

Head and Members of the CDM Executive Board
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To cdm-info@unfccc.int
From martin.enderlin@pd-forum.net
Date 17 May 2010
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Subject **Unsolicited communication regarding annotated agenda to EB54**

CHAIRMAN

Your contact:
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Honourable Members of the CDM Executive Board,
Dear Mr. Mahlung,

The Project Developer Forum (PD Forum) would like to provide input on a number of items related to the annotated agenda of EB 54. Since the annotated agenda was only released on 10 May, we were not able to submit the letter within the official deadline for formal submissions to EB54. Nonetheless, we believe that our comments might be of value and therefore hope that they can be taken into account by the EB during the discussions at the coming meeting. We have sent a similar letter before EB53 and intend to provide comments along the same lines for future meetings.

Para 11 – VVM workshop

We recommend to the EB to open the VVM workshops to PPs too, as discussed in previous submissions. PPs are genuinely interested in participating, as they can provide additional valuable input to the VVM.

Para 16 (MP43 Annex 7) - Tool to calculate the emission factor for an electricity system

The PD Forum believes that the proposed changes are not efficient and should therefore not be approved, as discussed in a previous submission to the EB from 12 March 2010¹. There should be no preference for calculation methods. The preference was removed in the development of the tool and a revision of ACM0002 from version 6 to 7, to the best of our understanding because it is not guaranteed that the increased complexity unequivocally leads to better results. Furthermore, dispatch analysis data is generally not available and the approach is too complex for most projects, in particular where the emission factor is only used for electricity consumption, energy efficiency measures, or the feed-in of renewable electricity. In these cases the quantity of reductions is too small and the gain in emission factor accuracy too limited to justify the additional work, but this is only acknowledged by the draft for consumption and leakage. A possible exception could be large scale fossil fuel-based generation, where volumes are generally much larger and where data might be available.

¹ Available at: <http://pd-forum.net/files/9da9be23f4937fba5da1c881dfab5758.pdf>

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Para 32 VSSC (SSCWG25 Annex 14) - Simplified Modalities for VSSC

The PD Forum welcomes the draft simplified modalities for demonstrating additionality for very small-scale projects (VSSC), prepared upon a request by CMP.5². These simplified modalities will facilitate the development of VSSC projects but the PD Forum sees several other barriers to these types of projects, which the simplified modalities will not help to overcome.

One caveat we see in the proposed draft relates to the maximum of 5% market penetration of a technology. It will be very difficult to determine this, as data may not be available in LDCs but also not in other developing countries. Furthermore, the scale issue becomes relevant: When a country has 5 installations where one applies the technology, this one plant makes up a 20% market penetration. Another country might have 100,000 installations of which 5,000 plants might employ the technology and still meet the criterion 5% market penetration, although the additionality case is questionable as sufficient know-how is available in the country. The 5% cut-off rate is therefore too low. It will disqualify a number of technologies in countries with few plants in absolute terms, but does not pose a restriction for countries with a high number of installations and existing know-how.

Para 33 (SSCWG25 Annex 15) - Complementary Criteria for Complex Measures, Signal to Noise Ratios

The proposed criteria are in our view not sufficiently elaborated and we propose to the EB not to follow the SSC WG's recommendation of adopting these criteria as they are currently presented.

- Para 5, b, i: The selection of the benchmark (10% - 20%) seems rather arbitrary and should be explained further.
- The recommendations miss a proposal with a sound guideline on how to define boundaries. In our view the key question is on eligible boundary settings, which would in turn allow downsizing the boundary to increase the signal to noise ratio.
- The guideline is limiting the applicability of SSC. The objective of these criteria should be to decrease the burden on MRV and methodological rigor for projects with a Signal to Noise ratio above 20%.
- For certain methodologies it will be difficult to apply these criteria, especially when it comes to defining what are the baseline emissions (in cases where no BE is calculated, CERs directly from reduction x activity). How would it work for example for LFG / methane avoidance, in particular AMS III Q?
- Any such criteria once adopted should not retroactively be applied to any projects exceeding the Signal to Noise limit at verification.
- The potential scenario, of having to switch to LSC while the corresponding LSC methodology is not applicable to that specific project or does not exist yet, should be addressed.

Para 42 – Deferral of review cases

There are several projects to which corrections have been submitted prior to the EB 53. However, they have not yet been accepted or rejected, nor have they been addressed at EB 53 or EB 54. It is unclear what is happening to these cases and when they will be considered. We would also like to draw your attention to the issues raised in the PD Forum's letter sent to EB on 2 May on the same subject (para. 65 d)³.

² Decision 2/CMP.5, para 24 (c)

³ Available at: <http://pd-forum.net/files/873c4f7f02b10cfd07260d96ec7e30.pdf>

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Para 43 (EB54 Annex 3) - Draft “Guidelines on the treatment of national and sectoral policies in the demonstration and assessment of additionality”

The PD Forum appreciates that the EB has prepared draft guidelines on the treatment of E-/E+ policies. These provide some additional information and a clarification of the EB’s interpretation of the earlier guidance. However, the proposed text does not present a resolution to this issue which has caused serious concern and confusion for more than a year. The key issue remains unresolved as the draft guidance does not define what is considered a change in policy or what is a new policy, and when such a change is considered a concern/ problematic. For example, it is important for the industry and governments to know whether a reduction in a subsidy is considered to be an E+ policy, or an E- policy which is nevertheless a concern.

Additionally, a few more clarifications are required, on which we elaborate below. Also, in general, we are of the belief that the majority of projects would like to be able to reflect as the baseline scenario the reality rather than a difficult to define hypothetical and counterfactual situation without all these various policies in place, as is allowed under EB22 Annex 3 but seems to be ruled out in this new guidance.

Paragraph 6 of the draft guidelines appears to require that DOEs report on all policy impacts on all input parameters for all validations of projects that use investment analysis. This would be a dramatic increase in the reporting requirements of DOEs and as such we would recommend that the second sentence is revised to, “The validating DOE shall identify the parameters that can be [directly] determined by a policy, e.g. tariff, subsidy and tax”. In addition it is not clear what the word ‘directly’ means in this paragraph, and we would welcome examples of policy impacts that are and that are not considered to be ‘direct’.

In the second sentence, we believe there is an editorial error. The revision is proposed as “The DOE shall consider that a parameter is determined by a policy where cost or revenue is not in line with market prices”. The PD Forum would like to note that the definition of “market prices” is a challenging concept in cases where markets are not totally liberalised and where prices are fixed by governmental entities without a very explicit link to policies. Given the broad range for different interpretations, it is also important to further refine the definition of “policies” since it might be difficult to correlate measures like subsidies or tariffs to explicit “policies”.

Paragraph 8 of the draft guidelines would require project participants to amend parameters to reflect ‘the policy which was in place as at 11 November 2001’. This counterfactual situation would, in many situations, be difficult or impossible to define. For example, the Chinese power industry underwent a significant suite of reforms in 2002, meaning that it is not reasonable to compare projects implemented before and after 2002 or to hypothesise what market prices would have been without this reform. This paragraph is also not in line with EB22 Annex 3, which says that the E- policy “need not be taken into account”, i.e. that it is optional. Removing the option of using the actual financial input values could greatly complicate the financial analysis of some projects that are clearly additional. In addition, no clarification is provided on what is considered a change in policy as opposed to a new policy, and when such a change can be a concern. This has been a key issue in the past months and further clarification would be needed to address the issue to the satisfaction of the EB. Is a change to the level of subsidy or to the tariff considered a policy change? Or is that only the case if the actual legislation underpinning the policy changes? What if the policy is designed to automatically be updated periodically to take account of, for example inflation, changing price levels, etc? Does this apply to a positive and negative change equally, i.e. increased advantage or decreased advantage to less emissions intensive technologies?

We would also like to seek confirmation that the Board does not consider a reduction in an E- policy to be an E+ policy.

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Paragraph 9. Same as 8 above.

Paragraph 10 of the draft guidelines requests that the assessment of policy changes should be 'conducted on a comparative basis', but it is not explained to what the policy changes should be compared. Should they be compared to the same policy before 11 December 1997 / 11 November 2001, or to similar projects? Paragraph 11. A number of methodologies prescribe the baseline scenario so no alternatives are discussed, in line with the VVM (para 104). We therefore suggest that the following text is added to the end of paragraph 11 of the draft guidelines: "unless the methodology applied prescribes the required baseline scenario. In this case, the credibility test does not need to be applied".

Para 45 (EB54 Annex 4) - Policy options to assess grid emission factors published by DNAs

We welcome the initiative taken by the EB and the Secretariat to streamline the grid emission factor (EF) calculation process, especially given the direct relevance of EF for most CDM projects. We believe that where emission factor (EF) or the constituent data are published by a DNA the acceptance of the EF value or constituent data needs to be simplified as a matter of urgency. It should be acceptable for DOEs to refer to a previous validation by the same or another DOE, thereby reducing the repetitiveness of the validation. If this requires a change in the VVM, then this needs to be implemented. It is inefficient for all parties involved, adding to the transaction costs of the CDM that these values need to be described, calculated, validated, checked and accepted for every project.

Preferably the grid emission factors determined by DNAs are automatically accepted under the condition that the DNAs show compliance with the "Tool to calculate the emission factor for an electricity system". Alternatively, the endorsement of grid emissions factors provided by DNAs through an assessment by the EB or Secretariat could be acceptable. However, we urge the EB to consider the timeline that would be needed for the endorsement. Data to calculate the grid EF is usually published on an annual basis, meaning that the grid EF is valid for a year. The EB's endorsement process should be as quick as possible in order not to delay the submission for validation of new projects due to the lack of endorsed grid EF.

We welcome the suggestion of having a simplified approach for LDCs and encourage the EB/secretariat to assist LDCs in determining and publishing the EF value and data. However, we believe this does not require a separate Tool. In fact the existing Tool should be modified to be flexible enough to accommodate the non-existence or non-availability of some data by incorporating defaults or alternative methods. For example, the inserted preference regarding dispatch data should be removed, or be made optional, as this unnecessarily complicates the calculations (see comments on para. 16 above).

Para 46 - Two-staged completeness check:

The PD Forum welcomes the fact that the completeness check has been included in the review process for registration and issuance procedures. We would like to re-iterate however that the completeness check should be limited to stage (a), completeness of document, and should not look at validation related issues, i.e. checking against the VVM reporting requirements. Validation related issues should be checked within the registration process, i.e. in the 8 week registration period. Adding a second stage to the completeness check will add an additional layer of inspection and cause further delay within the completeness check, which is already the key bottle neck within the registration and issuance process.

Para 54 (EB54 Annex 5) - Standardized format for monitoring reports

The PD Forum welcomes the development of a standardised form for monitoring reports as it will allow systematic and consistent reporting across projects and crediting periods. However, we are concerned by the fact that neither project participants (PPs) nor project developers (PDs) have been consulted on the draft document. While DOEs have been asked to provide input on the standardised form, both PPs and PDs have substantial experience in writing

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monitoring reports and hence have valuable insights in how such reports can be standardised. We therefore ask the Board to open a call for public input on the draft standardised form in order to consider the comments that PPs/PDs might have.

Furthermore we believe that the format should avoid asking for duplication of information that is already known, validated and accepted and thus unnecessarily duplicating the effort required and thus increasing the transaction costs of the CDM. To avoid such excessive and duplicated reporting the draft should be further improved, which is another reason to open a call for public input.

Given the short time since the publication of the draft document we have only limited comments, which the Board might nevertheless find useful:

Part I

- para. 4, 5, 6: There should be a grace period before any revision to the template comes into effect. The current time for completion of the validation is several months from publication of the monitoring report (MR), and there should be no requirement to re-write the MR once published. There should be a grace period of at least 8 weeks before the revised template needs to be used, to make sure that MR already in progress but not yet published do not need to be revised.
- The same applies to the initial adoption of a standardised MR form: a grace period should be allowed for the PP to start using the template, otherwise it will considerably delay the start of all scheduled verifications when this document is adopted.
- para. 8: We believe the specific formatting is not important, but if this is a requirement, please state the font, font size, line spacing, paragraph spacing etc.
- para. 9: The tables in section D should be separated from the section heading. The tables required in E.4. should either be included in the template, or this clause should not apply. The table in E.5. may not be applicable without clarifications: the monitoring period in each MR may not be the same as the periods estimated in the PDD, and specific projects may not have uniform generation of reductions over time.
- para 10: Please specify whether or not an explanation needs to be given that the section is not applicable.

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- There seems to be a large amount of duplication of content from PDD to MR. This needs to be avoided. Where the information is described in the registered PDD, this should suffice. Only where information is changed should it be necessary to report the changed circumstances.
- "INSERT reference number" should be modified to "INSERT UNFCCC Reference number" to give more clarity to the item.

Most of Section A is unnecessary duplication of information that has already been validated and accepted/registered in the PDD. Only A.1 (3) the timeline, (4) the total ER achieved, and A.8 is new information. Furthermore, Section A.4 mentions the requirement to introduce in the MR generic 'diagrams'. It is unclear what type of diagrams will be required or considered satisfactory.

Section B.1.(2) introduces the need for reporting on downtime/exchange of equipment, but does not specify the minimum length such events should have in order for the requirement of reporting them in the MR to apply. In other words, does such reporting requirement apply to downtime within the plant of any length (e.g. 20 minutes)?

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Section C is mostly repeating information already validated and accepted/registered in the PDD.

- Please clarify the definition of the “accuracy class” for the equipment. Is it based on the related precision of the measured parameter or on the equipment accuracy?
- Clarify if “Validity” is reported in months or in date format.
- We suggest that the item “Measured/Recording Frequency” be modified as: “Measured and Recording Frequency”

Section D

- D.1 is simply repeating information from the PDD and should be deleted.
- D.2 is repeating information from the PDD except for the row on the actual monitored value. Therefore, the duplication should be avoided, and only the monitored values should have to be presented – of course, unless there are changes from or required additional detail to the registered PDD.
- Requires clarification of the definition of “Emergency measures/procedures”.
- Sections C and D are likely to repeat the same information.

Section E

- E.1, E.2, E.3 are simply repeating information from the PDD and should be deleted.
- E.5. and E.6 should be combined and the table deleted as it is not usable in all situations.
- Unclear whether only formulae are needed or if also the monitoring values should be included in the description of the Emission reductions calculation (Baseline, Project, Leakage emissions).

Para 57 (EB54 Annex 8) - Compliance with indicative timelines for different processes

Section II - Unsolicited submissions: The PD Forum welcomes the fact that the number of responses has recently rapidly increased and we are looking forward to receiving responses to our outstanding submissions. However, with most responses being little more than an acknowledgment of receipt we question the value of the data presented here for the working of the EB. Also, we believe that – where the response is more than that – the response should be published, as the information should not be limited to the one recipient only. We have received several responses to our submissions that have been very clear and helpful, and we are sharing these responses on the PD Forum website.

Section IV - Registration and issuance: The data presented is extremely worrisome. There is a large backlog of both registration and issuance cases, the backlog is growing and the delay is increasing. At the rate of completions in April the backlog in registration cases represents more than 4 months’ work, the backlog in issuance cases more than 5 months. In our previous submissions we have already pointed out the gross inadequacy of the compliance limit numbers of 50 and 40 cases for registration and issuance respectively, which hugely underestimates the volume of cases to be expected. We hope the EB will finally resolve this issue by sufficient staffing.

Para 60 (EB54 Annex 10) - Possible options for loan scheme to cover the cost of CDM project development to countries with less than 10 projects

We welcome the publication of the options document. Without going into detail on the document, we believe the operation of this scheme needs to be outsourced. The UNFCCC neither has the experience to operate a scheme like this, nor the capacity as it is already overworked in other areas. A suitable private sector partner needs to be selected who can operate the scheme effectively and efficiently. If the loans cannot be made available easily and instantly, the scheme is not helping to overcome the hurdles that projects face in these countries.

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We hope that you find the above comments useful and we look forward to receiving your response.

Yours Truly,

A handwritten signature in black ink, appearing to read 'M. Enderlin', is written over a light blue horizontal line.

Martin Enderlin
Chair of the PD Forum

CC: UNFCCC Secretariat, Daniele Violetti