

An Operator's Guide to the EU Emissions Trading System

The steps to compliance

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Introduction

This guide is aimed at operators of UK installations covered by the European Union Emissions Trading System (EU ETS). The main purpose of the guide is to remind operators of their obligations, but it is also intended to explain the purpose of the system and how it has been implemented in the UK. The guide represents a point of first reference for all queries concerning the system as well as a signpost towards sources of further information. Although aimed at assisting operators prepare for compliance with the system in Phase II, this guide will also be of use in future years. At the back of the guide is a summary checklist of EU ETS permitting, monitoring and reporting and verification requirements.

1. What is the EU Emissions Trading System?

Climate change is the greatest environmental risk facing the world today. Climate change presents a significant challenge to the UK and to the international community. There are also enormous opportunities if we are willing to take action. Government, business and individuals all have a part to play, and all of us can benefit from rising to the challenge of climate change. The UK is acting now to adapt to climate change and to decrease the risk by reducing our contribution to the causes.

The EU ETS is one of the key policies introduced by the European Union to help meet the EU's greenhouse gas emissions reduction target under the Kyoto Protocol. The EU is required to make an 8 per cent reduction in emissions compared to 1990 levels by the first Kyoto Protocol commitment period (2008 to 2012).

The UK's commitment under the Burden Sharing Agreement is to reduce its emissions of greenhouse gases by 12.5% below base year levels by 2012. The UK's target annual level of emissions implied by the

Burden Sharing Agreement is 682 million tonnes of carbon dioxide (MtCO₂) equivalent calculated from data in the UK's 2004 inventory submission, which has been provided to the EU and to the UNFCCC and contains estimates from 1990 to 2004 inclusive.

The EU ETS uses a market-based mechanism to incentivise the reduction of greenhouse gas emissions in a cost-effective and economically-efficient manner. The system operates through the allocation and trade of greenhouse gas emissions allowances throughout the EU – one allowance represents one tonne of carbon dioxide equivalent.

An overall limit, or 'cap', is set by each Member State on the total number of allowances to issue to installations in the system, based on the Member States' emission reduction targets (Kyoto and/or national). The allowances are then distributed by Member States to the installations in the system.

At the end of each year installations are required to ensure they have enough allowances to account for their actual emissions. They have the flexibility to buy additional allowances (on top of their allocation), or to sell any surplus allowances generated from reducing their emissions below their allocation. The buying and selling of allowances takes place on an EU-wide market. The system provides a flexible compliance regime for operators, whilst ensuring that emissions are reduced in the EU to the level of the EU cap.

Member States were required to transpose the **EU ETS Directive** into national legislation. In the UK, the system is enforced through the **UK Regulations** (see Table 1 for a summary of some of the key elements of the UK Regulations).

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The system is divided into periods (phases) for which Member States must develop a **National Allocation Plan (NAP)**, which requires Commission approval. These plans must set out how allowances will be issued to installations included in the system, and they must show that the total number of allowances to be issued is consistent with Member States' individual emission reduction targets under the EU's burden sharing agreement for the Kyoto Protocol.

Installations covered by the EU ETS are those which carry out activities listed in **Schedule 1** of the UK Regulations. These include:

- energy activities (e.g. boilers, electricity generators, CHP);
- production and processing of ferrous metals;
- mineral industries;
- pulp and paper industries.

The UK Regulations require all installations carrying out any activity listed in Schedule 1 to hold a greenhouse gas emissions permit. The conditions of the permit will require installations to monitor and report emissions in accordance with the monitoring and reporting plan approved by your Regulator. Each year emissions data for the previous calendar year must be verified, and the equivalent number of allowances surrendered. All transfers and surrenders of allowances take place on electronic national registries.

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Table 1: The UK Regulations – summary

*Please note that this is just a summary of some of the key requirements of the EU ETS Regulations. Operators are advised to review the UK Regulations and their greenhouse gas emissions permit conditions in full.

Regulation	Description
7	You must not carry out a Schedule 1 activity unless you have a greenhouse gas emissions permit (GHG Permit)
8 and 9	Application and grant of GHG Permits: <ul style="list-style-type: none"> • applications for GHG Permits, containing the information set out in 8(2), must be made to your Regulator and accompanied by the appropriate fee • your regulator is required to grant or decline an application for a GHG Permit within two months of receipt of the application
10	Conditions of GHG Permits: <ul style="list-style-type: none"> • monitoring and reporting obligations • verification obligations • requirement to notify Regulator where you cannot comply with conditions • requirement to surrender allowances 11 to 17
11 to 17	Essential procedures and processes: <ul style="list-style-type: none"> • proposed changes or commencement of operation • permit variations, transfers, surrenders or revocations
18 and 19 (Schedule 5 and 6)	Fees and charges in respect of: <ul style="list-style-type: none"> • greenhouse gas emissions permits • the allocation of allowances • registry fees • subsistence charges
20 to 27	Rules governing allocation of allowances including: <ul style="list-style-type: none"> • National Allocation Plans • New Entrant Reserve • Registry
38 to 41	Offences and penalties including: <ul style="list-style-type: none"> • failure to hold or comply with a GHG permit • false statements • penalty for excess emissions (e.g. €100 per tonne of CO₂ equivalent (in Phase II) and requirement to make up the surrender shortfall in the following year

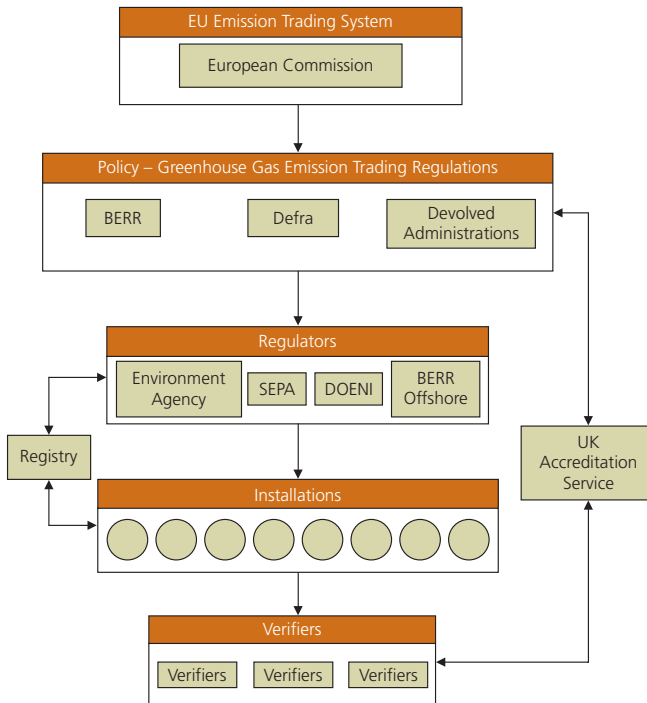
2. Who does what?

The responsibilities and duties of those involved in the EU ETS are set out in three documents:

- EU ETS Directive
- UK Regulations
- EU Registries Regulation

The European Commission has responsibility for the strategic development of the system and setting the EU cap. It is also responsible for the central registry which links the registries in each Member State.

Figure 1: Who does what?



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Key responsibilities relating to the UK's implementation of the EU ETS:

- *Department for Environment Food and Rural Affairs (Defra)* – lead department for EU ETS, development of the UK Regulations, direction and guidance to the Registry Administrator and the Regulators, the development of the UK NAP, development of the UK Registry, and liaising with the devolved administrations, other government departments and the regulators;
- *Department for Business Enterprise and Regulatory Reform (BERR)* – development of new entrant policy, and regulation of UK offshore installations;
- *Devolved Administrations* – as this is a devolved matter, working with UK Government in relation to the UK's EU ETS implementation (see above);
- *Regulators* – issue and enforcement of greenhouse gas emissions trading permits, including monitoring plans, assessment of new entrant applications, and enforcement of the UK Regulations in accordance with permits;
- *Registry Administrators* – the Environment Agency is responsible for the maintenance and administration of the UK Registry;
- *UK Accreditation Service (UKAS)* – provides accreditation for verifiers;
- *Verifiers* – installations' verified annual emission reports must be independently verified by an accredited verifier;
- *Installations* – to comply with the system, monitoring and reporting emissions and surrendering sufficient allowances to account for their emissions (key obligations are outlined in this guide – see section 6 in particular).

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The Devolved Administrations are:

- The Scottish Executive
- The Department of Environment in Northern Ireland (DOENI)
- Welsh Assembly Government

The Regulators are:

- England and Wales – the Environment Agency
- Scotland – the Scottish Environment Protection Agency (SEPA)
- Northern Ireland – Chief Inspector, DOENI
- UK offshore oil and gas installations – BERR

Figure 1 details the relationships between parties involved in the EU ETS.

3. Phase II of the EU ETS (2008 – 2012)

Phase II of the system runs from 1 January 2008 to 31 December 2012. The activities covered by the EU ETS are energy activities (including combustion installations, coke ovens and mineral oil refineries); production and processing of ferrous metals; mineral industries (including cement, lime, glass, and ceramics); and production of pulp and paper. To increase harmonisation across the EU, some additional activities are covered by Phase II.

These additional activities include:

- Flaring at offshore installations
- Crackers at petrochemical installations
- Production of Carbon Black
- Production of Gypsum

Carbon dioxide was the only greenhouse gas covered by the EU ETS in Phase I. Other greenhouse gases or activities could be covered in Phase II and/or future phases, if Member States chose to opt-in additional gases or activities.

The **UK's approved National Allocation Plan for Phase II** and list of installation allocations for Phase II were published on 16 March 2007. These set out how many allowances are being issued to UK installations covered by the system.

4. How were allowances calculated in Phase II?

In Phase II, 93 per cent of allowances will be allocated for free to existing UK installations in five equal annual instalments; the remaining 7 per cent will be auctioned or otherwise sold. In addition, any allowances from closures or surplus from the New Entrant Reserve (NER) may be auctioned or otherwise sold. The NER (see page 10) comprises 6.6 per cent of the total allowances (calculated before the deduction of the 7 per cent auctioning pot).

For installations which were in operation before 30 June 2006, the allocation of allowances followed a two-stage process.

Firstly, the total quantity of allowances was distributed among sectors covered by the EU ETS – e.g. large electricity producers, iron and steel, cement etc. The sector totals were intended to reflect the projected emissions of each sector, except for the large electricity producers sector, which received a lower allocation in Phase II. The UK decided this sector would be responsible for delivering the additional savings which the UK expects the EU ETS to achieve. This sector is more insulated from international competition and has more low cost abatement opportunities than other sectors.

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Secondly, installations were allocated a proportion of the sector total. Originally for Phase I, this was calculated on the basis of each installations' verified historic emissions data for 1998-2003, after excluding the lowest year's emissions. Phase 2 calculations have involved verified emissions data concerning 2000 to 2003. Installations could also apply to have specific allocation methodologies applied to cover certain situations e.g. changes to operations during the baseline period.

New Entrant Reserve

A number of allowances will be set-aside in a New Entrant Reserve (NER) to be allocated for free to installations that commence or extend the operation of an Annex I activity, between 1 January 2008 and 31 December 2012. The NER will contain additional allowances to provide Phase II allocations for new entrants that start operation towards the end of Phase I (between 30 June 2006 and 31 December 2007).

The NER will comprise 81.6 million allowances, representing 6.6% of the total number of allowances to be allocated for Phase II. 8.5 million of the allowances in the NER are primarily intended to provide Phase II allowances for later Phase I new entrants (including some allowances from the CHP NER).

Part of the NER will be ring-fenced for use by Good Quality Combined Heat and Power (GQ CHP) new entrants. Good Quality certification is determined under the CHPQA programme. Where a new entrant applicant is partially qualified under the CHPQA programme, only the GQ CHP part of their application will come from the ring-fence, with the rest coming from the general NER. 27.5 million allowances will be for use by GQ CHP installations.

Contingency Fund

2.4 million allowances in the NER will act as a contingency fund of allowances, specifically to provide for installations that may have been allocated an incorrect number of allowances as a result of administrative error or installations which were issued with a Greenhouse Gas (GHG) permit too late for inclusion in the NAP.

Banking and Borrowing

The current regulations allow unlimited banking between compliance years within phases and from Phase II will be allowed between phases. This is so that installations that do not use their entitlement in one year of the period may carry these over for use in the following year in Phase II. The current Directive also allows borrowing up to one year ahead within a phase, but not between phases.

5. How are allowances issued?

Incumbent installations covered by the scheme were allocated allowances as set out in the UK's approved NAP. In the first year of Phase II the allocation of the allowances was delayed due to technical difficulties relating to the connection of the Community Independent Transaction Log (CITL) and the UNFCCC's International Transaction Log (ITL). In subsequent years the allowances will be allocated in the February of each year.

Registry

All transfers and the surrender of allowances take place on an electronic registry. Member States are required to establish and maintain a registry to manage the issue, holding, transfer and cancellation of allowances.

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An **operator holding account** will already exist for most installations which have greenhouse gas emissions permits and were included in the list of installation allocations published alongside the approved NAP. However, new and late entrants will need to open their operator holding accounts online.

The registry is a secure web-based application that records:

- allowances allocated to installations and held in registry accounts;
- annual verified emissions for installations;
- the transfer of allowances between accounts;
- annual compliance status of installations.

Registry users are required to comply with the Registry Terms and Conditions available on the registry website (see section 11).

The **Registry Administrator** manages the registry. In the UK the Registry Administrator is the Environment Agency. The Registry Administrator will be informed of any surrender or revocation of a greenhouse gas emissions permit by the Regulator.

New and late entrants are required to apply online for an operator account and must comply with the requirements for identity checks and pay the appropriate fee. Person accounts may be opened on the registry for trading purposes, even if you do not have an installation covered by the system.

6. What are my obligations under the EU ETS?

Details of the information required to successfully operate in the system are set out in the UK Regulations. You should also ensure you are fully aware of your obligations contained in, and in relation to, your greenhouse gas emissions permit. Figure 2 illustrates the key steps an operator must take in order to comply with the EU ETS.

Checklist

A checklist can be found at the end of this guide providing a summary of key steps, and deadlines for completion of these tasks.

Greenhouse gas emissions permits

If your installation carries out any of the activities in Schedule 1 of the UK Regulations, you must have a **greenhouse gas emissions permit** – in effect, a licence to operate and emit carbon dioxide. This is issued by your Regulator. If you have a permit and were included in the list of installation allocations published alongside the approved NAP, allowances will be issued to you in February of each year.

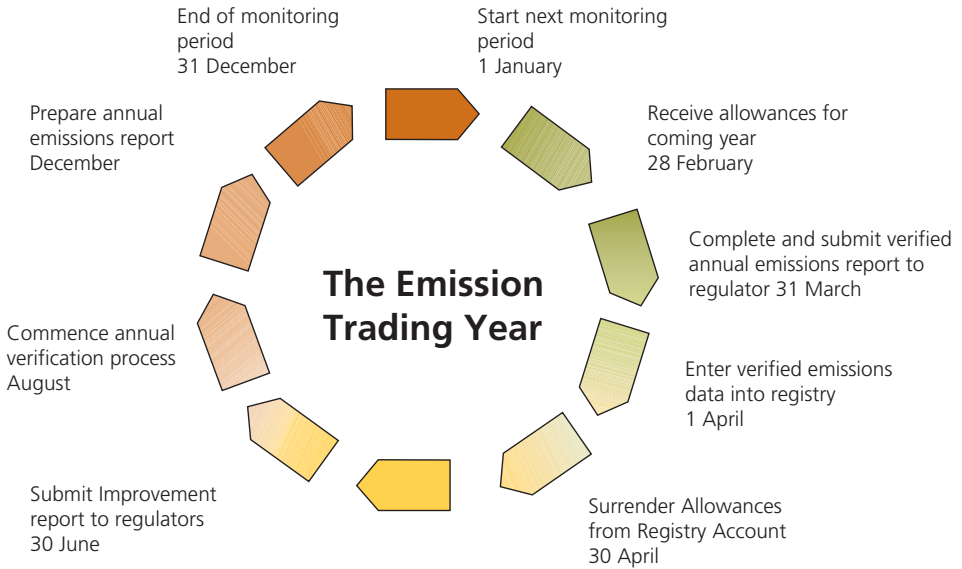
Monitoring and Reporting

You must submit a **monitoring plan** with your permit application. This plan will provide information on how emissions will be monitored and reported, and will require approval by your Regulator. The reporting year runs from **1 January to 31 December** each year. Additionally, you may be required to submit monitoring methodology improvement plans to your Regulator by 30 June each year, depending on whether you are supposed to meet top tier requirements and/or receive recommendations from your verifier.

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Figure 2: The emissions trading year



Verification

The EU ETS requires all annual emissions reports and monitoring to be verified by an independent accredited verifier. A verifier will check for inconsistencies in monitoring with the approved plan and misstatement (omissions, misrepresentations and errors) in the emissions report. They will produce a verification opinion statement which must then be sent with the now verified annual emissions report to the Regulator by 31 March the following year. Please note that verifiers are private companies who will levy charges on operators for their services. Your verifier will also confirm your verified annual emissions figure in the registry directly.

Surrender

If you are an operator of an installation covered by the EU ETS, you are legally required to surrender sufficient allowances every year to account for your actual emissions from the previous year, via your registry account. You must surrender the appropriate number of allowances to the registry administrator equivalent to your annual report by **30 April** each year.

Penalties

For Phase II, if you do not surrender sufficient allowances to cover your installations' reported emissions **by 30 April of each year**, you are liable to a penalty of 100 Euros per tonne of CO₂ equivalent. All penalties must be paid to your Regulator. You will also be required to make up the surrender shortfall in the following year.

7. How do I trade?

If you think you have been allocated fewer allowances than you will require, you have the choice to either reduce your emissions via various carbon reduction measures, or to purchase allowances to make up the difference. You also have the option of selling any excess allowances you may have. The process of trading allowances is very similar to the process for buying or selling shares.

Figure 3 provides a basic example of how allowances may be traded among installations in the system, to ensure compliance with the EU ETS.

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The **carbon market** has developed over the past few years, in particular since the start of Phase I. Companies can access the market to buy allowances to meet their compliance requirements or to sell surplus allowances in several ways:

- trading directly with other companies covered by the system
- buying or selling from intermediaries (such as banks and specialist traders)
- using the services of a broker to find other buyers and sellers of allowances
- joining one of the several exchanges that list carbon allowance products

Currently only EU ETS allowances can be recorded as trades on the registry. These are known as EU Allowance Units (EUAs). However, the **Linking Directive** allows credits generated from Kyoto flexible mechanisms to be used for EU ETS compliance purposes. There are several different types of Kyoto units, which are explained on the registry website. In Phase II, operators can use Certified Emission Reduction units (CERs), which are generated through Clean Development Mechanism projects and Emission Reduction Units (ERUs), which are generated through Joint Implementation projects. The Government has set a limit for Large Electricity Producers of 9.3% of their allocation and a limit for the remaining installations of 8% on the use of project credits at an installation level.

Operators can bank their project credit limits between the years of Phase II, however they cannot borrow the use of project credit limits from future years of the Phase.

Purchasing Allowances

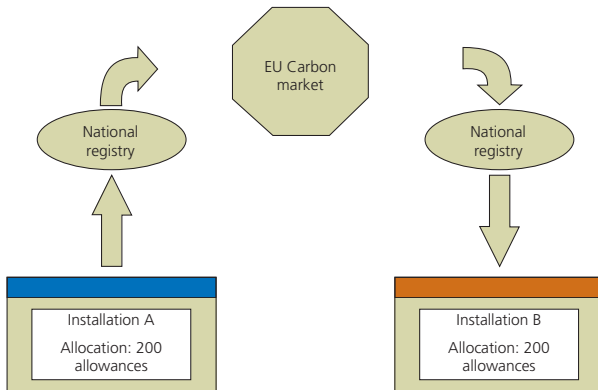
At the heart of the system is the flexibility for operators to trade the allowances which they are allocated. As a government body, Defra cannot provide any advice or guidance on the purchase of allowances,

but participants are advised to seek their own, independent professional advice.

Figure 3: Example of trading

How trading works – a simplified example:

Historically installation A and installation B both emit 210 tonnes of CO₂ per year. Following the application of the approved allocation methodology, both have been given 200 allowances under the system.



At the end of the first year, verification of installation A's emissions confirms that it has emitted 180MtCO₂ because it chose to install a new energy efficient boiler prior to the start of the system, which reduced its CO₂ emissions, rather than continue operating as it had in the past and buy the additional allowances required. It sold its surplus allowances on the carbon market. Installation B emitted 220MtCO₂ because it was expensive to take carbon abatement measures in this instance and it needed to increase its production capacity. Therefore, installation B bought allowances from the market, which had been made available because installation A has been able to sell its additional allowances. The net effect is that abatement occurs in the cheapest place, and CO₂ is limited to the 400 allowances issued to both installations.

Transferring allowances on the Registry

Having bought or sold allowances, a trade must be honoured by transferring the appropriate number of allowances on the registry. A registry account is required to do this.

Non-operators who would like to hold or transfer carbon allowances may open **person holding accounts**. Anyone can open a person holding account by applying online, paying the appropriate fee to the Registry Administrator and submitting the appropriate documents for identification purposes.

When performing a transfer of allowances, account users will input the following information relating to the units to transfer:

- Total units
- Country of origin
- Unit type
- Unit Commitment Period
- Acquirer details (Account ID)

Users can also select specific units or unit blocks for transfer by selecting the relevant serial numbers. Further details on the functioning of the registry are available from the Registry Administrator.

8. How do I surrender allowances?

At the end of each year you must demonstrate that your installation is in compliance with the EU ETS by surrendering the relevant number of allowances **by 30 April each year**. If you fail to do so, your installation will face financial penalties.

We recommend that you balance your allowances against your installation's emissions each year. In practice you will receive the following year's allocation before you are required to surrender allowances, i.e. allowances are issued in February, but the deadline for surrendering is 30 April.

It is possible to carry over, or 'bank', any left over allowances between years, e.g. you may surrender 2008 allowances in respect of 2009 emissions. However, it was not possible under the Regulations to bank between EU ETS Phases 1 and 2, and so it is not possible to use, for example, 2007 allowances in respect of 2008 emissions.

If you surrender sufficient allowances to cover your installations' verified CO₂ emissions by the deadline your account will be **compliant**. If your account is **non-compliant** at the end of the reconciliation period (by 30 April), a 100 Euro fine will be applied for every tonne of CO₂ that you have not surrendered an allowance for. This penalty will be strictly enforced. You will also be required to make up the surrender shortfall in the following year.

Please note that if a verified emissions figure has not been entered in the registry **by 1 April** each year, the ability to transfer allowances out of your account will be blocked until this figure is entered and verified.

9. What if there are changes to my installation?

Permits and changes to Permits

If you are expecting, or have undergone, any change in your normal operation since you obtained your greenhouse gas emissions trading permit and agreed your monitoring plan, you should contact your regulator to determine whether or not you require any changes to your permit (a permit variation) or monitoring plan.

Closure

Closure can be defined when:

- the Schedule 1 activity at the installation has ceased operating;
- the capacity of the Schedule 1 activity at the installation has dropped below the thresholds contained in Schedule 1.

The Regulators will use their discretion to distinguish between permanent closures and cases where a temporary period or partial closure has occurred during the normal course of business. Closure may affect your obligations under the EU ETS. Table 2 provides a summary of the possible effects, but you should contact your Regulator to check how these rules apply to your particular circumstances.

Table 2: The impact of closure

Change	Allowance	Comments
Partial Closure	Partial closure will not result in any change to allowances allocated.	Installations are still required to provide verified reports set out in their permits.
Temporary Closure	Temporary closure will not result in any change to allowances allocated.	Operators should notify the relevant Regulator of temporary closure. Installations are still required to provide verified reports set out in their permits.
Permanent Closure	Permanent closure will result in the withholding of allowances that would have been issued for subsequent full calendar years, following the closure.	Operators should apply to the relevant Regulator to surrender their permits for permanent closures. Installations are still required to provide verified reports, as set out in their GHG Permits, for the period up to their closure.

10. Next steps for the EU ETS

In Phase I, 100 per cent of allowances were allocated for free. Phase II will see the introduction of auctioning in the UK. The UK's Phase II NAP states that it will auction or otherwise sell 7 per cent of the total number of allowances in Phase II. In addition, any allowances from closures or surplus from the New Entrant Reserve (NER) may be auctioned or otherwise sold up to the Commission's limit of 10 per cent for auctioning in Phase II.

The UK Debt Management Office (DMO) is the auctioneer for the UK auctions, which will be implemented using a static, uniform-price auction model. Further details on government's proposed auction model, including details of how to participate will be available via Defra's website.

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The inclusion of aviation in the EU ETS is one of the most significant developments. The Government believes that the best way of ensuring that aviation contributes towards the goal of climate stabilisation would be through a well-designed emissions trading regime.

An international industry requires an international solution and the UK government is therefore pursuing this within the International Civil Aviation Organisation. However, until a truly global solution can be found, the UK government is pressing for the inclusion of aviation in the EU ETS as soon as possible

The Government welcomed the European Commission's proposal in 2006 and we have since made significant progress towards the implementation of the scheme which will enable the aviation sector to take responsibility for its carbon emissions in the most cost effective way, with agreement expected in 2008.

On 23 January 2008, The European Commission published its draft proposals for the review of the EU ETS required under Article 30 of the EU Directive on the EU ETS. The role of the review is to develop the EU ETS in a positive way post-2012 and learn from experiences so far.

The Commission has identified a number of issues and grouped them into four distinct areas on which to concentrate its efforts:

- The scope of the Directive;
- Further harmonisation;
- Robust compliance and enforcement; and
- Linking with emission trading systems in third countries and appropriate means to involve developing countries and countries in economic transition.

11. Further Information

This section contains further information, website addresses and contact details for the following:

- Regulators contact details
- Devolved Administrations contact details
- UK Regulations
- EU ETS Directive
- UK approved NAP
- Permits, monitoring, reporting and verification
- Registries Regulation
- UK Registry
- Trading
- New entrants, closure and auctioning
- Late entrants
- Allocation methodology
- Linking Directive
- Kyoto Protocol
- Kyoto flexible mechanisms
- Phase II
- Temporary exclusion
- Aviation and the EU ETS
- Other useful information

The EU Emissions Trading System on the Defra website:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/index.htm>

If you have any additional questions about the EU Emissions Trading System or the UK's National Allocation Plan please contact:

eu.ets@defra.gsi.gov.uk

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Regulators contact details and web links

Environment Agency if the installation is located in England and Wales (ethelp@environment-agency.gov.uk); Further information at <http://www.environment-agency.gov.uk/emissionstrading>

Scottish Environment Protection Agency if the installation is located in Scotland (emission.trading@sepa.org.uk); Further information at <http://www.sepa.org.uk/air/index.htm>

Department of Business, Enterprise and Regulatory Reform if the installation is located offshore (UK-wide) (emt@berr.gsi.gov.uk); Further information at <http://www.berr.gov.uk/energy/environment/euets/index.html>

Environment and Heritage Service (Department of the Environment in Northern Ireland) if the installation is located in Northern Ireland (emissions.trading@doeni.gov.uk). Further information at http://www.doeni.gov.uk/index/protect_the_environment/climate_change/emissions_trading.htm

Devolved Administrations contact details

The Scottish Executive
<http://www.scotland.gov.uk/Topics/Environment/Climate-Change/16327/10713>

The Department of Environment in Northern Ireland (DOENI)
<http://www.doeni.gov.uk/>

The National Assembly for Wales
http://new.wales.gov.uk/topics/environmentcountryside/climate_change/?lang=en

The UK Regulations

The Greenhouse Gas Emissions Trading Scheme Regulations 2005 (Statutory Instrument 2005 No. 925) came into force on 21 April 2005.

The Greenhouse Gas Emissions Trading Scheme (Amendment) Regulations 2005 (Statutory Instrument 2005 No. 2903) came into force on 13 November 2005. These Regulations transpose the Linking Directive.

The Greenhouse Gas Emissions Trading Scheme (Amendment) Regulations 2006 (Statutory Instrument 2006 No. 737) came into force on 6 April 2006. They provide the legal process which enable the operators of installations which have joined the scheme late to obtain the allowances that have been set aside for them. They also make a number of other minor amendments.

The Greenhouse Gas Emissions Trading Scheme (Amendment) Regulations 2007 (Statutory Instrument 2007 No. 465) came into force on 16 March 2007. These regulations give government the power to sell allowances by auction or sale as envisaged in the NAP for the second phase of the scheme.

The Greenhouse Gas Emissions Trading Scheme (Amendment No.2) Regulations 2007 (Statutory Instrument 2007 No. 3433) came into force on 31 December 2007.

The Regulations are available at:

<http://www.opsi.gov.uk/stat.htm>

EU ETS Directive

The EU Emissions Trading Directive 2003/87/EC was agreed on 22 July 2003 following discussions between the European Commission, the European Parliament and the European Council. The Directive came into force on 25 October 2003 when it was published in the EU's Official Journal.:

http://ec.europa.eu/environment/climat/emission/implementation_en.htm

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UK approved NAP

The UK NAP Phase II for the EU ETS can be found at:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/operators/phase-2.htm>

Permits, monitoring, reporting and verification

The Defra website provides guidance on permits, monitoring and reporting and verification:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/operators/mon-rep-ver.htm>

Please also check your regulator's website.

The Commission's monitoring and reporting guidelines:

http://europa.eu.int/comm/environment/climat/emission/mrg_en.htm

The Environment Agency's website provides further information about permits and monitoring plans:

<http://www.environment-agency.gov.uk/emissionstrading>

List of accredited verifiers:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/pdf/list-accredited-verifiers.pdf>

Registries Regulation

The Registries Regulation sets out how the registry is to operate, including use of accounts, and the allocation, transfer, and surrender of allowances:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:200:0005:0039:EN:PDF>

UK Registry

Information on the UK Registry, developed by Defra, is available on the Defra website:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/operators/registry.htm>

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Information regarding accounts is available on the Environment Agency website:

http://www.environment-agency.gov.uk/business/1745440/1745496/1294204/1296463/?version=1&lang=_e

UK Registry helpdesk:

etregistryhelp@environment-agency.gov.uk

Glossary of terms for the registry:

http://www.environment-agency.gov.uk/commondata/acrobat/glossaryfaqs_1014832.pdf

Person holding accounts and operator holding accounts for new and late entrants:

The application process can be initiated on the UK Registry website:

<http://emissionsregistry.gov.uk>

New entrants, closure and auctioning

New entrant applications should be made to your regulator. You should also contact your regulator to discuss issues relating to any type of closure.

See the Defra website for details on new entrants, closure and auctioning:

<http://www.defra.gov.uk/environment/climatechange/trading/eu/operators/phase-2.htm>

Please see the BERR website for details about the new entrant reserve and policy on treatment of new entrants and plant closure:

<http://www.berr.gov.uk/energy/environment/euets/phase2/new-entrants/page27074.html>

See the Environment Agency's website for details of how to apply to the NER:

http://www.environment-agency.gov.uk/business/1745440/1745496/1294204/1295930/1296088/?version=1&lang=_e

If the Environment Agency is not your Regulator, please also check your regulator's website.

Allocation methodology

Full details of the allocation methodology, including specific allocation methodologies for commissioning, rationalisation and baseline changes are outlined in the approved NAP and summarised on the BERR website at:

<http://www.berr.gov.uk/energy/environment/euets/phase2/allocation/page27064.html>

Linking Directive

The Linking Directive amends the EU ETS Directive and provides for the use of credits from the Kyoto Protocol's flexible mechanisms in the EU Emissions Trading System. It was transposed into UK law via regulations which came into effect on 13 November 2005:

<http://www.defra.gov.uk/environment/climatechange/internat/kyotomech/index.htm>

The Kyoto Protocol

The Kyoto Protocol came into effect on the 16th February 2005 and provides the first ever framework for international action with binding targets and timetables for reducing greenhouse gas emissions. 150 countries have ratified the Protocol, representing a very important milestone in tackling climate change. More information:

<http://www.defra.gov.uk/environment/climatechange/internat/index.htm>

Kyoto flexible mechanisms

Joint Implementation allows companies in countries with a Kyoto target (Annex 1 Parties) to undertake projects in other Annex 1 countries which reduce their emissions of greenhouse gases.

<http://www.defra.gov.uk/environment/climatechange/internat/kyotomech/ji.htm>

The Clean Development Mechanism allows companies in Annex 1 Parties to implement project activities that reduce emissions and

contribute to sustainable development in countries without a Kyoto target (non-Annex I Parties, i.e. developing countries).

<http://www.defra.gov.uk/environment/climatechange/internat/kyotomech/cdm.htm>

Once the UN International Transaction Log is available, it will be possible to transfer certified emission reduction units (CERs) generated from CDM projects and emission reductions units (ERUs) generated from JI projects in Phase II, into accounts in the UK registry. Credits can also be transferred between registry accounts in the same registry.

Guidance Note 1

Further information can be found in Guidance Note 1 (Guidance on Inclusion) Updated for Phase II at the following link

<http://defraweb/environment/climatechange/trading/eu/pdf/guidance-note1.pdf>

The document has information on:

- The definitions of the following terms:
Operator; Combustion Installation; Expansion Activity; Installation; Stationary Technical Unit; Directly Associated Activity.
- Explanation of the 'de Minimis' and Aggregation Rules
- Checklist for Inclusion to Phase II
- Examples of Defining Installations
- The Annexes contain
 - A Schedule 1 of the ETS Regulations
 - B Definitions of Expansion Activities
 - C Examples of Defining Installations
 - D EU ETS Regulators

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Aviation and the EU ETS

The Government believes that the best way of ensuring that aviation contributes towards the goal of climate stabilisation would be through a well-designed emissions trading regime. We would like to see aviation joining the EU ETS from 2008 as soon as possible and certainly before the end of Phase II of the system.

<http://www.defra.gov.uk/environment/climatechange/trading/eu/future/aviation.htm>

European Commission Review of the EU ETS

On 23 January 2008, The European Commission published its draft proposals for the review of the EU ETS required under Article 30 of the EU Directive on the EU ETS. Further information can be found at:

http://ec.europa.eu/commission_barroso/president/focus/energy-package-2008/index_en.htm

Other useful information

The Emissions Trading Group:

<http://www.uketg.com/>

The Carbon Trust:

<http://www.carbontrust.co.uk/>

Carbon Markets Association

<http://www.carbonmarketsassociation.net/>

The Energy Saving Trust:

<http://www.est.org.uk/>

Climate Change Projects Office:

<http://www.berr.gov.uk/sectors/ccpo/index.html>

12. Glossary of terms

Term	Definition
Burden sharing agreement	EU Member States party to Annex 1 of the Kyoto Protocol agreed to share the burden of this EU-wide 8% reduction target by the first Kyoto commitment period (2008 to 2012), e.g. the UK's Kyoto target is 12.5%.
Clean Development Mechanism	Clean Development Mechanism: flexible mechanism under Article 12 of the Kyoto Protocol.
Commission Decision on Monitoring and Reporting	Commission Decision of 18 July 2007 establishing guidelines for the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC.
EU ETS Directive	Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emissions allowance trading within the Community and amending Council Directive 96/61/EC(b), as amended by Directive 2004/101/EC.
Greenhouse gas emissions permit	Obtained from your regulator, a greenhouse gas emissions permit is required in order to comply with the EU ETS.
Installation	A stationary technical unit where one or more Schedule 1 activities are carried out.
Joint Implementation	Joint Implementation: flexible mechanism under Article 6 of the Kyoto Protocol.
Kyoto Protocol	Kyoto Protocol, agreed in December 1997, was designed to address the need for an international response to climate change.
Linking Directive	Directive 2004/101/EC of the European Parliament and of the Council amending Directive 003/87/EC, in respect of the Kyoto Protocol's project mechanisms.
Operator	An operator is defined in the UK Regulations as 'in relation to an installation, the person who has control over its operation'.
Registries Regulation	Commission Regulation of 31 July 2007 amending Regulation for a standardised and secured system of registries pursuant to Directive 2003/87/EC and Decision No 280/2004/EC.

12. Glossary of terms *(continued)*

Term	Definition
Schedule 1 of the UK Regulations	Schedule 1 of the UK Regulations relates to Annex I of the EU ETS Directive. This details the types of activities covered by the EU ETS, and the threshold values for inclusion of those activities.
UK NAP	The UK's approved National Allocation Plan published on 16 March 2007.
UK Registry	UK Emissions Trading Registry – developed by Defra, and administered by the Environment Agency – the Registry holds and tracks the location of all allowances in UK Registry accounts.
UK Regulations	The Greenhouse Gas Emissions Trading Scheme Regulations (SI 2005 No. 925 as amended by SI 2005 No. 2903, SI 2006 No. 737, SI 2007 No. 465 and SI 2007 No.3433).

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Annex: Checklist

Operator timetable of requirements for obligations under the EU Emissions Trading System, in relation to greenhouse gas emissions permits, and monitoring, reporting and verification of emissions.

Step	Action	Deadline	Check
a	Determine if installation is within scope of scheme		<input type="checkbox"/>
b	Apply for GHG Permit, submit Monitoring plan		<input type="checkbox"/>
c	Pay Permit application fee (this now needs to accompany step b)	Within 2 months of application	<input type="checkbox"/>
d	Regulators issue permit and approve Monitoring plan	Within 2 months of application	<input type="checkbox"/>
Annual Actions			
1	Implement approved Monitoring Plan and commence monitoring	1 January (or when you get your GHG Permit)	<input type="checkbox"/>
2	Receive installations following year's annual allocation of allowances	28-Feb	<input type="checkbox"/>
3	Complete and submit verified annual emissions report to regulator	31-Mar	<input type="checkbox"/>
4	Surrender allowances from account in the registry	30-Apr	<input type="checkbox"/>
5	Submit Monitoring Plan improvement report to regulators	30-Jun	<input type="checkbox"/>
6	Commence annual verification process	By August	<input type="checkbox"/>
7	End of monitoring for a given EU ETS year	31-Dec	<input type="checkbox"/>
8	Seek any necessary variations to the permit and M&R Plan	As necessary	<input type="checkbox"/>

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