

Head and Members of the CDM Executive Board
Mr. Clifford Mahlung
Chairman
UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D 53153 Bonn
Germany

Project Developer Forum Ltd.
100 New Bridge Street
UK London EC4V 6JA

Mailing address:
Schulstrasse 25
CH 3256 Dieterswil BE

t: +44 20 3286 2520
office@pd-forum.net
www.pd-forum.net

CHAIRMAN

Your contact:
Leo Perkowski
m: +41 79 459 81 18

To cdm-info@unfccc.int
From leo.perkowski@pd-forum.net
Date 15 November 2010
Page 1/5
Subject **Unsolicited feedback on the EB58 annotated agenda**

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 subjects listed on the annotated agenda to EB 58. As the annotated agenda was published after the cut-off date for submissions to EB58, it was impossible to submit the input as requested. Nonetheless, we trust our input will still be provided the appropriate consideration during your deliberations. As you can appreciate the consideration and preparation of comments on the annotated agenda is a significant voluntary undertaking by our members. With that in mind, we again would appreciate formal feedback from the EB/Secretariat regarding the usefulness of this endeavour. We would further like to note that our inputs are always published on our website prior to the start of the EB meeting, and thus publicly available.

Kind regards,



Leo Perkowski
Vice-chair of the PD Forum

Date 16 November 2010
Page 2/5
Subject **Unsolicited feedback on the EB58 annotated agenda**

Para 8 (Annex 1): Draft Procedure on performance monitoring of designated operational entities

Para 20.a): The completeness check data should be weighted just as the request for review. For a fair and impartial evaluation it is necessary to eliminate instances where a rejection was unjustified and/or for reasons that were too insignificant to be counted. For example: 1) cases where documents or data were classified as missing or with blank pages, but, in fact, the documents and data were submitted in good order and later it turned out the problem was at the secretariat's end, or 2) Typographical errors or other issues, which have no bearing on the project implementation, decisions regarding additionality or environmental integrity. Such rejection and reviews need to be excluded to keep the indicators credible and useful. Yes, we agree that a typo is a typo and most unfortunate but everyone involved in reviewing others' documents knows that mistakes happen where people work and it is guaranteed that errors/typos and room for interpretation can always be found in large technical documents with multiple cross-references, even if 30 persons have performed a quality check on them. As an example, just because a validation report reads everywhere AM0032 and at one point AM0023 does not mean the submission is of poor quality; in most cases the title immediately follows the numeric designation which eliminates all doubt on which methodology is employed. In the same regard, we would like the EB to make sure that there is sufficient quality control of the secretariat's assessment and communication with the DOEs as there is significant room for interpretation and misunderstandings¹.

General comment: We would like this procedure to also acknowledge the need for two-way communication and interaction with DOEs. Repeatedly, we find issues raised that do not fit into neither of the categories identified in paragraph 10 but pertain to the fact that there will always be room for misunderstanding between those who were on-site and those who were not. In this regard, the PD-Forum would be happy to offer training days/weeks including site visits, which is an important element of competence building as DOEs and the accreditation panel members surely can confirm.

Para 16 (MP46 Annex 10): Revised guidelines on the assessment of investment analysis

Appendix A: We welcome a list of default values for expected return on equity, which may be used by the PP and accepted by the EB. We would appreciate if the source of the data be included in Appendix A and for the data to be updated periodically, perhaps quarterly.

If the table in Appendix A shows the actual expected return on equity other than only the adjustment factor to reflect the risk in different sectors to which the risk free and equity risk premium, and country risk are then added, they are simply too low, much too low (any financial expert can confirm this) and hence useless. For example, the group 1 rate for India is 11.75%, but the Bank of India Prime Lending Rate is 12.50%. Even an AAA rated company pays 1% spread over the PLR, at 13.50%, an AA rated company pays 2% spread. But the expected rate of return on equity always has to be higher than the cost of debt. The values are surprisingly uniform and do not seem to reflect the differences between countries; the required return in countries that are

¹ As an example, it has come to our attention that several requests for review were raised due to for example stator external diameters being a bit shorter/longer than the model indicated in the PDD, the model otherwise being exactly the same and it having absolutely no influence at all on the hydro project's design (Ref. 2162, 0791 and more). The project owner does not even require a revised approval from the local regulator for such minor issues. Rather than raising a request for review, we propose for the secretariat to first ask the DOE headquarter to explain the technical background. Risk-based assessment is only possible if sufficient expertise and experience is drawn upon. Risk-based assessment is very important, else, we will never get complex projects in difficult settings such as LDCs off the ground while DOEs get more and more scared to use their own judgment.

Date 16 November 2010
Page 3/5
Subject **Unsolicited feedback on the EB58 annotated agenda**

absolutely un-investable are only a few percentage points above those for the most advanced developing countries, this is clearly not correct. Therefore, we suggest the data in Appendix A be reviewed with these considerations. It may be better to state that the expected return on equity can be calculated as the most recent 10-year bond rate of the host country government plus the equity risk premium of 6.5% (derived from US stock market) plus the adjustment factor for the sectoral scopes (which according to the table in Appendix A seems to be 0.5% for group 1, 1.5% group 2, 0% group 3).

Para 17: Call for public comments on the draft “Tool for baseline scenario identification and baseline emission calculations” and technical workshop

And

Para 60 (Annex 8, Section C): Communication with Stakeholders

We welcome opening a call for input and technical workshop for this issue and hope that the EB will also push for additional and more frequent stakeholder interactions on other important topics. In order to create better two-way understanding and working relationships, and aid the quality of submissions, we recommend meetings such as the CDM roundtable be web broadcast for maximum global participation which would have the added effect to allow listeners to submit questions via web chat interaction.

Para 49 (Annex 3): Information note on the update on 2010 project assessments and implementation of procedures for registration, issuance and reviews

On transparency and communication:

- We welcome the publication of the information note on incompleteness messages. A similar information note on the requests for review would also bring great value and we look forward to the public release of that information as well.
 - o We would like to have these publications more frequently than every quarter, and in an accessible and analysable format such as excel or even better; totally digitalized.
- The public release of the following information would also improve transparency and assist in continuous process improvement:
 - o As it was the case for requests for review under the old procedure, PP's/DOE's responses to incompleteness issues and review.
 - o Secretariat's and RIT's assessment notes and any communication from the EB (reasons for objections).
- We propose the same weighting to be used for incompleteness and review issues so as to streamline the DOE performance assessment.

Para 3: The two fundamental reasons for the build up of the backlog are not identified: (1) the failure to actually recruit sufficient staff over the last few years, and (2) an increase in the detail of assessment far beyond any reasonable interpretation of published guidance, including the VVM, and precedent, disregarding the materiality of the issues identified or indeed whether the interpretation used is generally accepted. The first means that too few assessments can be done,

Date 16 November 2010
Page 4/5
Subject **Unsolicited feedback on the EB58 annotated agenda**

and that the additional pressure on existing staff creates mistakes. The second leads to numerous problems identified which do not exist.

Para 6: In an attempt to create an incentive for high quality initial submissions, the current process has penalized project developers for months due to minor errors and has actually created a disincentive to continue financing and developing CDM projects: As stated earlier, mistakes happen and there is an issue about adequateness and there is a difference between “incentive” and punishment: punishing an already strained project that really needs the CDM’s support with 3 months delay is not appropriate. We once again urge the Executive Board to give us a chance in proving that a direct two-way communication with the DOE would solve most of the issues within hours/days. We have been promised improvements over the past years and have not yet seen them (although slight improvements have been observed during the past weeks), we deserve a chance to try our way i.e. a fast-track procedure allowing issues to be resubmitted within 24 hours and then to be considered immediately thereafter. Finally, this is a global process, which counts on the efforts of the world community to make a difference. We ask the secretariat to be more supportive especially given that many project developers and DOEs are non-native English speaking and from non-Annex I countries.

Para 13/15: We urge the EB to take into account projections supplied earlier by the PD Forum. It seems there is a mismatch between them and we foresee higher workloads than the secretariat.

Para 23: We agree with the secretariat’s conclusion that in most cases the documentation needs to be updated i.e. sent back. Our point is that we deserve a chance to correct and send back the documentation within 24 hours and after a short chat between the secretariat and the DOE to make sure we are all on the same page.

Para 33: The Secretariat’s recommendations for improving the completeness check are welcome. Please also consider the digitization of information for assuring that all necessary information is uploaded, rather than creating more paper forms.

Appendix 1 para 9: We recommend not defining minimum monitoring period intervals as this takes away a great degree of flexibility. There are various reasons to keep monitoring periods relatively short and to frequently request issuance, one of them being the considerable delays. Hence, imposing minimum monitoring periods to decrease the number of requests does not address the root cause of the problem; instead it will negatively affect PPs contractual obligations with buyers bound to delivery timelines. At the start of the project frequent monitoring periods serve as a means to verify that the monitoring system is working in line with the CDM requirements. As PPs seek to manage uncertainty and unforeseen changes in project implementation, they need the flexibility to conclude a monitoring report at midnight on the day before a change is implemented. Otherwise, credits prior to that date may be greatly delayed and the verification activity significantly complicated. Given the great degree of uncertainty sellers face over CER eligibility in phase III of the EU ETS and given issuance delays, PPs will need to be able to maximise their CER output before April 2013. Furthermore, PPs need to manage their cash income, there are deadlines to meet for bank loan reimbursements and periodic results. Further, short monitoring periods come principally from high volume projects; these batches represent 17% of total verified periods but have issued 75% of the CERs since 2005. Defining a minimum monitoring period would therefore affect only a relatively small number of issuance requests but will have a substantial negative impact on liquidity of the secondary CER market, which is already characterised by low liquidity.

Para 50 (Annex 4): Draft “Procedures for the consideration of validation reports of emission

Date 16 November 2010
Page 5/5
Subject **Unsolicited feedback on the EB58 annotated agenda**

factors for electricity systems”

Para 5: The text excludes a DOE that validates the general emission factor from validating any project that uses that emission factor. This is a significant restriction from the current situation, where each DOE needs to validate both the EF and the rest of the project. The DOE validating the EF should in no way be restricted in validation or verification of projects using that EF.

Para 10: The PD Forum is of the opinion that projects using a validated, approved and published EF should not be called for review because of issues related to the EF.

Para 59 (Annex 7): Draft “Indicative work plan regarding the Board’s regulatory decisions for validation and verification”

We disagree with the secretariat’s conclusion that minor project design changes cannot be dealt with in the verification report. The DOEs should be allowed to use their professional judgement and take a risk-based approach when they can easily confirm based on their sectoral and local expertise that environmental integrity is not at risk and the project’s design/monitoring plan has not changed in effect (please refer also to footnote 1 on page 2 in this document). We urge the EB to draw a line here: Otherwise, projects in difficult locations such as Sub-Saharan Africa and complex projects will never make it to issuance, the transaction costs and delays are simply too prohibitive. (Note, the ultimate indicator of success is issuance, not registration. Many projects are registered „dead-born“ i.e. they will never make it to issuance). We therefore once again welcome the secretariat’s proposal to move towards a risk-based approach and we ask the EB to provide the mandate for the secretariat and DOEs to do so at once.

Para 61 (Annex 9): compliance with indicative timelines

II: We are disappointed that still only just over one third of submissions in 2010 has been answered, and that the rate of answers is clearly out of step with the rate of submissions. Also, the answers are often not meaningful, simply referring to some general procedures instead of being used as basis for two-way communication and fruitful discussions.

IV: We urge the EB/MP to increase the capacity to assess new methodologies. We have examples of methodologies having passed the completeness check since April this year without any feedback and an indication of expected timelines.

VII: We question the value of the numbers; fact is that the actual total delays (after fee payment) faced by projects requesting registration during the whole of August for example remained approximately 160 days and it still takes 120 days from sending in the request for issuance until its publication for the 28 days. Awaiting scheduling depends on the secretariat’s internal quotas and they seem to change. As an example until end of October every Tuesday, Wednesday and Thursday 7 projects were scheduled i.e. a total of 21 issuance requests per week. Since the start of November it is 31 per week, scheduled every Friday. We still need to do detective work taking “awaiting scheduling since” and adding up scheduled registrations/issuances so as to get an understanding of how long our projects will need to make it through the registration/issuance process. We therefore urge the EB to continue to introduce measures to reduce timelines with the final aim in mind of zero waiting time and that completeness and information and reporting checks are performed during the 28 days of publication.