

Agenda item 3 f

Paragraph 62 of the annotated agenda, Annex 5

ASSESSMENT REPORT ON PROJECT CYCLE OPERATIONS

CDM EB 61

Bonn, Germany, 30 May to 3 June 2011



Outline

- Recent trends related to issuance of CERs and sustainability
- Overview of four streamlining proposals
- Implementation actions
- Expectations of the Board
- Discussion and decisions on each proposal

Recent trends related to issuance of CERs and sustainability

- Issuance caseload expected to increase as the end of the first commitment period of the Kyoto Protocol approaches
- Activity in first part of 2011 reinforces expectation that caseload has not peaked:
 - > 3,000 registered project activities
 - **40%** increase in only one year
 - ~ 1,600 project activities with at least one submitted monitoring report
 - **40%** increase in only one year
 - > 1,100 project activities with at least one submitted issuance request
 - **41%** increase in only one year
 - > 450 issuance cases from January – beginning of May 2011
 - **37%** increase over the same period last year
- Re-emphasizes the need to adopt measures to make the process more ***sustainable***

Streamlining proposals to be decided upon

1. Merging processes into the request for issuance procedure
2. Bundling similar requests for issuance
3. Minimums on the length of a monitoring period and/or monitored emissions reductions within the period
4. Risk-based approach for project submissions

Merging processes into the request for issuance procedure

Description

Integrate (where possible) into the verification cycle the three processes of:

- Revising monitoring plans
- Notifying and requesting approval of changes from the registered PDD
- Requesting deviation prior to issuance

Expected Impact

- Increase case throughput by up to 24%
- Reduce overall time for verification by 3-4 months for up to 15% of cases
- Increase predictability for individual submissions
- Allow affected projects to be assessed more efficiently
- *May* lead to slight increase in requests for review
 - Substantive clarifications only possible during review process
 - Not likely to increase rejection rate since most clarifications are satisfactorily addressed

Merging processes into the request for issuance procedure

Recommendation

1. Merge the following into the request for issuance:
 - a) Specific types of revisions to the monitoring plan:
 - i. Change of calibration frequency/practice
 - ii. Change of meter(s) accuracy/ type/model as per a power purchase agreement (PPA)
 - iii. Change of meter(s) location as per a power purchase agreement (PPA)
 - b) The “Notifications” category from the current “Changes from the Registered PDD” procedure

Merging processes into the request for issuance procedure

Recommendation (cont'd)

2. Create a new procedure to request the following amendments/deviations to the registered PDD that require approval before requesting issuance:
 - a) Changes from the project activity that may adversely affect additionality of the project activity; application and/or applicability of monitoring methodology; or scale of project activity
 - b) Proposed changes from the project activity that have not yet been implemented
 - c) Revisions to the monitoring plan (including temporary and permanent deviations from the monitoring methodology)
 - d) Changes in the start date of the Crediting Period
 - e) Corrections to the registered Project Design Document (i.e. factors or parameters established at validation)

Merging processes into the request for issuance procedure

Recommendation (cont'd)

3. Analyze the history of deviation cases and provision more appropriate guidance to project participants and DOEs to reduce need for temporary deviations

Bundling similar requests for issuance

Description

- A DOE would be allowed to bundle similar verification activities under a single request for issuance
- Bundling criteria may include host party, applied methodology, project type, project participants and/or number of separate projects.
- Bundle assessed as a unit with a single recommendation
 - Any defect in one of the bundled projects would affect the outcome of the entire bundle

Bundling similar requests for issuance

Expected Impact

- Reduction in 2010 cases: ~ 10 separate submissions less per month
 - Assumption: all similar cases would actually be bundled → unlikely
 - Failure in **any** bundled project requires reassessing entire bundle → offset reduction in individual cases
- More consistent assessments of similar projects
 - Ongoing effort to re-align staff into specialised areas → **bundled assessment** of requests
- Some PPs and DOEs unwilling to take risk since “if one fails, then all fail”
- More assessment work required to deal with a bundled submission
- Ensure correct amount of CERs issued into correct project accounts
- Impact on Modalities of Communication when communicating issues

Recommendation

- Do not pursue further
 - Complexities and risks outweigh marginal reduction in cases

Minimums on the monitoring period

Description

When submitting a monitoring report, one of the following would have to be satisfied:

1. The monitoring period is longer than a pre-defined length

OR

2. The amount of monitored emission reductions is above a pre-defined threshold

Minimums on the monitoring period

Expected impacts

- Reduce volume of submissions

Estimated reduction in 2010 submissions with various combinations

OR		Minimum length of monitoring period (days)			
		90	180	270	365
Minimum amount of monitored emission reductions (tonnes CO ₂ e)	100,000	0 %	-1 %	-5 %	-8 %
	250,000	0 %	-2 %	-7 %	-13 %
	500,000	0 %	-4 %	-10 %	-17 %

Recommendation

Apply condition that:

- Length of period > 365 days

OR

- Monitored emission reductions > 250,000 tonnes CO₂e

- Reduce number of opportunities for stakeholders to receive feedback
- PD Forum -- loss of flexibility would have a “significant negative impact on liquidity of the secondary CER market”



Risk-based approach for project submissions

Description

Assessments of registration and issuance submissions would consist of:

1. Quantitative approach via sampling
 - Classify submissions into risk categories and assessing a pre-defined percentage of submissions in each category
2. Qualitative approach via targeted assessments
 - Focus assessment in areas where most problems occur for a pre-defined percentage of submissions in each sample

Risk-based approach for project submissions

Description (cont'd)

- Preliminary analysis on issuance data revealed:
 - Reviews led to -2% change between CERs requested and issued
 - Low impact on environmental integrity
 - Initial indicators that show relationship to submission quality:
 - Amount of CERs requested
 - Methodology type
 - Project was automatically registered
 - Current areas of difficulty:
 - Assessment of data and calculation of GHG emission reductions
 - Compliance of monitoring with monitoring plan

Expected impact

- Increase throughput by 40% (only using meth type as risk factor)
 - Using more risk criteria and targeted assessments would increase efficiency further

Risk-based approach for project submissions

Recommendation

- Implement risk-based approach with its two components: sampling and targeted assessments.
- Further analyze historical data to define the specific risk factors
- Develop guidelines on how to:
 - Determine level of risk and classify submissions
 - Update the classification system to adapt to arising issues

Implementation actions

For any proposal that is adopted, follow-up actions would be required:

- Draft requirements, procedures and/or guidelines and incorporate into the **ongoing** work on the:
 - Validation and Verification Standard
 - Project Standard
 - Project Cycle Procedure
 - Standardization of validation and verification templates
- Outreach to stakeholders and identify training needs to educate them on the new requirements (including re-training of secretariat staff)
- Develop the IT requirements and procure the necessary IT support to implement the system changes

Expectations of the Board

For each of the four proposals:

- a) Consider and discuss the proposal
- b) Decide on whether to adopt proposal (or elements of it)

Discussion



Discussion: P1 - Merging processes into the issuance procedure

Recommendation

1. Merge the following into the request for issuance:
 - a) Specific types of revisions to the monitoring plan:
 - i. Change of calibration frequency/practice
 - ii. Change of meter(s) accuracy/ type/model as per a PPA
 - iii. Change of meter(s) location as per PPA
 - b) The “Notifications” category from the current “Changes from the Registered PDD” procedure

3. Analyze past deviation cases and provision guidance to PPs and DOEs to reduce need for temporary deviations

2. Create a new procedure to request the following amendments/deviations to the registered PDD that require pre-approval:
 - a) Changes adversely affecting additionality of the project activity; application and/or applicability of the monitoring methodology; or scale
 - b) Proposed changes that have not yet been implemented
 - c) Revisions to the monitoring plan (including temporary and permanent deviations from the monitoring methodology)
 - d) Changes in the start date of the Crediting Period.
 - e) Corrections to the registered PDD (i.e. factors or parameters established at validation)



Discussion: P2 - Bundling similar requests for issuance

Description

- DOE allowed to bundle similar verification activities under a single request for issuance
- Bundling criteria may include host party, applied methodology, project type, project participants and/or number of separate projects
- Bundle assessed as a unit with a single recommendation
 - Any defect in one of the bundled projects would affect the outcome of the entire bundle

Expected Impact

- Reduction in 2010 cases: ~ 10 separate submissions less per month (assuming all similar cases would be bundled → unlikely)
 - Failure in **any** bundled project requires reassessing entire bundle → offset case reductions
- More consistent assessments of similar projects
 - Effort to re-align staff into specialised areas → **bundled assessment** of requests
- Some PPs and DOEs unwilling to take risk
- More work to assess bundled submission
- Ensure CERs issued into correct project accounts
- Impact on MoC when communicating issues

Recommendation

- Do not pursue further -- complexities and risks outweigh marginal reduction in cases

Discussion: P3 - Minimums on the monitoring period

Description

To submit a monitoring report, either **period** is longer than pre-defined length **OR** monitored **emission reductions** is above a pre-defined threshold

Expected impacts

- Reduce volume of submissions

Estimated reduction in 2010 submissions with various combinations

OR		Minimum length of monitoring period (days)			
		90	180	270	365
Minimum amount of monitored emission reductions (tonnes CO2e)	100,000	0 %	-1 %	-5 %	-8 %
	250,000	0 %	-2 %	-7 %	-13 %
	500,000	0 %	-4 %	-10 %	-17 %

Recommendation

Apply condition that:

- Length of period > 365 days
- OR**
- Monitored emission reductions > 250,000 tonnes CO2e

- Reduce opportunities for stakeholders to receive feedback
- PD Forum -- loss of flexibility would have a “significant negative impact on liquidity of the secondary CER market”



Discussion: P4 - Risk-based approach for project submissions

Description

Assessments would consist of:

1. Sampling

- Classify submissions into risk categories and assess a % in each category

2. Targeted assessments

- Focus assessment in problem areas for a % in each sample

Analysis on issuance data revealed:

- Reviews led to -2% change in actual CERs issued
 - Low impact on environmental integrity
- Initial indicators: Amount of CERs requested, Methodology type, Project was automatically registered
- Current areas of difficulty: Assessment of data and calculation of emission reductions, Compliance with monitoring plan

Expected impact

- Increase throughput by 40% (only using meth type as risk factor)
 - More risk criteria and targeted assessments would increase efficiency further

Recommendation

- Implement risk-based approach with 2 components: sampling and targeted assessments
- Further analyze historical data to define the specific risk factors
- Develop guidelines on how to:
 - Determine risk and classify submissions
 - Update system to adapt to new issues

