

CDM-EB87-AA-A03

Concept note

Revised proposals for simplification and streamlining of the CDM (first batch)

Version 01.0



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TABLE OF CONTENTS	Page
1. PROCEDURAL BACKGROUND.....	3
2. PURPOSE	3
3. KEY ISSUES AND PROPOSED SOLUTIONS	3
3.1. Clarifying conditions for exemption from on-site inspection at validation and introducing delayed on-site inspection, and clarifying conditions for exemption from on-site inspection at verification.....	3
3.2. Extending the validity of methodologies for resubmissions.....	6
3.3. Expanding post-registration change types that do not require prior approval by the Board	8
3.4. Allowing debundling and flexible verification schedules for bundled project activities.....	9
3.5. Allowing pre-approval use of proposed new or revised methodology	11
4. IMPACTS.....	12
5. SUBSEQUENT WORK AND TIMELINES	12
6. RECOMMENDATIONS TO THE BOARD	13

1. Procedural background

1. The Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board), at its eighty-sixth meeting (EB 86), considered a concept note on the simplification and streamlining of the CDM. Of the 22 concrete proposals contained in the concept note, the Board:
 - (a) Agreed on the direction in eight proposals, and requested the secretariat to prepare draft revised regulatory documents;
 - (b) Supported the direction in 11 proposals, but requested the secretariat to prepare revised proposals based on the guidance provided by it;
 - (c) Did not support the remaining three proposals, however requested the secretariat to undertake further work and prepare new proposals.

2. Purpose

2. The purpose of this concept note is to present the first batch of revised proposals relating to some of the original proposals referred to in paragraph 1(b) and 1(c) above, based on the guidance or request provided by the Board. This batch relates to the original proposals of:
 - (a) Clarifying conditions for exemption from on-site inspection at validation and introducing delayed on-site inspection;
 - (b) Clarifying conditions for exemption from on-site inspection at verification;
 - (c) Extending the validity of methodologies for resubmissions;
 - (d) Expanding post-registration change types that do not require prior approval by the Board;
 - (e) Allowing debundling and flexible verification schedules for bundled project activities;
 - (f) Allowing the pre-approval use of a proposed new or revised methodology.

3. Key issues and proposed solutions

3.1. Clarifying conditions for exemption from on-site inspection at validation and introducing delayed on-site inspection, and clarifying conditions for exemption from on-site inspection at verification

Issue summary

3. An on-site inspection by a designated operational entity (DOE) constitutes a significant share of validation costs and, in some circumstances, may also affect the length of the validation process depending on the DOE workload and the availability of the DOE validation team members.

4. The current “CDM validation and verification standard” (VVS) specifies the project types for which an on-site inspection is mandatory at validation, but it lacks clarity on the situations where DOEs are exempted from conducting an on-site inspection and on the justification that they should provide in support of their decision not to conduct an on-site inspection. The same applies to on-site inspections at verification. This lack of clarity makes the acceptability of a validation or verification outcome unpredictable with the associated risk of subsequent rejection by the Board of the request for registration or issuance, respectively.
5. Furthermore, if a project activity is in the planning or early implementation phase, regardless of the project size and type, an on-site inspection cannot ensure a complete visual check of the technology and facilities and is limited to a review of available designs and feasibility studies and interviews with the project participants and other stakeholders. There may also be other elements that need to be considered when deciding the usefulness of an on-site inspection.
6. The VVS makes it mandatory for a DOE to conduct an on-site inspection to verify the compliance of the project implementation with the registered project design document (PDD). If the DOE does not conduct an on-site inspection, it has to provide justification for not doing so.

Proposed solution (original)

7. Further clarify the conditions for the exemption from an on-site inspection at validation (e.g. force majeure, or planning or early implementation phase of the project activity), and introduce provisions for such exemption cases to require a DOE to validate the description of the project activity by alternative means (e.g. reviewing available designs and feasibility studies and conduct a comparative analysis with equivalent project activities) and also require a delayed on-site inspection at the latest by the first verification.
8. Clarify under what conditions an on-site inspection may be optional at verification – for example, in the event of a high security risk in conducting on-site inspections due to force majeure such as natural disasters or conflicts.
9. The Board, at EB 86, supported the direction of the proposal, but requested the secretariat to consider expanding the scope to exempt DOEs from on-site inspection at both validation and verification, including the use of alternative means to conduct on-site inspections.

Proposed solution (revised)

10. To approach the issue of on-site inspections, it is important to understand the nature and scope of checks that a DOE would normally conduct during the on-site inspection at validation or verification. Thereafter, alternative means that can substitute physical inspection can be explored. During an on-site inspection at validation, a DOE normally examines the project technology, baseline, additionality, monitoring systems, operation and maintenance protocols and the local stakeholder consultation. At the time of an on-site inspection at verification, a DOE normally examines, among other things, the implementation status, actual operation of the project activity, compliance of monitoring systems with the registered monitoring plan and the quality systems as well as cross-checks the monitored data with other sources.

11. Means of gathering information include document reviews, interviews and the DOE's own observations, at both validation and verification. It seems that the on-site document review and interviews done by a DOE could, in large part, be replaced by off-site review of relevant project documentation, electronic information-gathering, telephone interviews and Internet-based meetings. The project participants could be requested to provide all documentation such as site plans, photographs, management plans, policy documents, contact details of project personnel and stakeholders, and other information deemed necessary by the DOE to carry out the audit remotely. Technology such as webcams could be used to allow a DOE to see the project site and its facilities. Telephone interviews with key technicians, local authorities and local stakeholders could replace in-person discussions that normally take place during the on-site visit. It may even be possible and cheaper for the project participants to send one of their key project personnel to the DOE's office for a detailed face-to-face discussion to enhance the DOE's understanding of the project activity, rather than have a DOE team visit the project site.
12. Another aspect of on-site inspections is that if the project activity is in the early stages of planning or implementation, the DOE will be unable to validate much of the elements of the project activity. If the project activity is deemed automatically additional, there is minimal threat to environmental integrity caused by the technology. In both cases, the usefulness of a physical inspection by the DOE is limited and costs incurred by it may not be justifiable.
13. Hence, where a DOE is able to validate a project activity using a number of alternative measures, an on-site inspection should not be made mandatory. An on-site inspection at verification, however, should be mandatory if an on-site inspection at validation has not been conducted. This is due to the fact that only through a physical inspection of the project activity and its operation is it possible to verify that the project activity was really implemented in accordance with the registered PDD and to certify that the emission reductions generated are real. Additionally, some elements of an on-site inspection at verification, such as checking the control panels, data transfer methods and quality systems, may not always be possible remotely. For these reasons, an on-site inspection at verification, and notably the on-site inspection at the first verification, is an important tool to determine the compliance level of a project activity. For subsequent verifications, the DOE could be granted the freedom to decide whether an on-site inspection is necessary and to use alternative methods such as those described above.
14. The VVS makes an on-site inspection at validation mandatory for project activities taking place in existing facilities or utilizing existing equipment where the project activity is: (i) large-scale; (ii) small-scale with emission reductions exceeding 15,000 tonnes per year; or (iii) bundled small-scale with emission reductions not exceeding 15,000 tonnes per year. For small-scale project activities where emission reductions are not exceeding 15,000 tonnes per year, a DOE is recommended to conduct an on-site inspection, or provide a justification for not doing so. For all other types of project activities, the DOE shall conduct validation based on review of available designs and feasibility studies.
15. This implies that under the current rules, only 'greenfield projects' are exempted from an on-site inspection at validation, and, based on appropriate justification, small-scale project activities with emission reductions not exceeding 15,000 tonnes per year. In practice, it has been observed that DOEs conduct an on-site inspection for most greenfield projects and, as much as possible, all small-scale project activities regardless of the scale of emission reductions. The tendency of DOEs to conduct on-site

inspections even for these types of project activities can be attributed to the lack of clarity in the CDM rules.

16. Based on the consideration above, there are two possible options to allow the use of alternative means to conduct an on-site inspection and to expand the scope of exempted project activities:
 - (a) Exempt an on-site inspection at validation and allow using alternative means to validate all types of project activities (i.e. greenfield and brownfield of all scales and levels of emission reductions); or
 - (b) Exempt an on-site inspection at validation and allow the use of alternative means to validate only greenfield, automatically additional, and brownfield project activities that are in the early planning stages.
17. Under either option referred to in paragraph 16 above, an on-site inspection at the first verification should be made mandatory, and for subsequent verifications the question of whether to conduct an on-site inspection could be left to the discretion of the verifying DOE, who may instead use alternative means to verify.
18. Implications of using alternative means to validate and verify a project activity should be considered vis-à-vis potential significant deficiencies in validation and verification, respectively. At present, operational provisions for addressing significant deficiencies in validations and verifications do not exist. When introducing such operational provisions in the future, the implications of exempting DOEs from conducting on-site inspections would need to be taken into account.

3.2. Extending the validity of methodologies for resubmissions

Issue summary

19. A request for registration has to apply the version of a baseline and monitoring methodology and methodological tools that are valid at the time of the submission of the request. Unless the previous version of the methodology has been put on hold (normally due to a significant environmental integrity issue), the grace period of 240 days is given for the application of the revised version of the methodology or methodological tool.
20. If a request for registration is concluded as incomplete at the completeness check stage, the resubmission of a request for registration for the same project activity is deemed a new submission, hence it has to comply with the latest version of the methodology and methodological tools at the time of resubmission. If there is a revision of the applied methodology or methodological tools since the initial submission of the request for registration, and the timing of the resubmission is after the grace period, this forces the project participants to revise the PDD and the DOE to revise the validation report for the purpose of resubmission, which could increase the transaction cost.
21. To alleviate the impact of revision of methodologies and methodological tools on resubmissions of requests for registration, the “CDM project cycle procedure” (PCP) has already introduced the extension of the grace period as follows:
 - (a) For resubmission of a request for registration after the completeness check as a new submission, an extension is granted by the number of days in excess of the 22 days elapsed before the notification on incompleteness is made;

- (b) For resubmission of a request for registration after the information and reporting check, an extension is granted for 28 days from the date of notification that the submission cannot be processed any further.

Proposed solution (original)

22. Abolish the current rules on extension of the grace period and apply one rule applicable at both the completeness check and information and reporting check stages, for example a 90-day extension to the grace period of a methodology for resubmission of the request, from the date of the secretariat's notification of incompleteness or that the request cannot be process further, respectively. The rules on effective date of registration and the application of valid versions of other regulatory documents (e.g. PCP, "CDM project standard" (PS), VVS) would, however, be independent and remain unchanged.
23. Widely used methodologies are revised very frequently, sometimes every few months. This becomes a heavy burden on the project participants and DOEs in case the submission of a request for registration is concluded as incomplete. By allowing retaining the version of the methodology applied at the time of initial submission of the request beyond the usual grace period, time spent on revising project documentation as well as any additional validation cost will be saved. Moreover, recently methodologies have been revised mainly with the objective of simplifying the aspects of baseline determination, additionality and monitoring rather than increasing the conservativeness, hence an extension of the grace period of previous versions of methodologies would not impact environmental integrity in most cases (if there is a serious environmental integrity issue in the previous version of a methodology, the application of it will be put on hold with immediate effect anyway).
24. The Board, at EB 86, supported the direction of the proposal, but requested the secretariat to examine whether granting a 90-day extension to the grace period, as in the initial proposal, is sufficient, or whether a longer extension should be applied.

Proposed solution (revised)

25. To assess the appropriateness of a 90-day extension to the grace period of a methodology for resubmissions, the implication of allowing a project participant to resubmit with the same version of the methodology at **any point in time** after the initial submission was concluded as incomplete. This essentially means that the applicability of the version of the methodology would be 'open-ended'. If a revision to the methodology is made with a view to strengthening its environmental integrity, an open-ended applicability would allow project activities to be registered based on the weaker criteria even years after the version of the methodology has expired.¹ Such project activities would pose higher environmental risk in comparison to new project activities being registered at the same time. Alternatively, if a revision is made with a view to simplifying monitoring, baselines and other aspects of the CDM requirements, the project participant is expected to voluntarily update the methodology to its latest version in the resubmission of the request for registration to benefit from the simplified provisions. Therefore, restricting the use of a version of a methodology after being concluded as incomplete at the CC or IRC stages may be better for safeguarding environmental

¹ ACM12 and AM21 were revised to strengthen environmental integrity criteria.

integrity, and at the same time it would not prohibit the project participant from using a later version.

26. A second implication of open-ended applicability relates to reduced regulatory control over the use of methodologies. CDM regulations are continuously being improved and strengthened. Therefore, the revisions would be less meaningful if project activities are allowed to use expired methodologies over an unlimited time.
27. In practice, it is observed that project participants are motivated to complete registration and are observed to return to the project cycle within a reasonable time if their submissions are concluded as incomplete.²
28. Therefore, it would be appropriate to continue to limit the validity of a revised methodology. The originally proposed 90-day window could be extended to a 120-day window if the Board finds that the former does not provide sufficient time for resubmissions for project participants and/or DOEs.

3.3. Expanding post-registration change types that do not require prior approval by the Board

Issue summary

29. In principle, post-registration changes have to be approved by the Board prior to proceeding with a request for issuance (prior-approval track). However, for minor post-registration changes, the request for approval of changes may be submitted together with the request for issuance (issuance track). The types of changes that may follow the issuance track are clearly defined and listed in appendix 1 to the PS.
30. However, the above-mentioned appendix 1 does not include revisions to the monitoring plan (except for changes to calibration practice, accuracy class and location of the meters), nor temporary deviations that apply alternative monitoring arrangements despite the fact that the vast majority (approximately 95 per cent) of requests for revisions of the monitoring plan and temporary deviations that propose alternative monitoring arrangements have been approved by the Board without any issues. On the other hand, appendix 1 includes any changes to project or programme design, provided certain conditions are met.

Proposed solution (original)

31. The list of types of post-registration changes that may follow the issuance track may be expanded to any permanent changes to the monitoring plan and temporary deviation that propose alternative monitoring arrangements under the following conditions:
 - (a) For the cases of permanent changes to the monitoring plan, there is no impact on the applicability of the methodology and accuracy and completeness of the monitoring;

² Resubmissions have taken place within 29 days after notification of incompleteness at the completeness check and within 73 days after the same notification was sent at the information and reporting check.

- (b) For the cases of temporary deviations from the monitoring plan, the alternative monitoring arrangements produce a conservative estimate of emission reductions.
32. The Board, at EB 86, supported the direction of the proposal, but requested the secretariat to examine further ways of simplifying the post-registration change process.

Proposed solution (revised)

33. In addition to expanding the list of post-registration types that may follow the issuance track as in the original proposed solution (para. 31 above), such list may be turned into a guiding list, rather than a restrictive list. This would mean that the choice of which track (prior-approval track or issuance track) to be followed for a post-registration change would be left entirely to project participants, irrespective of the types of change. This may save time and costs for non-listed cases if the project participants are confident that the particular post-registration change would be accepted by the Board with minimum change that would not affect the monitoring results.
34. The process for handling a request for post-registration change under the prior-approval track is already simple: completeness check, summary note preparation, and possible consideration by the Board at its meeting but only if a Board member electronically objects to the secretariat's recommendation on the course of action. The issuance track is even simpler, as a post-registration change will be assessed in conjunction with a request for issuance without adding any extra steps and time. One way to further simplify the process would be to remove the summary note preparation by the secretariat. However this would mean that the burden of identifying issues would be passed directly to the Board, which may not be feasible. Another idea of replacing the summary note preparation by the secretariat with the assessment by the Registration and Issuance team (RIT) would not reduce time nor cost. Likewise, taking the similar approach as for review cases of requests for registration or issuance where both the secretariat and the RIT are involved in the assessment would not simplify the process either. Based on this, there is little merit to pursue simplifying the steps and timelines for the post-registration change process and it is recommended to continue with the existing process.

3.4. Allowing debundling and flexible verification schedules for bundled project activities

Issue summary

35. Multiple small-scale project activities may be bundled and registered as a single small-scale CDM project activity, provided that the accumulated scale does not exceed the threshold for each small-scale project type (renewable energy project activities, energy efficiency improvement project activities, and other emission reduction project activities). Currently, once a bundle of small-scale project activities is registered, the composition of the bundle cannot be changed thereafter (no removal of an activity, nor addition of a new activity). The Board "may consider debundling in exceptional situations", but it is not clear under what exceptional situations removing a component activity from a bundle is allowed. This may be forcing some bundled small-scale project activities to stall in the CDM project cycle if one or more components in the bundle are not implemented or monitored for various reasons. It may also be limiting the expansion of the CDM even if the project participants find a new activity of the same type, which could have been included in the bundle.

36. Also, if bundled small-scale project activities comprise more than one small-scale project type, methodology or technology/measure, a separate monitoring plan and monitoring report for each type, methodology or technology/measure is required, but a request for issuance should always cover all monitoring results, implying that batched requests for issuance are not allowed for bundled small-scale project activities. This may be posing challenges to project participants to manage the monitoring and verification schedules, as not all project types in the bundle may be able to proceed with monitoring and verification at the same pace.
37. Furthermore, the concept of bundling is currently applicable only for small-scale project activities. This may be unnecessarily preventing large-scale project activities to also take advantage of the economics of bundling.

Proposed solution (original)

38. Expand the concept of bundling to cover also large-scale project activities.
39. Allow the change of the composition of bundled project activities either by removing a project activity from the bundle, or adding a new project activity to the bundle, any time after the registration of the bundled project activities. Removing a project activity from the bundle might follow a similar process as for voluntary exclusion of component project activities (CPAs) from a programme of activities (PoA), while adding a new project activity to the bundle would need to follow the post-registration change process. It should not be allowed for a removed project activity to be added to a different bundle. To register the removed project activity as a single CDM project activity, it should go through the full validation and registration process, and if registered, its crediting period should be discounted by the length of the period that has been consumed already when it was in the bundle.
40. Also allow batched issuance for bundled project activities if the bundle comprises more than one small-scale project type, methodology or technology/measure, and consequently generates separate monitoring reports.
41. The Board, at EB 86, supported the direction of the proposal, but requested the secretariat to examine the necessity of maintaining the concept of bundling in parallel to PoAs for future cases, and propose measures to resolve practical problems that may be faced by existing registered bundled project activities.

Proposed solution (revised)

42. Maintain the concept of bundling as an option.
43. Allow the removal of a project activity from the bundle through the post-registration process (issuance track). Considering the potential impact on additionality, the addition of an activity to a registered bundle should not be allowed. To register the removed project activity as a single CDM project activity, it should go through the full validation and registration process and, if registered, its crediting period should be discounted by the length of the period that has been consumed already when it was in the bundle.
44. Also allow batched issuance for bundled project activities if the bundle comprises more than one small-scale project type, methodology or technology/measure, and consequently generates separate monitoring reports.

45. Providing an option to convert a registered bundle of project activities into a PoA through the post-registration change process may help “dynamic” cases as the requirements for PoAs are much more flexible than for bundled project activities in terms of addition/removal of activities and monitoring/issuance. However, if such a conversion process is to be introduced, the implications of such conversion on the validity of the local and global stakeholder consultations already conducted, the letter of approval already issued by the Parties involved, and the crediting period would need to be taken into account.
46. Considering the flexibility of the requirements for PoAs, the majority of bundling cases are already assumed to be choosing and may in future choose the PoA route. Nevertheless, certain requirements for PoAs (e.g. the appointment of the coordinating/managing entity, establishment of eligibility criteria for inclusion of CPAs) may be felt by some project participants as an unnecessary burden if there is little possibility of changing the composition of the bundle after registration, and/or if all activities in the bundle are likely to proceed together after registration. Therefore, there is still merit in maintaining the concept of bundling as an option.

3.5. Allowing pre-approval use of proposed new or revised methodology

Issue summary

47. Currently, only a methodology that has been approved by the Board may be used for requesting the registration of a project activity. Due to the lengthy approval process for a proposed new or revised methodology, a project participant may face considerable delay before it can proceed with the preparation of a PDD, followed by its validation by a DOE, and a request for registration of the project activity. Providing an option for the methodology development and approval process to run in parallel with the registration process in an integrated and controlled way would reduce such delay without compromising environmental integrity. This ultimately would result in an earlier start of the monitoring of emission reductions, which would otherwise be foregone.

Proposed solution (original)

48. Allow the use of a proposed new or revised methodology prior to its approval by the Board in a request for registration, so that the process of approval of the proposed new or revised methodology would run parallel to the process of registration of the project activity applying it. If the relevant panel or working group considers positively the proposed new or revised methodology after one in-person meeting, it will be communicated to the proponent, who may proceed with validation and a request for registration based on the proposed new or revised methodology.
49. The final decision by the Board to register the project activity would be subject to the approval of the proposed new or revised methodology. In this case, the approval of the proposed new or revised methodology would effect the project activity registered with an effective date of registration that is in accordance with the current rules for complete submissions of request for registration. If the Board approves the proposed new or revised methodology with modifications, the registration would reflect these modifications and their implementation would have to be validated by a DOE as a post-registration change. If the Board rejects the proposed new or revised methodology, the project activity would not be registered.

50. The Board, at EB 86, did not support the proposal, but requested the secretariat to prepare a new proposal on possible backdating of the effective date of registration to the submission date of the proposed new or revised methodology.

Proposed solution (revised)

51. Allow the backdating of the effective date of registration to any date after the date of complete submission of a proposed new or revised methodology, to be specified by the project participants, provided that:
- (a) The submission of the proposed new or revised methodology accompanied a PDD to establish a link between the submission of the methodology and the request for registration;
 - (b) The request for registration is approved by the Board without necessitating the revision of the PDD or PoA-DD and/or validation report after the request being placed under review by the Board.³
52. Backdating the effective registration date as early as the complete submission of a proposed new or revised methodology could avoid missing the opportunity for generating and selling certified emission reductions in the market at a preferred timing by the project participants, and hence could improve the financial viability of the project activity. If the project design or monitoring plan is changed after the complete submission of a proposed new or revised methodology and the change would not allow the post-adjustment to the monitoring results, the project participants would not choose the backdating option. Therefore, starting monitoring after the complete submission of a proposed new or revised methodology should be entirely at the risk of the project participants.

4. Impacts

53. The proposals in this concept note pertain to various stages of the CDM project cycle and aim to reduce transaction costs encountered, by largely reducing the process time and increasing the flexibility of CDM regulations. The proposed revised solutions in this concept note are part of a larger package of proposals which, when combined, would have a positive impact on the overall cost and time reduction and the uptake of the CDM.

5. Subsequent work and timelines

54. Subsequent work would entail incorporation of agreed proposals in the CDM regulatory documents. As this batch of proposals is part of the project on simplification and streamlining of the CDM, implementation timelines are expected to be in line with the planned delivery of the entire package of proposals.
55. At EB 86, the Board agreed to strive to adopt the revised regulations reflecting all simplification measures currently being considered by mid-2016.

³ Under the current rules (paras. 95 and 116 of the PCP), the effective date of registration is either the date when the DOE submitted a complete request for registration, or the date when the latest revisions to the PDD or PoA-DD and/or validation report were submitted after the request being placed under review by the Board.

6. Recommendations to the Board

56. The secretariat recommends that the Board agree on the revised proposals for simplification and streamlining of the CDM presented in section 3 above.

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Document information

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