

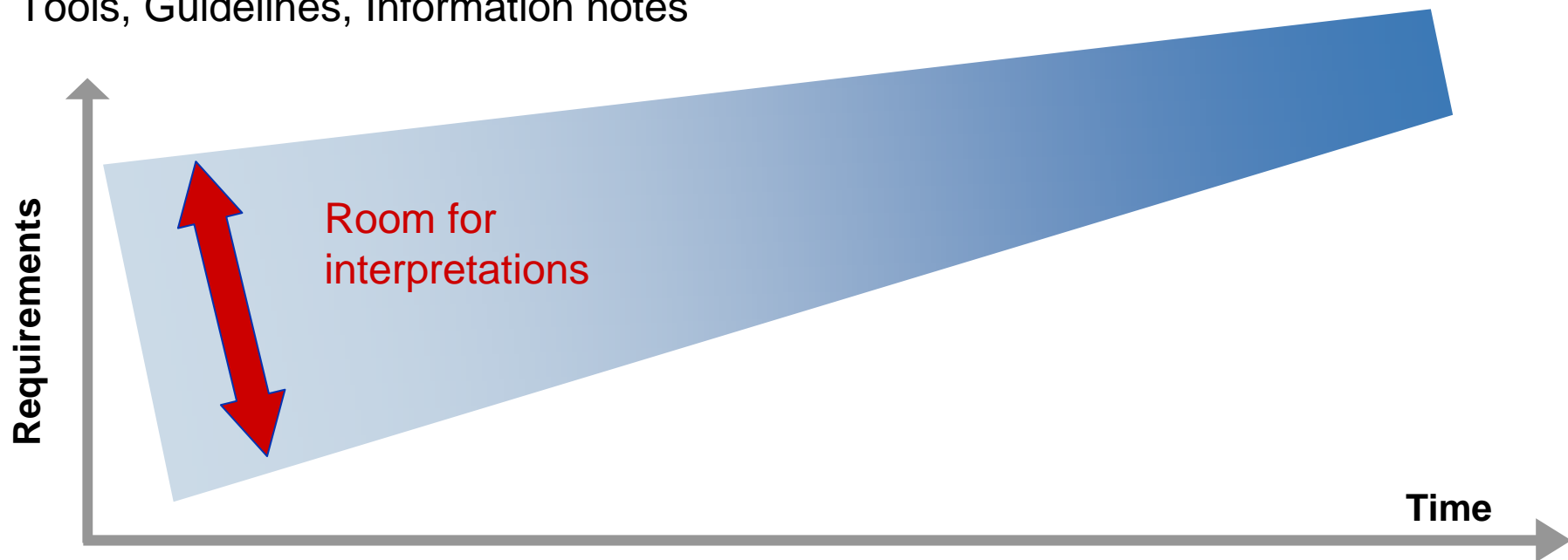
DOE view on the Validation and Verification Standards (VVS)

Improve objectivity in the CDM - 7th CDM Joint Coordination Workshop

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There is more clarity in validation / verification requirements

- Accreditation requirements for DOEs (CDM accreditation standard version 01 & 02)
 - Technical area
 - Competence requirements
 - Management of impartiality
- Validation and Verification Manual (VVM)
- Tools, Guidelines, Information notes



Objectivity is crucial for a verifier

- Objectivity is associated with being based on observable facts, being reproducible, being un-biased, etc.
- Being able to validate or verify a project in an objective manner is crucial for a DOE
 - Result of validation / verification should be the same regardless of the DOE performing the work
 - Result of validation / verification should be the same regardless of the validation / verification team in a DOE performing the work
- Objectivity in validation and verification is also important for project developers for screening their projects and being able to reasonably predict outcome of a validation or verification
- Objectivity can be achieved through either
 - clear requirements without any (or only very limited) room for interpretation
 - Checklists to be answered with either yes or no
 - Standardized approaches (for example for determining baseline or project emissions)
 - harmonisation of interpretations / professional judgement by people with experience and knowledge

Additionality and baselines inherently involves need for interpretations

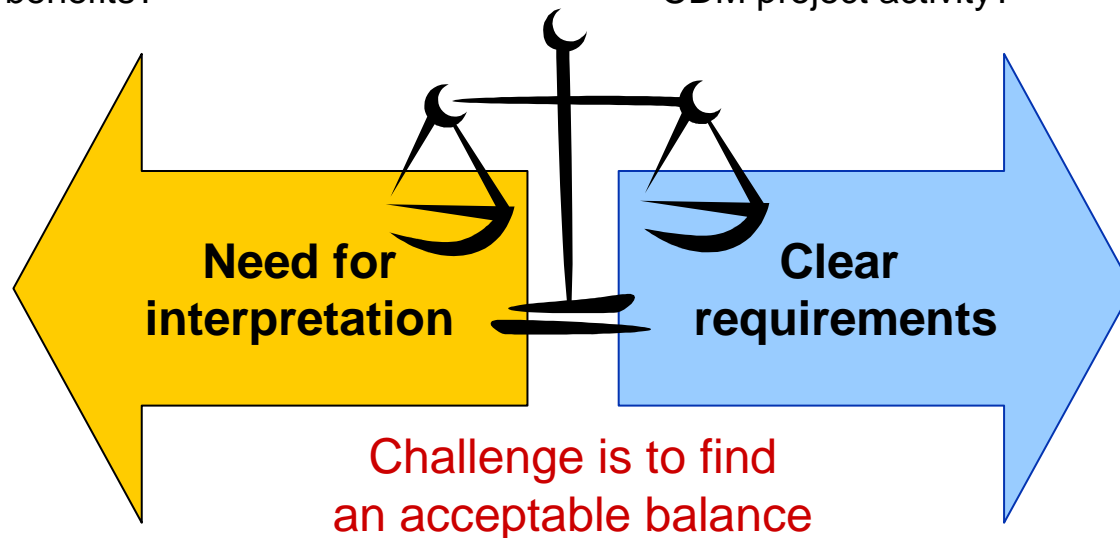
Additionality

- Assessment of additionality inherently involves interpretations and can not be based on observable facts
- Additionality is counterfactual and can not be proven
 - Would the project have been implemented in absence of CDM benefits?

Baseline selection

- Selection of most likely baseline scenario inherently involves interpretations and can not be based on observable facts
- Baseline scenario is counterfactual and can not be proven
 - What would have happened in absence of the CDM project activity?

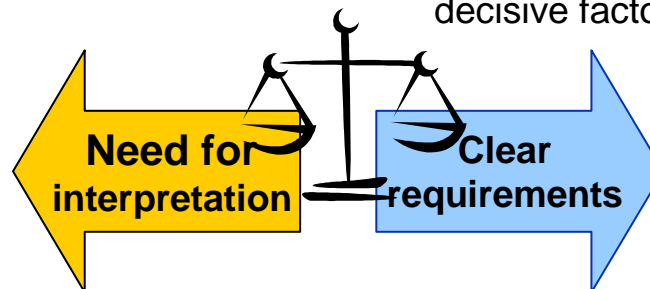
Takes into account specific circumstances of project on a project by project basis



Does not fully consider specific circumstances of a project on a project by project basis

Prior CDM consideration - An example of how a requirements needing interpretations was converted to a clear requirement

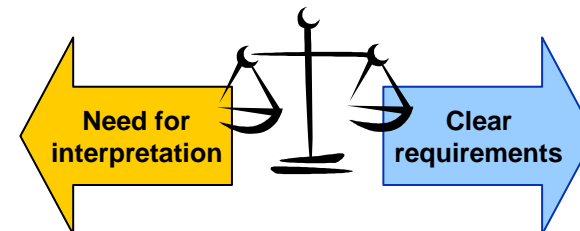
- **Earlier requirement**
(project starting prior to 2 August 2008)
 - CDM was a decisive factor in the decision to proceed with the project
 - continuing and real actions were taken to secure CDM status
- **Advantage**
 - allows project participants to explain exact history of a project
- **Disadvantage**
 - a lot of judgement needed in assessing what is a “decisive factor” and “continuing and real actions”
- **Current requirement**
(project starting on and after 2 August 2008)
 - Notification to UNFCCC and host Party DNA must be made within six months of the project activity start date
- **Advantage**
 - can be validated objectively
- **Disadvantage**
 - some projects which can demonstrate that CDM was a decisive factor, but which failed to submit notifications on time (for example due to insufficient knowledge of CDM procedures) does not pass additionality test
 - a notification is not a proof that CDM was a decisive factor in the investment decision



Increasing objectivity in additionality assessment

- Existing guidance
 - Guidelines on the Assessment of Investment Analysis
 - Guidelines for demonstrating additionality of renewable energy projects ≤ 5 MW and energy efficiency projects with energy savings ≤ 20 GWH per year
 - Non-binding best practice examples to demonstrate additionality for SSC project activities
- Ongoing guidance work
 - Draft revision to the Guidelines on the Assessment of Investment Analysis
 - Including default values for the expected return on equity
 - Draft Tool to calculate the weighted average cost of capital (WACC)
- Possible future guidance
 - Standardized IRR / NPV calculation spreadsheet

Standardization of investment analysis has the risk that investment analysis presented in the CDM-PDD is far from the investment analysis that is/was actually the basis for an investment decision



Need for interpretations in VVM

Use of terms requiring interpretations in VVM

- Appropriate / appropriately 24 times
- Sufficient / sufficiently 17 times
- Adequate / adequately 3 times
- Sectoral/financial/local expertise 10 times

Examples

- Sampling size is appropriately justified (§60c)
- Assumptions and data used in the identification of the baseline scenario are justified appropriately (§87c)
- The financial returns of the proposed CDM project activity would be insufficient to justify the required investment (§109c)
- Management and quality assurance and quality control procedures, are sufficient to ensure that the emission reductions achieved by/resulting from the proposed CDM project activity can be reported ex post and verified (§123b)

How to manage interpretations in CDM

- Professional judgement by DOEs
 - Competency requirements for DOE staff contained in accreditation standard
 - Competency of DOE staff assessed through
 - Initial and regular surveillance audits
 - Performance assessment of sample of validation and verifications
- Calibrations between CDM Executive Board, RIT and DOEs
 - Technical workshops where actual projects cases are being discussed
 - CDM EB ↔ RIT ↔ DOEs
 - Amongst DOEs
 - Including project participants
 - Possibility of telephone conferences between RIT and DOE (and possibly PP) to discuss issues raised during reviews
 - More frequent use of information notes
 - Elaborate on rationale for CDM Executive Board decisions
 - Publish best practise examples

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