

# CDM Project Validation in Practice

## – based on an example of real project

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### *CDM Project Validation Cycle*

Most of the activities in the CDM Project Validation Cycle are the same as those for any other investment project. However, there are unique steps to generate emission credits such as baseline setting and on-site interview. This section will explain the entities/organizations involved with these steps and also timeline of a CDM Project Cycle.

Entities/organizations involved in validation:

Project Participants: *are Parties to the Kyoto Protocol or a private and/or public entity authorized by a Party to participate in CDM projects under the Party's responsibility. The decision on the distribution of CERs from a CDM project activity shall exclusively be taken by project participants.* To be brief, Project Participants include: the Project Owner and the CER Buyer.

CDM Consultancy: Mainly assist Project Owner to conduct the CDM related services. Their work may include: identifying potential CDM projects, preparing the Project Idea Notes (PIN), screening CERs buyers and analyzing quotations, assist in negotiation with CERs buyer and facilitating ERPA (Emissions Reduction Purchase Agreement) signing, developing PDD or new methodology if necessary, Applying LoAs from the DNA, coordinating with DOE for validation, assisting registration procedure, preparing Monitoring Report and coordinating with verification/certification to secure CERs and carbon income.

DNA: Designated National Authorities: *To participate in CDM, a host country must establish a Designated National Authority, which will have the responsibility to decide whether the project activity makes a contribution to achieving the country's sustainable development goal and whether the country agrees to participate in the project. The DNA issues the Letter of Approval (LoA) needed for registration of a*

project. A project will need both a host country approval and an approval from Annex I country DNA that the Buyer has selected.

DOE: Designated Operational Entities: A domestic legal entity or an international organization accredited and designated by the CDM EB. The DOE validates and requests registration of a proposed CDM projects activity as well as verifies emission reductions of a registered CDM project activity. These operational entities will typically be private companies such as auditing and accounting firms, consulting companies and law firms capable of conducting credible and independent assessment of emission reductions. If validated, the operational entities will forward it to the Executive Board for formal registration.

EB: the Executive Board: The EB accredits independent organizations-known as operational entities-that validate proposed CDM projects, verify the resulting emission reductions, and certify those emission reductions as CERs. The EB approves new CDM methodologies submitted by stakeholders. Another key task of the EB is the maintenance of a CDM registry, which will issue new CERs, manage an account for CERs levied for adaptation and administration expenses, and maintain a CER account for each non-Annex I Party hosting a CDM project.

CDM Project Validation Cycle includes:

The Clean Development Mechanism defines a series of steps necessary to conduct the validation process, which has been illustrated on below chart. Each step is presented in detail on *Steps of Implementation*.



## ***Timeline of a CDM Project Validation Cycle***

Usually, it may take more than six months to complete the CDM project validation cycle (as described on the chart below). The process of PDD preparation will take two weeks which depends on the documents provided by the project owner. Then the PDD will submit to UNFCCC web site by selected DOE to conduct Global Stakeholder Process (GSP), which will take 30 days regulated by EB. After the GSP process finished, DOE will conduct an onsite validation. The Draft Validation Report (DVR) will be issued by DOE about 2 weeks after the onsite validation, and the Final Validation Report (FVR) will be issued by DOE about 20 weeks after the DVR issued. After confirmed by project participants, the FVR will submit to UNFCCC by DOE.



## ***Steps of Implementation***

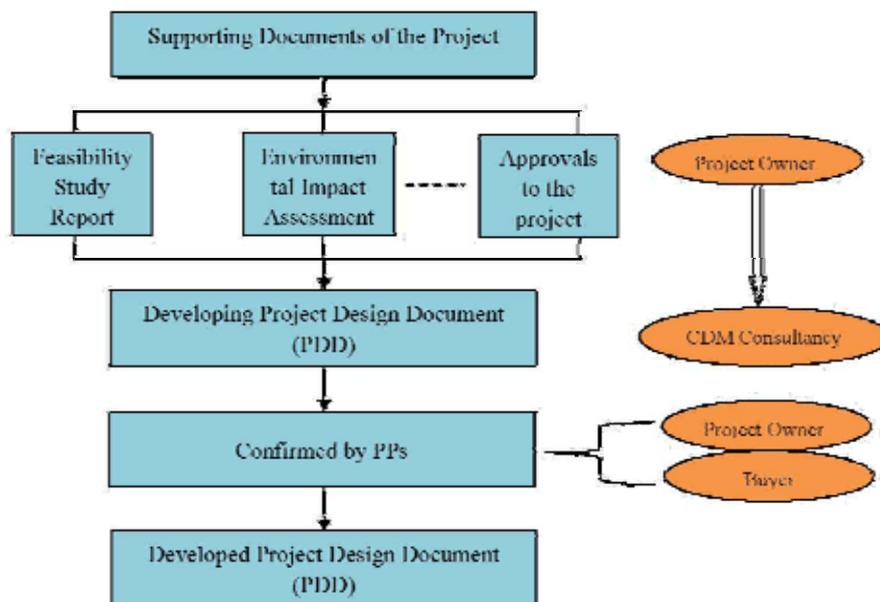
To be specifically, we divide the CDM project validation cycle into six steps, and the introduction will start from background information.

### **Background**

This Biomass Cogeneration project is a biomass utilization project that is to use local straw from wheat, maize and cotton for electricity generation and district heating. The project involves the installation of one biomass combustion boiler and one power generator driven by steam turbine.

### **Step 1: PDD Preparation**

In order to get a CDM project approved and registered by the Executive Board, the project participants must prepare a PDD following the detailed outline shown on the CDM website of the UNFCCC Secretariat. The standard PDD format is available at [www.unfccc.int/cdm](http://www.unfccc.int/cdm). The PDD will have a critical influence on all the steps. A careful and complete design and formulation of the PDD will give a higher chance of the eventual success of the whole project.



During the PDD preparation period, several key issues should be noticed:

- 1) The project is a Large-scale or Small-scale?
- 2) Does the right methodology be adopted?
- 3) Have the Prior Consideration of the CDM been notified to EB?

## Step 2: Global Stakeholder Process -GSP

The DOEs accredited by the EB are listed on the UNFCCC website. Project owner should choose a DOE that will then review the PDD and all sorts of involved documents to confirm. The DOE will be selected based on their **Experience, Cost, Work Efficiency** and **Familiarity to local regulations**.

Then, the PDD will be made publicly available, and comments have been invited from local stakeholders for a period of 30 days, a summary of the comments provided with a report on how due account was taken of any comments. Before the uploading, the Project and Entity Name should be confirmed.

### **Step 3: Onsite Validation**

The DOE conducted Onsite validation on three days.

➤ Main task of Day I is Documents Review. The agenda is listed below:

- 1) Open meeting with project participant and consultant
- 2) General description of project design, boundary by PP
- 3) Choice and applicability of baseline methodology
- 4) Documents Review by DOE

➤ Main task of Day II is Background Investigation. The agenda is listed below:

- 1) Background investigation by DOE
- 2) Detailed description of project technology by PPs
- 3) Description of PPs involved in CDM project activity
- 4) Project site visit

➤ Main task of Day III is Interview with stakeholders. The agenda is listed below:

- 1) Interview with local stakeholders about the project's environmental impact
- 2) Interview with local administration about validity of the project
- 3) Submission of the audit findings to PPs and consultant
- 4) Close Meeting

### **Step 4: Draft Validation Report**

The Draft validation report will be issued by DOE two weeks after the onsite validation. Based on the findings during onsite validation process, "Corrective Action Request (CAR)" or "Clarification Request (CL)" raised about the issues related to the project's baseline, implementation or operations that need to be further elaborated, researched or added to meet CDM or host Party requirements and achieve credible emission reductions.

During the period of resolution about CARs/CLs, and completion of PDD, key issues should be noticed by PP and consultant:

- **CAR:** PDD should be complied in **logic**; the information in it should be in **consistency**.

Reply: The **same** arguments and assumptions were used within each section and between sections of the PDD.

- **CAR:** Compliance with local **legal requirements** should be covered sufficiently.

Reply: The relevant legal requirements in the host country had been stated in PDD, and evidences that the project compliance with had been provided to DOE

- **CAR: Baseline/Project activity information** should be sufficiently supported by evidence and/or referenced sufficiently

Reply: i) substantiated all claims and assumptions presented in the PDD with references to recognized information sources;

ii) Discuss sources and assumptions in a transparent way.

- **CAR: Letter of approval delayed.**

Reply: PDD submitted for validation was not accompanied by the Letter of Approval (LoA) from relevant DNA, because the application process started later than the validation.

\*It would be a better way that applying LoA at early stage as this often takes time.

- **CAR:** Project **boundary** should be defined clearly

Reply: Visualization of project and the system boundary was included in PDD. The approved methodologies had been followed in detail to ensure that all sources of direct and indirect, on-site or off-site emissions are included as required.

- **CAR:** Project/Entity name **changed** after notifying EB the prior consideration information.

Reply: An email about this situation was sent to EB CDM team. Based on the answer, the PDD should be updated accordingly, two project/ entity titles should be indicated

- **CL: Input parameters** in financial analysis need to be justified.

Reply: The input parameters were proved to be accurate, suitable, reliable, creditable and conservative by reference method of analysis. The Feasibility Study Report, approvals, legal regulations and actual signed contracts which could crosscheck these values were provided to DOE.

- **CL:** The data sources used for **common practice** analysis should be specified.

Reply: The data sources of common practice analysis are public, official and recent data, which were sourced from national and sector statistic report, or the information published on web-site. All the reference had been substantiated in PDD.

- **CL:** Demonstrate when the stakeholders consulted and justify how the questionnaires distributed.

Reply: Relevant legal requirements of which stakeholders to contact and by what means had been stated in PDD. Before the questionnaires distributed and stakeholder meeting held, a notification was posted to advertise the date and location of the interview and meeting. Moreover, local broadcast was also adopted to publicize the information. Summary of the stakeholder comments and a summary of how these comments have been taken into account.

- **CL: Plant load factor** of the project should be clarified.

Reply: According to the guidance in EB48 Annex 11, the data should be reliable and accurate (i.e. from qualified third party). The reference and calculation method was clearly stated in PDD.

- **CL: Starting date** of the project should be clarified.

Reply: Starting date decided as per the definition in the Glossary of CDM terms “The starting date of a CDM project activity is the earliest date at which either the implementation or construction or real action of a project activity begins.”

After several rounds of reply between PP/consultant and DOE, the CARs/CLs and updated PDD accepted by validator. Then, these two reports (DVR, PDD) and supporting evidences submitted to Technical Reviewer (TR) of the DOE.

During the process of Technical Review, further questions about the project raised. A reply-check-resubmit procedure followed. It will cost a few weeks.

### **Step 5: Final Validation Report**

In this final phase, all the CARs/CLs were closed, and the updated PDD was accepted by DOE. TR issued the final validation report. The validation report and opinion to the project had been submitted to the client for review. Project participants and consultant checked the consistency of information between FVR and PDD, and raised opinions to the FVR.

## **Step 6: Submission**

When submitting the document package to UNFCCC, the project participants confirmed the documents can be made public. If documents must keep confidential, a notification should be sent to DOE. Before submitting, a completeness check had been conducted by DOE according to Completeness Check checklist (Version 2.0) issued by EB.

## ***Experience in Validation***

Project participants and project operators should be well trained about CDM knowledge, and familiar with the procedure and requirement. And validation materials and related evidences should be well prepared before the onsite process, which have to keep in consistency with the statements in PDD.

DOE should be well cooperated, the questions rose by who need to be replied actively and promptly.

Additionality of the project is a core issue in CDM, which should be sufficiently expounded. Project participants and consultant must follow the requirements in Tool for demonstration and assessment of additionality where the concepts of baseline scenario and additionality are described in detail. Arguments to justify the additionality of the project need to be supported by evidence and/or reference.

Detailed minutes of stakeholder meeting and records of any local stakeholder processes need to be well kept, which will be justified by DOE at a later stage.

When submitting the project to UNFCCC, the consistency between different documents must be checked, i.e. project/entity name, document version, dates of actions, etc.