

15 June 2008

The logo for EcoSecurities, featuring the word "ECO" in white on a blue background and "SECURITIES" in white on a dark blue background.

EcoSecurities' response to the call for public inputs to the Draft CDM Validation and Verification Manual (VVM)

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Dear Secretariat,

EcoSecurities greatly welcomes the introduction of the VVM to the CDM. The establishment of a common basis for the validation and verification of CDM projects is anticipated to facilitate a transparent and uniform approach that will assure the quality of real emission reductions.

In general the draft version of the manual considers and provides guidance on many items that could previously lead to doubts and disparities. However, there are several aspects that require further clarification to enable the VVM to be applied consistently and fairly.

Primarily, the VVM in its current version has created an uncertainty regarding the parameters that are going to be monitored during the crediting period. §143, §187 and §207 create room for potential ad-hoc introduction of additional monitoring requirements which are not defined in the applicable methodology¹. Similarly, §90 requires the identification of emission sources not covered by the methodology without providing guidance on the actions to be undertaken. Such uncertainty should be avoided to ensure that all parties involved are fully aware of what is expected of them in delivering real emission reductions.

Secondly, the inclusion of the concept of materiality is considered highly beneficial for the robustness of the CDM and is thus very much appreciated. However, §180 currently does not specify a consistent materiality threshold for all CDM projects. It is recommended that 5% is applied to large scale projects as well as small scale projects since most CDM projects fall below 0.5Mt/yr, which is the level specified for large projects in the EU-ETS. That way, the scope of any verification can be kept within a reasonable level of detail. Moreover, it needs to be further indicated in the VVM how the stated level of materiality is to be applied.

Thirdly, the draft VVM uses several terms that could lead to ambiguity in their interpretation and application; among them, 'serious/seriously/seriousness' as used in Section 6.2. *Prior consideration of CDM* and 'most conservative' as used in §213. It is suggested that besides further clarification of diction, examples of acceptable approaches of applying different aspects of the VVM are provided. Moreover, it has been

¹ The applicable methodology being the version of the methodology under which the PDD was registered – an aspect that may also need to be made more explicit in the VVM.

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noted that it is not always apparent whether a certain piece of guidance is applicable to all project activities, or specifically to large- and/or small-scale activities.

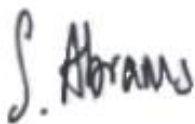
Fourthly, it is felt that an outline for the implementation of the VVM needs to be defined. Such a plan should include, but not be limited to:

- i.** Enforcement – responsibilities and scope for overseeing the process
- ii.** Revisions – frequency, process and stakeholder involvement in any such processes
- iii.** Grace period – date of when the VVM and, subsequently, revisions will come into effect (e.g. are ongoing verifications exempt from applying it?)

Furthermore, to avoid inconsistencies between the VVM and other CDM relevant criteria, rules and guidance, it is suggested that the VVM makes reference to all such available documentation and clearly states what takes precedence in case of doubt. Similarly, it should be clarified whether the provisions contained in tools or in methodologies lead in case of discrepancies.

In summary, the current version of the VVM provides a sound basis as it covers many issues that will ease the conduct of validations and verifications of CDM project activities. If the issues described above are adequately addressed, EcoSecurities is convinced that doubts with respect to the application of the VVM can be limited and a consistent and transparent process, which is in the interest of all parties concerned, can be ensured.

Yours Sincerely,



Steve Abrams
Head of Monitoring & Verification

N.B. An annex with further, detailed comments/corrections has been included.

Annex 1
Detailed comments/corrections to the draft VVM

<u>Legend</u>	
Yellow:	Addition to the current text of the VVM
Strikethrough:	Removal from the current text
Bold:	Key issue of the suggested approach

Section	Identified Problem	Suggested Approach
II. Updates of the VVM		
§ 5.	Para 5 requires regular update/revisions of the VVM. However, no frequency is mentioned for the required updates.	We suggest defining a clear timeframe for periodic updates . If required, regular updates should be carried out within intervals of not less than 1 year. Similarly to revisions to approved methodologies, an adequate grace period of at least 8 weeks should be explicitly provided for by the VVM, to allow all involved parties an adequate timeline to adapt to the procedural changes introduced.
§ 13.	Para 13 requires DOEs to have in place procedures to ensure adequate competence of the validation/verification teams.	We suggest that these procedures should be made available to the public on request to demonstrate that DOEs are properly training their staff and properly prepared for adequate validations and verifications.
§ 14.	Sufficient procedures to demonstrate that ‘the competence of the team was adequate’ should be defined and the entity to whom this requirement should be shown (Project Proponents and/or EB) should also be specified.	We suggest that a list of reference projects each member of the team has worked for should be made available on request. We also suggest that a procedure to enforce requirements about DOE competence (such as for example a publicly accessible registry for Project Proponents complaints) should be provided for.
§ 26.		The following points should be clarified : <ul style="list-style-type: none"> ○ whether Para 26 (a) should be interpreted as stating that Methodologies supersede Tools in case of conflictive wording. ○ whether the ‘similarity of application’ of available guidance referred to in Para 26 (b) should be interpreted as introducing in the CDM regulatory framework the legal concept of <i>stare</i>

		<p><i>decisis</i>, stating that prior decisions of the CDM EB must be recognised as precedent by both Project Participants, DOEs and the EB itself.</p> <ul style="list-style-type: none"> ○ the type of ‘tests’ referred to in Para 26 (c).
§ 31.	Intellectual property over highly valuable calculators and electronic models developed by Project Proponents should be protected.	<p>We suggest the following rewording Para 31: ‘Information shall be recorded, compiled and analysed in a way that will enable internal reviewers and external intended users to attest its credibility. In the case that a Project Proponents wishes to withhold certain elements, such as input values of financial analyses, from publicly available versions, clear justifications of this should be made to the UNFCCC Secretariat by the DOE’.</p>
V. CDM Validation Guidelines		
§ 50.	Para 50 states that DOEs should apply standard auditing techniques, including the <i>comparison of similar project</i> in the host country (Para 50 (e)). It is not clear however in regards to which aspects should be compared.	We feel that possible specific comparable aspects should be clarified.
§ 51.	Para 51 states that In the validation of afforestation and reforestation (A/R) CDM project activities, the DOE shall apply the same auditing techniques as listed above although the following specific data sources and analysis might also be used as appropriate:	We suggest the following rewording of Para 51: In the validation of afforestation and reforestation (A/R) CDM project activities, the DOE shall apply the same auditing techniques as listed above although the following specific data sources and analysis might also be used as appropriate include the following :
§ 85.	Para 85 (b) requires that the DOE ensure that the selected methodology is correctly applied.	<p>In order to reduce the risk of a review being requested for reasons related to the application of the methodology, we suggest the following rewording of Para 85 (b): ‘the selected methodology is correctly applied and, if a clarification is believed to be necessary, it should be requested’</p>
§ 90.	Not all projects met <i>all</i> applicability criteria ¹	We would suggest the following rewording the first sentence of Para 90: Meeting all the required applicability conditions is a "necessary" condition to apply the approved methodology but not "sufficient" to ensure that selected methodology can be used by the project activity’.

¹ For instance, in ACM0006, there are options about relevant applicability criteria

§ 93.	Not all projects meet <i>all</i> applicability criteria ¹	We suggest the following rewording of the first line of Para 93: ‘For each relevant applicability criteria listed in the selected approved methodology, the DOE shall clearly describe in the validation report the steps taken to assess the information contained in the PDD.’
§ 96.	The description of emission sources and GHG gases is not required in small scale PDDs.	We suggest the following rewording of Para 96: ‘The PDD shall correctly describe the project boundary including the physical delineation of the project activity and, for large scale project activities , the description of the emission sources and GHG gases that are included in the project boundary for the purpose of calculating project and baseline emissions for the specific project activity’.
§ 114.	Para 114 states: The DOE shall ensure the proposed A/R CDM project activity meets the requirements for the application of baseline and monitoring methodologies as defined in the modalities and procedures for A/R project activities and the project activity is not expected to decrease carbon stocks in carbon pools not selected by the methodology.	We suggest the following rewording of Para 114: The DOE shall ensure the proposed A/R CDM project activity meets the requirements for the application of baseline and monitoring methodologies as defined in the modalities and procedures for A/R project activities and the project activity is not expected to decrease carbon stocks in carbon pools not selected by the methodology more than would have happened in the baseline scenario. ’
§ 120.	Para 120 states: An A/R project activity is additional if the actual net GHG removals by sinks are increased above the sum of the changes in carbon stocks in the carbon pools within the project boundary that would have occurred in the absence of the registered CDM A/R project activity.	We suggest the following rewording of Para 120: An A/R project activity is additional if the actual net GHG removals by sinks are increased above the sum of the changes in carbon stocks in the carbon pools within the project boundary that would have occurred in the absence of the registered CDM A/R project activity baseline net GHG removals by sinks. ’
§ 126.	With regard to consideration of CDM in the investment decision, Para 126 (c) requires the DOE ‘to determine whether the person/body taking decision regarding the project has the authority to do so’.	It should be specified what type of proxy should be used to demonstrate the person /body taking decision regarding the project activity has the authority to do so.
§ 127.	The key parameter being assessed in Para 127 is the decision to proceed with the project, not the commitment of fund.	We suggest the following rewording of Para 127: ‘... If there is a significant gap between the start date of the project activity and the commencement of validation the DOE shall query how it was possible for the decision to proceed with the project to be made the project participant to commit funds to the project in advance of

		receiving a positive validation opinion. If it can be demonstrated that CDM was continually considered throughout the gap, the delay shall be accepted.'
§ 132.	The current wording of Para 132 makes it impossible for projects that produce other economic benefits in addition to revenue from the selling of CERs (e.g. projects that generate electricity from renewable energy sources) to comply with Para 132 itself. The listed underlying reasons for why the project is economically/financially not attractive without CERs revenues should be considered <i>alternative</i> and not cumulative.	We suggest the following rewording of Para 132: 'If investment analysis is used to demonstrate additionality, the PDD should provide evidence that the project is economically/financially not attractive without the revenue from the sale of CERs because: <ul style="list-style-type: none"> ○ There are costs associated with the CDM project activity and it is demonstrated that the activity produces no economic benefits other than CDM related income; or ○ The proposed project activity is economically or financially less attractive than at least one other plausible alternative; or The financial returns of the proposed project activity are insufficient to justify the required investment.
§ 133.	Ensuring consistency between the VVM and other guidance on investment analysis by the CDM EB.	We would suggest that relevant guidance provided for by EB39 on investment analysis should be referenced under (d) of Para 133.
§ 134.	Ensuring consistency between the VVM and other relevant guidance by the CDM EB.	We would suggest that relevant guidance provided for by the latest version of the 'Tool for the determination and assessment of additionality ' should be referenced under Para 134. Moreover, an example should be given of how to determine whether it is reasonable to assume that no investment would be made by the company at a rate of return lower than the benchmark for cases where the CDM project is a company's first investment.
§ 137.	The adjective 'reasonable' used to define the investor in Para 137 is very difficult to circumscribe.	We suggest the following rewording of the first sentence of Para 137: 'Barriers are issues in project implementation which w could prevent a potential reasonable investor from pursuing the implementation of the specific project activity'.
§ 140.	Official sources of information are not always available for each potential host country.	We suggest the following rewording of Para 140: 'Determine, by reference to official sources and/or local and industry expertise, to what extent similar project activities have been undertaken in the relevant region'.
§ 143.	The monitoring relevant to Environmental Impact Assessments (EIAs) is separate from that required from CDM methodologies.	We suggest the following rewording of Para 143 (a): 'Compliance of the monitoring plan with the approved methodology. The DOE shall: (i) By means of document review, identify the list of parameters

		<p>required by the approved methodology; and</p> <p>(ii) Identify possible additional parameters requiring monitoring i.e. based on the requirements of the Environmental Impacts Assessment; and</p> <p>(iii) Confirm that all of these necessary parameters are contained in the monitoring plan, that they are appropriately labelled and that the means of monitoring described in the plan complies with the requirements of the methodology.’</p>
§ 149.	Para 149 (a) requires the DOE to check that ‘all’ relevant local stakeholder are invited to the consultation. However, no exact definition of stakeholder is provided.	We suggest the following rewording of Para 149 (a): ‘ All relevant local stakeholders have been invited to consultation’.
§ 151.	Environmental Impact Assessments (EIAs) are generally required on the basis of the project type, size, etc, and not on the significance of the environmental impacts, which can only be evaluated ex-post, after the EIA has been carried out.	We suggest the following rewording of Para 151: ‘ Project participants shall submit to the DOE documentation on the analysis of the environmental impacts of the project activity, as required by the Host Party. Project participants shall undertake an environmental impact assessment in accordance with procedures as required by the host Party. (CDM M&P, paragraph 37 (e)). Project participants shall undertake an environmental impact assessment in accordance with procedures as required by the host Party (CDM M&P, paragraph 37 (c)). Documentation on the analysis of the environmental impacts of the project activity shall then be submitted to the DOE by project participants.’
VI. CDM Verification Guidelines		
§ 172.	Not all physical features of the project as described in the PDD have an impact on emission reductions.	We suggest the following rewording of Para 172 (a): ‘Ensure that the project activity has been implemented and operated as per the registered Project Design Document and that all physical features which have any impact on the emission reductions (technology, project equipments, monitoring and metering equipments) of the project are in place.
§ 202.	As stated above, not all physical features of the project as described in the PDD have an impact on emission reductions.	We suggest the following rewording of the first sentence of Para 202: ‘The DOE shall, by means of on-site visit, ensure that all physical features of the project, which have an impact on the emission

		reduction , are in place, and the project participants operate the registered project activity in accordance with the registered PDD, taking into account relevant guidance on this matter’.
	The DOE shall verify the key features of the implemented project activity against the description in the PDD, for example and where applicable, the actual capacity and output of GHG-emission reducing unit(s)/plant(s), plant load factor...’	We suggest removing the plant load factor from Para 202 as the load factor is stated in the PDD is an estimate.
§ 207.	Para 207 adds an extra layer of uncertainty to the validation/verification activities as DOE are allowed to require Project Participants to revise the monitoring plan to improve level of accuracy and the completeness of aspects of monitoring which are not specified in the methodology.	We suggest that for aspects of monitoring which are not specified in the methodology, particularly small-scale methodologies (e.g. additional monitoring parameter, monitoring frequency, calibration frequency), the EB revises the relevant monitoring methodology to ensure a clear and consistent application of the methodology.
§ 215/§ 216	DOEs must submit formal requests for deviation even for minor deviations from the PDD which do not impact the amount of ER being claimed.	DOEs should, based on their expertise, be given the liberty to take decisions without submitting a request for deviation to the EB for minor deviations from the PDD, which do not have any impact on the amount of ER to be claimed and are in line with the methodology.
§ 218.	Para 218 states that ‘In the case the deviation is to be applied for future monitoring periods, a request for revision of monitoring plan shall be submitted’.	It should be clarified whether this means that Project Proponents cannot anticipate a deviation prior to the verification event in order to speed up the verification and issuance.
§ 225.	Para 225 (a) requires that the verification report provide information on the scope of verification. However, what should be intended for ‘scope of verification’ is not specified.	We suggest that the ‘ scope of verification ’ should be clarified and defined.
§ 233.	Para 233 states that during the ‘completeness check’ Secretariat should check that all required documents are submitted <i>and that crossreferences, dates and other information contained therein</i> is complete and consistent. Checking cross references, dates and other information should not be considered part of the ‘completeness check’ but should be done during the 30 day global stakeholder consultation period ² .	We suggest the following rewording of Para 233: ‘Upon receipt of the fee the secretariat will undertake a check to confirm that all necessary documents have been submitted and that cross references, dates and other information contained therein the documentation is complete and consistent. The same comments also apply to Para 245.

² If information needs to be corrected, it can be done via minor corrections requested

§ 256.	In such cases the DOE shall verify that any corrections made by the project participant confirm with the UNFCCC criteria and that the verification and certification statement remains valid.	We suggest the following correction of Para 256: In such cases the DOE shall verify that any corrections made by the project participant confirm conform to with the UNFCCC criteria and that the verification and certification statement remains valid.
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