

Assessing the cost to UK operators of compliance with the EU Emissions Trading System



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Executive Summary

An essential part of the EU ETS is the monitoring and reporting of emissions, and verification of estimates, that ensures the validity of reductions, and safeguards the economic integrity of the scheme. The reporting rigor required for these and other EU ETS related tasks results in a range of administrative activities, and costs, for operators.

As part of the Better Regulation agenda, Government is looking at ways to reduce administrative costs on operators while ensuring that policies remain effective and comply with the requirements of EU Directives. This study looks to provide some of the evidence for informing such discussions. A survey-based approach was used, to contact all operators, and ask for cost information for the various administrative activities undertaken. The survey also asked for feedback on administrative costs, in particular how these could be reduced from an industry perspective.

Based on the survey results, the average administrative burden of the EU ETS by installation is estimated to be around £16,400 (excluding one-off costs and fees). Wider administrative costs (that also include fees and one-off costs) average £21,000. There is significant variation from sector to sector, reflecting very different types of installations and associated information obligations to the Regulator.

Most installations have an administrative burden in the range of £8,000-£15,000 (53%). This is consistent with previous estimates made by ETG (2007), AEA (2006), and used in EU impact assessments. 80% of installations have a cost burden below £15,000. Much higher estimates (that impact on the overall average) are shown for the refinery and large power generation sectors. These costs are driven primarily by activities around emissions monitoring and reporting, and verification costs. For smaller emitting installations, it is the costs of verification and Regulators' fees that constitute the largest proportion of these costs.

Scaling up the survey data using two different calculation methods provides a total scheme annual administrative burden of £13.1-14.8 million in 2009. For the wider administrative cost metric, total annual costs range between £17.1-18.8 million in 2009. This is equivalent to £0.07/tCO₂ of emissions. Small emitters incur approximately 20% of the total administrative burden (across 60% of the installations) whilst accounting for 2% of emissions. 45% of costs are incurred by the 8% of installations, classified as the largest emitters. However, this does cover over 80% of the scheme emissions.

The data from the qualitative survey questions provides a useful snapshot of the key concerns of operators, their view of the most burdensome requirements and strategies for reducing such costs. In summary, the key issues highlighted by operators include:

- Need to improve consistency of reporting under different climate policy schemes, including methods, formats and timing
- Allow option to opt out of EU ETS (as small emitters under CRC) and CRC (particularly in large emitters under EU ETS / CCA). This suggestion was with a view to reducing overall cost burdens and simplifying the legislative requirements faced.

- Reduce the frequency of verification (particularly in the absence of significant changes to operation)
- Consider the stringency of emissions reporting (particularly in the absence of significant changes to operation)

The evidence collected in this study provides a benchmark from which to assess future costs. In addition, it highlights many of the concerns that operators have concerning the information obligations under the scheme. Many of the concerns raised are simply requirements of the Directive and Monitoring and Reporting Guidelines, leaving limited opportunities for further reducing monitoring and reporting requirements. However, there are some issues that the Government and Regulators in consultation with Operators could consider, to assess any opportunities for reducing the administrative burden:

- Development of the Monitoring and Reporting Regulation. The European Commission is in the process of putting Monitoring and Reporting guidelines, currently under a Commission Decision, into a Regulation. Whilst there are unlikely to be significant changes to the requirements already in place (with the Commission's priority of maintaining Scheme integrity), operators could make representation about specific issues that they think could be revisited.
- For small emitters, understanding the relative merits of opting out of the EU ETS in Phase III, as provided for under the ETS Directive. As set out in previous public consultations the Government has the opportunity to allow small emitters to opt-out of Phase III, subject to there being alternative, domestic, measures in place to achieve equivalent emissions reductions. Key to this decision is an understanding of relative costs of being under one scheme versus another (if indeed there is a choice to be had). In this way, knowledge of administrative and other compliance costs can inform any decision. However, for the CRC Energy Efficiency Scheme, this could be difficult because costs incurred will be partly performance-based.
- Consistency of reporting requirements under different climate policy schemes. Where operators are under 2-3 different Schemes, there may be opportunities for aligning reporting requirements (methods, formats) between the domestic mechanisms (CCAs / CRC) and with EU ETS requirements.
- There is already a good dialogue between Regulator, Government and Operators such as via ETG and Regulator helplines. This dialogue needs to be frequent to ensure that there is a good understanding of why certain requirements are made in respect of monitoring and reporting. Based on the current forms and guidance on the website, there do appear to be good resources. However, additional consultation and discussion would reinforce why the Regulator requires specific information and further dialogue outside the scope of formal operator questionnaires and consultations should be encouraged.
- Further sharing of best practice between operators can be facilitated by Government, Regulators and ETG. The qualitative survey results described in section 5 included numerous examples of efficiencies that have been achieved by a range of operators to save money and time in complying with EU ETS requirements.

1 Introduction

The European Union Emission Trading System (EU ETS) is one of the key policies to be introduced by the European Union to reduce emissions of CO₂, in order to meet its obligations under the Kyoto Protocol and the longer term targets under its Climate and Energy package.¹ It is also an important policy mechanism for UK domestic climate policy,² in the context of meeting near term budgets and the longer term goal under the Climate Change Act.

Under the EU ETS, introduced into Community legislation through Directive 2003/87/EC, a key element is the monitoring, reporting and verification activities that are undertaken to the extent that they ensure the integrity of the scheme. Under Article 14, there is a requirement that Member States shall ensure that emissions are monitored in accordance with the guidelines (currently published under Commission Decision 2007/589/EC). Verification requirements are set out under Article 15. The MRG guidelines are legally binding under the Directive, and will be established as a regulation by the Commission by December 2011.

The monitoring, reporting and verification (MRV) requirements detailed in the above guidelines, together with other requirements set out in the EU ETS regulations, result in administrative costs for ETS installation operators. The purpose of this report is to estimate, based on an operator survey, the level of such costs incurred annually, and to solicit comment on how such administrative costs could be reduced. This could potentially be achieved through improved streamlining with other regulations (CRC Energy Efficiency Scheme, CCAs, IPPC), reducing MRV requirements under future phases of the ETS or by learning from different sectors about how they are trying to reduce costs.

As part of the Better Regulation agenda, Government is looking at ways to reduce administrative costs on operators while ensuring that policies remain effective and comply with the requirements of EU Directives. This study looks to provide some of the evidence for informing such discussions. One issue currently under consideration is the opt out criteria for small emitters under Phase III. This study should provide information regarding the level of costs incurred by small emitters, building on the consultation previously undertaken on this issue.

Previous research has been undertaken in this area, as described in the next section, and has highlighted the level of costs incurred by different sectors. However, such studies have either focused on specific sectors, been undertaken rapidly using simplistic approaches or have based findings on relatively small sample sizes. This study attempts to overcome these shortcomings, by surveying all operators in the Scheme (and therefore sectors / emitter sizes) and following a standard methodology for the assessment of administrative burdens.

¹ For more information, see the EC website http://ec.europa.eu/environment/climat/climate_action.htm

² Transposed into UK law by the *Greenhouse Gas Emissions Trading Scheme Regulations 2005* (S.I. 2005/925)

It is important to highlight that this analysis is only concerned with administrative costs and therefore does not attempt to identify substantial compliance costs e.g. CO₂ abatement measures. In addition, it only captures participants who are in Phase II, not those under an expanded Phase III, or the aviation sector.

2 Overview of previous research

A range of studies have been undertaken that have assessed the issue of administrative compliance costs under EU ETS, either fully or in part. This section is a summary of previous research, and helps to provide some context to this study, and the possibility for comparison with results emerging from the new analysis.

AEA (2006) undertook a similar study in 2005-06 to consider the compliance costs of EU ETS to UK operators under Phase I. The study suggested that the costs of complying with the scheme were not insignificant, particularly for small operators or those without the systems or resources in place to efficiently manage the compliance requirements. Small emitters (<10kt CO₂ per year) constituting 45% of installations were responsible for less than 1% of emissions but almost 56% of total costs (when the results of the survey were scaled up).

In addition, the research found that the highest administrative costs resulted from emission data provision, in particular annual reporting and provision of data for the National Allocation Plans (NAP). This was in the context of many operators still learning about reporting requirements and setting up systems, as the EU ETS had only recently been introduced.

This research was very much focussed on small operators, particularly public sector organisations (universities, MOD, NHS Trusts). Few large emitting operators participated in the study. Annual administrative costs were estimated at between £3,500-6,300 (per installation per annum). Including one-off costs increased the estimates to £8,400-12,000. One-off costs constituted a high percentage of the annual cost estimate due to the set-up costs of many operators in the scheme. Scaled-up, the total administrative cost estimated for Phase I (3 years) was approximately £24 million.

The Emissions Trading Group (ETG) Working Group 5/6 also undertook an assessment of the administrative costs of the EU ETS (**ETG 2008**), surveying 6% of installations, which were representative of 40% of installations under EU ETS. Annual costs per installation in Phase I were estimated at £7,400 (staff / non-staff costs) and £4,700 (one-off costs), totalling £27,000 for Phase I.³ Total administrative cost of the EU ETS for the installations for which representative data was gathered was over £27 million for Phase I. Scaled up to all installations, the total cost of the EU ETS for Phase I was estimated to be £68 million.

NAO (2009) undertook a wider ranging review of the EU ETS. This included a small survey of UK companies on the impact the scheme had had, particularly on investment in carbon abatement. Respondents reported average annual costs of monitoring and reporting of £26,000 and average annual verification costs of £9,000. The survey also found that while companies were critical of the cost of the Scheme, only 10% of respondents wanted to change existing arrangements as this would create additional financial costs. These costs

³ £27,000 estimated as 3 years of annual costs of £7,400 and single one-off costs totalling £4,700.

are not necessarily comparable to other estimates as they are on a company rather than installation basis.

Based on analysis by ENTEC,⁴ the **European Commission (2008)** states that there is a wide range of estimated administrative costs for operators, varying from €2,000 to €15,000 per year, and for authorities of between €3,000 and €10,000 (per site and year). The impact assessment document further states that it is expected that the overall level of these administrative costs will decrease in Phase III due to both the new monitoring and reporting guidelines designed, among other things, to relieve the burden of administrative costs to small operators, and due to increased experience acquired from Phase I and II.

With the exception of the AEA (2006) study, there is limited detail on the specific methodologies used to estimate administrative costs. The NAO (2009) estimates are the highest, with annual costs of £35,000, including verification costs although these are on a company not installation basis. It is not clear whether these estimates include one-off costs or not. The ETG (2008) and AEA (2006) analyses provide similar estimates of around £12,000 per annum⁵ (annual / one-off costs in a given year). The EC impact assessment states a very wide range of costs; therefore it is not clear what is used as a central average value. The €15,000 estimate (or £12,500) is relatively consistent with the AEA / ETG estimates.

Other national studies from around Europe have been sought but no recently published work has been identified.

⁴ ENTEC 2007b ENTEC UK Ltd: Support for the Impact Assessment in the Context of the Review of Directive 2003/87/EC, London, 2007 (not published yet). This specific source has not been located by this study's author.

⁵ High-end estimate under the AEA (2006) analysis

3 Approach to study

3.1 SCM methodology

To assess the administrative burden of EU ETS regulations in the UK, the Standard Cost Model (SCM) approach has been used (as was adopted in AEA 2006). This is a widely accepted international approach for estimation of administrative burdens, and is described fully in the UK manual (BRE 2005).⁶ The approach *has been developed to provide a simplified, consistent method for estimating the administrative costs imposed on business by central government.*

The SCM approach is designed to estimate administrative costs. These are the *costs of the administrative activities that businesses are required to conduct in order to comply with the information obligations that are imposed through central government regulation.* For the purposes of this study, we are primarily interested in administrative burden, *the part of the administrative costs that the businesses sustain simply because it is a requirement from regulation*, in this case EU ETS. The distinction between costs and burden is that costs also encompass the administrative activities that the businesses will continue to conduct if the EU ETS regulations were removed (under other regulatory requirements).

The structure of the SCM is shown in Figure 1 below, illustrating how the different administrative cost elements are identified.⁷ Information obligations arise from the EU ETS regulations. To meet each information obligation, data is required to ensure compliance, which in turn requires a range of administrative activities to be undertaken. The SCM estimates the costs of completing each activity. Activities may be done internally or be outsourced (i.e. done externally). In addition, it may be necessary to make acquisitions to complete a specific activity and where these are only used in complying with the requirement they are included in the estimate.

⁶ The International Standard Cost Model Manual can be found at the International SCM Network website - <http://www.administrative-burdens.com/default.asp?page=140>

⁷ It is important to highlight that this approach is not capturing the investments required to meet a specified emission cap or payments for allowances (known as *substantive compliance costs*).

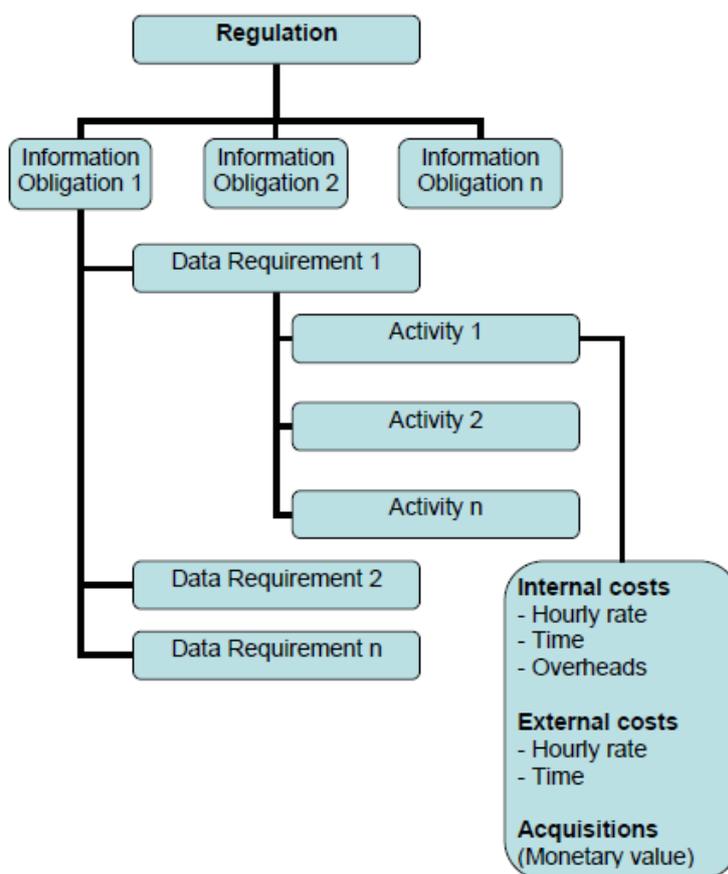


Figure 1. Structure of the Standard Cost Model (Source: BRE 2005)

In order to estimate administrative costs, the SCM prescribes a measurement approach, which can be split into four key phases as shown in Table 1. Phases 0, 1 and 2 are described in the next section, primarily capturing issues relating to questionnaire and survey design. Phase 3, the outputs of the measurement approach, are described in section 4.

Table 1. SCM Measurement Approach (Source: BRE 2005)

Stage of SCM Measurement Approach
Phase 0: Start-up
Initial meetings of the department, Better Regulation Executive, consultants and other key stakeholders
Phase 1: Preparatory analysis
Step 1: Identification of information obligations, data requirements and administrative activities and classification by origin
Step 2: Identification and demarcation of related regulations
Step 3 Identification of segments
Step 4 Identification of population, rate and frequency.
Step 5 Business interviews versus expert assessment
Step 6 Identification of relevant cost parameters
Step 7 Preparation of interview guide
Step 8 Expert review of steps 1-7
Phase 2: Time and cost data capture and standardisation
Step 9 Selection of typical businesses for interview
Step 10 Businesses interviews
Step 11 Completion and standardisation of time and resource estimates for each segment by activity
Step 12 Expert review of steps 9-11
Phase 3: Calculation, data submission and reports
Step 13 Extrapolation of validated data to national level
Step 14 Reporting and transfer to database

3.2 Questionnaire and survey design

The approach to collecting administrative cost information has been done by way of inviting all ~900 UK installations currently participating in the EU ETS to complete an electronic questionnaire. The questionnaire, shown in Appendix 1 of this report, was available to download from the DECC website.

A key part of the questionnaire design was to ensure that the main administrative cost categories pertinent to the EU ETS were covered. In consultation with DECC and the Regulators, the following categories were determined:

- Annual Monitoring, Reporting and Verification Activities
- Surrendering Allowances and Trading
- Other activities related to Information Provision e.g. Permit Variation
- EU ETS New Entrants - Setup Costs
- Any other compliance related costs not specified above and additional comments

For all cost categories, actual cost information was requested for the 2009 compliance year and / or hours of effort on each administrative activity. Crucially, to ensure that the administrative burden could be estimated, operators were asked to supply information on the level of cost in the absence of the EU ETS i.e. activities that were being undertaken anyway for other regulatory / corporate reasons. For example, similar data for emissions reporting under EU ETS might also be required under CCAs or European Pollutant Release and Transfer Register (E-PRTR).

In addition to the quantitative information, the questionnaire also included qualitative questions (see box below) to better understand operators' views concerning administrative costs, including better streamlining with other climate change policies.

Questions to determine operators' views on administrative costs

- DECC has an interest in minimising costs for complying with climate change policies. Please identify up to 3 priority activities across the relevant regulations e.g. EU ETS/CCAs/CRC where Government could streamline requirements and reduce administrative burdens on organisations.
- Please provide ideas on the ways that the administrative burden of EU ETS could be reduced.
- Please describe any actions that have been taken by your company to reduce time or costs of compliance over the period you have been part of the EU ETS.
- If you are likely to be affected by the possible small emitter/hospital Phase III opt-out, are there any costs or activities that you consider may be reduced by your inclusion under a domestic legislative instrument such as the CRC or CCAs as an alternative to the EU ETS?

Crucially, the ETG were consulted on the content and format of the questionnaire, which was also reviewed and trialled by a number of operators prior to release. This was an important element of engagement to ensure a properly focused questionnaire and maximise response rates.

3.3 Limitations of the approach

The undertaking of this study has received strong support from industry, hence the large number of respondents (within the short timescales) to the questionnaire, representing 178 installations. Such a response ensures that the emerging findings should be relatively robust. However, it is also important to highlight the limitations of the SCM survey approach, and issues arising from treatment of the data.

Whilst the survey-based approach allows for a large number of installations to be consulted, it also relies on proper interpretation of questions, and data requirements by respondents. It is our judgement that operators have completed the questionnaire as intended, based on the guidance provided. However, we are aware that some of the questions could be open to interpretation, and are not straightforward. For example, the requirement to state overlaps with other Regulations is not an easy estimate to make. Whilst face-to-face interviews could have avoided misinterpretation, this would have meant a much smaller sample size, and limited sectoral representation.

The methods of self-reporting and self-selection in terms of installations that chose to answer could also potentially lead to bias; either in terms of respondents wishing to influence the outcome of the results or respondents with atypical costs responding. For instance firms with very high costs may have chosen to respond in greater numbers as they felt stronger about the issue, biasing the results upwards. Alternatively firms with proportionally high costs may have had fewer resources available to complete the survey, resulting in lower response rates from these firms, biasing the results downwards. It has not been possible to determine how significant the overall bias is likely to be or whether it has an upwards or downwards influence on estimates.

We are aware that the values requested, particularly concerning internal effort, are not necessarily readily available, nor easily gathered due to time constraints. There is therefore the potential for overestimation, and incorrect allocation of levels of effort. Whilst there is no way of assessing this, we are confident that the overall averages estimated are relatively robust, based on the sample size.

What has been observed is the wide distribution of reported values across and within sectors. While this may reflect differences in how operators have reported cost data, it most probably reflects the very different requirements on operators, site circumstances (including size), in-house capacity and support from external consultants or the industry trade associations. The most significant anomalies (in terms of the difference from the sector mean) have been followed up with individual operators as far as possible.

It is also important to note two additional limitations to ensure an informed interpretation of the analysis. The approach we have taken does not capture costs in previous years spent on equipment. Therefore acquisitions will inevitably be under-reported in this analysis. Secondly, the analysis does not identify and therefore take into account the cost savings achieved by a single operator handling administrative activities for a number of sites, in which case there could potentially be savings due to economies of scale.

4 Quantitative survey results

4.1 Response to the survey

There was a good response to the survey from operators, with questionnaires returned from or on behalf of 178 installations. This equates to a response rate of 20% (as shown by the red dashed line in Figure 2 below). Across most sectors, a response rate of at least 10% was observed (as shown by red markers).

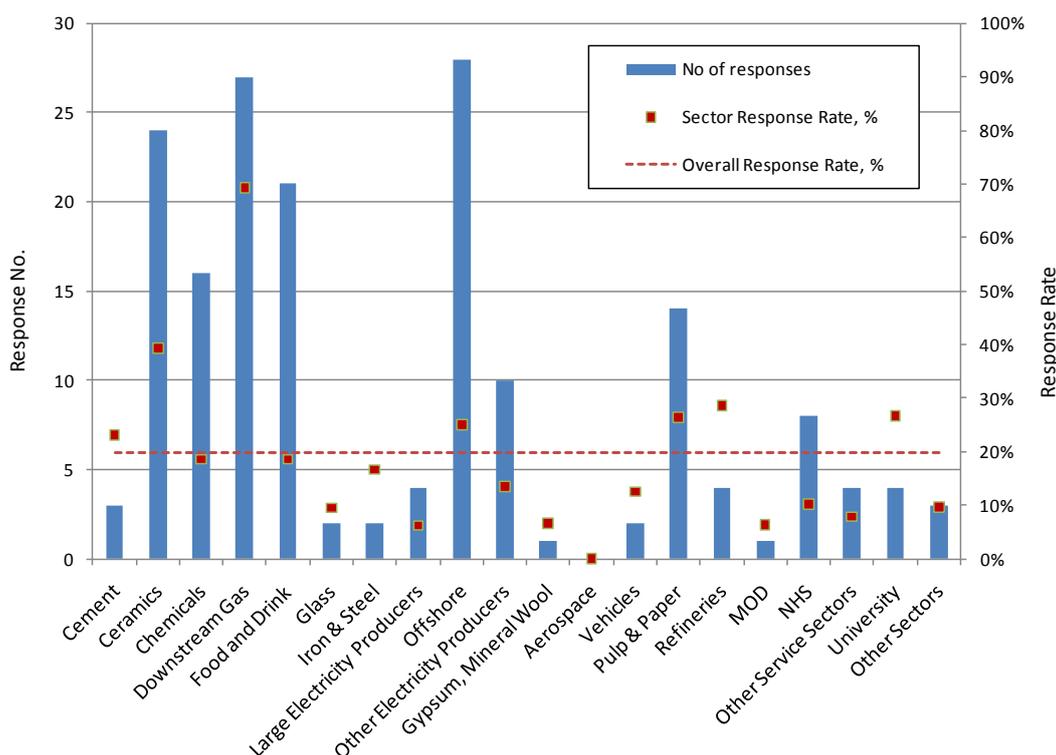


Figure 2. Survey Response Level by Sector⁸

The resulting sample is therefore diverse sample in terms of sector representation, and in terms of size of emitter. 55% are small emitters (<25 ktCO₂), while over 30% are larger emitters (>50 ktCO₂) (see Figure 3). This is broadly similar to the overall distribution of installations by emitter band (see Figure 14 later in the report).

⁸ Sectors with fewer than 10 installations are not shown individually on the above graph but accounted for under *Other Sectors*.

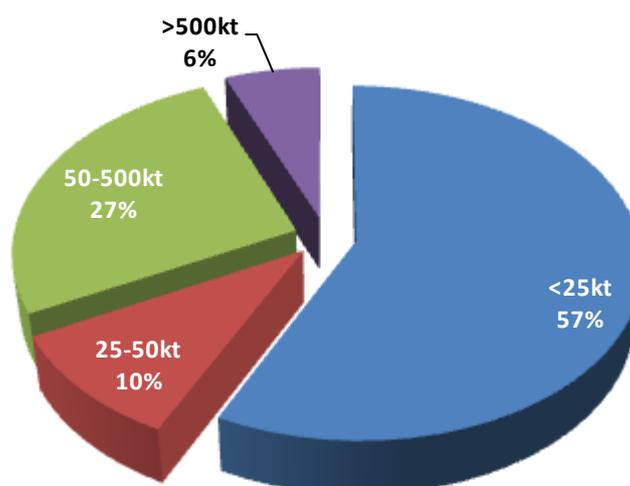


Figure 3. Survey Response Level by Size of Emitter

4.2 Reporting of administrative cost estimates

In this study, the cost estimates reported fall within two categories:

- Annual administrative burden.⁹ These costs relate to the annual monitoring, reporting and verification activities and surrendering allowances that are undertaken every year under the EU ETS.
- Total administrative costs.¹⁰ These costs include the above administrative burden plus the following additional administrative costs associated with the EU ETS:
 - One-off costs that are unlikely to be incurred every year e.g. costs associated with permit variation
 - Fees, including annual subsistence fees, and those associated with adhoc activities e.g. permit variation

Acquisition costs related to the purchase of new equipment for monitoring and reporting activities have been omitted from the estimates. However, such data were collected and constitute a very small proportion of total costs, and therefore do not materially change the estimates.

Costs have been split into these two categories to 1) ensure consistency with the SCM methodology for reporting administrative burdens, and 2) to capture all costs relating to administrative activities in a specific year. All cost estimates are for EU ETS activities only, taking account of overlaps with other regulations, the rule being that in the absence of EU ETS, such costs would not occur.

⁹ Annual costs estimates under questions C1.1-C1.5, C2.1 and C5.1 are all considered under the administrative burden category but exclude acquisitions (see Appendix 1 for Questionnaire).

¹⁰ One-off costs estimates under questions C3.1-C3.3, C4.1-C4.4 and C5.2 are considered in this category, plus acquisitions under questions C1.1-C1.5, C2.1 and C5.1, and annual subsistence fees (see Appendix 1 for Questionnaire).

The focus of this assessment has been on administrative costs. Therefore, no estimation has been made of substantial compliance costs, associated with CO₂ abatement measures or purchasing of allowances.

4.3 EU ETS administrative burden in the UK

Estimates of the annual administrative burden by sector are shown in Figure 4, and the average burden for all installations in the sample. The average administrative burden for an installation in the scheme is estimated at £16,400. This is a weighted average to ensure that it is representative of the ~900 installations in the scheme.

The sector averages highlight the large differences in administrative burdens incurred. Three main cost groups can be seen; 1) Lower burdens ~£5,000-7,000, 2) Average burdens, around the weighted average, including chemical, offshore and uncategorised 'Other' sectors, and 3) Higher burdens, including refinery and large electricity producers.

Most sector averages are below the overall average, indicating that the very high costs for specific sectors (large electricity producers and refineries) have an important impact on the overall average.

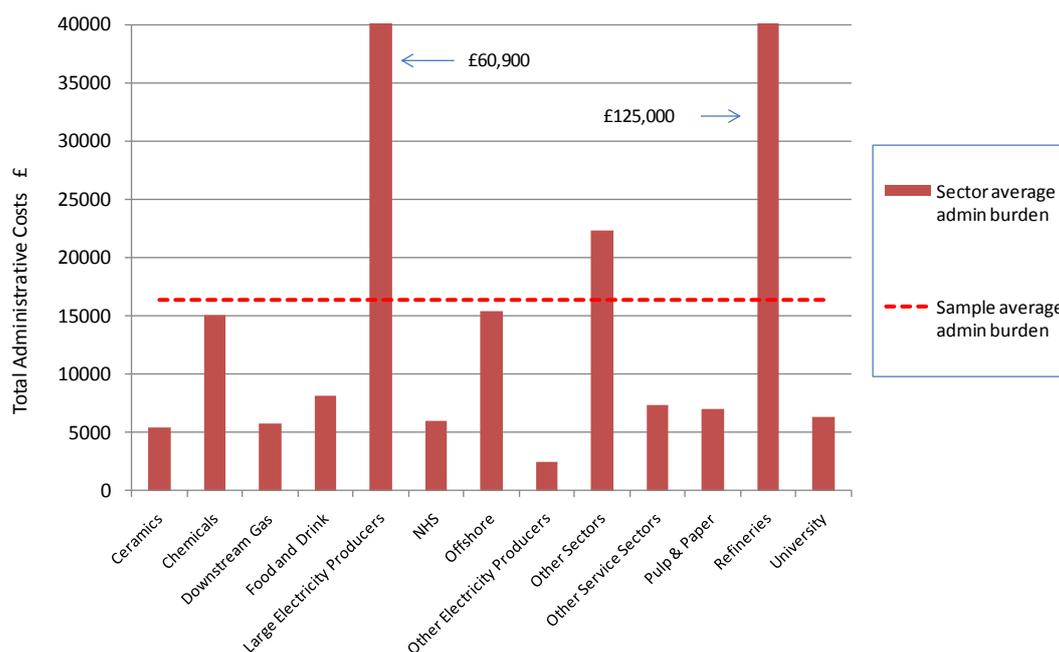


Figure 4. Average administrative burdens by sector in 2009¹¹

The refinery sector has the highest annual administrative burden of any sector (as shown in Figure 4), due to the complexity of site processes, and resulting emissions monitoring requirements. Specifically, costs are driven primarily by fuel sampling and analysis costs (under annual emissions data gathering / collation activities), the costs of MRV management and monitoring systems, through activities such as the maintenance and calibration of meter

¹¹ To avoid any risk of data disclosure, only sectors who provided 4 or more responses have been identified in this graph. Sectors with less than 4 responses are categorised under *Other Sectors*.

systems, and verification activities. Although the sample size for the sector is low, the level of costs reported is relatively consistent between installations (with no obvious anomalies).

The other sector with significantly higher costs (than the overall average) is the large-scale electricity production sector. The sector average is skewed (due to a small sample size) by a small number of very high cost activities reported by a single operator associated with fuel sampling as part of annual emission data gathering / collation. Removing the costs of these activities for this operator (as a sensitivity exercise) reduces the average sector burden to ~£25,000 (from current value of £60,900). However, it would not be appropriate to remove such costs, as other operators not included in the sample could have similar costs.

Administrative burdens by emitter size are shown in Figure 5. A clear pattern emerges, with higher emitting installations incurring significantly higher administrative burdens. This reflects the considerably higher costs associated with large emitting sectors, which often have more complex monitoring and reporting activities. The main activity resulting in high costs for larger emitters is the fuel sampling and analysis activities, as part of annual emissions data gathering / collation. Other high costs arise from maintenance and calibration of meter system reported under MRV management and monitoring systems. The third largest cost appears to be those activities associated with verification of the emissions reporting.

Further breakdown of different costs is provided in subsequent sections of this report.

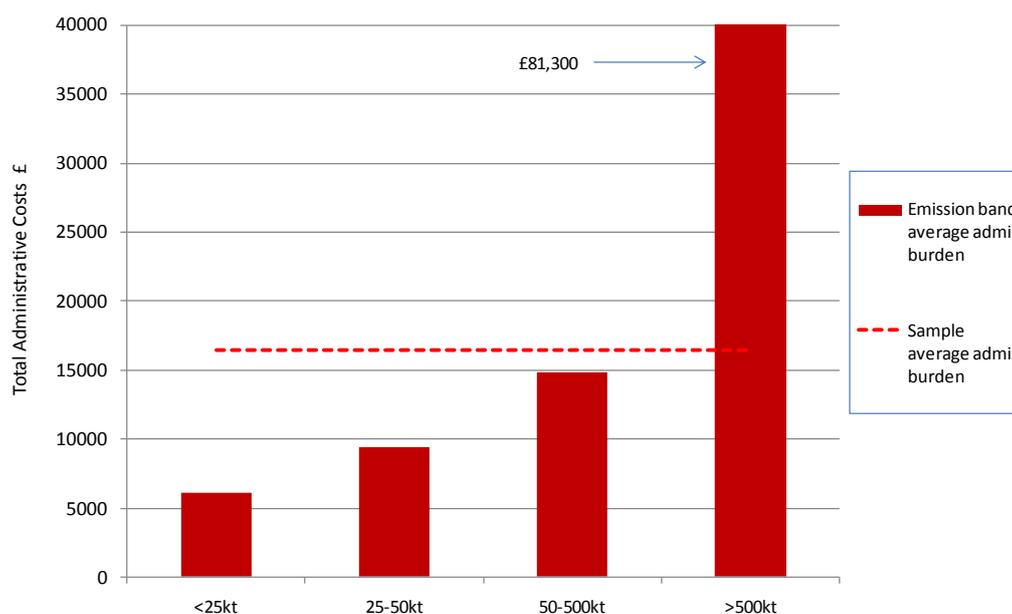


Figure 5. Average administrative burdens by emitter size in 2009

4.4 Total administrative costs associated with EU ETS

As previously discussed, this cost category provides a broader estimate of the costs associated with administrative activities under the EU ETS. In addition to the annual reporting requirements (and associated activities), one-off costs and fees are also included in the estimates reported in this section. Costs of trading were also supplied but have not been included in this analysis as it is not possible to verify whether they are simply for compliance. For many estimates, this does not look to be the case.

One-off costs could be lower or higher in subsequent years, depending on the scheme requirements. For example, at the beginning of Phase I these costs were clearly higher due to set-up costs, whilst this year (2010) they may again be higher due to provision of emissions baseline data for Phase III. Discussion with one of the regulators suggests that these costs should be relatively representative of the previous year, based on the flow of administrative work.

Acquisition costs have not been included as they only represent those costs incurred in 2009 (and disregard acquisitions made during other years of the Scheme). However, they do not account for investment in previous years, and if included would be a small percentage of overall costs.

Average total administrative costs by sector are shown in Figure 6. The overall weighted average is £21,000 (shown by the black dashed line), compared to the £16,400 administrative burden estimate (red dashed line). By sector, costs are higher, primarily due to the inclusion of subsistence fees, whilst other one-off costs also contribute to some extent.

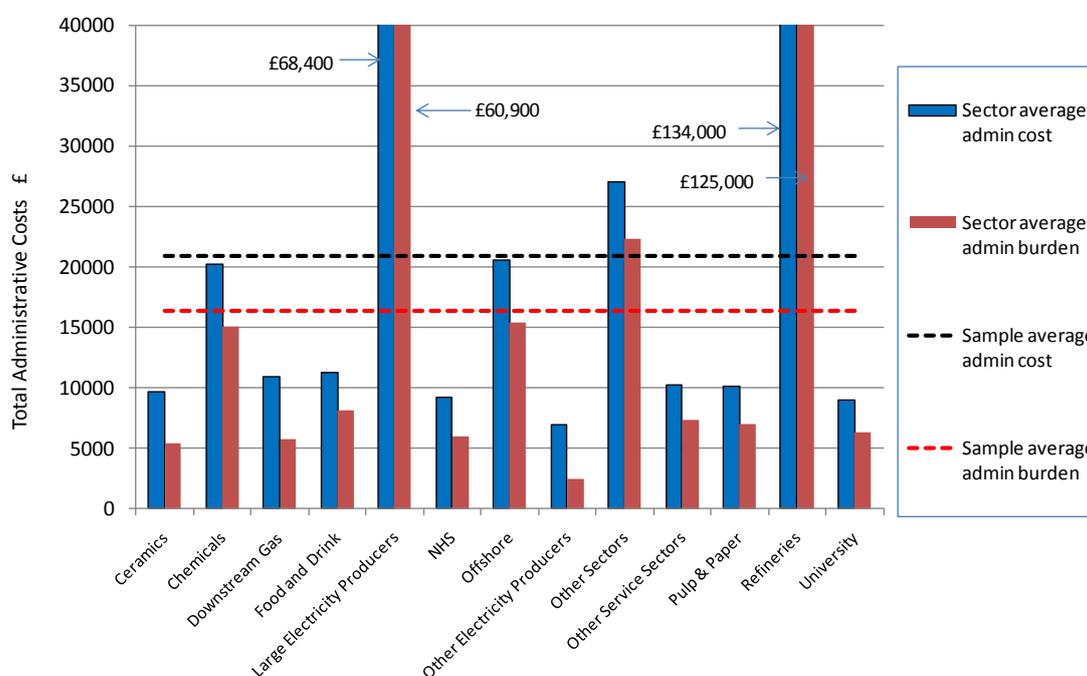


Figure 6. Average total administrative costs by sector in 2009

The frequency distribution is shown in the Figure 7, showing the spread of administrative costs across the 178 installations in the sample. It shows that 80% of installations have a cost level below £15,000, and 40% below £10,000. Approximately 5% of installations have costs below £4000. 40% of all installations have average costs of £10,000 - £15,000. This is reflected by the sample median of ~£11,000. The mean (non-weighted) is £18,000, showing the effect of the much higher costs for specific high emitting sectors.

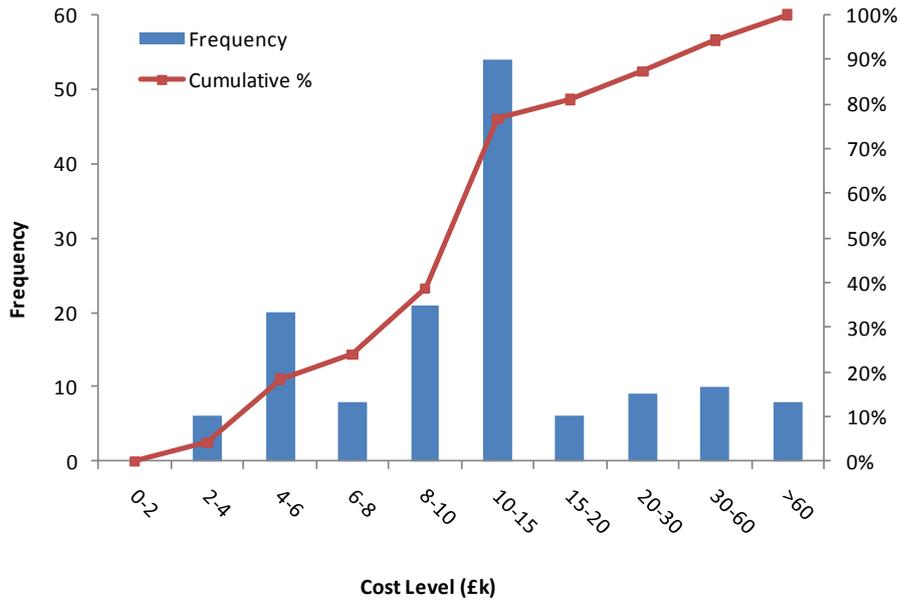


Figure 7. Frequency distribution of total administrative costs by operator in 2009

Total administrative costs are also presented by emitter size (see Figure 8). A similar pattern to the administrative burden estimate is observed (Figure 5) and for the same reasons.

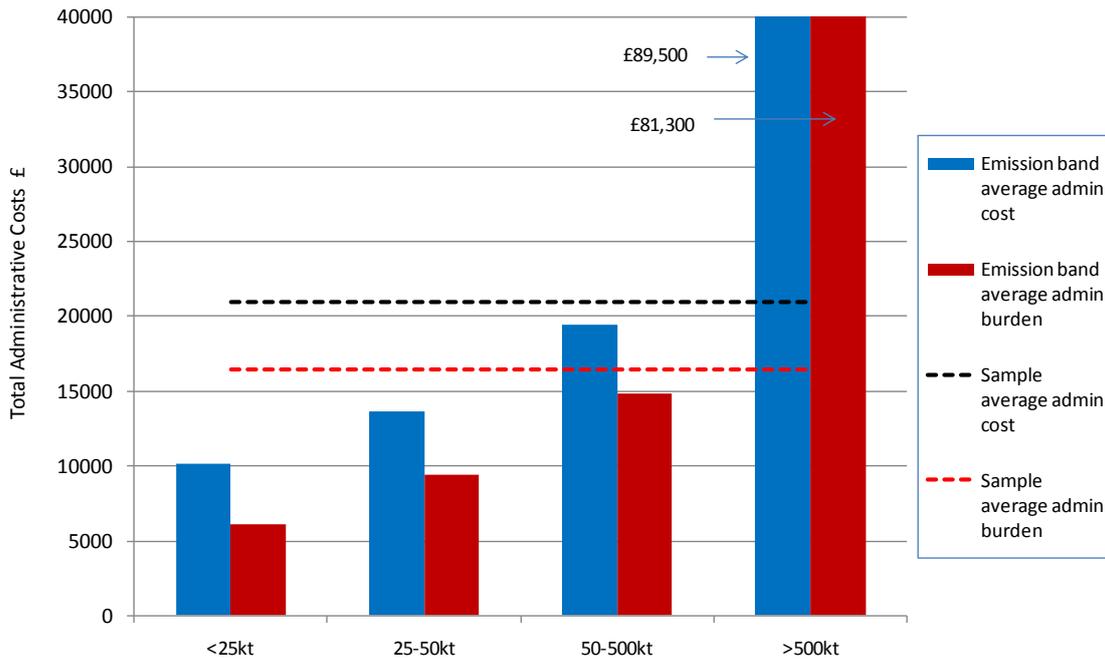


Figure 8. Average total administrative costs by emitter size in 2009

The distribution frequency for the small emitters is shown in Figure 9. Over 90% of installations have costs below £15,000, while over half have costs below £10,000. The mean and median for this sample are similar, both at around £10,000.

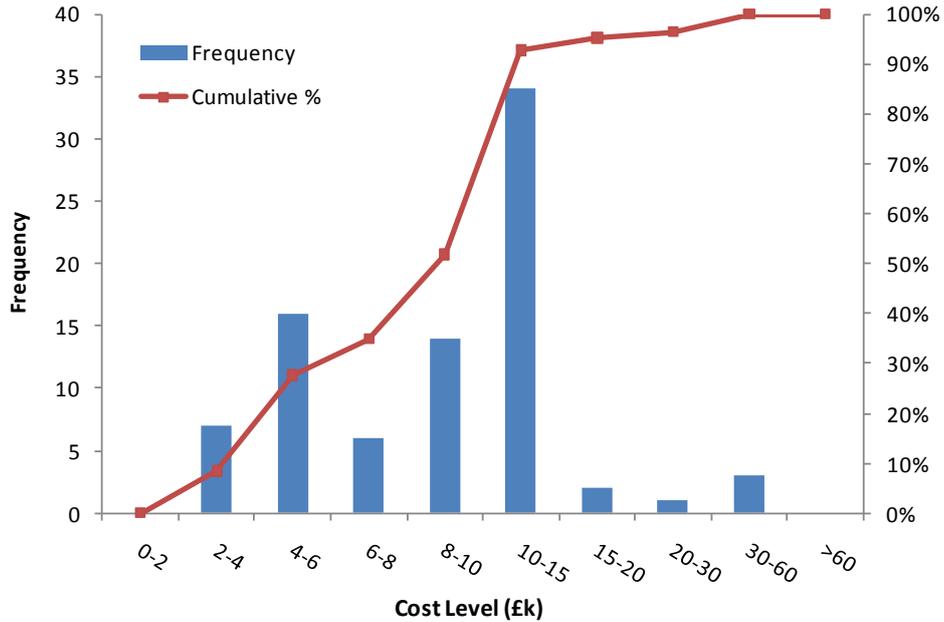


Figure 9. Frequency distribution of total administrative costs by small emitters (<25 kCO₂) in 2009

Using the data provided by operators, the contribution to costs from different activity types can be identified (as shown in Figure 10). This is important as it can provide an indication of where the highest cost burden lies. As illustrated in the graphic below, it is the recurring annual costs that are accounting for 90% of the average burden for sectors in a given year (as shown in the blue/green bars). Broadly speaking, these categories represent the administrative burden reported in section 4.3.

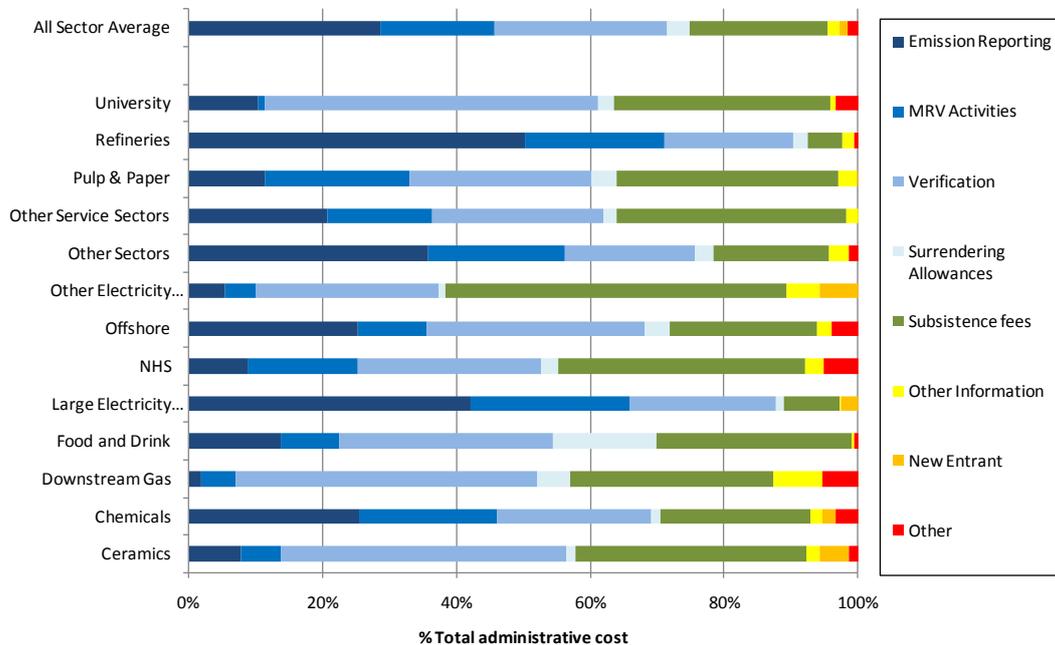


Figure 10. Costs by activity type contributing to average total administrative costs by sector, 2009

The Scheme wide (weighted) average shows that activities associated with emission reporting and verification account for over 50% of costs. Subsistence fees, reflecting the Regulators’ administrative costs, account for nearly a quarter of costs.

For the larger installations (characterised by high emissions) it the activities associated with emissions reporting that contribute most, followed by monitoring system costs and verification (electricity producers, refineries, cement (included in 'Other sectors')).

For installations with overall lower costs, fixed costs associated with annual verification costs and subsistence fees account for a higher proportion (universities, NHS, ceramics). The variation between sectors reflects the diverse characteristics of the sites sampled. However, a pattern does emerge when installations are characterised on the basis of emitter size (see Figure 11). It shows that for lower emitters, the costs associated with verification and subsistence fees to the Regulator contribute over 80% of overall costs. For large emitters, the costs are relatively less significant, with emissions reporting (and associated activities) the main cost.

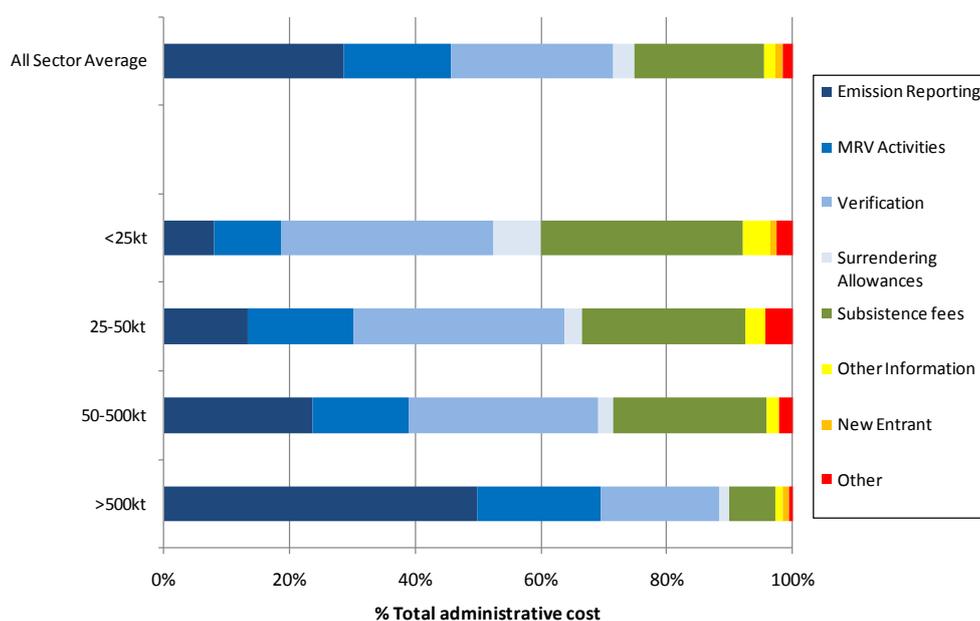


Figure 11. Costs by activity type contributing to average total administrative costs by emitter size, 2009

Finally, the contribution to total administrative costs can also be analysed by type of cost, as shown in Figure 12. This provides an indication of the proportion of internal effort to undertake administrative activities associated with reporting, the requirement for external consultancy and the level of fees (subsistence and others) levied by the regulator.

On average, internal effort accounts for 40% of costs. External costs (through contracting activities out) account for over 25%, while fees account for over 20%. 'Other costs' is a category that includes costs not easily captured under other categories e.g. other expenditure associated with administrative activities such as sampling costs. Some operators would have allocated costs here that others would have put under internal / external costs; hence one reason for the variation observed between sectors.

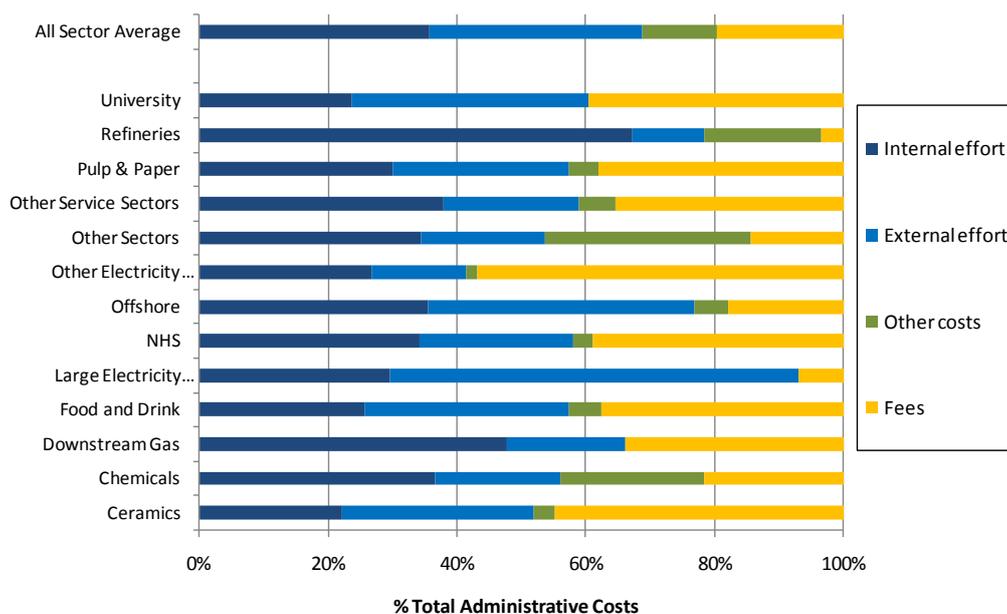


Figure 12. Type of costs contributing to average total administrative costs by sector, 2009

Interestingly, there is no pattern with respect to large emitters contracting out more versus carrying out activities in-house. For example, the refinery sector appears to undertake more activities in house compared to other larger emitting sectors. The same is true for smaller emitters.

4.5 Overall administrative burden of the EU ETS in 2009

The approach to scaling up costs to estimate the total burden of the EU ETS can be done in two ways: 1) using sector averages multiplied by number of sector installations or 2) using average costs by emitter size. Both methods have been used to provide a range of annual costs of £13.1-14.8 million in 2009 for the administrative burden. For the wider administrative cost metric, total annual costs range between £17.1-18.8 million in 2009.

Figure 14 shows the relative administrative burden by emitter size and compares this to the % of total emissions and installation numbers. It shows that the smallest emitters, which account for nearly 60% of installations incur about 20% of the total burden. They contribute approximately 2% of total emissions. The largest emitters contribute over 80% of emissions, from only 8% of installations, and incur 40% of the costs. (A similar pattern is observed using the total administrative cost estimate).

The costs are clearly much higher on an installation basis for large emitters, reflecting the much higher cost of activities relating to annual emissions reporting and verification. This is clearly observed in Figure 5. When costs are normalised on a 'per tonne emitted' basis, they are much lower than for other sectors (see Figure 13); costs for small emitters are estimated to exceed £1/tCO₂, while costs for large emitters are estimated to be £0.04/tCO₂. The average estimated cost across all UK installations is £0.07/tCO₂.

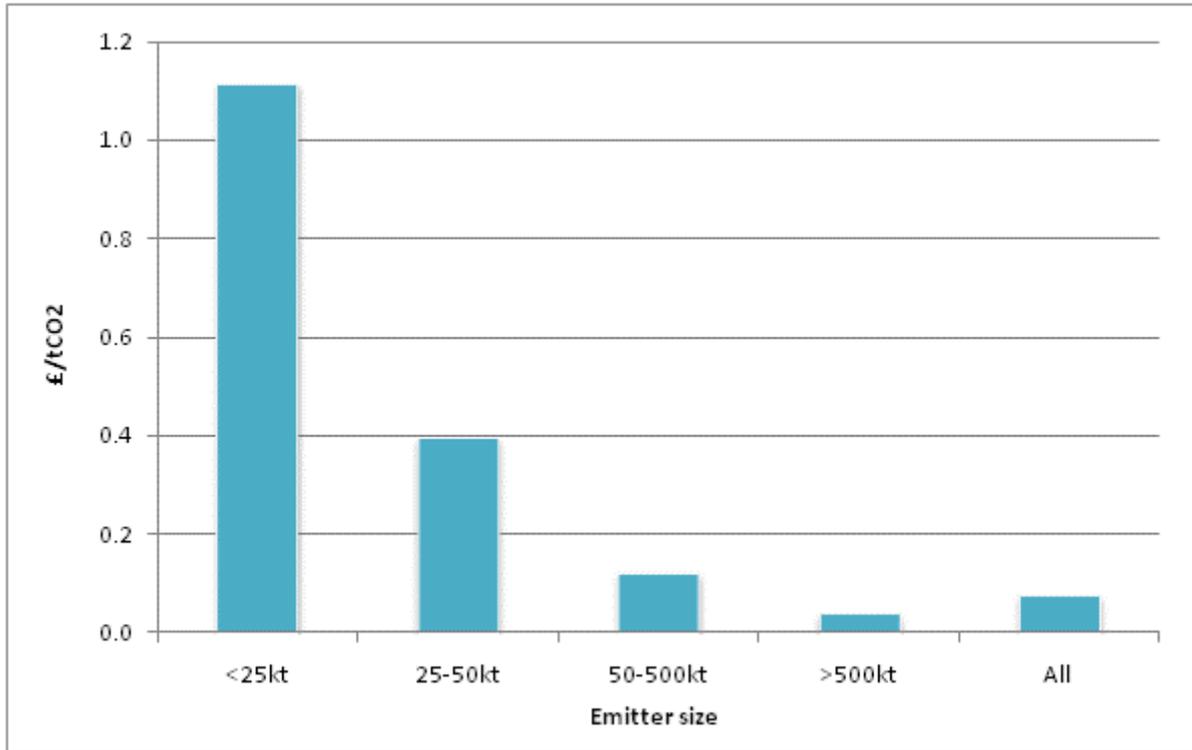


Figure 13. Average costs per tonne of emission by emitter size, £/tCO₂¹²

Costs per installation are lower for smaller emitters. However, the costs of regulating the levels of emissions from such installations are significantly higher than for larger emitting sectors. As the AEA (2006) report did, this does raise questions about the administrative burden associated with small emitters, and provides the necessary evidence to think through opt-out criteria under Phase III.

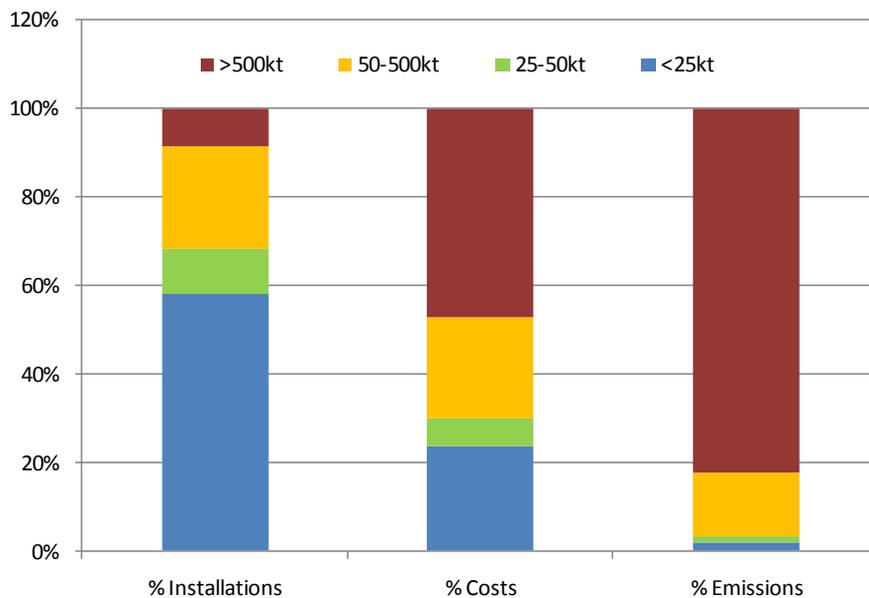


Figure 14. Proportion of installation numbers, costs, and emissions by emitter size group

¹² This has been calculated by simply dividing scaled up total costs by total emissions in 2009.

4.6 Additional costs associated with EU ETS

There are undoubtedly other costs associated with administrative activities relating to the EU ETS. This issue was mentioned by a number of operators in the returned questionnaire, some of whom provided quantitative information (in C5.3) under voluntary costs. However, due to the limited provision of data on such costs, estimates have not been presented. Additional costs cited included liaison with the trade association on developments in the scheme, including sector meetings, and discussion at a corporate level about the company's position on issues such as amendments to the scheme under Phase III. A number of operators also stated that other costs associated with preparation for Phase III, including collection of baseline data or responding to the consultation were not included.¹³ In some cases, costs for these 'other' activities were significant i.e. added 10-20% to the quoted costs for 2009.

As this was an installation-based survey, the costs of Trade Associations supporting their members in the EU ETS were not captured.

Whilst not administrative costs (rather substantive compliance costs), data was also requested on the costs of trading associated with annual compliance. Some of the larger installations provided very high estimates, due to brokerage fees (£10,000-15,000). Such estimates have not been included in the quantitative estimates as it is not possible to verify whether these are strictly for compliance or represent full trading costs. While this distinction was requested in the questionnaire, it is not clear whether operators have distinguished between these costs.

¹³ Four operators provided information on costs related to ETS300. This low number perhaps reflects that most of these costs would be incurred in 2010, and the fact it was not highlighted in the questionnaire.

5 Qualitative survey results

An important element of the survey has been to consult with operators about how the administrative burden associated with the EU ETS can be reduced, and ways in which the EU ETS can be better streamlined with other climate policy measures. In this section, the key issues raised are summarised, noting particular comments by specific sectors.

Question 1. DECC has an interest in minimising costs for complying with climate change policies. Please identify up to 3 priority activities across the relevant regulations e.g. EU ETS/CCAs/CRC where Government could streamline requirements and reduce administrative burdens on organisations.

The responses to this question reflect the difficulties faced by sectors in dealing with a number of different regulations, and the associated administrative costs. Two main issues clearly emerged from over 40 of the responses – 1) improving consistency between the requirements of the different schemes and 2) allowing for exemptions from a given scheme if already covered by another.

Concerning issues of consistency, the following specific points were made:

- Better aligning CCA / EU ETS reporting requirements. This would include common reporting formats and aligning reporting periods. A couple of respondents went further, suggesting merging of reporting requirements and allowing verification reports to be applicable to more than one regulation
- Consistency of calculation methods / requirements between EU ETS / CCA e.g. use of same units
- Consistency of verification requirements to reduce costs for such activities across different schemes

Four respondents caveated ideas for streamlining by stating that investments made by different operators to meet requirements would need to be considered prior to any changes.

Over 20 respondents commented on the overlap between the CRC EES and the EU ETS and CCA. Some said that they did not think they should need to register for the CRC if already under EU ETS and / or CCA, others said that these schemes should be streamlined to use common systems such as registry and data requirements. Many commented that the CRC EES was extremely complex and would achieve limited benefits, particularly for large emitters for whom fuel use / emissions in the main were largely covered by EU ETS / CCAs.

While a particular focus was on CRC, there were also 10 responses, particularly from smaller emitters, stating that a given installation should only be subject to one scheme, which would significantly reduce administrative burdens. Some smaller emitters in the service sector suggested being exempted from the EU ETS, as they were now covered by CRC.

Two respondents also mentioned similar information provision under the EU ETS and CHPQA, and that any streamlining exercise should also consider schemes such as this.

Question 2. Please provide ideas on the ways that the administrative burden of EU ETS could be reduced.

The main issue raised in response to this question was the annual requirement for verification. 20 respondents raised the issue of frequency of verification, raising a number of points:

- If there has been no fundamental change to an installation's operation since the last audit, there should not be a requirement for annual verification. A number of operators suggested verification every two years. Verification also could be reduced in frequency once highest tier estimation method is met.
- Smaller emitters should have less stringent requirements, and reduced frequency of verification.
- Verification is undertaken for a variety of purposes but requirements vary, e.g. CHPQA, CCA, EU ETS, ISO 14001.
- Consider role for self-verification with auditing of sample of installations
- Reduce steps in verification process, such as allow verified reports to be submitted directly rather than through the operator.
- Reduce number of site visits required by allowing organisations to centralise verification activities.

Another issue particularly raised by larger emitting sectors relates to the costs of emission data gathering and collation. Fuel sampling and analysis costs could be reduced where historic data suggests limited changes in composition, particularly since the start of the scheme.

Other options to reduce the administrative burden relating to emissions data reporting included:

- Where appropriate consider the use of invoice data (from bills) to avoid sub-metering costs
- Exclude very small sources of emissions (e.g. ignition fuel) where they represent a small fraction of total CO₂ emission. Thresholds to determine this exclusion should be considered.

An issue raised particularly by smaller emitters related to the potential opt-out from the EU ETS for such installations. Comments included:

- A few respondents asked for opt-out thresholds to be increased.
- Opt-out should be on emissions alone, not thermal capacity. About 10 respondents cited this as a problem, whereby they had low emissions but their capacity level did not permit an opt-out e.g. those with standby generation.
- Another operator suggested that maximum load rather than thermal capacity should be used in the criteria
- The issue of opt-outs under Phase III was also highlighted, with clarification wanted on the rules before the request for Phase III baseline data.

Options for reducing the burden, particularly associated with submitting forms included:

- Reduce number of forms or combine some of the forms regularly submitted. For example, have an integrated annual form that combines reporting requirements where feasible to do so.
- Focus forms on requesting only key information. One respondent flagged that ETS7 asked for a lot of information for determination of non-process uses, which only contribute a fraction to total emissions.
- Provide telephone helpline (in addition to the email help address) and improve guidance to reduce the amount of material to read.
- Providing a single set of security details for PAR / SARs to access registry accounts

Finally, there was a wide held view that monitoring and reporting guidance from the European Commission should be seen as guidance, with the Regulators having the discretion to implement less stringent monitoring and reporting requirements, particularly for smaller emitters.

A single respondent did feel that the administrative burden was lower than in previous years due to the scheme having been established now for a number of years, and systems now in place deal with the administrative requirements.

Question 3. Please describe any actions that have been taken by your company to reduce time or costs of compliance over the period you have been part of the EU ETS.

This was an important question to assess what operators had done specifically to reduce administrative burdens, with a view to sharing such practice more widely. The following measures were cited (and have been ordered to reflect number of responses):

- Data management: development of spreadsheets or automatic data collection to streamline the annual reporting process.
- Coordination with Trade Association or other organisation centralising data management and / or reporting and / or sharing of best practice with other operators.
- Use of the same providers for verification or sample analysis, to ensure consistency and understanding of installation
- From the same sector, operators talked about employing consultants to assist with understanding of requirements whilst others stated that costs were reduced by meeting requirements using in-house staff.
- For all meter standards and uncertainty calculations some operators have adopted the CHPQA methodology
- Early preparation prior to reporting deadlines, including some pre-verification activities. This also ensures anomalies and / or other issues are picked up.
- Using a single project manager across a number of sites who gains the expertise
- Development of QA software to look for anomalies in data, making emission calculations and verification process easier.
- Development of a single reporting system that allows for meeting of regulatory and non-regulatory requirements
- Utilise record systems needed for EU ETS in normal business management systems.

- Successfully challenged the requirement for site visits for verification of Phase III baseline, where qualifying plant does not change from Phase II.

However, 7 respondents commented that reducing the burden is not possible. Some stated that despite streamlining reporting, costs continue to increase. In some cases Phase III data collection was cited, in others increased MRV requirements in Phase II compared to Phase I. The chemicals sector expects much higher costs under Phase III due to more activities becoming included.

Question 4. If you are likely to be affected by the possible small emitter/hospital Phase III opt-out, are there any costs or activities that you consider may be reduced by your inclusion under a domestic legislative instrument such as the CRC or CCAs as an alternative to the EU ETS?

As the potential opt-out affects a smaller proportion of the respondents, there were far fewer responses to this question (18 responses). A number of respondents stated that they were in both the CCA and EU ETS so an opt-out would reduce costs, for example relating to auditing.

Another operator stated that annual verification would not be required under the CRC, thereby reducing costs whilst another cited the savings in subsistence fees.

Most operators potentially moving to be regulated under the CRC thought that costs would be lower although a number did also express uncertainty based on limited CRC experience. An organisation with multiple sites, most in CRC but some under EU ETS, stated that opt-out would mean focus on one scheme only, thereby reducing costs. Another operator stated that under the CCA, reporting was less precise (and therefore less costly) but just as effective.

It has also been noted that although the chance to opt out in Phase III is welcomed, it comes with a requirement to continue monitoring and reporting therefore costs will still be incurred even through the operator must also register with an equivalent scheme.

In summary, the key issues highlighted by operators include:

- Improving consistency of reporting under different climate policy schemes, including methods, formats and timing
- Allowing for opting out of EU ETS (as small emitters under CRC) and CRC (particularly in large emitters under EU ETS / CCA).
- Reducing the frequency of verification (particularly in the absence of significant changes to operation)
- Lowering the stringency of emissions reporting (particularly in the absence of significant changes to operation)

These issues are further discussed in the following section.

6 Discussion of survey results

Feedback provided in the survey highlights a range of requirements under EU ETS that operators consider to be overly burdensome, and which could potentially be re-examined to reduce administrative costs. This section of the report further discusses the issues raised, to consider whether such requirements could be reduced, and what subsequent recommendations could be made to DECC and the Regulators.

From operators' responses, it is not always clear whether suggestions made regarding changes to monitoring and reporting requirements are in the context of current Scheme rules or suggestions for potential changes if and when monitoring and reporting guidance was to be revised. The discussion in this section is in the context of the current Scheme, and any changes that might be foreseen under Phase III.

Streamlining requirements across different regulations

Some useful points were raised by many of the operators in response to the question about streamlining reporting requirements under different climate policy instruments, in particular CCAs and CRC Energy Efficiency Scheme (EES). Although the focus of CCAs / CRC EES is on energy efficiency, there might be some areas for synergy with respect to monitoring methods, and reporting formats / timing.

Concerning the CRC EES, now is the time to be looking at these synergies (both with EU ETS and CCAs), with reporting due next year. It is likely that any moves towards greater streamlining will need to be done for the domestic schemes, as these are within the remit of Government unlike the EU ETS. This will need to be done, accounting for the fact that monitoring and reporting requirements under the EU ETS are more comprehensive than for other schemes.

The option to opt an organisation out of the CRC if an operator is in the EU ETS does not exist, as the CRC EES is mandatory. EU ETS emissions will not however be covered by CRC in most cases. From the Government's perspective, there needs to be some mechanism to address emissions not captured by EU ETS to ensure a comprehensive climate policy. However, from a business perspective, reporting requirements should be aligned as far as possible to reduce the administrative burden associated with dealing with a number of different schemes.

Reducing EU ETS administrative burdens

A key issue raised by a significant proportion of operators related to frequency of verification and / or sites visits, particularly in cases where site operations in general or types of fuels used do not change from the previous audit. Under the current Directive (Article 15), operators have to have their annual emission reports verified, according to criteria set out in Annex V (and further detailed in the Monitoring and Reporting Guidelines). This is clearly to ensure that the reporting of emissions is robust, and the integrity of the system is maintained. Therefore, under current rules, there is no scope for reducing the frequency of verification.

From an operator's perspective, verification is important in respect of minimising liability under the Scheme that could arise through incorrect reporting. For example, under-reporting for any year within the current Phase that is subsequently discovered could result in a fine of €100 Euros per tonne of CO₂.

In the Monitoring and Reporting Guidelines (EC 2007), there is scope for discretion on this issue for small emitters (Paragraph 16 of the *General Guidelines*). It states that *Member States may waive the mandatory need for annual site visits by the verifier in the verification process and let the verifier take the decision based on the results of his risk analysis*. This section also allows for lighter touch monitoring and reporting.

A wider issue raised by some operators relates to the level of discretion of a Regulator in applying the Monitoring and Reporting Guidelines. As a Commission Decision, they are legally binding. Therefore, whilst there are discretionary decisions to be made by the Regulators, much of the guidance is unambiguous.

An example raised by some operators related to the tier required for monitoring. In the Guidelines, it states that *the highest tier approach shall be used by all operators to determine all variables for all source streams for all category B or C installations. Only if it is shown to the satisfaction of the competent authority that the highest tier approach is technically not feasible or will lead to unreasonably high costs, may a next lower tier be used for that variable within a monitoring methodology*. The discretionary aspect relates to technical feasibility and unreasonable cost. However, the principle of the type of tier used is clear.

The Commission are in the process, as cited in the Consolidated Directive (Article 14(1)), of replacing the Commission Decision with a Regulation by December 2011. This should lead to clearer obligations on Member States concerning the approach to Monitoring and Reporting, and consistent application of rules across the EU.

Another important issue raised relates to the possible opt-out by small emitters, allowed for under Phase III where the Member State makes the case to the Commission to opt out installations if subject to equivalent measures (Article 27 of Directive). The criteria is installations emitting less than 25 ktCO₂, and with a thermal rated input of less than 35 MW (excluding biomass), and hospitals. While the criteria are fixed, it will be up to Government to determine which installations can opt-out under these criteria.

The Government is still considering its approach on this issue, presumably assessing whether equivalent emission reductions would be achieved under the CRC EES. In terms of the level of administrative costs incurred under the EU ETS versus an equivalent scheme, it is not clear how the relative costs compare at this stage. For total compliance costs, this will of course be dependent on performance, and how much revenue is recycled back to a given organisation. Even if opted out, an organisation will still have to monitor emissions to ensure it remains below the emission threshold (although this could be done as part of reporting under the equivalent scheme).

Finally, another issue raised was how costs associated with reporting via various forms could be reduced. An important development that should help make the process more efficient is the Emissions Trading System Workflow Automation Programme (ETSWAP)

system, which will allow online data entry and require common data to be entered once. In addition, the system should allow further efficiencies such as verifiers being able to approve reports submitted by operators online. This system is expected to be operational for stationary installations by 2012.

From the Regulator' perspective, the UK have developed a system of forms (based on electronic reporting) that has significantly reduced the administrative costs, as reflected in the subsistence fees. Efficiency of the system should be further enhanced by ETSWAP. However, there does not appear to be any scope for reducing the information requested in the forms (beyond what ETSWAP will achieve). The forms need to reflect the requirements stipulated in the MRG, and therefore ask for the minimum required information.

7 Conclusions and recommendations

The average administrative burden of the EU ETS is estimated to be around £16,400 (including one-off costs and fees). Wider administrative costs (including administrative burden) associated with EU ETS increase the average to £21,000. There is significant variation from sector to sector, reflecting very different types of installations and associated information obligations to the Regulator.

Most installations have an administrative burden in the range of £8,000-£15,000 (53%). 80% of installations have a cost burden below £15,000. Much higher estimates (that impact on the overall average) are shown for the refinery and large power generation sectors. These costs are driven primarily by activities around emissions monitoring and reporting, and verification costs. For smaller emitting installations, it is the costs of verification and Regulators' fees that constitute the largest proportion of these costs.

Scaling up the survey data provides a total scheme annual administrative burden of £13.1-14.8 million in 2009. For the wider administrative cost metric, total annual costs range between £17.1-18.8 million in 2009. Small emitters incur approximately 20% of the total administrative burden (across 60% of the installations) whilst accounting for 2% of emissions. 45% of costs are incurred by the 8% of installations, classified as the largest emitters. However, this does cover over 80% of the scheme emissions.

It is difficult to assess how the administrative burden of the EU ETS in the UK compares with other countries. No recent estimates of administrative burdens in other European countries have been made (as far as the authors have been able to ascertain), and therefore comparison is not possible. Comparison to other schemes such as the CRC or CCA is also not reasonable due to the very different structure of those mechanisms, and associated administrative costs.¹⁴

Importantly, UK Government and Regulators are looking at ways to reduce the administrative burden. Further development of the reporting system should increase efficiency of information provision.

The evidence collected in this study provides a benchmark from which to assess future costs. In addition, it highlights many of the concerns that operators have concerning the information obligations under the scheme. Many of the concerns raised are simply requirements of the Directive and Monitoring and Reporting Guidelines, leaving limited

¹⁴ DECC (2010) published the impact assessment for the CRC, which has estimates of overall administrative burdens. Average annual costs were put at £34 million, 50% of which were attributed to administrative costs. This is across an estimated 4,000 -5,000 sites. Annual costs per operator have been worked out on the basis of number of sites managed (to reflect economies of scale), from 7,000 for 1 site to 28,000 for 50+ sites. An additional £1,290 is estimated for annual charges by the Regulator. This cost assessment has been undertaken by consultants without undertaking a survey, and therefore is a very different type of analysis. In addition, the CRC is a very different scheme, with different reporting needs.

opportunities for further reducing monitoring and reporting requirements. However, there are some issues that the Government and Regulators in consultation with Operators could consider, to assess any opportunities for reducing the administrative burden:

- Development of the Monitoring and Reporting Regulation. The European Commission is in the process of putting Monitoring and Reporting guidelines, currently under a Commission Decision, into a Regulation. Whilst there are unlikely to be significant changes to the requirements already in place (with the Commission's priority of maintaining Scheme integrity), operators could make representation about specific issues that they think could be revisited.
- For small emitters, understanding the relative merits of opting out of the EU ETS in Phase III, as provided for under the ETS Directive. As set out in previous public consultations the Government has the opportunity to allow small emitters to opt-out of Phase III, subject to there being alternative, domestic, measures in place to achieve equivalent emissions reductions. Key to this decision is an understanding of relative costs of being under one scheme versus another (if indeed there is a choice to be had). In this way, knowledge of administrative and other compliance costs can inform any decision. However, for the CRC EES, this could be difficult because costs incurred are at an organisation level, rather than site level, and furthermore will be partly performance-based.
- Consistency of reporting requirements under different climate policy schemes. Where operators are under 2-3 different Schemes, there may be opportunities for aligning reporting requirements (methods, formats) between the domestic mechanisms (CCAs / CRC) and with EU ETS requirements.
- There is already a good dialogue between Regulator, Government and Operators such as via ETG and Regulator helplines. This dialogue needs to be frequent to ensure that there is a good understanding of why certain requirements are made in respect of monitoring and reporting. Based on the current forms and guidance on the website, there do appear to be good resources. However, additional consultation and discussion would reinforce why the Regulator requires specific information and further dialogue outside the scope of formal operator questionnaires and consultations should be encouraged.
- Further sharing of best practice between operators can be facilitated by Government, Regulators and ETG. The qualitative survey results described in section 5 included numerous examples of efficiencies that have been achieved by a range of operators to save money and time in complying with EU ETS requirements.

8 References

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Appendices

Appendix 1. Study Questionnaire

EU ETS Costs of Compliance - Operator Questionnaire



Introduction to the form

Purpose of the questionnaire

This questionnaire is being undertaken on behalf of DECC and the Environment Agency to collect installation-level data on the costs of compliance with the EU Emissions Trading System for UK operators.

The key objective of this study is to **identify and quantify possible improvements the regulator could make to further reduce the regulatory burden** imposed by the EU ETS and highlight any potential simplifications between the EU ETS and other related regulations.

This questionnaire is therefore to collect data in order to quantify costs to UK operators associated with compliance with the EU ETS. This includes annual costs such as monitoring, reporting and verification costs and trading and auction participation costs.

Analysing costs data by industry sector and installation emission level will allow us to consider the levels of regulatory burden across different types of installation.

The data collected on operator details (section A) will be used to check the sector and emission size distribution within our study sample.

Any data provided in this questionnaire is strictly for the purposes of this study.

We will not disclose data for any individual installation in the study report (or in associated study documents).

Completion of the form

The form has been designed in Excel to allow it to be filled in electronically for more efficient analysis.

Once you have completed the questionnaire please save the file with a name in the following format **EUETSCostOfCompliance_NAPxxxx.xls** where XXXX is the NAP number of the Installation referred to in the questionnaire. For example **EUETSCostOfCompliance_NAP0310.xls**. Note that the spreadsheet should be saved as an **Excel 2003 or earlier** version.

Please email the file back to us at the e-mail address provided below.

If you have any queries please contact questionnaire@aether-uk.com.

Please send completed submissions to the questionnaire@aether-uk.com by the **9th July 2010**.

Summary guidance is provided in blue text at the beginning of each section and for specific questions.

 Answers should be provided in the white cells. Please answer as many questions as are applicable.

 Optional questions are in green. Please use these spaces to provide additional information that you feel will be useful for this study.

An **example completed form** is shown in the sheet called Example

We are requesting data from individual installations to get an accurate as possible dataset on the variations in costs across EU ETS installations in the UK.

Some of the activities covered in this questionnaire may be undertaken centrally in organisations rather than at installation level or by a Trade Association or other body representing a group of installations. In this case we ask that the questionnaire is completed **with reference to a single installation that is representative of the group** of installations owned or represented by that organisation. However, if no single installation is considered representative of the group (for example because the spread of administrative costs is wide) then please complete 2 or more questionnaires to represent a range of costs. Please provide further details in the comments box for Question C5.5 to explain choices made in this regard. Please do not attempt to provide an estimate of the average of all installations in the group.

Thank you for your time for completing the questionnaire.

Section A - About your installation
Please provide operator specific data here.

A1 **NAP number** Permit number
Please enter your NAP number here. Permit, operator and site details will auto-complete. Operator name
 Site Name

A2 **Contact name for the person completing this survey**
Contact details are required in case there is a need for follow-up questions regarding your responses.

A3 **Contact e-mail address**

A4 **Main activity undertaken at installation**

If you selected 'Combustion - Other' please state your main activity here:

A5 **Is this installation covered by the following other environmental regulations?**
Please tick the regulations that apply.

- Climate Change Agreement (CCA)
- Climate Change Levy (CCL)
- Integrated Pollution Prevention and Control (IPPC)
- CRC Energy Efficiency Scheme
- Renewables Obligation
- Large Combustion Plant Directive (LCPD)

Section B - Commentary on compliance costs and improvements

One of the objectives of this research is to consider possible modifications to the EU ETS Regulations in order to reduce the burden on UK operators.

B1. DECC has an interest in minimising costs for complying with climate change policies. Please identify up to 3 priority activities across the relevant regulations e.g. EU ETS/CCAs/CRCs where Government could streamline requirements and reduce administrative burdens on organisations.

B2. Please provide ideas on the ways that the administrative burden of EU ETS could be reduced.

For example DECC has previously made provision for small emitter opt outs and changed the classification of installations included in the ceramics sector. If you have suggestions for further ways to reduce burden, then please explain them here. For example you may have ideas based on knowledge of EU ETS systems in other countries.

B3. Please describe any actions that have been taken by your company to reduce time or costs of compliance over the period you have been part of the EU ETS.
This information may be used to share best practice amongst EU ETS operators.

B4. If you are likely to be affected by the possible small emitter/hospital Phase III opt-out, are there any costs or activities that you consider may be reduced by your inclusion under a domestic legislative instrument such as the CRC or CCAs as an alternative to the EU ETS?

Section C - Costs of Compliance

Please provide cost data for compliance activities in the following sections. **Data should be for a 12 month period to cover the 2009 compliance year.** Costs for internal effort refer to time spent by your staff while external effort refers to external expert advice / consultancy support. All costs quoted should be exclusive of VAT and **should exclude fees paid to the regulator.** Please leave non-relevant sections blank.

The Standard Cost Model (SCM) is the basis of the design of this questionnaire. The SCM uses data on the number of hours taken for a task and a tariff (hourly rate) to work out total costs. However, this is also an opportunity to collect actual costs data which will improve the accuracy of this assessment. Please provide an estimate of the **actual cost** and an estimate of effort in terms of time (hours). These costs may be made up of time at different hourly rates, if so you may want to provide notes to explain this in the description column.

Additional guidance on specific cells in this section are provided as popup comments which appear when you hover over or click on the cell (indicated by a small red triangle in the corner of the cell).

Summary descriptions of costs are requested in order that when the questionnaire is analysed the reasons for the costs are fully understood. Please briefly explain the tasks requiring effort or the purchases made.

Scope of costs included:

The following activities and costs are **not covered so please do not** include costs associated with them in answering questions C1 to C5 :

- Abatement costs and the costs of EUAs/CERs/ERUs
- Negotiations with DECC / European Commission regarding methodologies for Phase III
- Contributions to Trade Association studies
- Costs of compliance with other related Regulations

The charges made by regulators for subsistence and permit variations etc will be taken into account in this work but this information is not requested directly in the questionnaire because it can be gained from the regulator.

of only the portion of this cost / effort that is applicable to the installation detailed above. Please provide further details in the comments box for Question C5.5 if this is the case.

Only activities that **must** be done to comply with regulation should be entered into responses to the questions specified in section C. Costs of other activities should be put in the voluntary box at the end of the questionnaire (C5.3). Section C2 is an exception because you may choose to include costs of trading that are just for compliance purposes or to provide full costs of all trading including activities beyond those required for compliance.

C1. Annual Monitoring, Reporting and Verification Activities

Please provide here estimates of the amount of time and (if available) expenditure on the various activities listed in the left-hand column.

The costs and time given here should be **annual** spend on these recurring activities. Initial setup costs for the system should not be included in this section. A separate section (C4) is included below for New Entrants referring to application for permits and setting up monitoring systems etc.

With regard to the question in column G, the purpose of this question is to consider the extent of admin **burdens** vs baseline business admin costs. For example some emissions monitoring may be done anyway for company reporting or complying with other Regulations and is therefore not a burden resulting from the EU ETS regulation. Please provide an estimate of the percentage of costs that would still be incurred in the absence of the EU ETS.

	Administrative activity	Cost category	Number of hours spent in 2009 compliance year	Annual costs (£) 2009 compliance year	Summary description to further define/explain the tasks and expenditure	What % of these costs would still be incurred in the absence of the EU ETS?
C1.1	Maintenance of Monitoring and Reporting systems	Internal effort				
	This includes the maintenance of the systems required to deliver compliance with the monitoring and reporting requirements including: calibration of meters; maintenance of reporting systems such as automatic data acquisition systems; quality assurance provisions such as auditing and maintaining any necessary accreditations to ensure that systems are maintained and operate to the appropriate standards. Do not include setup costs here (see Question C4 for New Entrants if applicable)	External effort				
		Acquisitions				
		Other costs				
		Total		0	£ -	
C1.2	Annual report on improvements to Monitoring and Reporting methodology	Internal effort				
	Completion of Forms ETS 5 and ETS 6 where applicable.	External effort				
		Other costs				
		Total		0	£ -	
C1.3	Annual emissions data gathering / collation (for reporting)	Internal effort				
	This includes the costs associated with extracting the data required to complete form ETS7 from your monitoring and reporting systems. These costs may include sampling and analysis of fuel inputs and the effort required in internal reporting.	External effort				
		Other costs				
		Total		0	£ -	
C1.4	Annual emissions reporting	Internal effort				
	Completion of Form ETS 7.	External effort				
		Other costs				
		Total		0	£ -	
C1.5	Verification of annual emissions	Internal effort				
	This includes verifier fees as well as the effort required to support the verifier e.g. to provide information or address verifier queries as part of a verifier visit.	External effort				
		Other costs				
		Total		0	£ -	

C2. Surrendering allowances and Trading

The costs specified in this section should **not** include the money paid for allowances (EUAs/CERs/ERUs).

Activity	Cost category	Number of hours spent in 2009	Annual costs (£) compliance year	Summary description to further define/explain the tasks and expenditure
C2.1 Surrendering Allowances	Internal effort			
	External effort			
	Other costs			
	Total		0 £ -	

C2.2 **Do you undertake trading for reasons other than compliance?**

If you answered "no" to Question C2.2 then enter your full trading costs in Question C2.3 and skip Question C2.4.
 If you answered "yes" in Question C2.2 then in Question C2.3 you can choose to **either** state full costs of trading **OR** only those costs incurred for trading for compliance.
 If you state full trading costs please also answer question C2.4.

C2.3 Trading and / or auctioning costs Examples of activities: Maintaining a trading strategy, Entering auctions, Brokerage fees, Trading via an exchange	Internal effort			
	External effort			
	Other costs			
	Total		0 £ -	

C2.4 If full costs of trading are entered above please state here an estimate of the percentage of these costs that are incurred for trading for compliance.
 Percentage of the above trading costs that are incurred for compliance:

C2.5 Please use this box if you want to provide comments on costs for trading:

C3. Other activities related to Information Provision e.g Permit Variation

Please provide details here of time and money spent on these additional activities if applicable:

- Notification of change**
- Permit variation**
- Permit transfer**
- Surrender**
- Revocation**
- Application to New Entrant Reserve (Form ETS 3.2)**
- Application to retain allocations**
- Regulation 30 application**
- Provision of information to the Registry**

Costs should relate only to completing and submitting applications / forms and not include Regulator fees. If you have undertaken more than three of these activities during the 2009 compliance year then please give information on the remaining activities in Section C5.

	Administrative activity	Cost category	Number of hours spent in 2009 compliance year	Annual costs (£) 2009 compliance year	Summary description to further define/explain the tasks and expenditure
C3.1	Please click here to select an activity from the drop down list >>>>>>	Internal effort			
	Select an activity from the list above and provide costs data related to this activity	External effort			
		Other costs			
		Total	0	£ -	
C3.2	Please click here to select an activity from the drop down list >>>>>>	Internal effort			
	Select an activity from the list above and provide costs data related to this activity	External effort			
		Other costs			
		Total	0	£ -	
C3.3	Please click here to select an activity from the drop down list >>>>>>	Internal effort			
	Select an activity from the list above and provide costs data related to this activity	External effort			
		Other costs			
		Total	0	£ -	

C4. EU ETS New Entrants - Setup Costs

C4.1 Tick here if you are a New Entrant to the EU ETS in Phase II (2008-2012)?

Please only complete this section if you are a new entrant to the scheme in Phase 2. Costs and time quoted here are **one-off costs** related to joining the EU ETS.

Administrative activity	Cost category	Number of hours	Costs (£)	Summary description to further define/explain the tasks and expenditure
C4.1 EU ETS Scheme permit application - completion of Form ETS 1	Internal effort			
	External effort			
	Other costs			
	Total	0	£ -	
C4.2 Nominated representative - completion of Form ETS 4	Internal effort			
	External effort			
	Other costs			
	Total	0	£ -	
C4.3 Submission of Monitoring and Reporting plan - completion of Form ETS 2.2	Internal effort			
	External effort			
	Other costs			
	Total	0	£ -	
C4.4 Setup of monitoring and reporting management and monitoring systems	Internal effort			
	External effort			
	Acquisitions			
	Other costs			
	Total	0	£ -	

C5. Any other compliance related costs not specified above and additional comments

Please provide here details of other activities on which you have spent time or money related to compliance with EU ETS regulations but are not included in the sections above.

C5.1 Other annual compliance activities not included above Specify activity type here:		Number of hours spent in 2009 compliance	Annual costs (£) 2009 compliance year	Summary description to further define/explain the tasks and expenditure
	Internal effort			
	External effort			
	Other costs			
	Total		0	£ -

C5.2 Other one-off compliance activities not included above Specify activity type here:		Number of hours	Costs (£)	Summary description to further define/explain the tasks and expenditure
	Internal effort			
	External effort			
	Other costs			
	Total		0	£ -

C5.3 Voluntary activities Costs incurred for activities that are not mandatory to fulfilling the requirement e.g. attendance at meetings. Specify activity type here:		Number of hours	Costs (£)	Summary description to further define/explain the tasks and expenditure
	Internal effort			
	External effort			
	Other costs			
	Total		0	£ -

C5.5 Additional comments (on compliance costs of EU ETS)

Please include any other comments here that may help in the interpretation of your responses.
Examples: If 2009 was an exceptional year for any reason please explain why.
If some costs were incurred at HQ or by Trade Associations these need to be estimated at an installation level. Please note here which these activities these relate to and describe the assumptions used for calculating these installation level estimates.

Many thanks for your time in completing this questionnaire.



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