



## Annex 2

### FIRST ANALYSIS REPORT TO THE CDM EXECUTIVE BOARD ON THE RESULT OF THE DOE PERFORMANCE MONITORING

#### MONITORING PERIOD 1 JANUARY TO 30 JUNE 2010

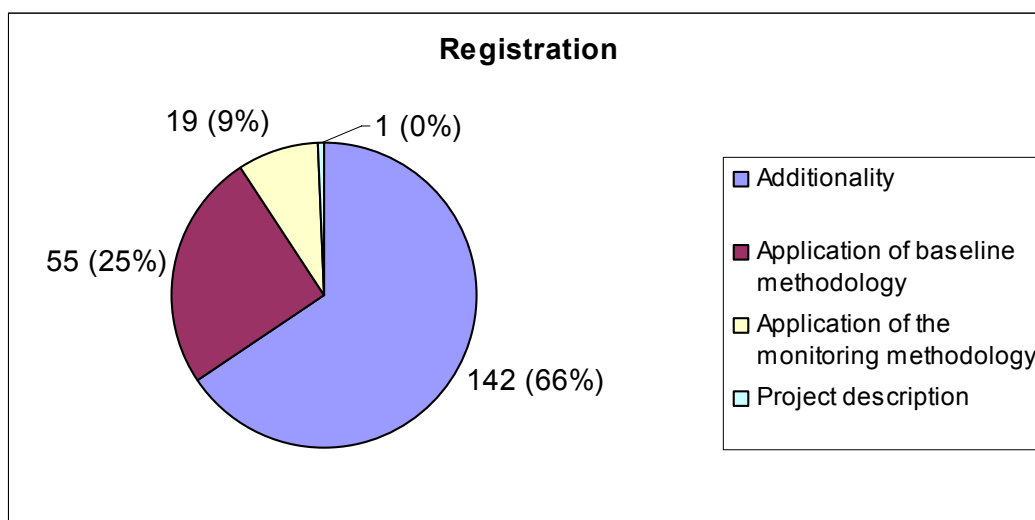
##### I. Background

1. The Executive Board (hereinafter referred to as the Board) of the clean development mechanism (CDM) at its fifty-eighth meeting adopted the “Procedure on performance monitoring of Designated Operational Entities”. This procedure provides for monitoring, classification and rating of all designated operational entities (DOEs) non-compliances. It is applicable from completion of the initial assessment process and accreditation of an entity by the Board until expiration of its accreditation. However a DOE is eligible for monitoring only when it has completed 10 submissions within a given monitoring period of six months.
2. The procedure provides for regular reporting to the DOEs, the CDM Accreditation Panel (CDM-AP), the Board and the public on individual DOEs performance, to allow the DOEs to take actions in the areas where most of the issues were identified, to allow the CDM-AP to have a better planning of its assessment of DOEs and to inform Board and the public on the performance of individual DOES.
3. However, the Board as the final decision making body shall be provided with all relevant data for its decision making. Such data also shall also allow system wide improvement via identification of issues where guidance or requirements lack clarity or are non existent.
4. Therefore, in addition to the regular reports on individual DOE performance, a report containing a more detailed analysis of the issues arising from the DOE performance especially those identifying shortcomings in the CDM-requirements, procedures and guidance is to be provided to the Board on a bi-annual basis.
5. The present report is the first of such reports. It summarises and analyses the finding from the first monitoring period running from 1 January to 30 June 2010 and accounting for data and submissions finalised as of the 31 March 2011.
6. The sections below contain an initial analysis of issues raised in requests for review of registration and issuance requests respectively. The recommendations are summarized in the final section.

##### II. Registration

###### A. Overview

7. An overview matrix compiling the issues raised in registration requests for all DOEs eligible for monitoring for the monitoring period of 1 January to 30 June 2010 is provided in appendix 1 and a graph picturing these results is presented below.



8. Analysis of the matrix and the graph shows that 66% of the issues raised are related to the additionality of the project activity, 25% related to the application of the baseline methodology, 19% are related to the application of the monitoring methodology and 0% in the other categories (project description, procedural and related requirements and other CDM requirement).

9. The analysis also shows that the issues raised are in 46% of the cases related to reporting, in 43% of the cases related to technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements; and in less than 1% related to failure to follow procedural requirements and to other issues.

10. It would be therefore recommended that the Board and the secretariat adopt a targeted assessment approach in order to speed-up the assessment process and also to concentrate its assessment in the areas where most of the issues were raised as not assessing the other areas would not pose any risk to the integrity of the system.

11. Consequently, it is recommended that the Board allow the secretariat to focus its assessment of a sample of submissions on additionality and application of baseline methodology. The rest of the submissions shall still be fully assessed to allow accounting for new arising issues.

#### **B. Analysis of the issues raised during the first monitoring period**

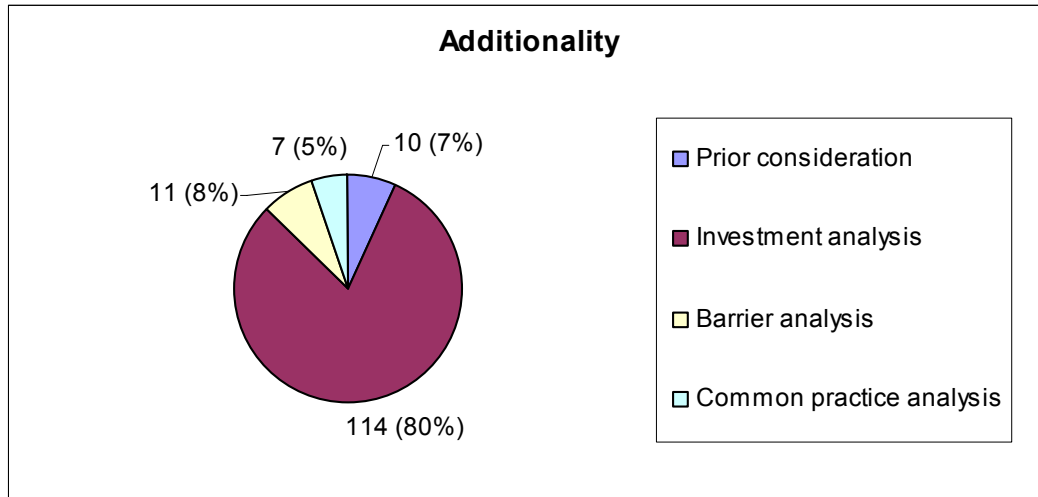
12. This section provides a summary and analysis of the issues raised within the main components checked for registration submissions:

- (a) Additionality;
- (b) Application of the baseline methodology;
- (c) Application of the monitoring methodology;
- (d) Project description.

13. It is to be noted that, in project description, only one issue was raised during the current monitoring period, consequently no analysis was carried out.

### 1. Additionality

14. The graph below illustrates the distribution of the issues raised and related to additionality.



#### *Investment analysis*

15. The analysis shows that majority of the submissions (80 %) are related to investment analysis. Particularly with reference:

- (a) Paragraph 109 to 112 of the VVM version 1.2;
- (b) EB 51 Annex 58: Guidelines on the assessment of the investment analysis version 3.
- (c) EB 48 Annex 11: Guidelines for reporting and validation of Plant Load Factors.

16. It also shows that should the Board, address the issues in this area, the rate of reviews will drop significantly. Therefore, it is recommended that the Board addresses this area as one of its highest priorities.

17. Current initiatives in this regard include:

- (a) Revision of the “Guidelines on the assessment of investment analysis” to address the issue of benchmark determination. It is recommended to further elaborate the guidance for investment analysis especially with regard to the determination of fair values and the validation of input values and sensitivity analysis. To do that it is recommended to prepare a survey for DOEs to request their inputs on the areas where they think further explanation/guidance is needed.
- (b) Trainings on investment analysis for DOEs. Joint trainings between the DOE Forum and Project Developer Forums have been organized. Such training could also be part of the regional DOE calibration workshops.

*Barrier analysis*

18. 8 % of the issues raised in additionality category are related to Barrier analysis, VVM paragraph 116–117 and the annex 13 of the fiftieth meeting of the Board “Guidelines for objective demonstration and assessment of barriers” in particular.

19. It could be assumed from these results and as the issues are identified among large range of DOEs that this area may require further guidance or clarifications by the Board. It is also proposed to train DOEs on means of validation of barrier analysis.

*Prior consideration*

20. 7 % of the issues raised in additionality category are related to prior consideration, especially to VVM paragraph 100–102 and the annex 22 of the forty-ninth meeting of the Board “Guidelines on the demonstration and assessment of prior consideration of the CDM”. The issues raised are related to the project start date, final investment decision, and continuous and real actions.

21. It could be assumed from these results and as the issues are identified among large range of DOEs that this area may require further guidance or clarifications by the Board. It is also proposed to train DOEs on means of assessment of prior consideration of the CDM. It is also recommended that the guidance present different scenarios that are likely to be found in real projects and present a way on how to assess them.

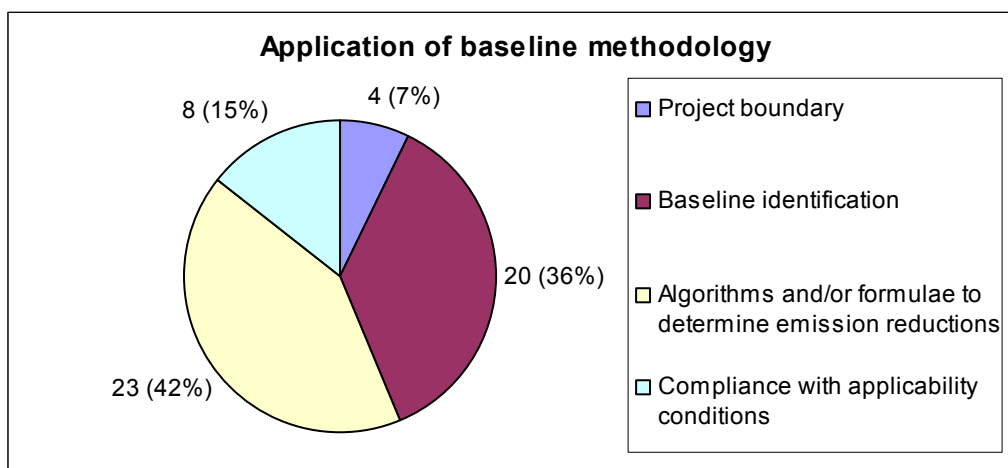
*Common practice analysis*

22. 5 % of the issues raised in additionality category are related to common practice analysis especially to VVM 1.2 paragraph 120 in explaining how the project activity is different from other projects in the region/country.

23. It could be assumed from these result that a better explanation of the intent of VVM 1.2 paragraph 120 C would be needed.

**2. Application of baseline methodology**

24. 25 % of the issues identified during the monitoring period 1 January to 30 June 2010 are related to the application of baseline methodology. The graph below illustrates the distribution of the issues raised and related to the application of the baseline methodology.

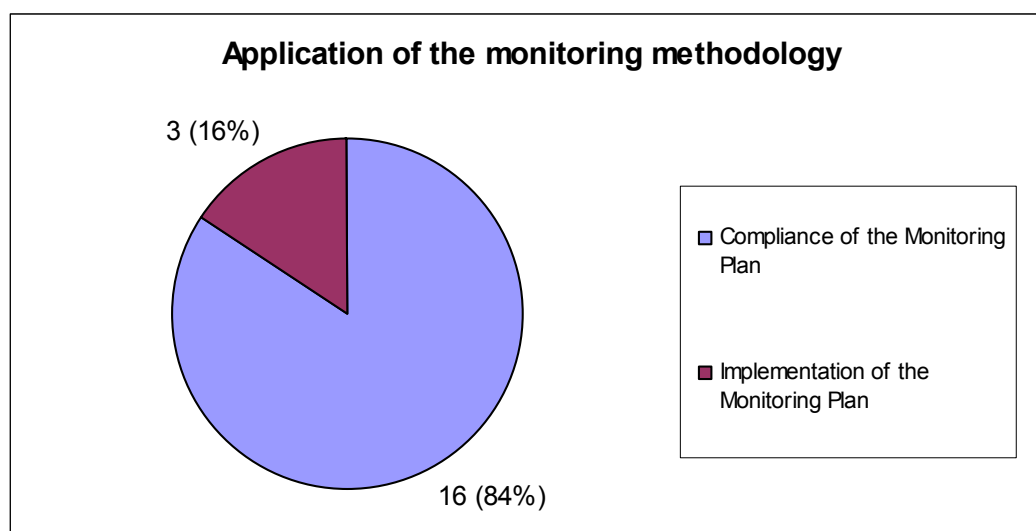


25. Among the issues raised in this category, 42 % are related to algorithms and or formulas to determine emission reductions and 36% are related to baseline identification. Most of the issues identified in the former category are related to the assessment of the calculation of the grid emission factor (GEF). For the second category the majority of the issues identified related to the substantiation of the elimination of other baseline scenarios.

26. Therefore, to avoid occurrence of such issues, it is recommended that priority be given to these issues in the development of standardized baselines.

### 3. Application of the monitoring methodology

27. 9 % of the issues identified during the monitoring period 1 January to 30 June 2010 are related to the application of the monitoring methodology. The graph below illustrates the distribution of the issues raised and related to the application of the monitoring methodology.



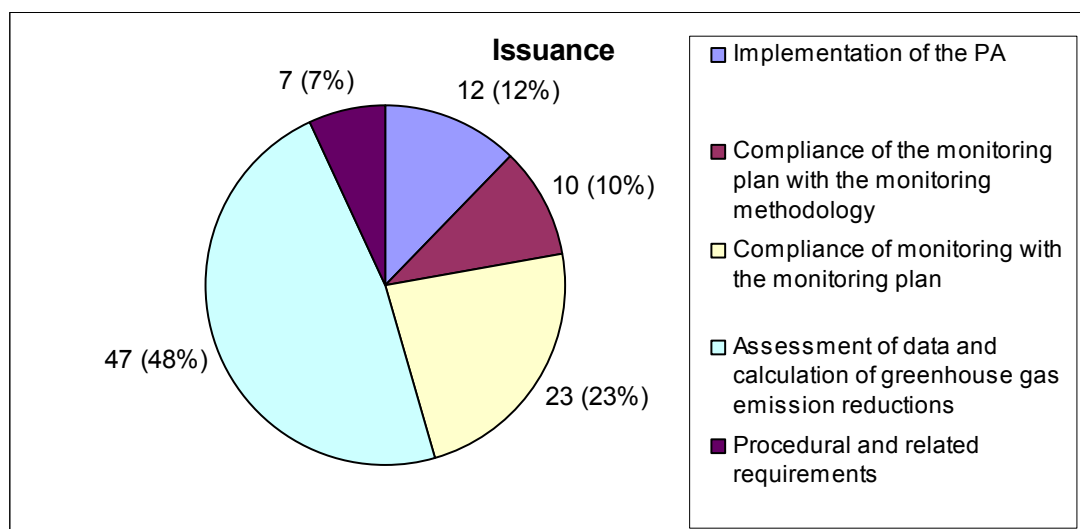
28. The vast majority of the issues identified within the area of the application of monitoring methodology are related to the compliance of the monitoring plan with monitoring methodology (84 %).

29. The issues raised are however very diverse. Therefore, more data are needed to identify the real issue behind the problems faced by DOEs in validating the compliance of the monitoring plan with the monitoring methodology.

## III. Issuance

### A. Overview

30. An overview matrix compiling the issues raised in issuance requests for all DOEs eligible for monitoring for the monitoring period of 1 January to 30 June 2010 is provided in appendix 1 and a graph picturing these results is presented below.



31. Analysis of the matrix and the graph shows that 48% of the issues raised are related to the assessment of data and calculation of greenhouse gas emission reductions, 11% and 12% respectively related to compliance of the monitoring plan with the monitoring methodology and compliance of the monitoring with the monitoring plan. 7% of the issues raised are related to procedural and related requirements.

32. The analysis also shows that the issues raised are in 40% of the cases related to reporting, in 26% of the cases related to technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements. Only 10% of the issues raised are related to failure to follow procedural requirements and 23% of the issues raised are related to other issues.

33. It would be therefore recommended that the Board and the secretariat adopt a targeted assessment approach in order to speed-up the assessment process and also to concentrate its assessment in the areas where most of the issues were raised as not assessing the other areas would not pose any risk to the integrity of the system.

34. Consequently, it would be recommended that the Board allow the secretariat to focus its assessment of a sample of submissions on the assessment of data and calculation of greenhouse gas emission reductions. It would also be recommended that the Board allow the secretariat, in a sample of submissions not to assess the procedural requirements.

35. It is also recommended that the rest of the submissions shall still be fully assessed to allow accounting for new arising issues.

### B. Analysis of the issues raised during the first monitoring period

36. This section provides a summary and analysis of the issues raised within the main components checked for issuance submissions:

- (a) Assessment of data and calculation of greenhouse gas emission reductions;
- (b) Compliance of the monitoring with the monitoring plan;
- (c) Compliance of the monitoring with the monitoring methodology;



(d) Implementation of the project activity.

37. It is to be noted that, only issues related to assessment of data and calculation of greenhouse gas emission reductions and Compliance of the monitoring with the monitoring plan have been analysed as they are the most significant and as they were few issues in the other areas.

38. Analysis of the issues raised shows that most of those raised in the assessment of data and calculation of greenhouse gas emission reductions are due to discrepancy of the data reported, non clarity of the reporting and missing data.

39. Issues raised regarding in compliance of the monitoring with the monitoring plan are mainly related to calibration and lack of explanations on how some parameters were verified.

40. It is therefore proposed that the Board request DOEs are to better substantiate their reports, implement a better quality control checks at their end and strengthen their technical review process in order to avoid reviews occurring for such issues.

41. The Board can facilitate this through the development of more specific verification reporting templates and the introduction of digitization for the reporting and verification of monitored data.

### C. Recommendations

42. From the data gathered for the performance monitoring of DOEs and the analysis above it may be recommended to that the Board may wish:

- (a) Address the issues related to investment analysis as the constitute majority of the problems raised in reviews for registration. Addressing such issues would contribute to a significant drop in the rate of reviews;
- (b) Train DOEs in additionality in general and improve the Board's guidance in common practise, prior consideration and barrier analysis;
- (c) Prioritize work in preparing validation and verification templates in order to reduce reviews related to reporting and missing data;
- (d) Request DOEs to strengthen their quality check procedures, their technical review process and train their personnel in the issues where most of the reviews are triggered.
- (e) Explore ways on how to speed-up the assessment process to allow a faster decision making on project and therefore allow a faster analysis of the issues arising and appropriate recommendations at the earliest; Such ways may be the targeted assessment as proposed above. The Board may wish also to consider sampling as it would be more efficient in addressing the issue of the length of time that submissions take before a decision is made.

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## Appendix 1

## Compilation of the issues raised for all DOE eligible for monitoring

## Registration submissions of the 1 January to 30 June 2010

CRITERIA FOR CLASSIFICATION OF R&I ISSUES		Additionality					Application of baseline methodology			Application of the monitoring methodology		Project description		Procedural and related requirements	Other CDM requirements			
		Prior consideration	Identification of alternatives	Investment analysis	Barrier analysis	Common practice analysis	Project boundary	Baseline identification	Compliance with applicability conditions	Algorithms and/or formulae to determine emission reductions	Compliance of the Monitoring Plan (i.e. list of parameters complete or not)	Implementation of the Monitoring Plan (i.e. monitoring arrangement feasible or not)	Scale of project		Bundling & De-bundling	Letter of Approval (LoA)	Achievement of Sustainable development	Local stakeholder consultation
I	Issues related to reporting																	
1	Inconsistencies in the information presented in the documents presented/information supplied;			7			1			2	1							
2	Incomplete information/missing data;	4		17		1	3	4		9	3	2	1					
3	DOE has not fully reported how the compliance to the requirements are being met;	1		18	5	1		4	4	5	5							





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4	Not the latest PDD template is used;																		
<b>II</b>	<b>Issues related to failure to follow procedural requirements</b>																		
1	Failure to submit the corrections on time;																		
2	CAR/CLs in validation reports which are not closed out correctly: - Where the CAR resolution indicates that the PDD has been updated but it has not; - Where a CAR is marked as closed without explanation;																		
3	Failure to carry out the global public stakeholder consultation in line with the CDM requirements;																		
4	Failure to visit project site or provide justification;																		
5	Failure to request a deviation when non-compliance of the project activity with the requirements of the methodology has been identified																		
<b>III</b>	<b>Technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements;</b>																		
1	This sub-category includes cases for which the DOE has not precisely validated the project in accordance with the requirements of the VVM, however the failure is not likely to	4		44	2	2		9	1	2	1								



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	<p>alter the validation opinion</p> <ul style="list-style-type: none"> <li>- Failure to ensure precise project start date where the change in the date does not impact additionality</li> <li>- Failure to fully validate all minor input values in an investment analysis</li> <li>- Failure to ensure that the common practice analysis has been conducted fully in accordance with the requirements</li> <li>- Failure to ensure that LoA refers to the precise title of the proposed project activity</li> <li>- Failure to assess compliance with environmental impacts and/or local stakeholder consultation</li> </ul>																	
2	<p>This sub-category includes cases for which the DOE has failed to ensure compliance with a requirement which may ultimately be resolved during verification/issuance:</p> <ul style="list-style-type: none"> <li>- The monitoring plan is incomplete;</li> <li>- The validation report or PDD contain conflicting information regarding the baseline which may lead to a request for review at issuance</li> </ul>						2		2	4	1							



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3	This sub-category includes cases for which the DOEs failure to ensure compliance with CDM requirements is likely to have an impact of the projects, or similar future projects, eligibility to receive the estimated quantity of CERs: - Errors in validation of additionality that would lead to the failure to identify non additional projects - Failure to apply or the misapplication of the requirements of the methodology that would lead to a non-applicable methodology being applied or the baseline being incorrectly established	1		9	5			1	1		1							
IV	<b>Other issues, to analysis system-wide gaps and improve classification:</b>																	
1	Absence of requirement / guidance by the Board			18					1									
2	Ambiguity of interpretation of requirements of methodology / guidance			1						2								



## Appendix 2

## Compilation of the issues raised for all DOE eligible for monitoring

## Issuance submissions of the 1 January to 30 June 2010

Categorization and weighting of issues identified at requests for issuance		Implementation of the PA	Compliance of the monitoring plan with the monitoring methodology	Compliance of monitoring with the monitoring plan	Assessment of data and calculation of greenhouse gas emission reductions (BE, PE, ER calculation)	Procedural and related requirements
<b>I</b>	<b>Issues related to reporting</b>					
1	This category includes errors covering - Inconsistencies in the information presented in the documents presented/information supplied; - Incomplete information/missing data; - DOE has not fully reported how the compliance to the requirements are being met	5	6	14	12	2
<b>II</b>	<b>Issues related to failure to follow procedural requirements</b>					
1	Failure to submit the corrections on time					
2	This sub category covers: - CAR/CLs in verification reports are not appropriately closed out; - Failure to follow up FAR from previous verification					
3	This sub category covers failure to conduct site visit as per requirements of verification process; or provide justification					3



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4	This sub category covers the failure to request, as appropriate: - Deviation; - Revision Mon Plan; - Changes from PDD	6		1		
III	<b>Technical correctness and accuracy issues with regard to failure to identify non-compliance with the CDM requirements;</b>					
1	This sub category covers basic verification to ensure the quality of required data measured and reported : - Failure to verify equipments/system/protocols/procedures; - Failure to cross check reported data/No clear audit trail (data generating,aggregating,reporting); - Calculation errors		2	1	1	
2	This sub category covers failure to apply conservativeness approach when required				1	1
3	This sub category covers failures to correctly apply methodology requirements which may lead to incorrect CERs: - Failure to verify installation of monitoring system not per methodology; - Parameters required by methodology not being monitored; - Incorrect application of meth formulae, factors, default values		3	4	12	1



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IV	Other issues, to analysis system-wide gaps and improve classification					
1	Absence of requirement/guidance by the Board				22	
2	Ambiguity of interpretation of requirements of methodology/guidance		1			

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