

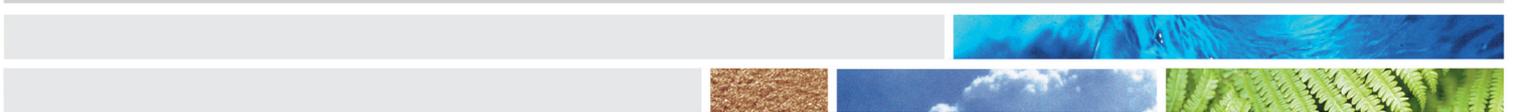


Environmental
Protection Authority
Te Mana Rauhi Taiao

Guide to becoming a recognised verifier

New Zealand Emissions Trading Scheme

DECEMBER 2011



TECHNICAL GUIDE

Contents

Introduction.....	3
Purpose of this guide.....	3
Structure of this guide	3
Disclaimer	3
Unique emissions factors regulations	4
Climate Change (Unique Emissions Factors) Regulations 2009	4
The verification function.....	5
Verifier's role	5
Engagement of verifier	6
Criteria for applying to be recognised as a verifier.....	6
Scope of verification and/or work experience	7
Recognised verifier may lead a team.....	8
Verification standards.....	8
Independence and conflicts of interests.....	8
Activities for which recognition as a verifier can be sought.....	9
Form and content of verifier's statement.....	10
The application process	11
Phase one: Prepare application.....	11
Phase two: Assessment of application by the EPA	11
Phase three: Approval of application by the EPA	12
Phase four: Publication of list of recognised verifiers	12
Maintaining recognised verifier status.....	13
Ongoing eligibility	13
Maintaining professional qualifications and training.....	14
Surrender of grant of recognition by verifier.....	14
Annual feedback.....	14
Contact details and further information.....	15
Appendix 1 - Example of a verifier's statement	16



Introduction

Purpose of this guide

The Environmental Protection Authority (EPA), as administrators of the New Zealand Emissions Trading Scheme (NZ ETS), recognises a panel of independent verifiers to provide a reasonable and appropriate level of assurance around the information provided by participants registered in the ETS when applying for the use of unique emissions factors under the Climate Change (Unique Emissions Factors) Regulations 2009 and that the required procedures as specified in those regulations have been appropriately followed by the participant.

The purpose of this guide is to:

- provide an overview of the verification function in relation to the unique emissions factors approval regime;
- explain the role of recognised verifiers within the overall unique emissions factors approval regime; and
- assist interested individuals in applying for recognition as a verifier.

Structure of this guide

This guide contains:

- an overview of the verification function and the role of verifiers;
- an explanation of the application process for interested individuals seeking recognition as a verifier;
- information on the process associated with continued eligibility; and
- EPA contact details (ETS Administrator).

The **Application for recognition as a verifier** form must be completed by applicants seeking recognition as a verifier. Applicants must be individuals (for example, natural persons and not organisations) to be recognised as a verifier.

Disclaimer

This guide is based on the law at the date of issuance. The information in this guide does not alter the laws of New Zealand or other official guidelines or requirements. Readers of this guide should take specific advice from qualified professional people undertaking any action following information received from this guide.

Unique emissions factors regulations

Climate Change (Unique Emissions Factors) Regulations 2009

The EPA has the power to recognise verifiers under section 92 of the Climate Change Response Act 2002 (the Act).

The Climate Change (Unique Emissions Factors) Regulations 2009 (the UEF Regulations) set out the eligibility requirements for recognising verifiers for the purposes of providing a reasonable and appropriate level of assurance around those applications received from ETS participants (the participant) who wish to use unique emissions factors in calculating their emission liabilities.

The UEF Regulations enable certain participants to apply for the use of unique emissions factors, namely in the liquid fossil fuels sector and certain activities undertaken by the coal, fugitive coal seam methane mined from underground mines, purchasing natural gas, geothermal fluid and waste combustion sectors. The approved unique emissions factors are participant-specific unique emissions factors by which each unit of production (for example, input or output) of participant's activity is multiplied to calculate emissions.

The UEF Regulations require independent third party verification to be carried out where a participant wishes to apply to the EPA for approval to use a unique emissions factor.

Unless stated otherwise the section references are references to sections of the Act or to the UEF Regulations.

The verification function

Verifier's role

The EPA's objective is to establish a panel of qualified and trained verifiers who play an integral role in ensuring that the verification function:

- supports the policy objectives of the legislative framework and the unique emissions factors regime;
- provides a reasonable and appropriate level of assurance around the information provided by participants when they apply for approval to use a unique emissions factor and that they have followed the required procedures when making their application; and
- brings a high level of quality, integrity and transparency to the approval process for the use of unique emissions factors and the operation of the ETS.

All applicants should be aware of the importance of the verification function to the effectiveness of the overall unique emissions factors approval regime and the ETS, and the responsibility that this will place upon recognised verifiers.

Under the UEF Regulations, the verifier's role is to:

- a. verify a unique emissions factor for an eligible activity
- b. satisfy themselves that any samples collected by the participant and tested:
 - i. meet any standard for sampling required by the regulation; and
 - ii. have been tested by an appropriately qualified and accredited agency;
- c. satisfy themselves that any measurements or other tests required to be carried out by the participant have been carried out in accordance with the requirements of the regulation;
- d. satisfy themselves that the unique emissions factor (regulation 24(1)(d)):
 - i. has been calculated correctly in accordance with the prescribed methodology, having conducted his or her own calculations using the test or measurement results provided by the participant; and
 - ii. meets the prescribed threshold for applications for approval for use of a unique emissions factor for the activity; and
- e. provide a verifier's statement in accordance with regulation 4(3) that:
 - i. certifies he/she is able to verify unique emissions factors for the activity and that the recognition has not expired, or been surrendered, suspended or revoked;
 - ii. state the regulations under which the unique emissions factor was calculated; and
 - iii. he/she is satisfied as to all the matters specified in regulations 24(1)(b) to (d), for example, that any samples, measurements and calculations used in determining the unique emissions factor have been appropriately tested and checked in accordance with the regulations.

Engagement of verifier

The verifier is selected and engaged directly by the participant. Any verification costs are to be met by the participant. Participants are able to select a recognised verifier from the public list of verifiers published on the NZEUR Registry and on the NZEUR website - www.eur.govt.nz.

Criteria for applying to be recognised as a verifier

Regulation 26 sets out the criteria that must be met in order for persons to be recognised as a verifier.

The criteria are:

- a. the person must be an individual (regulation 26(1)); and
- b. the individual must be registered in the relevant discipline of accounting or engineering (regulation 26(2)):
 - i. **Chartered accountant** – within the meaning of section 19 of the Institute of Chartered Accountants of New Zealand Act 1996;
 - or
 - ii. **Chartered professional engineer** – within the meaning of section 6 of the Chartered Professional Engineers of New Zealand Act 2002.

The verifier must have the following work experience:

- a. at least 100 working days verification experience obtained in the previous three years; or
- b. five years full-time work experience as an accountant or engineer obtained since becoming a chartered accountant or chartered professional engineer.

Individuals who are granted recognition as a verifier must (regulation 26(3)):

- a. perform verification functions only in relation to the activities in respect of which they are recognised;
- b. comply with the relevant requirements of the UEF Regulations; and
- c. maintain an appropriate degree of impartiality and independence in carrying out the verification functions.

Scope of verification and/or work experience

Verification is the process by which the EPA is assured that the required procedures are followed by the applicant. In most cases, it does not require detailed expertise in the applicant's industry, but some technical knowledge may be required. In addition, verifiers are expected to have a sound understanding of the requirements of the relevant UEF regulations and assurance experience.

To enable the EPA to make an assessment as to whether the person has the requisite 100 working days verification experience, verification is broadly defined as:

'the process of obtaining appropriate and sufficient evidence that supports the conclusions in the verifier's statement'.

In making this assessment, the EPA considers the relevance of the following as being included within the scope of verification experience:

- a. reasonable assurance engagements;
- b. quality assurance audits;
- c. process audits;
- d. special purpose audits, for example, audits of contractually binding heat and mass balances reviews;
- e. ISO audits and/or certification programmes; and
- f. audit of greenhouse gas related data.

In relation to the assessment of 'at least five years full-time work experience as a qualified chartered accountant or chartered professional engineer', the EPA may consider the relevance of the following as being included within the scope of work experience.

Any of the functions listed in (a) to (f) above and:

- a. understanding of metering equipment and/or systems used to record emissions;
- b. awareness of the information systems used to measure, collect and record emissions data;
- c. understanding of oil and gas, electricity generation, geothermal, mining or large industrial processes; and
- d. understanding and experience of the subject matter of climate change greenhouse issues generally.

Recognised verifier may lead a team

The verifier is able to lead a team of people who will actually undertake the work.

However, the verifier must retain responsibility for:

- a. signing the verifier's statement associated with the activity and the related unique emissions factor that is being sought for approval by the participant; and
- b. ensuring the technical quality of the verification function and for supervising the work of key personnel and assistants.

Verification standards

The UEF Regulations do not specify a standard to which the verifier must perform their work. By holding the current registration criteria and work experience, it is expected that the verifier has the necessary competencies, standards and processes to enable them to carry out the verification work expected of them to a high quality. Refer to *Criteria for applying to be recognised as a verifier, pg 6*.

Verifiers are expected to use their professional judgement to assess risk and determine the specific mix of procedures to provide reasonable and appropriate evidence to reasonably support each statement to be contained in the verifier's statement.

Independence and conflicts of interests

Verifiers are expected to follow the rules and codes of ethical conduct which apply to the respective institutes of chartered accountants and chartered professional engineers.

Regulation 24(2) sets out further criteria for recognition as a verifier.

- a. 'a recognised verifier may not verify a unique emissions factor for the purposes of an application for approval of a unique emissions factor by a participant if the verifier:
 - i. was involved in any way with the taking or testing of any samples, or the taking of any measurements, that support the application; or
 - ii. is an employee of the applicant or any person involved in the taking or testing of any samples, or the taking of any measurements, that support the application; or
 - iii. has any other conflict of interest or relationship with the applicant or any associated person of the applicant that could reasonably be regarded as likely to affect his or her impartiality in carrying out his or her verification function.'

Verifiers must have appropriate and established quality assurance or peer review processes and systems in place to ensure that any perceived or actual independence and conflicts of interest issues are identified and reported in a timely manner to the EPA.

Activities for which recognition as a verifier can be sought

Regulation 27 sets out those activities for which the EPA may recognise an individual to verify unique emissions factors. These activities are:

Activity	CCR Act legislative reference
Owning obligation fuel	Part 2 of Schedule 3
Purchasing obligation jet fuel	Part 3 of Schedule 4
Importing coal	Part 3 of Schedule 3
Mining coal	Part 3 of Schedule 3
Purchasing coal	Part 4 of Schedule 4
Purchasing natural gas	Part 4 of Schedule 4
Using geothermal fluid	Part 3 of Schedule 3
Combusting used oil, waste oil, used tyres, or waste	Part 3 of Schedule 3
Operating a disposal facility	Part 6 of Schedule 3

Applicants must seek recognition as a verifier only in respect of those activities where they believe they have the appropriate skills and experience to undertake the verification work required under the UEF Regulations.

Further, verifiers must only perform verification work in respect of those activities for which they have been granted recognition by the EPA.

Form and content of verifier's statement

The regulations do not specify the form and content of the verifier's statement. Verifiers have a duty not to provide a verifier's statement which contains any statement which is believed to be false, incorrect or misleading.

The EPA expects the verifier's statement to include the following minimum basic elements:

Element	Description
Letterhead	Identifies the name and address of the verifier (for example the verifier's letterhead or, in the case of a verifier employed by a company or partnership, on that organisation's letterhead).
Title	Independent verifier's statement. The section should state the participant, the activity to which the statement relates and the unique emissions factor for which approval is sought.
Address	The name of the participant seeking a unique emissions factor. The verifiers report will be addressed to the participant. This is because the verifier is engaged directly by the participant.
Scope	A section on the scope of the verification function which is consistent with the matters specified in regulation 4(3). It should state the regulation or regulations under which the unique emissions factor was calculated, and provide a description of the procedures that have been undertaken by the verifier, together with a description of any standards followed in carrying out the procedures. This section should also include a statement indicating the point in time, or the time period to which the verification relates.
Conclusion	A section on the verifier's opinion based on the conclusions reached from the verification work. Positive assurance must be provided on the matters specified in regulation 4(3) and in particular to all the matters specified in regulation 24(1)(b) to (d). If the assurance is qualified, a section describing the qualification must be included including a quantification of the effects or possible effects on those areas being verified. If these cannot be measured reliably, a statement to that effect and the reasons why they cannot be measured.
Signature	The recognised verifier's original signature and title; and if applicable, using the convention of the organisation (that is, name of the organisation). Note: Scanned or electronic signatures will not be accepted on the verifier's statement. The date of the verifier's statement.

Verifiers may choose to include any other requirements as defined by their own Institute's professional standards. An example verifier's statement is included in *Appendix 1*, pg 16 for guidance.

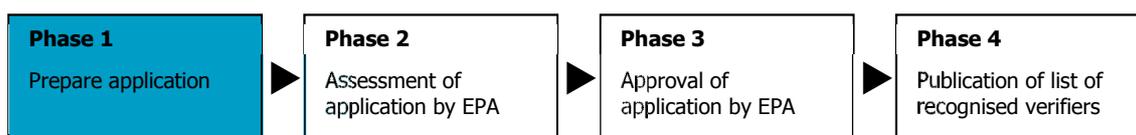
The EPA will only accept verifier's statements that contain the above applicable key elements.

The application process

The following describes the application process for individuals wishing to apply to become a recognised verifier for the purposes of the UEF regulations.

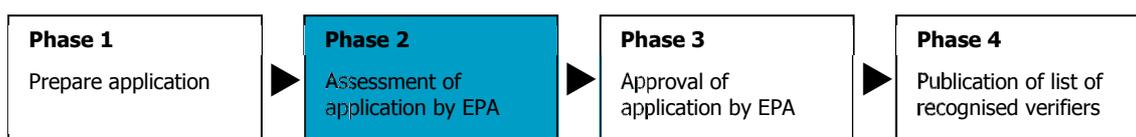
The key phases of the application process are outlined below:

Phase one: Prepare application



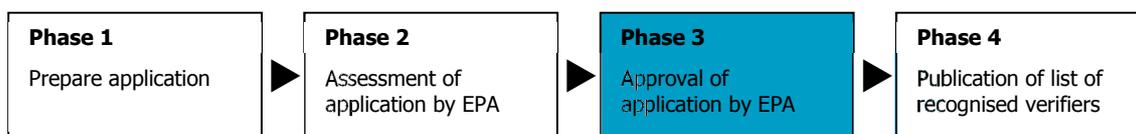
1. In preparing their application for submission to the EPA, applicants should:
 - consult this guide; and
 - complete the **Recognition as a verifier** application form found at www.eur.govt.nz
2. Applicants must apply as individuals. Individuals from a specific organisation can apply and be named as individual recognised verifiers.
3. Applicants should submit the completed application form and any supporting documentation to the EPA.
4. Applicants, who are existing recognised verifiers, may seek to extend their grant of recognition to cover additional activities under the UEF regulations. This can be done by submitting a new application form covering any additional activities for which recognition is sought.

Phase two: Assessment of application by the EPA



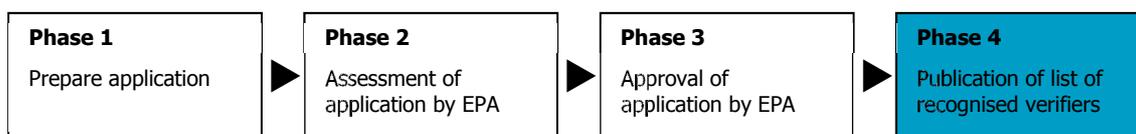
1. The EPA reviews all applications received and may request further information from applicants to that contained in the application.
2. The EPA may also undertake searches as necessary to verify that the applicant is a bona fide registered chartered accountant or chartered professional engineer.

Phase three: Approval of application by the EPA



1. Applicants receive written notice from the EPA of the result of their application. Successful applicants receive a formal notice granting recognition as a verifier (Notice - Grant of Recognition). This notice sets out the:
 - a. activities for which the verifier may verify unique emissions factors;
 - b. any conditions that apply to the grant of recognition;
 - c. duration of the grant of recognition (indefinite or for a stated period); and
 - d. date that the grant of recognition comes into force.
2. The recognition of verifiers in relation to specific activities and the conditions to be attached is at the discretion of the EPA.
3. If the EPA proposes to refuse an application, then the applicant is informed of the grounds on which the application is refused. The applicant has an opportunity to respond in writing or request to be heard by the EPA in relation to this proposed refusal. In these cases, the EPA considers any written submissions and/or meetings with the applicant before making a decision as to whether or not to refuse the application.
4. Dissatisfied applicants have the right to request that the EPA review this decision. If not satisfied with the result of the review, an applicant has the right to appeal to the District Court (see sections 144 and 145 of the Act).

Phase four: Publication of list of recognised verifiers



1. The EPA publishes a list of recognised verifiers on the website www.eur.govt.nz and within the NZEUR. This list contains the:
 - a. names of the recognised verifiers (including contact details); and
 - b. activities for which the recognised verifier is authorised to undertake verification functions under the regulations.

Maintaining recognised verifier status

Ongoing eligibility

The EPA monitors the ongoing eligibility of an individual who has been granted recognition as a verifier.

It is anticipated that the performance of verifiers may be assessed via periodic review of the verifier's work. Verifiers must ensure that reliable, accurate and complete documentation is kept:

- a. in relation to any verification function that provides evidence to support the conclusions contained in the verifier's statement; and
- b. to demonstrate that the verification function was carried out in accordance with the UEF Regulations.

This documentation must be made available upon request to the EPA for any performance assessments.

The EPA has the power to either suspend or revoke the grant of recognition (regulation 30). The EPA provides a notice setting out the:

- a. reasons for the suspension;
- b. the period of the suspension;
- c. the functions and activities the suspension relates to; and
- d. the conditions and requirements to be met before the suspension can be lifted.

The verifier has three months in which to satisfy the conditions and requirements (if any) to enable the suspension to be lifted. It is at the discretion of the EPA to grant a further extension of three months to allow the conditions and requirements to be met.

The EPA may revoke the verifier's recognition at any time if satisfied that (regulation 31):

- a. the verifier is not, or is no longer, competent or able to undertake the verification function in respect to the activities for which the recognition was granted; or
- b. the verifier has failed to comply with any of the conditions of the recognition; or
- c. the verifier has contravened, or failed to comply with any requirements of the UEF Regulations, and in particular, in the opinion of the EPA, doubt is cast on the verifier's competency to undertake the functions or activities for which the recognition was granted.

If the EPA revokes the grant of recognition, the verifier has a duty to:

- a. return the Notice – Grant of Recognition to the Scheme Administrator as soon as practicable; and
- b. take all reasonable steps to notify each person who was a client immediately before the revocation of the fact that their recognised verifier status has been revoked.

Maintaining professional qualifications and training

As part of ensuring that the grant of recognition continues, the recognised verifier is expected to maintain their professional qualifications and capability to undertake the verification function in respect to the activities for which the recognition was granted.

If the EPA believes that there is sufficient and appropriate evidence to suggest that the capability no longer exists, then the EPA may revoke the grant of recognition, for example, where the recognised verifier no longer holds the requisite qualifications.

Surrender of grant of recognition by verifier

The verifier is also able at any time to surrender their grant of recognition by notice in writing to the EPA (regulation 32).

The recognised verifier must return their notice of grant of recognition to the EPA.

The surrender takes effect on the expiry of three months after the date of receipt of the notice by the EPA or any earlier date that is approved by the EPA.

Annual feedback

Recognised verifiers are also able to provide feedback to the EPA in relation to improving the documentation in relation to the unique emissions factor approval regime. It is envisaged that the EPA would meet with the recognised verifiers on a periodic basis to gather this feedback.

Contact details and further information

Please direct any enquiries regarding the recognition of verifiers to the New Zealand ETS

Administrator:

Phone number:	0800 CLIMATE 0800 254 628
Street address:	BP House (Level 1) 20 Customhouse Quay Environmental Protection Authority WELLINGTON 6011
Postal address:	New Zealand ETS Private Bag 63002 Wellington 6140
Email address:	climatechange@epa.govt.nz
Reference materials:	<ul style="list-style-type: none"> • Climate Change Response Act 2002 • Climate Change (Unique Emissions Factors) Regulations 2009 • Climate Change (Stationary Energy and Industrial Processes) Regulations 2009 • Climate Change (Liquid Fossil Fuels) Regulations 2008 • Climate Change (Liquid Fossil Fuels) Amendment Regulations 2009 • Climate Change (Waste) Regulations 2010 • Emissions Trading Bulletin - Climate Change (Unique Emissions Factors) Regulations 2009 (No 15 October 2009) • Emissions Trading Bulletin - Climate Change (Stationary Energy and Industrial Processes) Regulations 2009 (No 13 October 2009)

Appendix 1 - Example of a verifier's statement

Verifier AB Smith Letterhead

Street Address

Scheme Participant: XYZ Limited

Street Address:

Date

Dear <insert name>

Independent Verifier's Statement for < New Zealand Emissions Trading Scheme (ETS) participant>

Re: <Specified Activity>

Re: <Class of Fuel>

Re: <Unique Emissions Factor> for the period <insert date>

I have been engaged by you to conduct a reasonable assurance engagement in connection with your application for a unique emissions factor as specified above. I confirm that I have carried out verification work as required by the Climate Change (Unique Emissions Factors) Regulations 2009 (the 'Regulations').

Applicant's Responsibilities

The Directors of <ETS participant> are responsible for the completion and submission of the application for a unique emissions factor in accordance with the requirements of the Regulations. This responsibility includes establishing and maintaining internal controls to ensure the process used to prepare the unique emissions factor application is in accordance with the requirements under the Regulations.

Verifier's Responsibilities

My responsibility is to express a conclusion on whether the unique emissions factor, sampling, measurement and calculation procedures have been performed in line with the requirements of the Regulations, including whether the unique emissions factor meets any prescribed threshold for approval for use. I conducted my engagement in accordance with <insert applicable standard(s)>.

The procedures selected depend on the verifier's judgement, including assessing the risks of material misstatement of the unique emissions factor, whether by fraud or error. In making those risk assessments, the verifier considers internal control relevant to the participant's preparation and fair presentation of the unique emissions factor application in order to design verification procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the participant's internal control. Reasonable assurance means a high but not absolute level of assurance. Absolute assurance is very rarely attainable as a result of factors such as the following: the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to me is persuasive rather than conclusive and the use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence.

My work has included a recalculation of the calculations using the test and measurement results provided by <ETS participant>.

Limitation of use

This report is made solely to you and the EPA in accordance with my engagement letter dated <insert date>, for the purpose of assisting <ETS participant> meet its requirements under the Regulations. I disclaim any assumption of responsibility for any reliance on this report to any person other than <ETS participant> and the EPA or for any purpose other than that for which it was prepared.

Independence

In accordance with regulation 24(2) of these Regulations, I confirm that, during the period covered by the <ETS participant> application,

- i. I have not been involved in any way with the taking or testing of any samples, or the taking of any measurements that support the application; or
- ii. I have not been and currently am not an employee of <ETS participant> or any person involved in the taking or testing of any samples, or the taking of any measurements, that support the application; or
- iii. I do not have any other conflict of interest or relationship with <ETS participant> or any associated person of <ETS participant> that could reasonably be regarded as likely to affect my independence in carrying out this verification function.

Conclusion

In accordance with regulation 24(1)(a)-(d), I confirm that I am a recognised verifier able to verify unique emissions factors for the above specified activity and that recognition has not expired, or been surrendered, suspended or revoked.

In relation to the above application for a unique emissions factor, <delete as applicable><in my opinion or I believe on reasonable grounds>, having made all reasonable enquiry, to the best of my knowledge:

- a. (i) any samples collected by <ETS participant> and tested for the purposes of the relevant regulation, <insert name of relevant regulation> meet the <insert name of standard> standard for sampling required by the Regulation; and
(ii) have been tested by a person with the prescribed certification or accreditation to carry out the prescribed tests;
- b. any measurements or other tests required to be carried out by <ETS participant> for the purposes of regulation <insert reference> have been carried out in accordance with the requirements of the regulation; and
- c. the unique emissions factor of <insert factor> has been calculated correctly in accordance with the prescribed methodology (as specified in regulations <insert reference> of the Regulations); and
- d. the unique emissions factor of <insert factor> meets any prescribed threshold for applications for approval for use of a unique emissions factor for the activity.

Signed

A B Smith

Recognised Verifier