

Areas for Further Guidance Next Steps

Twenty-first meeting of the Joint Implementation
Supervisory Committee (JISC 21)

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Background

- During 2009, JI technical workshop, roundtable and calls for public inputs on the development of the DVM resulted in significant feedback
- At JISC 19, the secretariat summarized all inputs received and was requested by the JISC to prepare a discussion paper covering four priority areas:

- Materiality

- Standardization of the joint implementation approach
- Multi-project emission factors

- Changes during project implementation from a determined project design document and/or monitoring plan

- Paper, “Information note on priority areas for consideration for further guidance by the JISC”, included to JISC 20 agenda (Annex 1)
- Following JISC 20, the secretariat conducted a call for public inputs regarding the two focus areas. The call was open from 26 February until 26 March 2010, yielding five inputs – summary attached to JISC 21 agenda (Annex 1)

Materiality



UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Materiality and Level of Assurance



- ISO 14064-3 defines materiality as a “concept that individual or the aggregation of errors, omissions, and misrepresentations could affect the greenhouse gas assertion”
- ISO 14064-3 defines level of assurance as the “degree of assurance the intended user requires in a [determination] or verification”

Materiality and Level of Assurance



- Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement
- Materiality provides a threshold or cutoff point rather than being a primary qualitative characteristic which information must have if it is to be useful
- The materiality threshold provides guidance on what omissions, errors, and misstatements are considered significant
- CMP5 “Requests [the JISC] to conduct an assessment of the implications of possible inclusion of the concepts of materiality and level of assurance in [JI]...”

Level of Assurance

- The level of assurance measures how “sure” the entity providing the statement is
 - **Reasonable Assurance***: The entity “provides reasonable but not absolute, level of assurance that the responsible party’s GHG assertion is materially correct”. For example: “Based on the process and procedures conducted, the GHG assertion is materially correct and is a fair representation of the GHG data and information, and is prepared in accordance with the [approved monitoring plan and the JI guidelines]”
 - **Limited Assurance***: Limited assurance “is distinguishable in that there is less emphasis on detailed testing of GHG data and information supplied to support the GHG assertion.” For example: “Based on the process and the procedures conducted, there is no evidence that the GHG assertion is not materially correct and is not a fair representation of GHG data and information and has not been prepared in accordance with...”

Summary of relevant public inputs

- Materiality **needed feature** of the JI determination/ verification process.
- To **provide guidance** to AIEs on material discrepancies and to allow concentration on most important areas
- **Application**
 - o Calculate emission reductions at multiple stages of the project cycle;
 - o Assess data in relation with misstatements due to errors, omissions, misinterpretation or fraud;
 - o Include in DVM but start with procedure; use draft materials considered by EB.

Summary of relevant public inputs

- **Implications**

- Will ensure consistency among the work performed by AIEs;
- May lead to more solid, clear and stable ERs calculations while
- Avoiding onerous efforts in monitoring and verification;
- Will not impact the environmental integrity of JI projects;
- Will reduce the likelihood of incorrect rejection of project activities;
- Threshold should be set individually by PPs and not by JISC.

Summary of relevant public inputs - continued

- **Materiality threshold and level of assurance**
 - o In line with normal business practice
 - o Three alternative schemes recommended in inputs

Source	Low	Thres- hold	High	Thres- hold	Affecting	Level of assurance
EU ETS	<300,000 tCO ₂	5%	≥ 300,000 tCO ₂	2%	Annual emissions	Reasonable
~ VCS	SSC + average projects	5%	High volume projects	1%	Emission Reductions	Reasonable
DOE/AIE Forum	<100,000 tCO ₂	5%	≥ 100,000 tCO ₂	1%	Emission Reductions	Reasonable

The role of the AIE

- **AIE in the driver's seat:** Assessing that a determination or verification is materially correct and the amount of investigation needed to reach the required assurance level requires case-by-case judgment of often complex processes that leaves much up to the AIE's professional judgment
- **Sample Statement:** "The data reviewed meets the principles of accuracy, completeness, transparency and is free of material error or omission. For this assessment, a materiality threshold of plus or minus ... percent has been defined. Misstatements greater than 5 percent will be considered material". A reasonable assurance level was used
- **Fraud or significant deficiencies:** If fraud, material errors, omissions or significant deficiencies were to be revealed at a later stage, paragraph 42-44 of the JI guidelines (AIE suspension) apply

The way forward...

- The secretariat recommends a new stand alone procedure
- First draft by ...?
- Another public call on the draft text?
- JISC drafting team?
- Discussions and additional inputs during the June RT?

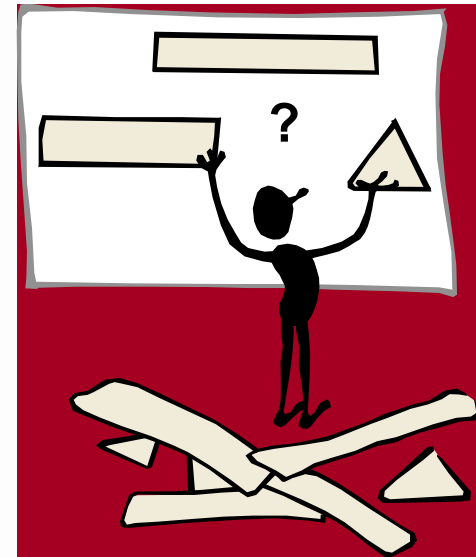
Revisions of JI documents during project implementation



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Changes during implementation of a finalized PDD

- Several inputs from the development of the DVM highlighted that many projects change during implementation
- Other than for revisions to the monitoring plan, existing JISC documents offer no guidance
- As of mid-January 2010, none of the 17 finalized determinations have requested any type of deviation after the determination was finalized
- One of the eight verification reports received to date contains a revised monitoring plan
- Issues include defining acceptable changes and the role of the AIE in asserting that the project's implementation corresponds to the PDD?
- Procedures have been developed under CDM



Summary of relevant public inputs

- **Changes to PDD:** changes and improvements may happen, especially on project design and applied technology
- **Materiality:** use the concept to determine significance of changes;
- **CDM guidance:** base on CDM procedures as a means to address changes to PDD as an option for JI
- **Entity responsible:** AIEs to be responsible for determining whether the changes to the PDD are acceptable – re-determination may not be necessary
- **How to present changes:**
 - o Use PDD with alternative scenarios, if such scenarios materialize there is no need for re-determination
 - o a bottom-up positive list of design changes that are OK
 - o Include assessment of changes at verification stage

Summary of relevant public inputs - continued

- **Principles for accepting changes:**
 - Consider how changes alter the basis for the determination and how changes alter the performance of the project
 - The project's emissions sources, the baseline scenario, the applicability of the methodology and the physical location should remain the same, and PPs should justify the changes as not having any effect to the compliance of the project.

Existing CDM procedures

- CDM EB adopted in 2009 “Procedures for notifying and requesting approval of changes from the project activity as described in the registered project design document.” This procedure has two key features that dictate how changes during implementation will be handled:
- **Paragraph 2:** “If at verification a DOE identifies that the implementation or operation of a CDM project activity does not conform with the description contained in the registered Project Design Document (PDD), and the DOE determines that the changes do not raise concerns with respect to aspects outlined in paragraph 10(c) and the relevant guidelines established by the Executive Board, the DOE shall submit a notification of the changes with relevant documentation in accordance with Section C of this procedure, and the notification will be processed in accordance with Section D of this procedure”
- **Paragraph 3:** “If the DOE determines that the changes raise concerns with respect to aspects outlined in paragraph 10(c) and the relevant guideline established by the Board, the DOE shall not conclude the verification/certification of the emission reductions for the corresponding period, and shall notify and seek guidance from the Executive Board on the acceptability of these changes. In this case, the DOE shall submit a request for approval of changes with relevant documentation in accordance with Section C of this procedure, and the request will be processed in accordance with Section E of this procedure”

The way forward...

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