

**CDM-EB89-AA-A02**

## Concept note

---

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

Version 01.0



**United Nations**  
Framework Convention on  
Climate Change

<b>TABLE OF CONTENTS</b>	<b>Page</b>
<b>1. PROCEDURAL BACKGROUND.....</b>	<b>3</b>
<b>2. PURPOSE .....</b>	<b>3</b>
<b>3. KEY ISSUES AND PROPOSED SOLUTIONS .....</b>	<b>3</b>
3.1. Inclusion of more than one technology or measure in a generic CPA .....	3
3.2. Submission of first specific-case CPA corresponding to each generic CPA for approval by the Board .....	5
3.3. Re-inclusion of excluded CPAs or qualifying as standalone project activities.....	7
3.4. 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.....	9
<b>4. IMPACTS.....</b>	<b>12</b>
<b>5. SUBSEQUENT WORK AND TIMELINES.....</b>	<b>12</b>
<b>6. RECOMMENDATIONS TO THE BOARD .....</b>	<b>13</b>
<b>APPENDIX 1. EXTRACTS OF REQUIREMENTS IN METHODOLOGY ACM0002 .....</b>	<b>14</b>
<b>APPENDIX 2. INPUT FROM STAKEHOLDERS ON THE PREPARATION OF GENERIC CPAS.....</b>	<b>16</b>
<b>APPENDIX 3. INPUTS FROM DOES ON THE NECESSITY OF ON-SITE INSPECTION .....</b>	<b>18</b>

## 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 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, and requested the secretariat to undertake further work and prepare new proposals.
2. Regarding the proposals referred to in paragraph 1(b) and (c) above, the Board, at EB 87 and EB 88, considered concept notes on the revised proposals for simplification and streamlining of the CDM, and provided guidance on each revised proposal.
3. This work relates to the activity “Simplification and streamlining of the CDM” under objective 1(b) “Operate an effective regulatory framework resulting in reduced transaction costs for participants in the mechanism”, with a resource allocation indicated in table 3 of the Management Plan 2016 (EB 87 report, annex 1).

## 2. Purpose

4. The purpose of this concept note is to present revised proposals relating to rules on component project activities (CPAs) under a programme of activities (PoA) and a revised proposal relating to the requirement on on-site inspection at validation and verification, as alternatives to the original proposals contained in the concept note referred to in paragraph 1 above, based on the guidance or request provided by the Board at EB 86.

## 3. Key issues and proposed solutions

### 3.1. Inclusion of more than one technology or measure in a generic CPA

#### Issue summary

5. A generic CPA design document (CPA-DD) is a section of a PoA design document (PoA-DD) in which the common features of CPAs that will be included in the PoA are described. A generic CPA-DD serves as the “template” for specific-case CPAs to be included in the PoA. If a PoA applies more than one technology/measure or more than one methodology, the current rules require the preparation of a generic CPA-DD for each technology/measure, each methodology and each combination thereof.<sup>1</sup>
6. In some large-scale methodologies, such as ACM0001 (landfill gas flaring or use), ACM0002 (renewable energy), ACM0010 (manure management), ACM0014 (waste

---

<sup>1</sup> “CDM project standard”, paragraph 207.

water treatment), AM0009 (gas flaring in oil wells) and ACM0022 (waste treatment, previously AM0025), specific guidance on when separate generic CPA-DDs need to be prepared was included by the Board at EB 67 and EB 68. (For example, such guidance in ACM002 is presented in appendix 1.) In these large-scale methodologies, differences in the means of demonstration of additionality, emission reduction calculations and monitoring methods are considered for defining a “type of CPA-DD”.

7. Also, in the clarifications “AM\_CLA\_0241: The eligibility of the combination of ACM0002, AMS-I.D, AMS-I.A, AMS-I.F and AMS-I.L in a renewable energy PoA” and “AM\_CLA\_0227: Application of combination of large-scale methodology ACM0002 and small-scale methodology AMS I.D in a renewable energy PoA”, the Meth Panel clarified that each CPA should apply only one technology.
8. In some cases, these requirements would necessitate creating a large number of generic CPA-DDs.<sup>2</sup> Combined with another current requirement – that the first specific-case CPA corresponding to each generic CPA be assessed by the secretariat and the Board (see section 3.2 below) – it is possible for some PoAs that many specific-case CPAs are subject to assessment by the secretariat and the Board. This could increase the cost for validation as well as for the operation of the regulations.
9. At EB 80, the Board considered the issue of definition of types of generic CPAs, and agreed that the coordinating/managing entity shall consider any specific guidance in applied methodologies regarding the requirement to prepare separate generic CPA-DDs for different technologies/measures. In doing so, it shall take into account the differences in the means of demonstration of additionality, emission reduction calculations, and monitoring methods applicable to the technologies/measures being implemented. However, the Board agreed to provide an exception to this rule when the technologies/measures are included in the positive lists for additionality demonstration in the “Guidelines on demonstration of additionality of small-scale project activities” or in the “Guidelines on demonstration of additionality of microscale project activities”. In such cases, a generic CPA may cover more than one technology/measure, provided that all the information related to eligibility criteria, emission reduction calculations and monitoring requirements is included for each technology/measure separately taking into account any specific guidance in the applied methodologies.
10. Stakeholders have requested further simplification in the requirements to develop different types of generic CPA-DDs that directly affect the preparation of PoA documents. For example, the Project Developer Forum once recommended that the relevant regulations be revised to give project participants the option to merge, group and/or simplify generic CPAs according to methodology limitations or applicability restrictions, resulting in one single generic CPA containing all possible combinations, at least as long as they apply the same methodology, as contained in appendix 2.<sup>3</sup>

---

<sup>2</sup> For example, 12 generic CPAs were developed for a PoA applying ACM0002 (PoA UNFCCC reference number 9299), generating a 439-page PoA-DD; and four generic CPAs were developed for a PoA applying ACM0001 (PoA UNFCCC reference number 10004), generating a 120-page PoA-DD.

<sup>3</sup> Call for input on simplification and streamlining of the CDM (25 February – 26 March 2015), <[http://cdm.unfccc.int/public\\_inputs/2015/cfi\\_simp/index.html](http://cdm.unfccc.int/public_inputs/2015/cfi_simp/index.html)>.

11. At EB 86, the Board requested the secretariat to further consider allowing the inclusion of more than one technology or measure in one generic CPA, in consultation with the relevant methodological panel and/or working group.

**Proposed solution (revised)**

12. Maintain the current requirements referred to in paragraphs 5–7 above.
13. One implication of allowing a generic CPA to cover more than one technology/measure is that not all first specific-case CPA-DDs corresponding to all technologies/measures included in a PoA may be assessed by the secretariat and the Board. Also, allowing a generic CPA to cover more than one technology/measure would make the correspondence between a generic CPA (template) and a specific-case CPA (real case) less transparent to stakeholders. In particular for designated operational entities (DOEs) this less transparent correspondence would make their validation of specific-case CPAs for the purpose of inclusion in PoAs more complicated.
14. While allowing a generic CPA per methodology covering more than one technology/measure may reduce the transaction cost, the reduced transparency in the correspondence between a generic CPA and specific-case CPAs may pose some risk to the integrity of the PoA process. Therefore, it may be prudent to maintain the current requirements. This issue may be revisited in the future after gaining more experiences, as appropriate.
15. Based on the guidance from the Board referred to in paragraph 11 above, the secretariat consulted on this proposal with the Methodologies Panel at its sixty-ninth meeting and with the Small-Scale Working Group at its fiftieth meeting. Both bodies supported the proposed solution referred to in paragraph 12 above.

### **3.2. Submission of first specific-case CPA corresponding to each generic CPA for approval by the Board**

**Issue summary**

16. The current rules<sup>4</sup> require that when submitting a PoA-DD to the secretariat for publication for global stakeholder consultation, the DOE shall submit:
- (a) The generic CPA-DD part of the PoA-DD, which specifies the generic information relevant to all CPAs that may be included in the PoA:
    - (i) If the PoA applies more than one technology/measure or more than one methodology, the generic CPA-DD part of the PoA-DD shall be completed for each technology/measure, each methodology and each combination thereof;
    - (ii) For small-scale and microscale project activities that deploy the technologies/measures included in the positive lists for additionality under the “Guidelines on demonstration of additionality of small-scale project activities” or the “Guidelines on demonstration of additionality of microscale project activities”, the generic CPA-DD may cover more than one technology/measure, and the specific-case CPA-DD(s) to be submitted

---

<sup>4</sup> “CDM project cycle procedure” (PCP), version 09.0, paragraph 21(j).

may correspond to any one of the technologies/measures or their combinations;

- (b) **At least one specific-case CPA-DD that corresponds to each generic CPA-DD:**
- (i) In cases where all specific-case CPA-DDs to cover all generic CPA-DDs cannot be provided at the time of publication of the PoA-DD for global stakeholder consultation, specific-case CPA-DD(s) corresponding to at least one generic CPA-DD shall be provided at the time of publication of the PoA-DD for global stakeholder consultation;
  - (ii) In this case, for each of the remaining generic CPA-DDs, specific-case CPA-DD(s) shall be provided **at the time of request for registration** of the PoA **or after the registration** of the PoA (**through post-registration changes**).
17. In a specific-case CPA-DD, the coordinating/managing entity translates the characteristics defined in the generic CPA-DD into a real case. Thus, each specific-case CPA-DD is a practical implementation of the generic CPA-DD. When validating a specific-case CPA-DD for inclusion in a PoA, the DOE examines how the physical characteristics of each real case match the requirements defined in the generic CPA, in particular on the compliance with the eligibility criteria for inclusion.
  18. To date, the secretariat and the Board assess the first specific-case CPA corresponding to each generic CPA, while other specific-case CPAs are included by DOEs without such assessment. Once a specific-case CPA is included in a PoA, its eligibility for being included in the PoA is not checked again by the DOE or the secretariat/Board at the stage of requesting issuance.
  19. The assessment by the secretariat and the Board of the first specific-case CPA for each generic CPA allows the secretariat and the Board to scrutinize the real application of a theoretical design represented by the generic CPA, in particular whether the eligibility criteria for inclusion of CPAs actually work. Such scrutiny builds a solid foundation for the subsequent inclusion by any DOE of other specific-case CPAs for the same generic CPA type.
  20. Dropping the requirement of submission of the first specific-case CPAs for assessment by the secretariat and the Board for other generic CPAs that have not been submitted at the time of the registration of the PoA would reduce the transaction cost for the project participants and DOEs, and administrative costs for the secretariat and the Board. However it would eliminate the opportunity for the theoretical designs to such scrutiny/testing. If the merit of having this test of the theoretical design of the generic CPA is valued as highly important, then this test should be applied to all first specific-case CPAs.
  21. It should be noted that either case does not fully guarantee that the subsequent inclusion by a DOE of other specific-case CPAs will always be done correctly, as any DOE may include specific-case CPAs corresponding to any generic CPA in a PoA at any time. To address this concern, a process to identify and address erroneous inclusion of specific-case CPAs exists (PCP, paras 135–145), although it has never been used.

22. If there is an issue that needs to be addressed in the inclusion of specific-case CPAs, it would not only affect the first specific-case CPA-DD, but could also potentially affect all specific-case CPAs included. Therefore, the environmental integrity might be better protected by introducing random checks to confirm that DOEs are correctly including specific-case CPAs under a PoA (not only the first one) rather than by assessing only the first specific-case CPA-DD at the time of registration of the PoA or through the post-registration process.
23. At EB 86, the Board agreed to maintain the requirement of at least one specific-case CPA corresponding to any generic CPA being needed for registration of a PoA. However it requested the secretariat to consider, in consultation with the relevant methodological panel and/or working group, not requiring the first specific-case CPA corresponding to each of the other generic CPAs for assessment by the secretariat and the Board.

#### **Proposed solution (revised)**

24. Maintain the current requirement referred to in paragraph 16 (b) above.
25. Alternatively, consider eliminating entirely the requirement of submitting the first specific-case CPA at the time of registration of a PoA or through post-registration changes. However, in this case, it may be prudent to introduce a measure to strengthen the check of CPA inclusion to compensate for the absence of testing of theoretical design by a real case for any generic CPA type. Such compensatory measure could be, for example, the introduction of a sample check by the secretariat at the stage of CPA inclusion. Also under this option, the rules to calculate the registration fee for a PoA would need to be changed to, for example, a fixed rate, since the current registration fee for a PoA is based on the total of expected annual average emission reductions by specific-case CPAs submitted at the time of requesting registration of the PoA.
26. Based on the guidance from the Board referred to in paragraph 23 above, the secretariat consulted on this proposal with the Methodologies Panel at its sixty-ninth meeting and with the Small-Scale Working Group at its fiftieth meeting. Both bodies supported the proposed solution referred to in paragraph 24 above.

### **3.3. Re-inclusion of excluded CPAs or qualifying as standalone project activities**

#### **Issue summary**

27. A CPA can be excluded from a PoA in two ways: voluntary exclusion by the coordinating/managing entity; or exclusion as a result of the review of erroneous inclusion. For both cases, currently, an excluded CPA cannot be re-included in the same or any other PoA, or qualify as a standalone CDM project activity. This may be too restrictive as it prevents the activities from re-entering the CDM. There may be numerous reasons for exclusion. Even for exclusion of an erroneously included CPA, the CPA may meet all CDM requirements that are important from the perspective of the environmental integrity (e.g. baseline determination, additionality), while it does not meet all the eligibility criteria for inclusion in the PoA from which it has been excluded.
28. At EB 86, the Board supported the direction of a proposal to allow re-inclusion of an excluded CPA into a PoA or applying as a standalone CDM project activity, and requested the secretariat to examine the application of the requirement of continuous

monitoring during the period of exclusion for all cases, in consultation with the relevant methodological panel and/or working group.

### **Proposed solution (revised)**

29. Allow a CPA that has been voluntarily excluded by the coordinating/managing entity to regain CDM status by using one of the following options: (a) being re-included in the same PoA by a DOE following the procedure for CPA inclusion; (b) being included in another PoA by a DOE following the procedure for CPA inclusion; or (c) registering as a standalone CDM project activity following the full validation and registration process.
30. Allow a CPA that has been excluded as a result of erroneous inclusion to regain CDM status by using one of the following options: (a) being re-included in the same PoA by a DOE, after addressing the issue that caused erroneous inclusion before, following the procedure for CPA inclusion; (b) being included in another PoA by a DOE following the procedure for CPA inclusion; or (c) applying as a standalone CDM project activity following the full validation and registration process. However, if certified emission reductions (CERs) have been issued for the CPA, this should be allowed only after the DOE that erroneously included the CPA in the initial PoA has compensated an equivalent amount of Kyoto credits to the CDM registry in accordance with the procedure to address erroneous inclusion of CPAs.<sup>5</sup>
31. To ensure the environmental integrity of re-inclusion of an excluded CPA in the same or different PoA, or of registering as a standalone CDM project activity, the following conditions would need to be met:
  - (a) **Exclusion history:** The project activity or PoA documentation and the DOE validation report should transparently declare whether the activity has previously been excluded from a registered PoA. The declaration could also include the statement that the activity will not participate in any other scheme or claim any credits for emission reductions<sup>6</sup> under any other scheme for the period after re-inclusion in the same or a different PoA or the registration as a standalone CDM project activity. Although such self-declaration would not absolutely guarantee the avoidance of double counting, it could reduce this risk;
  - (b) **Crediting period:** For a voluntarily excluded CPA, re-inclusion in the same or different PoA or registration as a standalone CDM project activity should be allowed only if the original crediting period has not expired (that is, a fixed period of a maximum of 10 years or renewable periods of a maximum total of 21 years), and the remaining crediting period should be discounted by the length of the period of having been excluded; for an excluded CPA due to erroneous inclusion, there should be no discounting in the crediting period since no issuance of CERs for the CPA should have taken place or any erroneously issued CERs should have been compensated;
  - (c) **Additionality:** The CPA should comply with the additionality requirements applicable to the inclusion of any other new CPAs at the time of its re-inclusion in

---

<sup>5</sup> PCP (version 09.0), paragraph 145.

<sup>6</sup> In principle, the same applies to afforestation and reforestation project activities that enhance removal of greenhouses. However, for better readability, only “emission reductions” are referred in this concept note.



the same or a different PoA, or comply with the additionality requirements applicable to any new standalone project activities at the time of the submission of the request for registration;

- (d) **Baseline:** The CPA should comply with the requirements for setting the baseline applicable to the inclusion of any other new CPAs at the time of its re-inclusion in the same or a different PoA, or comply with the requirements for setting the baseline applicable to any other new standalone project activities at the time of the submission of the request for registration;
  - (e) **Monitoring:** For a CPA applying a methodology that potentially accrues negative emission reductions,<sup>7</sup> the monitoring of emission reductions should be continuous, including during the period when the monitoring results have not been reported since or before the CPA was excluded from the initial PoA. For such CPA, if there are net negative emission reductions before re-inclusion in the same or a different PoA, or registration as a standalone CDM project activity, the amount should be deducted from the first requests for issuance after re-inclusion or registration. For any other CPA, this condition should not apply.
32. This proposal could provide excluded CPAs with a second chance to be part of the CDM, depending on the circumstances of exclusion.
33. Based on the guidance from the Board referred to in paragraph 28 above, the secretariat consulted on this proposal with the Methodologies Panel at its sixty-ninth meeting and with the Small-Scale Working Group at its fiftieth meeting. Both bodies supported the proposed solution referred to in paragraphs 29–31 above.

### 3.4. 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

34. An on-site inspection by a 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.
35. The current “CDM validation and verification standard” (VVS) makes an on-site inspection at validation mandatory for proposed project activities or CPAs under a PoA taking place in existing facilities or using 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.<sup>8</sup> For small-scale project activities where emission reductions do not exceed 15,000 tonnes per year, it is recommended that a DOE conduct an on-site inspection, or provide a justification for not doing so. For all other types of project activities, the DOE

---

<sup>7</sup> Such methodologies are listed in appendix 3 of the PCP (version 09.0).

<sup>8</sup> For bundled small-scale project activities, each with emission reductions not exceeding 15,000 tonnes per year, the number of on-site inspections may be based on sampling, if the sampling size is justified through statistical analysis in accordance with the “Standard: Sampling and surveys for CDM project activities and programme of activities”.

- shall conduct validation based on a review of available designs and feasibility studies, and should conduct comparison analysis with equivalent projects, as appropriate.
36. This means that under the current rules, only “greenfield projects” are automatically exempted from mandatory on-site inspection at validation, and, if justified, small-scale project activities with emission reductions not exceeding 15,000 tonnes per year are also exempted. 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. On the other hand, the VVS refers to on-site inspection as the means for validation for many validation requirements without differentiating the project scale or type. The tendency of DOEs to conduct on-site inspections for most cases may be attributed to the lack of clarity on the necessity of on-site inspection in the VVS.
37. At verifications, the VVS in principle makes it mandatory for a DOE to conduct an on-site inspection to verify the compliance of project implementation with the registered project design document (PDD), while leaving the possibility of not conducting an on-site inspection, in which case the DOE must provide justification. At the same time, the VVS allows for applying a sampling approach to conducting on-site inspections at verification in accordance with the “Standard: Sampling and surveys for CDM project activities and programme of activities” (the sampling standard).
38. At EB 87, the Board supported the direction of the proposal presented for that meeting, but requested the secretariat to prepare a revised proposal further clarifying the conditions under which a DOE may be allowed exemptions from conducting on-site inspection at validation and/or verification, and to assess possible consequences of identifying issues at verification that are attributable to validation, including the lack of an on-site inspection.
39. At EB 88, the Board requested the secretariat to consult with DOEs on this matter. Based on this, the secretariat opened the call for input to all DOEs from 24 March to 7 April 2016. Four DOEs submitted inputs during this period as contained in appendix 3. The DOEs’ opinions are summarized below:
- (a) Two DOEs are in favour of making the rule less restrictive by leaving the judgment to DOEs on the necessity of conducting an on-site inspection, noting that the reduced cost could incentivize project participants to conduct validation/verification, hence ultimately benefit the CDM, or that not necessarily requiring an on-site inspection could open the market worldwide to any DOE;
  - (b) One DOE wants to maintain the current rules, stating that the on-site inspection is important in both validation and verification, and its exemption would not save much cost and time;
  - (c) Three DOEs that quantified the cost saving of not conducting on-site inspection stated that it could save between 10 to 25 per cent of the total validation/verification cost (depending on the activity type – validation or verification; project type – project activity or PoA; or location of the project/programme activity). One DOE pointed out that while validation/verification fees have dropped drastically in the past two years, the travel cost remained the same or even increased due to inflation;

- (d) Two DOEs believe that, for exempting on-site inspections, there should be clear rules and criteria, since, if leaving it to the judgment of DOEs, those propose to conduct on-site inspections in validations/verifications will never be contracted by project participants, or different DOEs could interpret the exemption rules differently. Another DOE believes that DOEs have enough experience to make such judgment;
- (e) Two DOEs think that on-site inspections add value to or are necessary for the validation of project activities that use a historical baseline, while it would add little value for renewable energy project activities and hardly be useful for greenfield project activities. For verification, these DOEs believe that on-site inspections are important and should be made mandatory at least once every three consecutive verifications or once every two to three years;
- (f) Alternative means to on-site inspection could include telephone/video interviews with stakeholders, photographs/videos/web cameras of the project site, and copies of relevant documentation.

**Proposed solution (revised)**

- 40. 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. During 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 of systems. The DOE also cross-checks the monitored data with other sources.
- 41. The 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 conducted 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. To this end, 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 that the DOE deems necessary to carry out the audit remotely. Technology such as webcams could be used to enable 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 less expensive for project participants to send one of their key project personnel to the DOE's office for a face-to-face discussion to enhance the DOE's understanding of the project activity, rather than to have a DOE team visit the project site.
- 42. The value of on-site inspection appears to depend on whether it is for validation or verification, a greenfield or brownfield project activity, or on the technology type the project activity applies. For example, for project activities that use historic baseline or demonstrate additionality based on the pre-project situation, an on-site inspection at validation might be indispensable. On the other hand, for greenfield and/or renewable project activities, an on-site inspection at validation would not add much value. For verification, however, an on-site inspection appears to be more important, as alternative means may not give sufficient confidence in DOEs to verify whether the project activity

has actually been implemented in accordance with the registered PDD without physically seeing the project activity and its monitoring system and practice. If the project activity and monitoring practice are simple, the value of on-site inspection at the second and subsequent verifications may not be high.

43. Based on these considerations, and taking into account the DOEs' views on this matter as summarized in paragraph 39 above, an on-site inspection at validation could be in principle made optional (i.e. non-mandatory) unless, in the judgment of the validating DOE, there are no alternative means to validate one or more pieces of information provided by the project participants, or if the project design – including the application of an approved methodology, the eligibility for the CDM, and the calculation of emission reductions – is based on information that becomes difficult to trace once the project activity is implemented (e.g. project activities using a historic baseline). If an on-site inspection is not conducted, validation should be conducted through alternative means and with a proper justification (i.e. why the alternative means is sufficient to validate the information with the same or higher level of assurance).
44. For verifications, an on-site inspection should be made mandatory at the first verification and only at certain intervals (e.g. every three years) thereafter. For other verifications, the decision to conduct an on-site inspection could be left to the judgment of the verifying DOE.<sup>9</sup> If an on-site inspection is not conducted at a subsequent verification, verification should be performed through alternative means and with a proper justification (i.e. why the alternative means is sufficient to verify the information with the same or higher level of assurance).
45. If any issue to the project design, including those attributable to the lack of on-site inspection at validation or previous verification, is identified at the first or any subsequent verification, the DOE that found the issue shall rectify it through the post-registration change process.

## **4. Impacts**

46. The proposals in this concept note aim to reduce transaction costs for project participants and DOEs by reducing the time and effort required to follow the CDM process, and by increasing the flexibility of CDM regulations relating to PoAs. 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 required and the uptake of the CDM.

## **5. Subsequent work and timelines**

47. The agreed proposals will be reflected in the relevant CDM regulatory documents in conjunction with the development of standalone regulatory documents for PoAs, as mandated by the CMP at its eleventh session.<sup>10</sup>
48. The first drafts of revised CDM regulatory documents reflecting the agreed directions will be presented to the Board at EB 91 (September 2016).

---

<sup>9</sup> The situations that would require on-site inspection at subsequent verifications may include, for example, cases where the project activity is implemented in phases.

<sup>10</sup> Decision 6/CMP.11, paragraph 18.

## **6. Recommendations to the Board**

49. The secretariat recommends that the Board agree on the revised proposals for simplification and streamlining of the CDM presented in section 3 above and request the secretariat to reflect them in the relevant CDM regulatory documents.

## Appendix 1. Extracts of requirements in methodology ACM0002

1. Paragraphs 64 to 69 of baseline and monitoring methodology ACM0002 provide for the following requirements:

*“5.9. Project activity under a programme of activities*

64. *In addition to the requirements set out in the latest approved version of the “Standard for demonstration of additionality, development of eligibility criteria and application of multiple methodologies for programme of activities”, the following shall be applied for the use of this methodology in a project activity under a programme of activities (PoAs).*

65. *The PoA may consist of one or several types of CPAs. CPAs are regarded to be of the same type if they are similar with regard to the demonstration of additionality, emission reduction calculations and monitoring. The coordinating/managing entity (CME) shall describe in the CDM-PoA-DD for each type of CPAs separately:*

66. *Eligibility criteria for CPA inclusion used for each type of CPAs. In case of combinations of renewable technologies in one CPA, the eligibility criteria shall be defined for each technology separately;*

*(a) Emission reduction calculations for each type of CPAs;*

*(b) Monitoring provisions for each type of CPAs.*

67. *The CME shall describe transparently and justify in the CDM-PoA-DD which CPAs are regarded to be of the same type. **CPAs shall not be regarded to be of the same type if one of the following conditions is different:***

***(a) The project activity with regard to any of the following aspects:***

*(i) Renewable energy power generation technology;*

*a. Hydro-power plant/unit;*

*i. Hydropower plant/unit with reservoir;*

*ii. Hydropower plant/unit without reservoir;*

*b. Wind power plant/unit;*

*c. Geothermal power plant/unit;*

*d. Solar power plant/unit;*

*i. Photovoltaic;*

*ii. Heat concentration;*

*e. Wave power plant/unit;*

- f. Tidal power plant/unit;*
- g. Combination of any of the above;*

*(ii) Project activity type:*

- a. Greenfield;*
- b. Capacity addition;*
- c. Retrofit of existing operating plant/unit;*
- d. Rehabilitation of existing plant/unit;*
- e. Replacement of existing plant/unit;*

**(b) The legal and regulatory framework;**

- (i) Legal regulations;*
- (ii) Promotional policies.*

68. *When defining eligibility criteria for CPA inclusion for a distinct type of CPAs, the CME shall consider relevant technical and economic parameters, such as:*

- (a) Technical and economic parameters that are technology specific (e.g. ranges of load factors, sizes of installation, wind speed);*
- (b) Parameters reflecting the investment climate:*
  - (iii) Subsidies or other financial flows;*
  - (iv) Tariffs;*
  - (v) Depreciation;*
  - (vi) Power purchase agreements;*
  - (vii) Other parameters determining market circumstances;*
- (c) Ranges of costs (capital investment, operating and maintenance costs, etc.) and revenues (income from electricity sale, subsidies/fiscal incentives, official development assistance (ODA)).*

69. *When Option (ii) in the latest approved version of the “Standard for demonstration of additionality, development of eligibility criteria and application of multiple methodologies for programmes of activities” is applied, that is related to defining technical and economic criteria as ranges of values for each input parameter required for the inclusion of the CPA in the PoA-DD, the eligibility criteria related to costs, revenues and investment climate shall be updated every two years in order to correctly reflect the technical and market circumstances of a CPA implementation.”*

## Appendix 2. Input from stakeholders on the preparation of generic CPAs

1. The Project Developer Forum provided the following input in response to the call for input on simplification and streamlining of the CDM (26 February to 26 March 2015):

*“In the case of PoAs, the current applicable rules require that where more than one technology/measure or more than one methodology is applied, a generic CPA-DD shall be completed for each technology/measure, each methodology and each combination thereof.*

*.....*

*As a consequence of the applicable rules, if PPs desire to develop a PoA for grid-connected electricity generation from renewable sources, using the methodology ACM0002 for example, making use of all technologies (hydro, wind, solar, geothermal, tidal, wave) and applying for all types of project activities such as greenfield, capacity addition, retrofit, rehabilitation or replacement, then PPs will have to create at least 30 different generic CPAs or even more, depending on the objectives of the PoA besides the legal and regulatory framework, which will result in a PoA-DD with a unreasonably large amount of pages. This would directly reflect in additional costs for PPs due to the additional time spent for the creation/elaboration of the PoA and dozens of generic CPAs and for DOEs and UNFCCC for their additional time spent assessing all these documents and generic CPAs.*

*It is not reasonable or acceptable to have to create so many “generic CPAs” just in order to change the content of a few sections and/or paragraphs and keep all remaining text unaltered over and over again among generic CPAs.*

*The methodology ACM0002 was used just as an example, but this approach is not effective, not efficient and unnecessary.”*

2. The proposed changes are as follows:

*“It is recommended to revise the referred documents and related paragraphs in order to allow PPs to have the option to merge, group and/or simplify generic CPAs according to methodologies limitations or applicability restrictions, resulting in one single generic CPA containing all possible combinations, at least as long as it refers to the same methodology.*

*In the case of the methodology ACM0002 (version 16.0), which was used just as an example, the referred methodology already clearly describes which are the applicability conditions, baseline scenarios, formulas and equations to be used for determining baseline emissions, project emissions, leakages and emission reductions for each specific case, as well as it defines which and how all parameters need to be fixed ex-ante at validation and monitored ex-post during the verification, among other particularities.*

*Therefore, it is reasonable and it makes sense to revise, simplify and waive such restrictions originated by the current applicable rules for generic CPAs.*



*Hence, in order to reduce costs and enhance on efficiency for PoAs, we propose the possibility to use one single generic CPA per methodology.”*

3. A study titled “Increasing credit issuance by improving the monitoring, reporting and verification procedures and issuance rules of the CDM” conducted by the World Bank also provided the following recommendation:

*“Allow for one single generic CPA: For PoAs, it is recommended to revise the referred documents and related paragraphs in order to allow project participants to have the option to merge, group and/or simplify generic CPAs according to methodologies limitations or applicability restrictions, resulting in one single generic CPA containing all possible combinations, at least as long as it refers to the same methodology.”*

*“Ability to use one single generic CPA per methodology in a PoA: project participants are allowed to merge, group and/or simplify CPAs, resulting in one single generic CPA containing all possible methodological options, as long as it refers to the same methodology. In the case of the methodology ACM0002 (version 16.0), the referred methodology already clearly describes the applicability conditions, baseline scenarios, formulas and equations to be used for determining baseline emissions, project emissions, leakages and emission reductions for each specific case, as well as defining those parameters that need to be fixed ex-ante at validation and monitored ex-post during the verification, among other particularities. Therefore, it is reasonable to revise, simplify and waive such restrictions originated by the current applicable rules for generic CPAs. Hence, in order to reduce costs and enhance on efficiency for PoAs, the possibility to use one single generic CPA per methodology should be established.”*

## Appendix 3. Inputs from DOEs on the necessity of on-site inspection

1. The secretariat opened a call for input to all designated operational entities (DOEs) from 24 March to 7 April 2016, requesting them to answer to the following questions:
  - (a) What is the level (percentage) of cost and time reduction if an on-site inspection is omitted?;
  - (b) For what project types or circumstances an on-site inspection may be exempted or should be made mandatory considering the balance between the integrity of the CDM process and cost and time implications?;
  - (c) What would be an issue or benefit if the decision on the necessity of an on-site inspection is left to the professional judgment of the DOE?;
  - (d) What alternative measures can replace the need for a physical on-site inspection?;
  - (e) Any other views on this proposal.
2. Four DOEs provided the following inputs in response to the call.

<b>(a) What is the level (percentage) of cost and time reduction if an on-site inspection is omitted?</b>
<p><b>DOE A:</b> Around 10% in validation and 20% in verification, but time reduction depends much more on the PP responses considering the number of answers required by DOE and the quality of the responses given by PPs.</p> <p><b>DOE B:</b> The site visit associated costs are covered by the client and it depends on the site location, accommodation etc. In general, the duration of the site visits are 1-2 days in the projects. In case of PoAs, it may increase to 3-5 days depending on the scope and coverage of the PoA. Therefore, it doesn't have significant impact neither on cost nor on timeline.</p> <p><b>DOE C:</b> A site visit typically is conducted over a 4-5 day period. 2 days are spent in travel as the sites are often at remote locations and involve road/railway travel from the nearest accessible airport. 2-3 days at the site are exclusively devoted to the CDM visit and agenda. Also, the validation team may comprise of more than one member or a technical specialist, so the site visit duration is 8 to 10 man days, on an average. As the total workload for validation/verification is expected to consume about 20 man days, the site visit portion, it would seem, is roughly 40% of the total time. The time saving by omitting the site visit is therefore to that extent (40%) in our opinion.</p> <p>As far as cost is concerned the point of significance is that while validation /verification fees have come down drastically in the last 2 years, costs of undertaking the site visit such as air tickets, hotel accommodation, local conveyance, food, communication costs (mobile/telephone) have at best remained the same and in most cases have increased due to the effects of</p>

inflation. These costs cannot be absorbed and have to be quoted as extra in the DOE's commercial offer to the client. Prevailing market conditions, particularly the pricing of CERs are a disincentive to the client to even consider undertaking validation or verification of their project activities. With these extra costs added, the validation or verification proves to be completely unviable to the Project Participant.

If the site visit can be avoided, the saving in travel and associated costs would be substantial. Our estimate is that it would make the DOE's fee proposal lighter by at least 25% of the total proposal value. This is only the saving from avoided travel and hotel stay and other expenses. The saving in personnel cost (due to reduction in the man days and the resulting opportunity cost of their deployment in other activities) is not included in this saving. In the event a site visit is omitted, the DOE would perhaps be able to pass on some of this benefit to the client. This could create incentives for the client to undertake the validation/verification in the first place.

**DOE D:** Should site visits not be required for the proposed cases, it is assumed that it can be saved around 15% to 20% regarding total cost in terms of direct and indirect expenses (i.e travel lodge and accommodations, as well time related to on-site inspections, 2-3 working days).

Without any doubt, this new scenario will aim not only big project developers but also small ones to trust in continuous CDM project performance world widely, especially within more vulnerable regions where it is always more difficult to develop, monitor and maintain a project activity.

Furthermore, local competitive environment would be relaxed due to the fact that every DOE of every part of the world could be proposed for a CDM project performance, always fulfilling with UNFCCC technical competence criteria, trustworthy and professionalism.

It is a prerequisite for our DOE to acquire projects world widely will help to promote our current portfolio and without any doubt, this scenario will undoubtedly help us to achieve this goal.

**(b) For what project types or circumstances an on-site inspection may be exempted or should be made mandatory considering the balance between the integrity of the CDM process and cost and time implications?**

**DOE A:** In our opinion, the on-site inspection would only may be exempted in the case of validations and when the information or data can be validated with alternative ways such as telephone interviews (or other electronic communication) or confirmation of data through official websites. The type of alternative ways should be clearly stated in the CDM rules for consistency in the operation of different DOEs.

In the case of verification inspection, it is very difficult to verify some information if there is not an on-site assessment: for example the information related to local stakeholders, for which there is no alternative ways to the personal interviews (in many cases it is not possible to contact by phone such as people living in rural areas).

**DOE B:** We believe that site visits are important in both validations and verifications.

Therefore, it should be mandatory as now. We don't see any reason to have a change with this requirement.

**DOE C:** We are of the opinion that a site visit does add value to the validation of project activities that use a historical baseline. Typically these include project activities in manufacturing plants. Waste heat recovery, energy efficiency, waste management, N<sub>2</sub>O reduction, etc. as well as other such project activities are some examples of a site visit being able to provide useful insight into the baseline practices and may act as means of validating the PP's baseline claims. Indeed, for such project activities, there could even be a case for making the site visit a mandatory part of the validation process. For most other project activities in the renewable energy sector such as wind/solar or hydro, a site visit at the validation stage would add little, if any value at all as the baseline in these project activities is almost always the electricity generation in the grid. There are also project activities at greenfield sites (large scale power plants for example) where even basic construction work is yet to commence and activities have not gone much beyond land acquisition. A visit to such a site would hardly serve any useful purpose.

When it comes to verifying the reduction of emissions by a project activity however, we are of the opinion that an on-site visit is necessary and should not be dispensed with. But the necessity of conducting this visit should be left to the discretionary authority of the DOE. One of the requirements of verification is to also verify if the project activity has been implemented and run according to its design in the registered PDD. In most cases, this can be done only through a physical eyewitness tour of the site. In the interests of ensuring the integrity of the CDM a site visit would be required for such verifications. In other cases however, the verifying DOE should be permitted to take a call on the necessity of conducting the visit.

Needless to say, if conducting the site visit is rationalised in the above manner, there will be savings in time and cost as well.

**DOE D:** The Importance of site visit mainly depends on the following factors:

a. Project type:

Greenfield/Newly Implemented projects: Solar, Wind, Hydro, Biomass, biogas and landfill projects are simple project type ; for which validation site visit can be not required, so that first verification of all kind of project shall require site visit as it associated with Verification plan (which is documented in PDD) vs Actual monitoring practices (monitored /handling / transferring data). Once, any DOE has done first verification and already issued first CERs from UNFCCC, then from next verification onwards, it is assumed that the site visit is not necessary and only confirmation from the PP through some declaration or actual site current photograph/evidences can be suffix the requirement. Then, the cost of periodic verification can be reduced.

For retro-active project, the validation site visit is required to understand the appropriateness of baseline which is the main factor for calculation of emission reduction, and if it is correctly validated by validating DOE and the project is registered successfully, then during verification of such project may not be require any site visit. On the other hand, these exceptions should not

be granted in two following periods of verification, which means that for third verification, on-site inspections shall be required.

b. Location of project:

The major problem with simple projects (Solar, Wind, Hydro and Biomass projects) is interior locations where all kind of connectivity is very bad and other side travelling expenses is high as there are some places no train or air travel possible, the travel by CAR/TEXI is only the way which consuming much time and hectic. The costing of such location is higher and this will directly impact on contract prices and customer interest. Some place of India is very dangerous as even some time we need to take local person with us and some place requires government approval. These all directly/indirectly proportional to cost and time.

c. For the cases of CPAs, where the PPs are able to demonstrate feasibility where the activities are within remote locations or have the same conditions of other CPA or there are a real critical political conditions that prevent the visit in a reliable time.

Last but not least, for any case, PPs shall provide reliable evidence for which the DOE shall check that the project activity implementation are clear and under PDD conditions. These exceptions should not be granted in two following periods, which means that a DOE shall check the project circumstances once in a specific time (two or three years).

**(c) What would be an issue or benefit if the decision on the necessity of an on-site inspection is left to the professional judgment of the DOE?**

**DOE A:** If this is the case, there will always be DOEs performing validation or verification without on-site inspection and other DOEs offering services including on-site assessment will be relegated to a second position or never contracted. So that would lead to a situation where on-site assessment would never be performed.

From our point of view, DOEs need clear rules and criteria to specify in what cases this is allowed or not.

**DOE B:** There should be specific rule regarding the site visits since there may be different interpretations by different DOEs and team members. Therefore, there should be clear rule on that as we have now.

**DOE C:** The benefits from such a move would outweigh any issues. It is possible that a DOE, taking recourse to the “non-mandatory” provision for site visits might err in its judgment and opt to avoid a physical visit. This could potentially impact its ability to deliver quality verification services. But the DOE’s internal technical review mechanism is already there to take care of such a possibility. In the worst case scenario, the robust completeness and information & reporting check filter at the UNFCCC will ensure that there is no compromise by the DOE on the quality requirements of the CDM verification requirements.

However, the resulting benefits through time and cost savings (through avoiding the site visit) would benefit the client and incentivize more CDM

validations/verifications that will ultimately benefit the CDM.

**DOE D:** Since, CDM age is completing almost 15 years and there is enough data to analysis and decision taking based on standard analysis/prediction for risk of issuance of CERs as excess amount and this can be mitigate such calculation factor or cap analysis, which make decision/judgment easy to DOE.

As UNFCCC already provide some default values which are already used in Project Additionality and Emissions reduction calculation. Also, if the client can provide such evidence that confirm the project technology and location and local reports which confirm issue about local stakeholder positive confirmation and even through telephonic/video conference/interview with concern person; the DOE can confirm the requirements.

**(d) What alternative measures can replace the need for a physical on-site inspection?**

**DOE A:** If this option is allowed for DOEs, a revision of legal issues regarding their responsibilities would be necessary. The “type” of validation or verification opinions from DOEs would be different considering that the inputs for the val/ver process are different whether on-site assessment is done or not. So a kind of disclaimer should be put in place when the information that is taken to give an opinion does not include verification of data on-site.

**DOE B:** Please see our response to the 2nd question. Since the site visits don't have much impact with regards to both cost and timeframe in both validations/verifications, the requirement should be kept as we have now.

**DOE C:** We believe that the verification of stakeholder consultation being held (applicable to validation only), one of the agenda points on the DOE's validation plan, could be conducted by means of telephonic /video interviews with the concerned stakeholders and no physical on-site inspection exclusively for the same is necessary. A prearranged tele-conference can be held remotely with selected stakeholders and will just as suffice to meet the intent.

**DOE D:** Some alternative for site visits should be:

- Actual Site (including meters) Photographs/Videos/online cameras
- Documents scans copies
- Layout through Google / Website. Stakeholder telephonic interview / video conference/ records

Most of these techniques are already applied, additionally to on-site inspection, within our currently practices during global audit as we are collecting much more information during site visit.

In addition, some virtual or on-line inspection could be partial useful, in terms of operation or final users opinions in the case of households project activities.

**(e) Any other views on this proposal**

**DOE A:** [No comment provided.]

**DOE B:** There hasn't been any further views.

**DOE C:** We notice that the on-site visit conducted for verification of emission reductions by a project activity is carried out at a date that is past the monitoring period under verification. Essentially, the DOE is verifying the project activity set-up and monitoring arrangements for the monitoring period but this is being done at a time when the monitoring period is already past.

Consider, for example a project activity being verified for the monitoring period 1st Jan 2015 to 31st Dec 2015. The verification activity (and the site visit) is taking place sometime during 2016. The DOE, though present at the site, is not witness to the actual physical arrangements that were in place during 2015 and can verify those arrangements only through indirect means such as inspection of relevant records and by its own deductive reasoning to ensure that the same have not undergone any changes that attract the application of the Appendix 1 of Project Standard.

Any site visit therefore, is fraught with the limitation that the verification is not being done during the actual period of monitoring but relies instead on evidences of past actions or conditions. A decision whether or not to enforce a site visit, for a project activity validation and/or verification needs to be made in the context of this limitation.

In summary, we have the following opinion on the subject:

1. Site visits for validation and verification may or may not be necessary; therefore whether or not to conduct the visit should be left to the professional judgement or discretion of the DOE.
2. The existing review mechanisms both within the DOE and at the UNFCCC level do provide adequate assurance that issues arising out of error in judgement by the DOE will get detected and so do not impact the integrity of the CDM.
3. DOEs would be in a position to decide in favour of exempting a site visit based on
  - Materiality considerations for which a threshold could be defined
  - Stage of implementation of a project activity (i.e. whether the activity is at an initial stage, under implementation or is already implemented and operational)
4. DOEs could employ alternate means to replace the need for a physical visit. These could include but not limited to remote audits, tele/video conferencing, video interviews, etc.

**DOE D:** Exceptions and options shall be carefully reviewed in order to prevent the lack of credibility. The most strongest value of CDM is the credibility and reliability on whole process. This is why exceptional cases are needed to be carefully evaluated, defined and supported. In this way, UNFCCC, PP's and DOE have an indispensable role, based on clear definition of scope, technical parameters

and other criteria, as well as cooperation and transparency.

The overall view is that site visit inspection shall be required where there is high risk of change of project design, i.e. due to very low implementation by project owner.

For cases of wind, hydro and solar it is not possible to change the design easily, although for biomass projects, site visit shall be required, at least first verification, given that situation/layout (inlet-outlet of steam/electricity/biomass) is needed to be confirmed. Same case shall be applied for biogas/ methane recovery based projects.

Once, it is confirmed by any DOE then there is also not require to visit at project site, if client is provide sufficient evidences to verify the situation.

The effectiveness into the CDM project cycle (i.e. time revision, approval process, rejection process, etc) or other issues could generate the same or better effects.

- - - - -

### Document information

<i>Version</i>	<i>Date</i>	<i>Description</i>
01.0	25 April 2016	Initial publication as an annex to the annotated agenda of EB 89.
Decision Class: Regulatory		
Document Type: Information note		
Business Function: Issuance, Registration		
Keywords: component project activity, management of official documentation, on-site assessment, streamline		