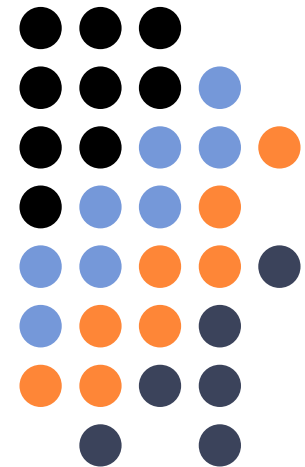


Stepwise Consideration of CDM

23 July, 2010
JICA Expert Team





Content & Objectives

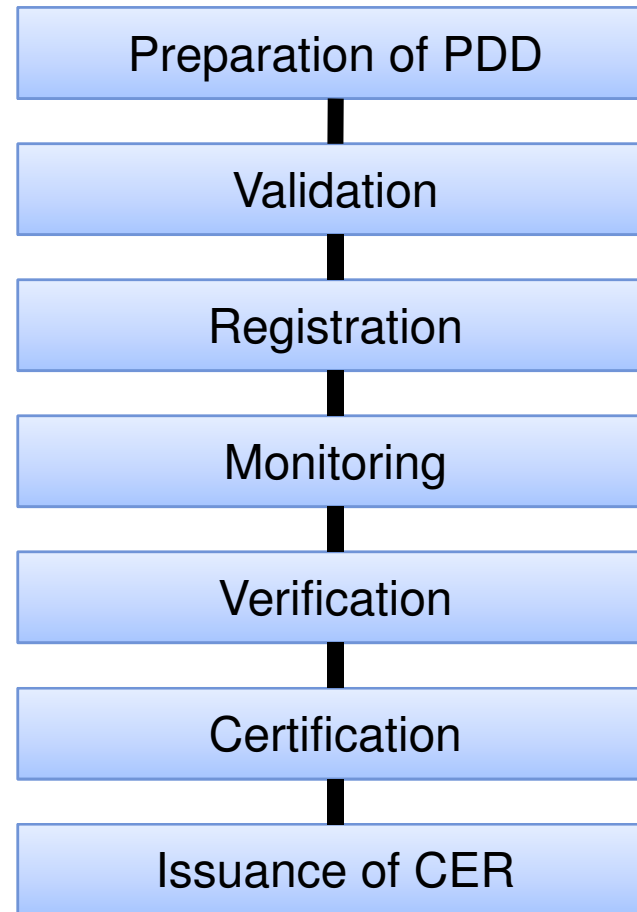
- Understand procedures to develop CDM project
- Explain & highlight purposes of each steps
- Understand roles and responsibilities of parties involved in CDM processes and how to deal with these parties

References

- UNFCCC Modalities and Procedures (Annex to Decision 17/CP.7)
- UNFCCC's: <http://unfccc.int/2860.php/>
- CD4CDM (UNEP/ReSo Center): <http://cd4cdm.org> (Contains CDM/JI Database)
- IGES: <http://www.iges.or.jp/> (Contains CDM/JI in Chart)



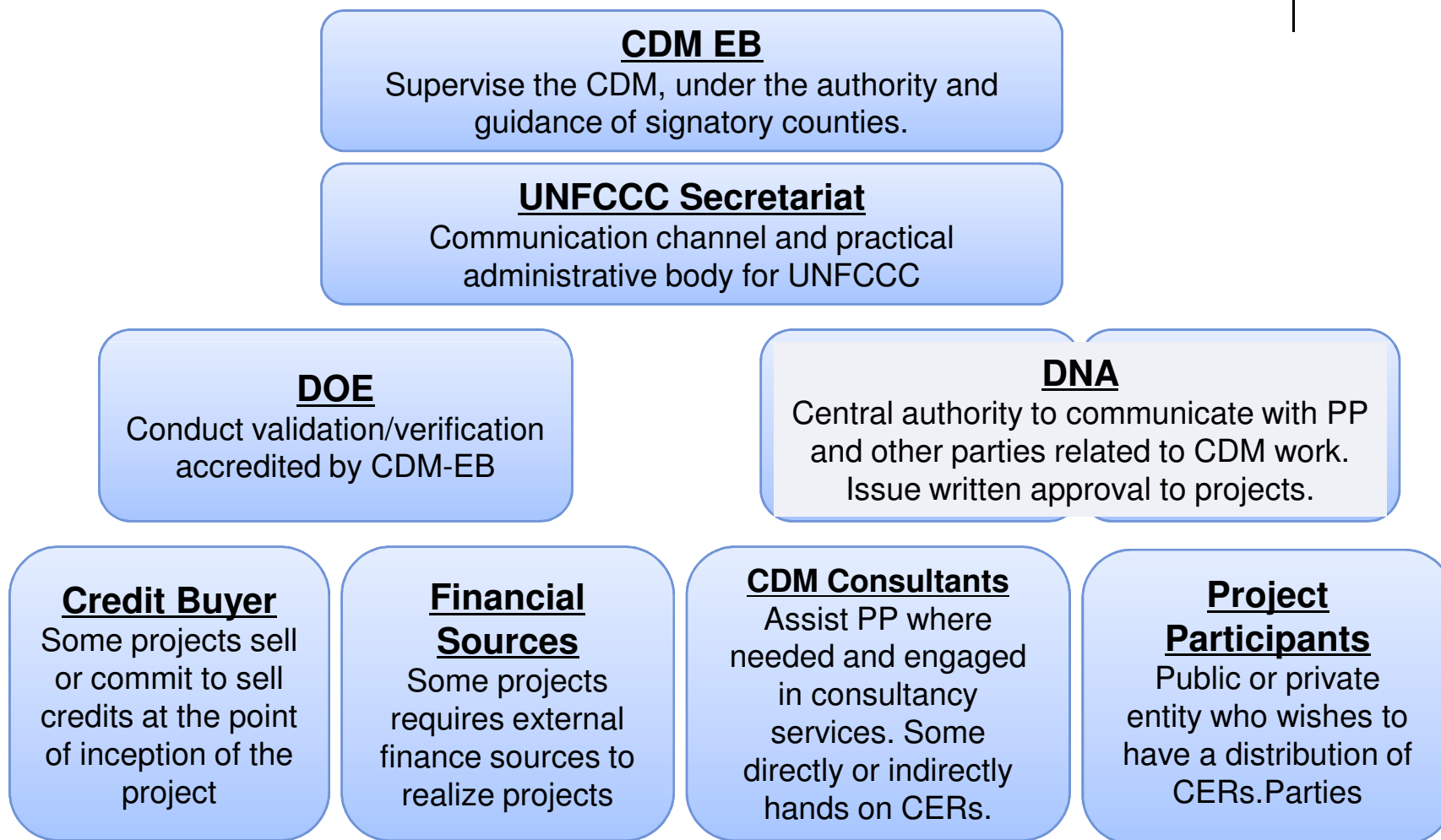
1.1 CDM Project Cycle



Excerpt from lecture of June 24 by Ms. Kawamura.

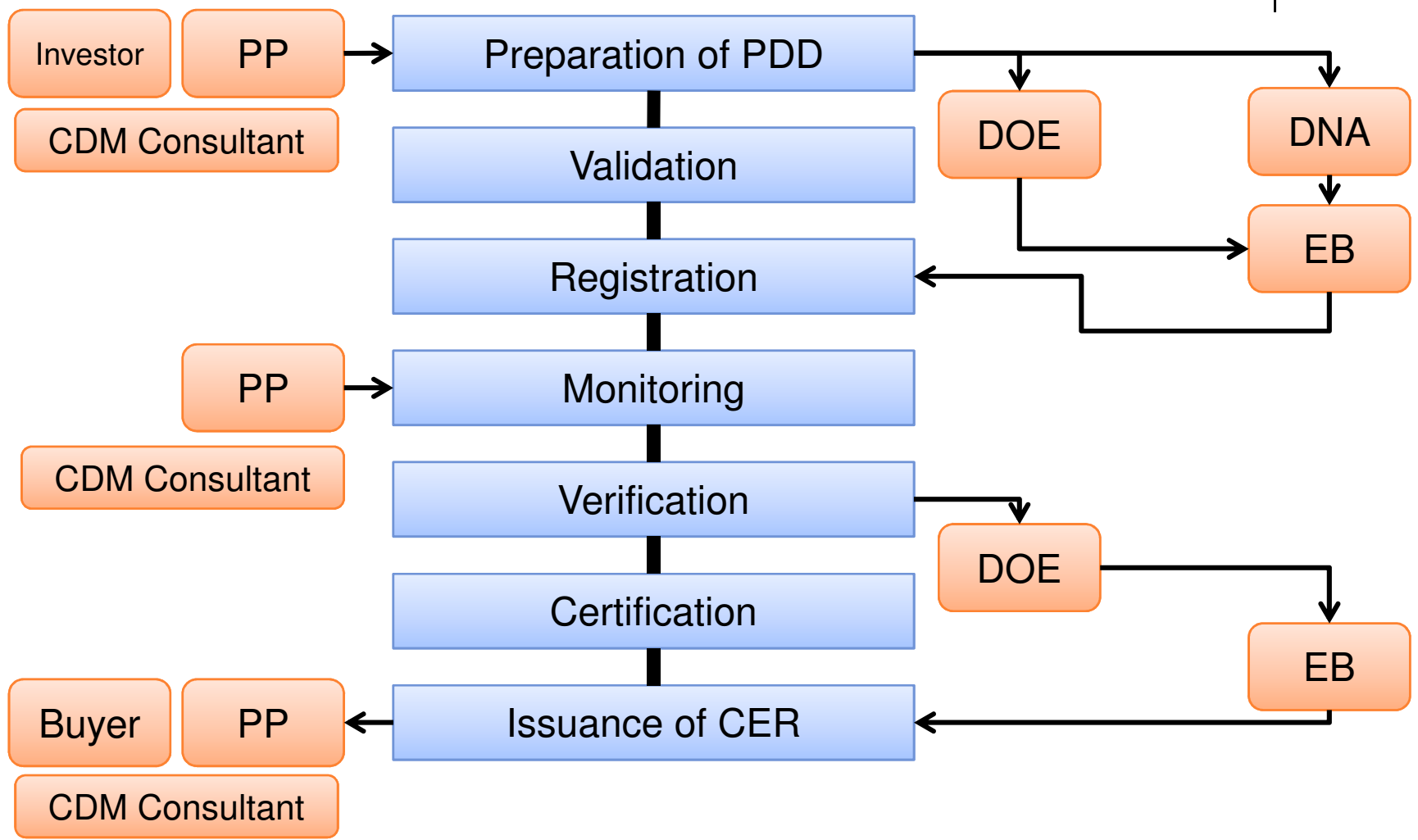


1.2 Parties Involved in the Process





1.3 CDM Project Cycle



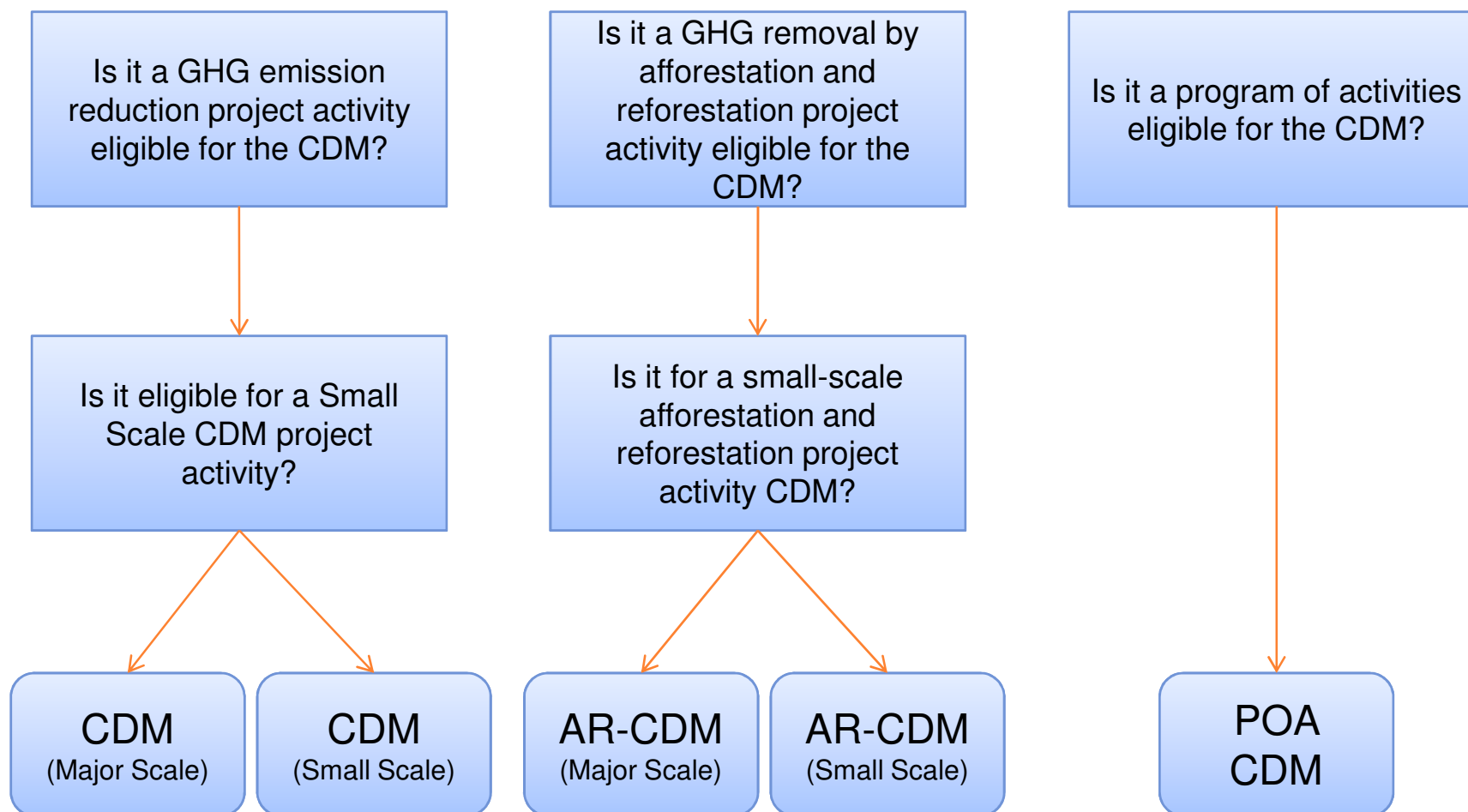


2. Project Inception

1. Appraise CDM Eligibility
 - a. Typology of CDM
 - b. Methodology applicability
 - c. Project's Additionality
2. Assess Project's Feasibility
3. Assure CDM Consideration Record



2.1 Project Inception





2.2 Project Inception

1. Applicability of Methodology

- Look up database and see if there are any precedent project you should refer.
- Examine Applicability Section of employed methodology.
- New Methodology Development is not recommended.
- Make sure the methodology is the latest.

2. Project Feasibility

- Regardless project's CER revenue, the project should be financially attractive for the sake of project participants.

Look up Databases

➔ UNFCCC

➔ CD4CDM

| Cash In | Cash Out |
|----------------------|-------------------|
| Energy Saving | Procurement Cost |
| Sales of Electricity | O&M |
| Sales of Steam | Fuel Cost |
| Tipping Fee | Labor Cost |
| ... | Consulting Fee |
| CER Revenue | ... |
| | Validation Cost |
| | Registration Cost |
| | Verification Cost |
| | Commission |

No CER 5% ↓

↓ With CER 10%



Industrial benchmark 8% ↑



2.3 Project Inception

Project Starting Date

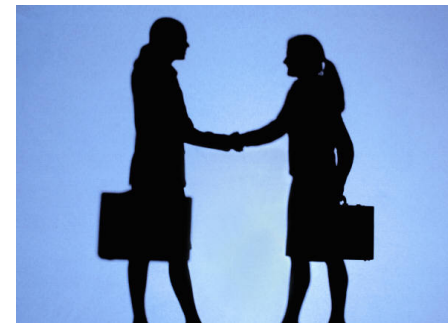
The project's starting date should be recorded to prove project's additionality.

The start 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"

- () contracts for equipment of construction/operation services required for the project activity
- () contracts of services/ payment of fees for FS

PDD should describe above date and explain how that date has been determined.

Reference: EB41 Report Para.57, EB49 Annex 22



2.4 Project Inception



1. Examine applicability of methodology and modify project rather than try to develop new methodology.
2. A project has been in place? No chance for CDM....
3. Make it financially viable, regardless CER revenue.

3.1 PDD Development

1. Use Latest Version of Templates
2. Focus Important Sections
3. Source, Source and Source





3.2 PDD Development

- Use Latest Version of PDD Templates and Methodology.

| | | Normal-scale CDM project activity | | Small-scale CDM project activity | |
|--------------------|-------------|-----------------------------------|---|---|--|
| Emission Reduction | PDD | CDM-PDD ver.3.2 (Att.1-1) | CDM Project Design Document | CDM-SSC-PDD ver.3 (Att.1-2) | CDM Project Design Document for Small-Scale project activities |
| | | CDM-PoA-DD ver.1 (Att.1-4) | Programme of Activities Design Document | CDM-SSC-Bundle ver.2 (Att.1-3) | Form for submission of bundled Small Scale project activities form |
| | | CDM-CPA-DD ver.1 (Att.1-5) | CDM Programme Activity Design Document | CDM-SSC-PoA-DD ver.1 | Small-Scale CDM Programme of Activities Design Document |
| | Methodology | F-CDM-AM-Subm ver.1 | Form for submission of queries from DOEs to the MP regarding the application of approved methodologies | F-CDM-SSC-Subm ver.3 | Form for Submissions on Small Scale Methodologies and Procedures |
| | | F-CDM-AM-Rev ver.1 | Form for submission of requests for revisions of approved methodologies to the MP | | |
| | | CDM-NM ver.3.1 | CDM Proposed New Methodology: Baseline and Monitoring | F-CDM-SSC-NM ver.1 | Form for proposed New Small-Scale Methodologies |
| A/R (chap.18) | PDD | CDM-AR-PDD ver.4 | CDM Project Design Document for A/R project activities | CDM-SSC-AR-PDD ver.2 | Project Design Document Form for Small-Scale A/R project activities |
| | | CDM-PoA-DD-AR ver.1 | Programme of Activities Design Document Form for A/R project activities | CDM-PoA-DD-SSC-AR ver.1 | Programme of Activities Design Document Form for SSC-AR project activities |
| | | CDM-CPA-DD-AR ver.1 | CDM Programme Activity Design Document Form for A/R project activities | CDM-CPA-DD-SSC-AR ver.1 | CDM Programme Activity Design Document form for SSC-AR project activities |
| | Methodology | F-CDM-AR-AM-Subm ver.1 | Form for submission of queries from DOEs to the AR WG regarding the application of Approved A/R Methodologies | Source: CDM-JI In Chart Ver.9.0 www.iges.or.jp/en/cdm/report01.html | |
| | | F-CDM-AR-AM-Rev ver.1 | Form for submission of requests for revisions of Approved Methodologies to the AR WG | | |
| | | CDM-AR-NM ver.3 | CDM Proposed New Methodology: Baseline and Monitoring for A/R | | |



3.3 PDD Development

- Focus Important Sections
- Distinguish descriptive section and fact oriented sections
- Make sure your explanation is substantiate and supported by evidence.

Number

→ Source or original data

Proportion

→ Source and ensure the subject is appropriately treated

Census, Statistics

→ Source and check date

Mechanical Specification

→ Prepare an evidence

| | | |
|-----|--|--|
| | | |
| A | Gen. Description of Project Activity | |
| B | Application of a baseline and monitoring methodology | |
| B.1 | Title of employed methodology | |
| B.2 | Justification of methodology application | |
| B.3 | Description of project boundary | |
| B.4 | Description of baseline scenario identification | |
| B.5 | Assessment and Demonstration of Additionality | |
| B.6 | Emission Reductions | |
| B.7 | Application of the monitoring methodology & Description of the monitoring plan | |
| B.8 | Date of Completion of baseline study | |
| C | Duration of the project activity /crediting period | |
| D | Environmental Impacts | |
| E | Stakeholders' Comments | |



3.4 PDD Development

- Information critical for baseline development and additionality analysis needs to be set up by DNA or relevant government agencies
 - In case the data is not available, the project participants has to perform its own calculation of parameters e.g.
 - Emission factors (to calculate emission reductions)
 - National target of introducing energy saving technologies (to prove an additionality)
 - Financial benchmarks (to prove financial additionality of project)
- ➔ Absence of key parameters ends up with inconsistent project approval by DNA and further questioned Sri Lanka projects' integrity

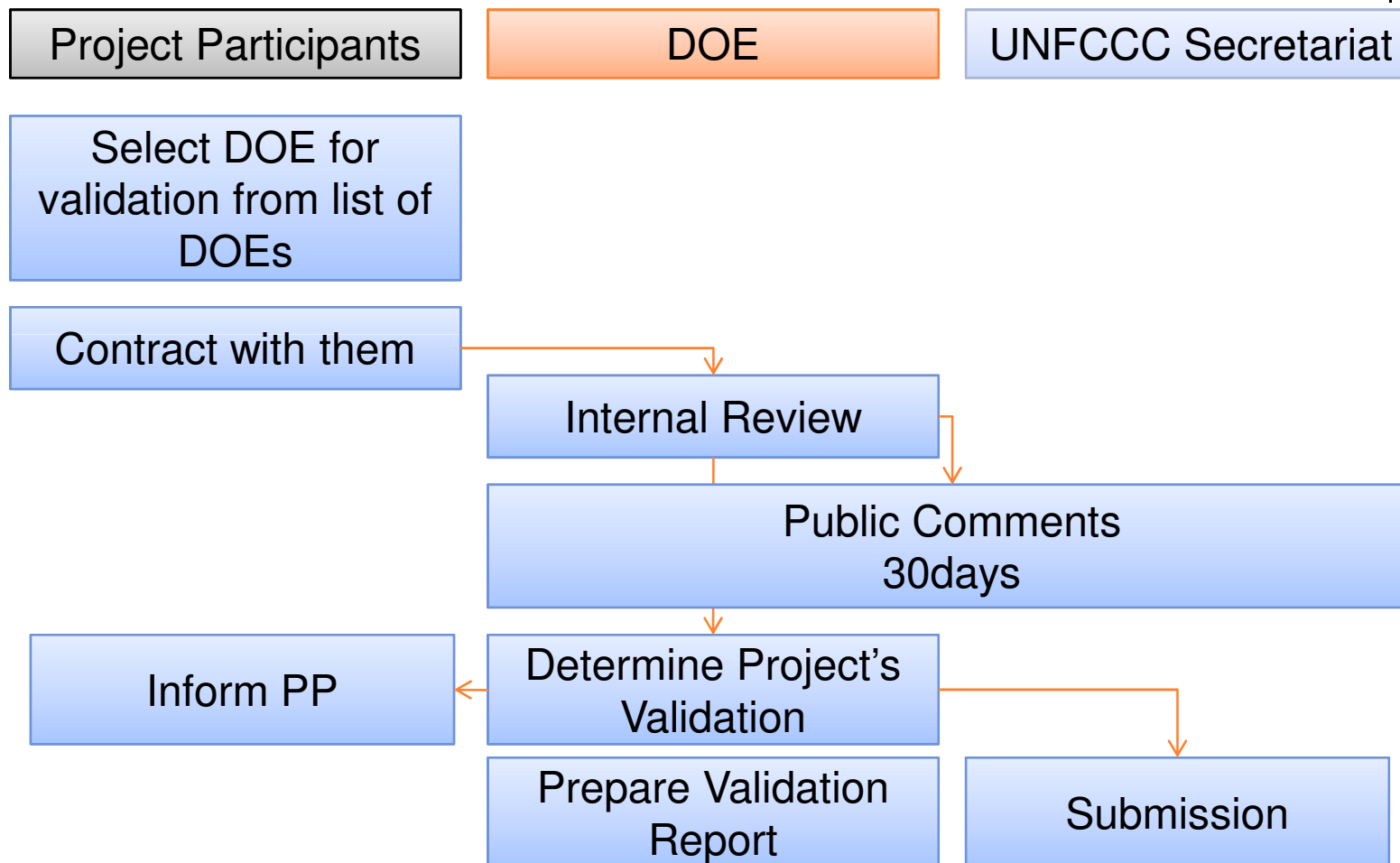


4.1 Validation

1. Process
2. Dialogues with DOE
Why DOEs Asking Qs?



4.2 Validation Process





4.4 Validation

Baseline Analysis

- Based on approved/new methodology
- In a transparent and conservative manner
- On a project specific basis
- Taking into account national and/or sectoral policies and circumstances

Additionality = Emission reduction would not have been achieved without CDM

- Investment Barrier
- Technological Barrier
- Barrier due to prevailing practice
- Other Barrier

Validator needs to establish his/her confidence over the descriptions of PDD

Relevance

Completeness

Consistency

Transparency

Accuracy

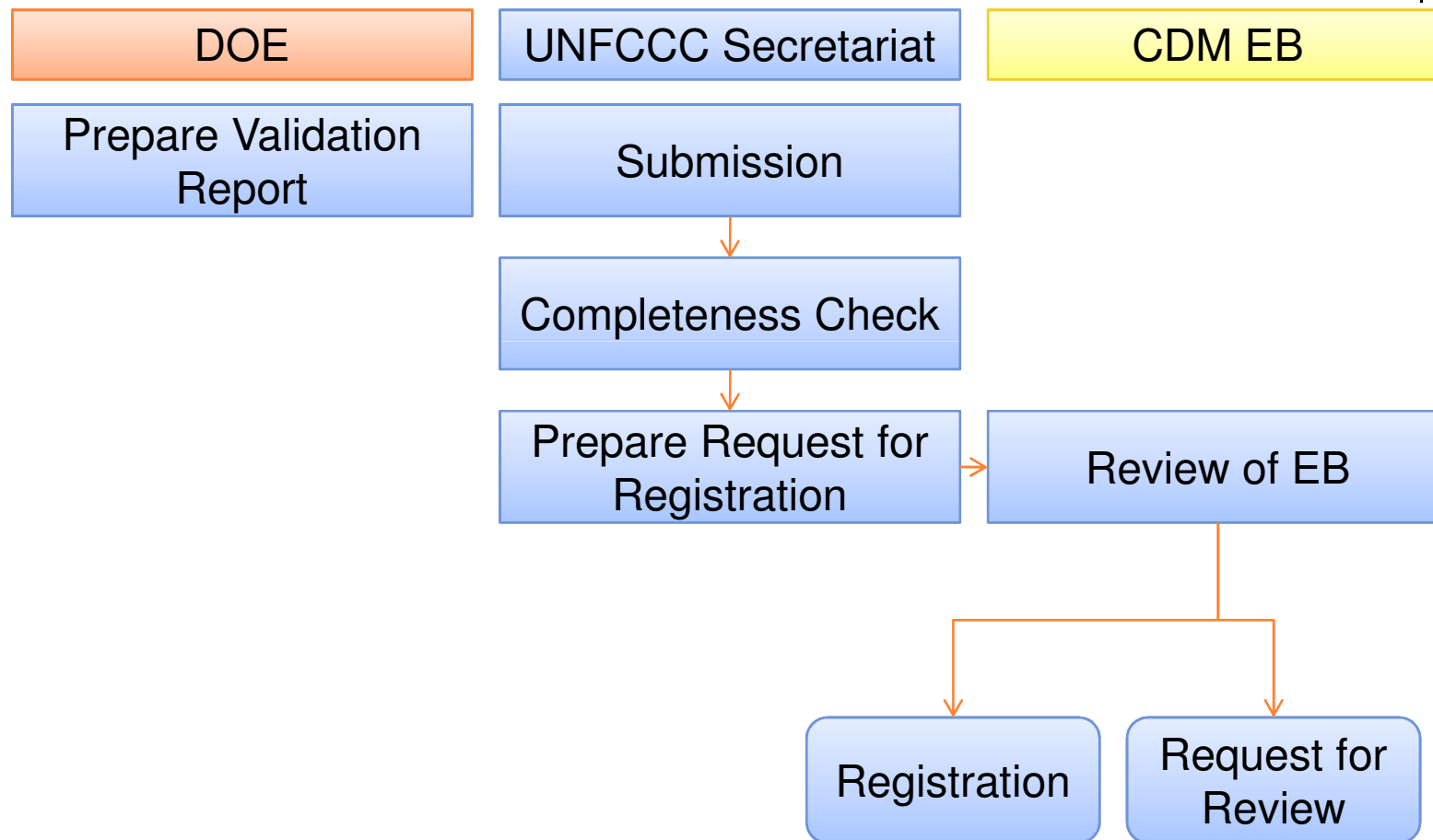
5.1 Registration

1. Most projects need 2 EBs to register.
2. Review Request is tricky request.





5.2 Registration Process



5.3 Registration



Completeness check

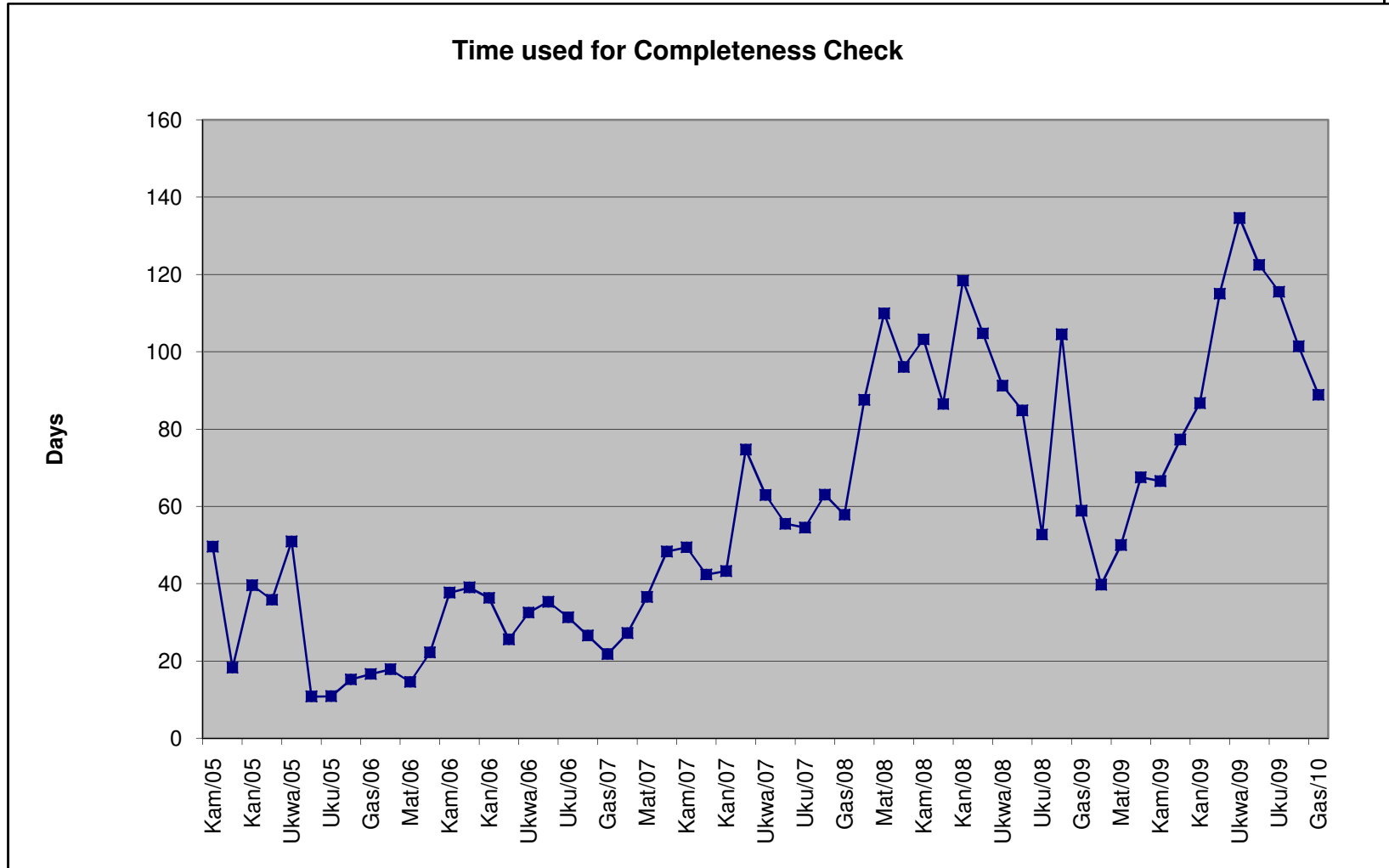
- a. CDM PDD
- b. A validation report
- c. A valid letter of approval from each party involved
- d. A registration request form
- e. A letter of authorization for each PP
- f. A modalities of communication

SOP-Admin Fee

- SOP Admin is charged for the share of proceeds to cover administrative expenses applied to the expected average annual emission reductions
- SOP Admin is USD 0.1/CER and USD 0.2/CER issued for any amount in excess of 15,000tCO₂
- The maximum registration fee is no more than USD 350,000.



5.4 Registration



Source: CDM Database, CD4CDM

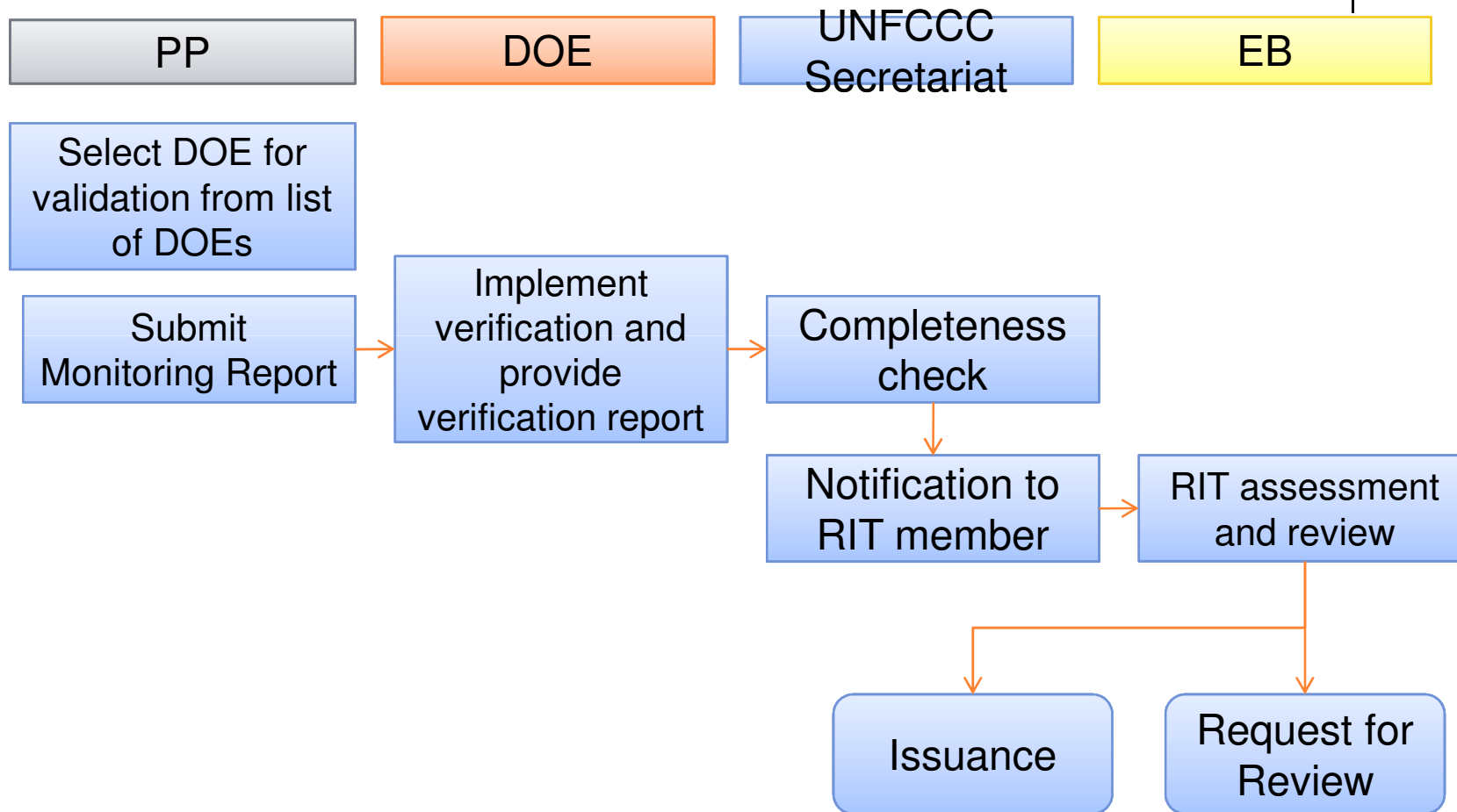


6.1 Verification

1. Monitoring is QC/QM process
2. Conduct 1st Verification Sooner



6.2 Verification Process





6.3 Verification

“Verification” is a process (PP choose 1st verification timing and following every 5 years) to decide emission reduction amounts by DOE.

1) Compliance

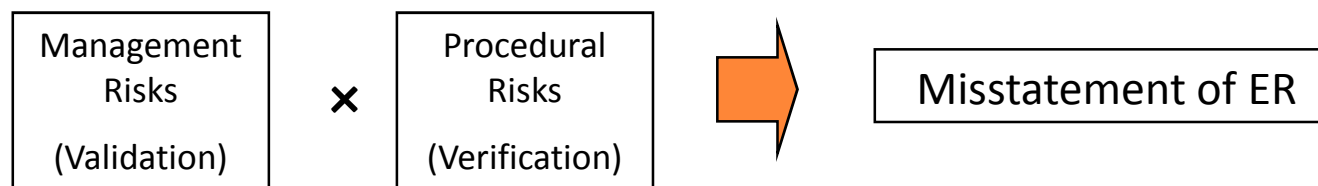
Does the project comply with KP and other host countries’ regulations throughout the verified periods? It is hardly recognizable to issue CER when non-compliance occurred.

2) Technical Aspects

Does the project operate without significant engineering failure to achieve designed emission reductions?

3) Project Management

Does the project management system design in the monitoring plan effectively monitor the project performance?





6.4 Verification

Conduct 1st Verification sooner

- Earlier verification enables PP to deliver CERs sooner
→ earlier cash-in.
- Make necessary amendment before project in trouble
→ usually there are unintended changes undermined in the project from original PDD.
→ you may need to claim changes after operation.



7.1 Changes after the operation

- Requests for deviation prior to the submitting request for issuance
- Changes from the project activity as described in the registered PDD (EB48 Annex 67)
 - Changes impact the additionality of the project activity
 - Changes in the effective output capacity due to increased installed capacity or number of units, or installation of units with lower capacity or units with a technology which is less advanced than that described in the PDD.
 - Addition of components or extension of technology
 - Removal or addition of one or more sites of a project activity registered with multiple-sites
 - Different values of those actual operational parameters relevant to determination of emission reduction which are within the control of project participant and which result in the IRR passing the benchmark as described in the registered PDD



7.2 Changes in the operation

- Changes in the scale of CDM activity
 - Project, originally designed for small scale expands and no longer satisfies the conditions
- Changes which impacts applicability/application of baseline methodology
 - The original methodology is no longer applicable
 - Another methodology would have been applicable
 - Another baseline scenario would be more appropriate

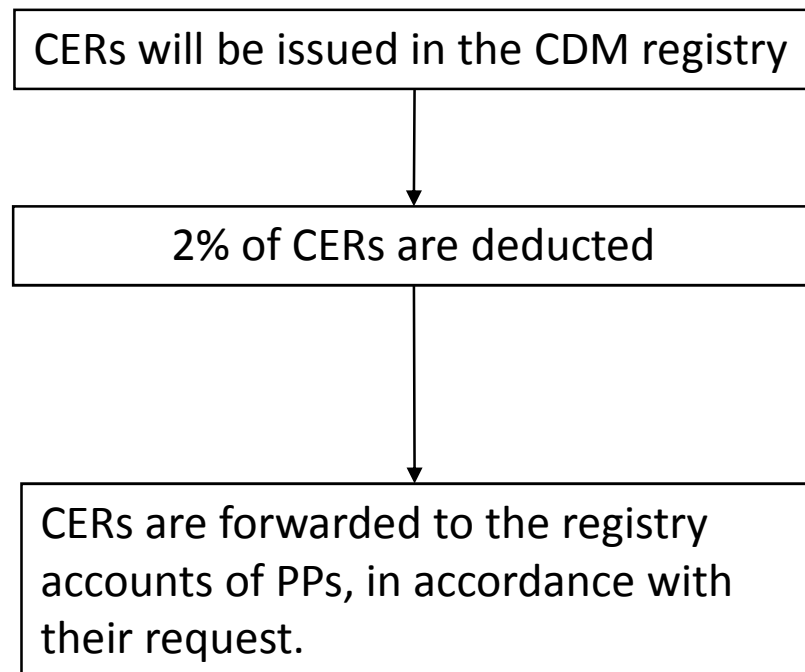
Including changes in the monitoring plan, the DOE notify to EB to assess reported changes before the verification. Unless DOE receives guidelines from EB, DOE cannot proceed further processes including verification.

(EB49 Annex 28)

8.1 Issuance



Credit Issuance Procedure



Upon instruction of CDM EB, the CDM registry administrator in UNFCCC issues the specified quantity of CERs.

Among issued CERs, 2% of those will be deducted for share of proceeds to assist developing parties those are particularly vulnerable to the adverse effects of climate change to meet the cost of adaptation. (SOP-Adaptation)

Projects in LDCs shall be exempt from SOP.

The proportion of CERs distribution among project participants are exclusively decided by project participants.