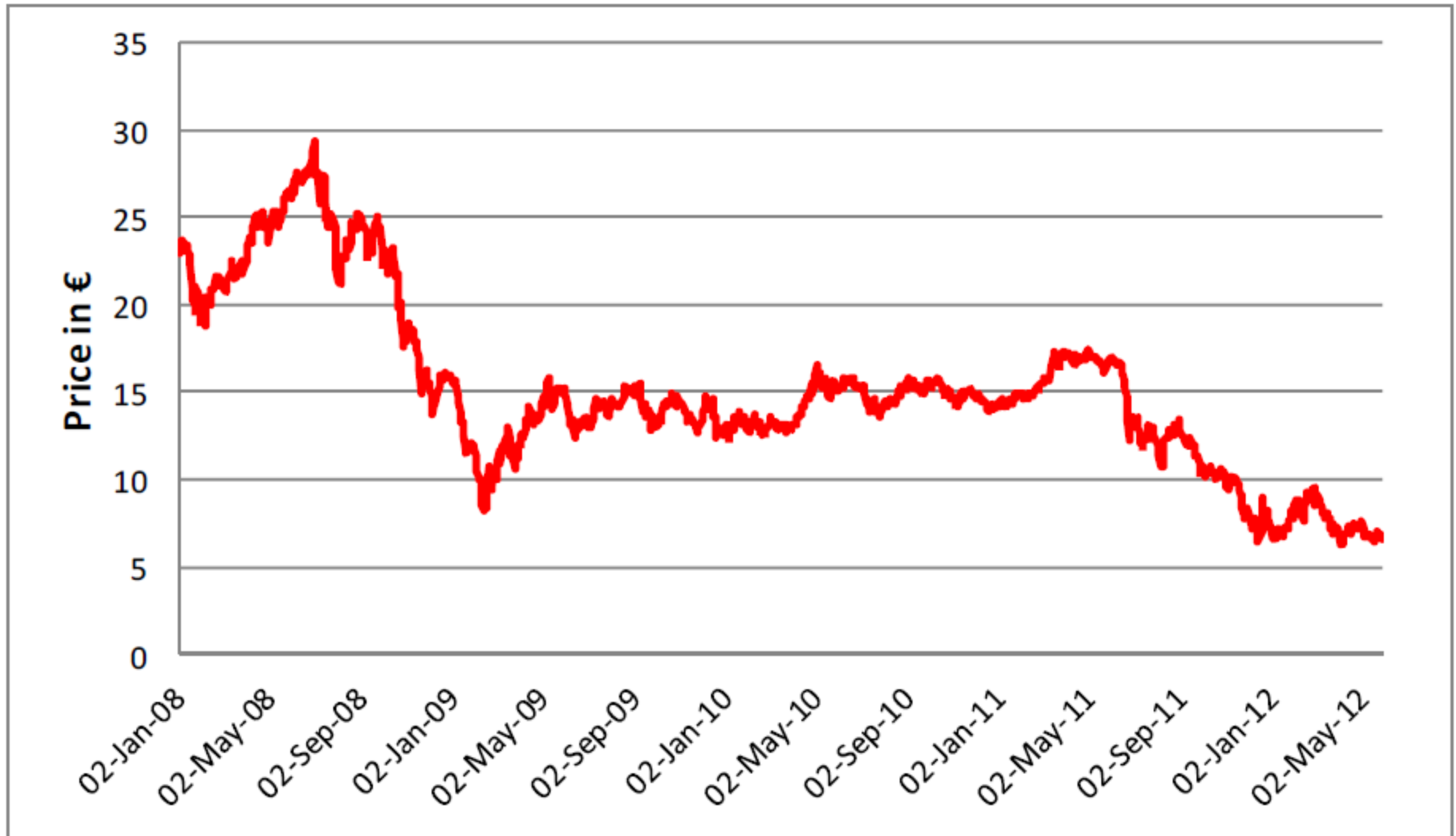


Sectoral Trends

Sector	Change 2011-2010 (t CO2)	% change v. 2010
Cement	-204,065	-12%
Pharma	-20,882	-9%
Powergen	-1,341,261	-11%
F&D	8,465	1%



Figure 3: Carbon price evolution



Source: Intercontinental Exchange. Data for front-year futures contracts with delivery in December.

Phase III (2013-2020) changes

- EU wide cap
- Larger emphasis on auctioning
- Centralisation of Free allocation -National Implementation Measures (NIMs) instead of National Allocation Plans
- No free allocation to electricity generation
- Rules in relation to cessation or closure and reduced level of activity set at EU wide level
- Monitoring and Reporting Regulation as opposed to Monitoring and Reporting Guidance as a EC Decision.
- Accreditation and Verification Regulation
- Detailed guidance documents in relation to above regulations in order to harmonise implementation
- Single registry (UR) has replaced 27 national registries

Free allocation - NIMs process

- Data collection – summer of 2011
- Draft preliminary free allocations printed on our website
- Public Consultation held (No legal obligation but good practice)
- Recommendations on submissions made to Board by an internal technical committee with a report on two issues by an external consultant
- Change made by EPA board to one draft preliminary allocation as a result of submissions

Commission Assessment Process

- Ireland submitted draft NIMs on 22 December.
- Published on EPA website in January 2012
- Some queries received from Commission 21 February re PRODCOM codes of minor sub-installations
- EPA replied to Commission on 16 March.
- Second round of queries received 16 May 2012
- Replied 30 May, 11 June (electronic) and 11 July by letter
- No change to preliminary allocation just one Capacity Utilisation Factor change.
- Assessment process for Ireland appears to be completed but no formal Decision has been issued.

Free allocation

- All MS have now submitted NIMs to Commission.
- Process of assessment and in-country visits is ongoing
- Cannot determine cross-sectoral correction factor until all NIMs have been approved
- EPA will recalculate allocations using preliminary free allocations multiplied by the cross-sectoral correction factor and publish the list.

Auctioning

- Auction Regulation 1031/2010, amended in 2011.
- Early auctioning of 120 million allowances (EUAs) in 2012.
- These allowances can't be used for compliance until 2014 surrender obligations.
- Aviation allowances (30 million EUAs) in 2012 – can be used only by Aviation Operators for compliance.
- Common Auction Platform – 24 MS, approx. 60% allowances
- Opt out by UK, Germany and (eventually) by Poland.
- Transitional CAP – European Energy Exchange
- Auction calendar due to be published mid October.
- Expect to have bi-weekly auctions.

Who can bid?

- Any ETS operator or aviation operator, their parent, subsidiary or affiliate undertakings. Operators can also form business groupings to bid as an agent on their behalf.
- Financial institutions
- Intermediaries – e.g. fuel companies
- Neither the auctioneer nor the auction platform or its staff may bid.
- The auction platform must consider each application for admission in order to prevent auctions being used as a vehicle for money laundering, terrorist financing, criminal activity or market abuse. The auction platform must carry out a minimum of customer due diligence checks.

Further information on auctions

- http://ec.europa.eu/clima/policies/ets/auctioning/index_en.htm
- Commission public consultation until 16 October 2012 on back-loading of auction time profile
- http://ec.europa.eu/clima/news/articles/news_2012072501_en.htm

Why new regulations?



Monitoring and Reporting Regulation

- Monitoring and Reporting Regulation No 601/2012
- Strengthens rules in M&R Guidelines - less divergence in interpretation
- Builds on guidance and best practice developed during the first two phases of the EU ETS
- Clarifies requirement for improvements
- Simplifies M&R for small emitters
- Makes use of CEMS more straightforward

Accreditation and Verification Regulation

- Strengthens risk based approach to verification
- Ensures that the operator provides all necessary information to the verifier.
- Sets out requirement for accreditation or certification of verifiers
- Sets up a system of communication between verifiers, accreditation bodies and competent authorities in order to facilitate feed-back and improvement
- Establishes system for supervision of accreditation bodies