TORONTO STAFF REPORT

August 31, 2006

To: Policy and Finance Committee

From: City Solicitor

Subject: Contract Language to be Included in Contracts with Potential Carbon Credits

Purpose:

To report on the language that should be included in contracts with suppliers who provide services or technologies with potential carbon offset credits.

Financial Implications and Impact Statement:

There are no financial implications arising from this report.

Recommendations:

It is recommended that this report be received for information.

Background:

At its meeting on September 28, 29 and 30, 2005 Council adopted Clause No. 27, Report No. 8 of the Policy and Finance Committee and in so doing adopted the recommendation from the Roundtable on the Environment that Legal Services be requested to report back on the appropriate wording to be included in contracts with suppliers who provide services or technologies with potential carbon offset credits (for example, energy efficiency measures, renewable energy technologies, biofuels, green roof technologies, and methane recovery technologies). This recommendation relates to the implementation of the Government of Canada's *Offset System for Greenhouse Gases.* The details of the system are explained in *Offset System for Greenhouse Gases, Papers for Consultation,* which included an *Overview Paper and a Technical Background Document, 2005* which provided the basis for consultations by Environment Canada. Written comments on those documents were provided by Toronto's Fleet Services and Technical Services divisions.

There are various undertakings and projects that would qualify as offset programs under the domestic Offset Program. Council has indicated interest in a number of initiatives that could qualify for offset credits. Examples of such projects are shown in attachment 1.

In general, the goal of these initiatives is to reduce net emissions of greenhouse gases (GHGs) or local pollutants such as NOx and SO2. The Province introduced a trading program for NOx and SO2 in 2001. Emissions are reduced by fuel switching to cleaner alternatives and reducing energy consumption. Other initiatives accomplish this goal by capturing and reusing GHGs such as landfill gas that would otherwise escape into the atmosphere. Reuse of captured GHGs as an energy source has co-benefits for reducing emissions.

The Offset System creates new property rights by assigning a marketable value to carbon credits. Once earned, credits can be sold to the Climate Fund for retirement, to Large Final Emitters (sectors that generate a great deal of GHG emissions) to help them meet their emissions targets, or to other domestic buyers (such as Environmental Non-Governmental Organizations).

Credits can be earned for "reductions," whereby a baseline is established and credits are earned for the difference between the baseline and the new, lower level of emissions that result from a project. In addition, credits are granted for "removals" where projects actually reduce the amount of GHG already present in the atmosphere (e.g., planting trees or methane recapture).

Once Toronto has satisfied the Offset System conditions, it may begin to register credits, through, for example, the methane recapture plan mentioned above as well as the work Fleet Services is already doing with their biofuels programs.

Normally, the parties would negotiate to determine how benefits are to be divided or the City would stipulate in its procurement process that the City will own the credits. Assuming, however, that negotiations will take place and using as an example a project where the City wanted to collect and sell methane from closed landfill sites, the following scenarios could arise:

1. The Supplier/Service Provider, in this case the electricity producer, in contemplation of the money the City will earn by selling credits to the Climate Fund, may request a reduction in the amount it pays for the methane.
2. The Supplier/Service Provider may wish to pay more for the methane and keep the credits to sell itself. Unless an agreement was made to the contrary, this scenario could circumvent the City's intention that the credits be retired, as the Supplier/Service Provider would not be required to sell to the Climate Fund.
3. Toronto could make its ownership of the credits a condition of the sale of methane. This creates a risk that methane would remain uncaptured and no credits would be generated at all.

In the absence of an agreement, issues would clearly arise over ownership.

This report is premised on the City obtaining the carbon credits, and provides suggested wording for contractual terms related to the City's acquisition, ownership and potential transfer of those credits. We have also provided an extensive description of the offset credit system in order to provide useful background information to the drafter of future contracts involving carbon credits.

Comments:

I. Preliminary Issues

The *Overview Paper* and *Technical Background Document* provide a detailed look at how the system is to work. There are a number of phases and conditions that must be met before credits can be accumulated. A summary is provided below.

In order to qualify for the Offset System, proposed programs must be verified by an "Offset Program Authority" ("Program Authority"). The Program Authority registers the project and tracks the credits it generates. The proponent of the project ("Project Proponent") is responsible for establishing baseline emissions, and arranging for third party verification of any credits earned. The verified report is submitted to the Program Authority, and one credit is granted for each tonne of greenhouse gas (GHG) emission reduction.

Although the Offset System does not require projects to be submitted and registered by a particular Project Proponent, only a single entity may assume this role, and credits will be issued to that entity. In order to satisfy the Program Authority, the Project Proponent must be able to establish ownership of credits. Acceptable forms of evidence include quit claims, private contracts with potential claimants, and ownership agreements between any project partners and the Project Proponent. For purposes of this report, we are assuming that the City is the Project Proponent.

A. The Offset Credit System

1. Application for Project Registration

Project Proponents must prepare a Project Document that describes how the project meets the Offset System eligibility criteria, and how credits will be quantified and verified. In addition, it must specify the location and owners of the project. Guidance documents will be available to aid in preparation of these initial reports. Included in the documents will be a description of pre-approved quantification protocols for some types of projects. The Project Document is submitted to the Program Authority, with the applicable fee.

2. Validation and Registration of a Project

The Program Authority reviews the Project Document for completeness, requiring re-submission of the entire report and the fee if there are any deficiencies. Once the completeness review is passed, the Project Document is posted on the Offset System Registry for public review, with confidential information removed.

If the public review does not result in any ownership issues, the project is placed in the appropriate queue to await validation, and the Project Proponent pays the validation fee to the Program Authority. Resolution of credit disputes must take place before the project may be validated.

If the project is ultimately approved, the Program Authority will consult with the Project Proponent to prepare a Registered Project Document to be posted on the registry, and the project will then be registered. If approval is denied, the Project Proponent may begin the process again by revising the Project Document and repaying the fee.

3. Verification of Reductions/Removals Achieved from a Registered Project

After projects have been registered, the Project Proponent must prepare a Reduction/Removal Report, which contains a one paragraph GHG Assertion. The GHG Assertion must state the reductions/removals claimed for a specified period, and confirms that the Registered Project Document has been complied with. Next, an accredited Verification Body must be hired to verify the GHG Assertion and produce a Verification Report.

4. Certification, Issuance and Replacement

In order to request that offset credits be issued, the Project Proponent must submit the Reduction/Removal Report and the Verification Report to the Program Authority and pay a certification fee. If all system requirements have been met, the Program Authority will issue a Certification Report, and arrange to have the newly issued offset credits deposited in the proponent's account in the national trading registry. The documents will be posted on the Offset System Registry.

5. Re-registration

Project registration lasts eight years. If credits are expected to be generated beyond this, the Project Proponent must apply for re-registration by submitting an updated Project Document. The new project document would be required to conform to the rules and baselines that would apply to a new project being registered at that time. New baselines could mean that the project would not yield any more credits upon re-registration.

II. Drafting Considerations

This memorandum focuses on the unique provisions that should be included in contracts involving carbon offset credits.

1. Recitals

The purposes of the carbon credit portion of the contract should be included in the recitals. Specifically, the recitals should state that the initiative is part of the Offset System, that credits will be generated, and that it is agreed that the City will own the credits (assuming that is the case).

Sample Recitals

"WHEREAS:

1. The Government of Canada has established an Offset System for Greenhouse Gases, including a system for Carbon Credits;
2. The City of Toronto, by adoption of Clause 27, Report #8 of Policy and Finance Committee at its meeting on September 28, 29 and 30, 2005 has authorized the City's participation in this Offset System for reducing emissions/removing Greenhouse Gases ("GHG") from the atmosphere;
3. The parties have agreed that the City of Toronto will own the Carbon Credits;
4. The City intends to sell its offset credits to the Government of Canada's Climate Fund on the condition that the offset credits be retired by the Federal Government [optional, as this would not normally be a matter between the parties but would be at Toronto's option once it owns the credits];
5. Toronto and the [Supplier/Service Provider] have agreed to all of the terms and conditions in respect of the quantification and verification of the Carbon Credits, as evidenced by this Agreement (the "Agreement")…."

2. Definitions

The credits generated under an Offset System can be characterized as contractual rights arising from an emissions reduction activity. Their status under the contract must be clearly laid out as there are as yet no nationally or internationally recognized characterizations of the legal rights being exchanged. However, ownership of the asset responsible for the reduction and capital investment leading to a reduction have been used as criteria in the past. To prevent potential disputes, the definition given to the product in question must plainly spell out the nature and scope of each party's rights. This definition will vary between contracts, as it depends on the type of activity generating the credits. In addition, all contracts will contain provisions for verification (described below), and the terms associated with this must be included.

Terms such as "Greenhouse Gas" and "Kyoto Protocol" can be defined with reference to the protocol and its amendments. Definitions more specific to the Canadian program will be included and will depend on more specific guidelines being issued by the Federal government.

Sample Definitions

a) **Emissions** include all known and existing methods of dissemination of greenhouse gases, as well as all future methods, whether or not now contemplated;

b) **Greenhouse Gas** ("GHG") means gases which enter the atmosphere by way of emissions and include carbon dioxide, methane and other gases, regardless of source, and for greater certainty includes chemicals which are greenhouse gas precursors;

c) **Offset Credit** includes any method of quantifying emissions or reductions in emissions of greenhouse gases by means of which an economic value can be attached to such emissions, including but not limited to a dollar value per unit of emission and has the same meaning as carbon credit, offset or emission reduction unit, whether such quantification results from an actual reduction in the amount of greenhouse gases emitted by an emitter, or from the elimination of a potential source of emissions;

d) **Offset System** means the system described in the Government of Canada's Offset System for Greenhouse Gases Technical Background Document 2005, or any subsequent document, including any future method by which credits can be sold or otherwise disposed of in exchange for money or other forms of valuable consideration, including but not limited to a formal system created under treaty or statutory regime, and any private, informal or ad hoc systems for transferring credits which may be established in Canada or elsewhere under international, national or provincial law, or by private or quasi-governmental bodies;

e) **Offset System Registry** means the system under the Government of Canada Offset System for Greenhouse Gases used to record ownership of verified credits generated by projects that have been validated and registered by the Program Authority, under the Offset System;

f) **Project Proponent** means the City of Toronto ("City"), its successors and assigns, including without limitation, any person, firm, corporation or artificial body which succeeds to the assets and liabilities of the Project Proponent, including any successor by operation of law;

g) **Supplier/Service Provider** means …

3. Credit Validity

This issue is critical to the success of any project. The credits must be capable of being evidenced and delivered. One of the parties to the contract will have to show that the project in question actually occurred, and that it reduced emissions. The standard is usually to show the baseline emissions and those after the project. The reduction must be measurable and real.

The issue of responsibility for documentation must be covered in the contract. One party must be clearly responsible for initial and continuing validation, and the costs associated with it. Clauses requiring baseline measurements and ongoing monitoring must be included. The Canadian system requires third party verification, which must also be explained in the contract. If necessary, the appendices to the agreement can include forms to be used by third party verifiers when they express opinions.

Due to the constantly changing nature of scientific measurement of GHGs, contracts must either make provisions for changes in measurements due to new science, or specify the methods to be

used for a particular term, allowing for new methods only after credits have been delivered to the City.

Sample Contract Provisions on Credit Validity

Example 1:

"Quantification will be completed in accordance with the Government of Canada's Offset System *Specification for Quantification* (OSSQ). If an *Offset System Quantification Protocol* ("OSQP") is available for the work specified in this contract, it shall be used. If an OSQP does not exist, the City shall develop a quantification method for the system in conjunction with the appropriate National Offset Quantification Team ("NOQT"). Where necessary, the *ISO 14064 Part 2 Specification with guidance at the project level for quantification, monitoring and reporting of greenhouse gas emission reductions or removal enhancements* draft international standard, may be used.

Verification of reductions or removals shall be completed in accordance with the Government of Canada's *Offset System Specification for Verification* ("OSSV"). The City acknowledges that as the Project Proponent, it will be responsible for selecting an accredited Verification Body, negotiating a contract with the Verification Body selected, and for payment with respect to the Verification Body's verification of the *GHG Assertion.* Where necessary, the *ISO 14064 Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions* document may be referred to."

Example 2

"Development of Quantification and Verification Procedures: Before detailed design and construction / service is provided (as appropriate), the City will develop quantification and verification measures as described in Schedule A and B hereto, in accordance with the Government of Canada's *Offset System Specification for Quantification* (OSSQ) and the Government of Canada's *Offset System Specification for Verification* ("OSSV").

The City acknowledges that as the Project Proponent, it will be responsible for selecting an accredited Verification Body, negotiating a contract with the Verification Body selected, and for payment with respect to the Verification Body's verification of the GHG Assertion."

Also Include:

"The City of Toronto retains the right to change the standard of measurement for quantification and/or verification to conform to existing and future trading system(s) as may be in existence from time to time.

At any time after an agreed standard is established for quantification of emissions, emission reductions or credits, the City shall be entitled to attend to inspect any emitter on [Supplier/ Service Provider's] property and to review the applicable books and records of [Supplier/Service Provider] to make its own determination of the quantity of emissions."

4. Credit Ownership

Ownership of credits should be clearly laid out. Also, consideration should be given to the City's right to future credits that may be generated by the project. Although the Offset System does not require projects to be submitted and registered by a particular Project Proponent, only a single entity may assume this role. Submission and registration must be done under the legal name of this single proponent. The Program Authority will issue offset credits only to the trading registry (established as part of the federal or provincial Offset System) as specified by the Project Proponent in the *Registered Project Document.* In order to satisfy the Program Authority, the Project Proponent must be able to establish ownership of credits. As mentioned above, acceptable forms of evidence include quit claims, private contracts with potential claimants, and "'ownership agreements' between projects partners and the Project Proponent."

Sample Contract Provisions on Ownership

"The City of Toronto reserves the right to register all Offset Credits derived from this Agreement. [Supplier/Service Provider] will not register or attempt to register such Offset Credits, except as specifically directed in writing by the City of Toronto. In connection with such registration:

- [Supplier/Service Provider] will promptly sign all documents presented by the City to enable such registration.
- [Supplier/Service Provider] will irrevocably appoint the City of Toronto as its attorney to sign all such documents if [Supplier/Service Provider] fails to do so within the specified time.
- The City of Toronto has the right to register the Offset Credits under as many different trading systems as it deems advisable.
- If the City of Toronto deems it advisable to do so, it may register its rights to the Offset Credits as may be appropriate or permissible in the applicable land registry office or personal property security registry, but such registration shall be for the purpose of notice only and City of Toronto acknowledges that the grant of Offset Credits does not create any interest in land or a security interest in personal property of [Supplier/Service Provider]. City agrees to promptly execute all acknowledgements which [Supplier/Service Provider] may reasonably require for this purpose."

5. Shortfall or Failure to Deliver

The City will need to ensure that suppliers and service providers perform their duties under the contract and as specified in the *Registered Project Document.* If the reductions created by the project do not reach the levels contracted for, consideration should be given to means of making up the shortfall.

This could take the form of physical replacement of the volume of the shortfall, or a payment of money. Another option is the placement of conditions upon the performance of the agreement (e.g.: make the purchase of services conditional upon the supplier performing duties relating to the creation of the credits). It is also a possibility that the credits may not be created at all, and

consideration must be given to that as well. If the purpose of the contract is to generate credits, it may be that such a failure will constitute frustration of the contract.

Sample Contract Provisions on Performance

Example 1

"[Supplier/Service Provider] shall duly and properly execute and perform the Contract Work and shall carry out, perform, observe, fulfill, keep and abide by all the covenants, agreements, stipulations, provisos, terms and conditions herein and in the *Registered Project Document.* Failure to generate predicted offset credits due to any action, omission, or negligence (etc) by the [Supplier/Service Provider] shall (may) constitute frustration of the contract. The City of Toronto may review the amount payable by the City to the [Supplier/Service Provider] for services rendered, and decrease this amount by ____; or review the amount payable by the [Supplier/Service Provider] to the City and increase it by ___. If these remedies are not deemed satisfactory by the City, the failure on the part of the [Supplier/Service Provider] may be deemed frustration of the contract, and the City may terminate the contract at its sole discretion."

Example 2

"In the event that [Supplier/Service Provider] fails to comply with the terms and conditions of this Agreement in a manner satisfactory to the City, and such failure results in a reduction of the predicted number of offset credits;

1. the City may review the amount payable by the City to the [Supplier/Service Provider] for services rendered, and decrease this amount by ____; or review the amount payable by the [Supplier/Service Provider] to the City and increase it by ___.
2. the City may deem the failure on the part of the [Supplier/Service Provider] to be frustration of the contract, and the City may terminate the contract at its sole discretion."

6. Risk

The existence of a Federal program provides some certainty for participants in offset credit programs. However, there are still many risks associated with the City's participation. For example, the credits may become worth less than originally projected or the Federal government may change the rules or impose additional taxes on a project. As a result, the risks should be specifically considered and allocated. In addition, mitigation strategies may be included (e.g. insurance).

7. Warranties

Warranties that should be included by the City of Toronto and project proponents include warrantees related to the generation of the credits (since they do not exist at the time the contract is executed) and an undertaking to actually perform the emission reducing project. Standard commercial warranties are to be included as well. Suppliers and Service Providers may wish to exclude warranties regarding the value or use of the credits.

Sample Warranties

City of Toronto's Warranty of Measures

"The City warrants that it shall complete its duties as the Project Proponent, as detailed in relevant documentation regarding the Government of Canada *Offset System for Greenhouse Gases."*

Supplier/Service Provider's Warranty of Measures

"- Supplier/Service Provider] undertakes to perform all the duties and responsibilities herein described to ensure that the City receives the full benefit of all potential carbon offset credits.
- [Supplier/Service Provider] will provide the City with all documentation and other evidence necessary for the completion of all elements of the quantification and verification process.
- [Supplier/Service Provider] will use the standard of measurement provided by the City in all of its reports to the City and to third parties, except as required by law.
- [Supplier/Service Provider] will provide the City with a copy of all reports prepared by it for trading system purposes as and when available."

Conclusions:

Contracts for projects that involve the creation of carbon offset credits should contain, in addition to the standard contract provisions, clear provisions for the ownership and responsibility for carbon offset credits. The Federal government has released an overview, and may release documents with more specific requirements at a later date. Until that time, the City can best protect its interests in carbon credits with specific and clear language as described in this report.

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List of Attachments:

Attachment 1 – Initiatives that may create carbon credits
Attachment 2 − Quantification Options

Initiative:	Parties	Objective of Contract	Type of Credit	Notes
Procurement of alternatively fuelled vehicles and/or equipment	Supplier and City of Toronto	Reduce GHG emissions by city vehicles and equipment	Reduction	Fleet Services documents stip ownership of p
Energy efficiency in buildings	Equipment/service provider and City of Toronto	Reduce GHG emissions from heating, lighting	Reduction	
Renewable energy technologies	Equipment/energy provider and City of Toronto	reduce consumption of non-renewably sourced energy	Reduction	Province and f government ma if the City is re in tariff or othe energy product
Green roof technologies	Building owner, loan/financing provider etc… and City of Toronto	Reduce heating and cooling costs, increased carbon capture	Reduction for lower energy consumption, removal for planting trees	City of Toronto a green roof in per square met
Methane recovery	Landfill operator, Buyer of methane (e.g.: Toronto Hydro) and City of Toronto	Reduce emissions by capturing methane from landfills and provide a renewable, clean energy source by reusing captured methane for power generation	Removal for methane capture, reduction for reusable energy source	
Source separated organics processing	Waste transporter, Methane Capture service provider and City of Toronto	Capture and destroy methane, divert landfill waste, reduce emissions by not transporting wastes	Removal for methane capture, reduction for eliminated transport emissions	

Tree planting/urban forestry	City of Toronto, labour supplier, plant provider	Afforestation to facilitate carbon capture – trees act as carbon sinks, trapping GHG	Removal	
Better Buildings Partnership	Building Owner, Financial Service Company, and City of Toronto	increase energy efficiency, reduce consumption	Reduction	Offset credits r dealt with in B but joint fundi the issue of ow

Attachment 2

Quantification Options

Project Proponents have two options for quantifying GHG reductions/removals:

1. If possible, use an Offset System Quantification Protocol ("OSQP");
2. If not, develop a new method of quantification for the project.

1. OSQP

OSQP are pre-approved methods of quantifying reductions/removals from specific project types, and are not available for all project types. If an OSQP is available, the costs of project application and verification will be reduced. These protocols are being developed in process parallel to ISO standards and Offset System specifications. A Standard Development Organization ("SDO") will ensure that as protocols are developed, they will be kept consistent with ISO standards and the Offset System Requirements. Once complete, any stakeholder could attempt to have their quantification protocol standardized as an OSQP by the SDO. If a request is made, the Program Authority will validate a standardized protocol and register it as an OSQP if it meets the requisite standards. Project proponents would be allowed to incorporate OSQPs into their project documents by reference, eliminating the need to produce all the documentation.

2. Development of a Quantification Methodology for a Project

The Project Proponent will propose a quantification methodology in the Project Document if no OSQP is available for the project in question. As part of the validation process employed by the Program Authority, the proposed quantification method will be validated. Based on the current draft of ISO 14064 part 2 (the relevant ISO standard), the principles for quantification in the Offset System are:

- Completeness – Include all relevant GHG emissions and removals. Include all relevant information needed in order to issue valid offset credits
- Consistency – Ensure that the methodologies for comparable projects yield similar net reductions/removals and ensure consistency among the elements of a Project Document
- Accuracy – Reduce bias and uncertainties as far as practical

- Transparency – Disclose sufficient and appropriate GHG-related information to allow the Program Authority and verifiers to make decisions with reasonable confidence
- Relevance – Select GHG sources, GHG sinks, GHG reservoirs, data and methodologies appropriate to the needs of the intended user

Each element of the methodology chosen by the Project Proponent must be justified such that the Program Authority can determine why and how decisions were made, and which alternatives were rejected. The following are required elements of any proposed quantification methodology that must be addressed in turn:

1. description of the project
2. identification of sources, sinks and reservoirs (SSR) for the project
3. selection of the baseline scenario
4. identification of SSR for the baseline scenario
5. selection of 'relevant SSR' for quantification
6. establishment of 'relevant SSR' that requires monitoring
7. selection of quantification methodologies for emissions and removals from 'relevant SSR'
8. quantification of emission reductions, removal enhancements or reversals

Verification

Project Proponents will be required to select, negotiate a contract with, and pay an accredited Verification Body. The role of the Verification Body is to provide a GHG Assertion, which identifies the project, specifies the period covered, indicates the greenhouse gas reductions or removals (tonnes of CO_2-e[1]) claimed, provides other relevant information, including a statement addressing conformance to all requirements specified in the Registered Project Document, and is signed by the Project Proponent. It is included in and supported by information contained in the Reduction/Removal Report.

In effect, verification focuses on how accurately the processes identified in the Registered Project Document have been followed and assesses any deviation from that process. The opinion of the Verification Body is provided in a Verification Report. Only emissions reductions that have already occurred are referred to in the GHG Assertion, which must cover contiguous periods within the Registration Period. This ensures that Proponents will report all emissions or reversals that could affect the project without omission of a period that would result in a reversal of credits or in less reductions/removals.

The Reduction/Removal Report (containing the GHG Assertion) and other reporting requirements must be submitted to the Program Authority together with the Verification Report within 6 months of the end of the period covered by the GHG Assertion, and where evidence will be destroyed by time, the GHG Assertion must be prepared and verified before the evidence is lost. The Project Proponent may choose when to prepare a GHG Assertion based on the value of accrued reductions/removals, internal requirements including shareholder demands, and the rules of the Offset System. Further, Project Proponents may be asked by the Program Authority to produce their records for audit at any time.

[1] This is defined on p. 35 in *Offset System for Greenhouse Gases* as "**Carbon Dioxide Equivalent (CO_2 –e) –** A unit that expresses the radiative forcing of a mass of a given GHG in terms of a mass of carbon dioxide with equivalent radiative forcing."

Unless a prior agreement has been made with the Program Authority, the maximum size of an individual claim is limited to

- 100,000 tCO_2-e projects using an Offset System Quantification Protocol
- 50,000 tCO_2-e for projects not using an Offset System Quantification Protocol

This is intended to minimize the risk associated with the verification where the quantification methodology, the monitoring and data management procedures and the proponent's ability to implement them are unproven.

The Verification Body will assess the evidence to support the GHG Assertion against the materiality threshold and reach one of the following conclusions:
(1) No material discrepancies – the GHG assertion is free from material errors, misrepresentations or omissions
(2) Material Discrepancy – the Project Proponent's GHG Assertion contains a material discrepancy
(3) Other qualifications – the Verification Body cannot find sufficient evidence to support the GHG Assertion or the project has not been implemented as described in the Registered Project Document and the difference is sufficiently large that verification can not be undertaken

The Technical Background Document provides the consequences if conclusions (2) and/or (3) are reached. In some cases the project cannot be verified, and in others verification is postponed.