Umwelt Bundes Amt
Für Mensch und Umwelt

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Deutsche Emissionshandelsstelle

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Geschäftszeichen: E 1.5 – 18140/5

Ref: Call for public inputs on the possible introduction of the concepts of materiality and level of assurance in the clean development mechanism

Dear Sir or Madam,

Please find the enclosed input from the German DNA in response to the call for public inputs referred to above.

Yours sincerely,
On behalf of the German DNA/DFP

Konrad Raeschke-Kessler
German Emissions Trading Authority
Federal Environment Agency

Enclosure

We would like to thank the CDM Executive Board for the possibility to provide comments on the "Draft standard on the use of the concepts of materiality and level of assurance in the clean development mechanism", contained in **Annex 2** of **EB 56**. For further considerations of the Draft, we would be grateful if the proposals outlined below would be taken into account.

(a) Scope of the application of materiality

The concept of materiality as a guiding principle for validation and verification activities by DOEs would be an important contribution to a transparent, consistent and predictable clean development mechanism system.

In the current wording, there is the possibility that the draft addresses both the level of verification by the DOE and the level of monitoring by the project proponent applying the monitoring methodology with its implicit degrees of precision in measurement or calculation of the emission reductions (cf. note 2). The aggregation of both levels results in the total uncertainty. Although both levels should be addressed conservatively, a clearer distinction between the levels of monitoring and verification should be considered. Currently, according to EB 23, paragraph 24 "specific uncertainty levels, methods and associated accuracy level of measurement instruments and calibration procedures to be used for various parameters and variables should be identified in the PDD, along with detailed quality assurance and quality control procedures. (...) The verification of the authenticity of the uncertainty levels and instruments are to be undertaken by the DOE during the verification stage."

We would therefore propose to address the level of accuracy in monitoring due to e.g. measurement errors as "uncertainty" while referring to the degree of reliability in the verification by the DOE of that first (more or less precise) result due to possible non-detected errors as "materiality". It should be considered whether currently the monitoring level ("uncertainty") is sufficiently addressed by the monitoring methodologies and other general CDM requirements and whether this level should also be addressed in the context of the draft. For the time being, however, this submission recommends to clarify that the concept of materiality only refers to the level of verification even if the defined thresholds could also be considered appropriate for defining acceptable levels of uncertainty in monitoring.

Given this distinction and the general obligation for project proponents and DOEs to adopt a conservative approach, we also suggest to apply the concept of materiality irregardless of the question whether a CDM requirement may be qualified as prescriptive or non-prescriptive.

(b) Threshold of the application of materiality

Proposal for amendment:

IV. "Consideration of materiality in the application of non-prescriptive requirements in CDM standards" No. 10: Introduction of (d): 10% of the emission reduction for project activities falling under definition of "Guidelines for demonstrating additionality of renewable energy projects =< 5 MW and energy efficiency projects with energy savings <=20 GWH per year".

Explanation:
In order to promote equitable regional and subregional distribution of CDM project activities simplified modalities for these specific activities should be approved by the EB. Introducing a fourth project category in the concept of materiality would be a reasonable supplement to the efforts of the EB to address this issue. Since the respective project activities would facilitate sustainable development, inter alia in countries with less than 10 registered projects, and since these projects would particularly benefit from alleviated validation and verification costs, a higher level of materiality (and, possibly, given technical circumstances, also a higher level of uncertainty) regarding the emission reduction may be considered as acceptable.

(c) Practical implementation of the concept in the Clean Development Mechanism
Examples:
(1) If the AIE has verified to 100 % whether the methodologies have been correctly applied, calculations are correct and results are correctly demonstrated, then the verification report is 100 % reliable. The degree of materiality of errors would in this case be 0, even though the aggregated margin of uncertainty resulting from the applied monitoring methodology (validated and verified by the DOE) remains.
(2) In case of the "Procedures for review of erroneous inclusion of a CPA" the liability rules for DOEs should be above the respective thresholds values for materiality and/or uncertainty. Hence, a DOE is liable for the amount of CERs resulting from the concerned CPA only if the error in the sample is above the threshold values or if any error below these threshold values was concealed intentionally. In contrast, the DOE is not liable if it overlooked an error below the threshold. However, all detected errors must be reported.