




F-CDM-RtB

 <b>CDM: FORM FOR SUBMISSION OF “LETTER TO THE BOARD”</b> <b>(Version 01.1)</b> <i>(To be used only by the Project Participants and other Stakeholders for submitting Letter to the Board as per Modalities and Procedures for Direct Communication with Stakeholders)</i>	
Name of the stakeholder <sup>1</sup> submitting this form (individual/organisation):	Project Developer Forum Gareth Phillips
Address and Contact details of the individual submitting this Letter:	Address: 100 New Bridge Street, London, EC4V 6JA Telephone number: +65 6578 9286 E-mail Address: gareth.phillips@pd-forum.net
Title/Subject (give a short title or specify the subject of your submission)	<b>Call for inputs on consideration of suppressed demand in CDM methodologies</b>
Please mention whether the Submitter of the Form is:	<input type="checkbox"/> Project participant <input checked="" type="checkbox"/> Other Stakeholder, please specify <b>PD-Forum</b>
Specify whether you want the Letter to be treated as confidential <sup>2</sup> ):	<input type="checkbox"/> To be treated as confidential <input checked="" type="checkbox"/> To be publicly available (UNFCCC CDM web site)
<b>Purpose of the Letter to the Board:</b>	
Please use the space below to describe the purpose for submitting Letter to the Board. (Please tick only one of the four types in each submission )	
<input type="checkbox"/> <b>Type I:</b> <input type="checkbox"/> <b>Request Clarification</b> <input type="checkbox"/> <b>Revision of Existing Rules</b> <input type="checkbox"/> Standards. Please specify reference <input type="checkbox"/> Procedures. Please specify reference <input type="checkbox"/> Guidance. Please specify reference <input type="checkbox"/> Forms. Please specify reference <input type="checkbox"/> Others. Please specify reference	
<input type="checkbox"/> <b>Type II: Request for Introduction of New Rules</b> <input type="checkbox"/> <b>Type III: Provision of Information and Suggestions on Policy Issues</b>	
Please use the space below to describe in detail the issue that needs to be clarified/revised or on which the response is requested from the Board as highlighted above. In doing this please describe the exact reference source including the version (if any).	

<sup>1</sup> Note that DNAs and DOEs shall not use this form to submit letter to the Board.

<sup>2</sup> Note that the Board may decide to make this Letter and the Response publicly available



## PROJECT DEVELOPER FORUM

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**To** cdm-info@unfccc.int  
**From** [gareth.phillips@pd-forum.net](mailto:gareth.phillips@pd-forum.net)  
**Date** 28 Oct 2011  
**Subject** **Call for inputs on consideration of suppressed demand  
in CDM methodologies**

Honorable Members of the CDM Executive Board,  
Dear Mr. Hession,

The PD Forum would like to commend the Executive Board for approving the work programme on suppressed demand for implementation of the "Guidelines on the consideration of suppressed demand in CDM methodologies" at its sixty-third meeting. We also welcome the opportunity to provide inputs on how to further improve and clarify the guidelines as well as to revise methodologies to integrate the aspects of suppressed demand.

The PD Forum strongly believes that addressing the issue of suppressed demand will complement the Board's other work in increasing the number of CDM projects in regions that are currently under-represented in the CDM. Our comments on the "Guidelines on the Consideration of Suppressed Demand in CDM Methodologies" (EB62, annex 6) are given below.

- **Definitions, Scope and Applicability:** The PD Forum understands that these guidelines will be used to ensure consistency in the methods used to address the situation of suppressed demand in CDM baseline and monitoring methodologies where future emissions by sources may rise above the current level.

Referring to wording in the CDM modalities and procedures, the guidelines define suppressed demand as being the situation where *"the baseline may include a scenario where future anthropogenic emissions by sources are projected to rise above current levels, due to the specific circumstances of the host Party."*

Further, para 7 of the guidelines state that *"these guidelines provide approaches that can be used in baseline and monitoring methodologies to address situations of suppressed demand. It [we assume that this refers to "the guidelines"] is applicable when a minimum service level, as defined above, was unavailable to the end user of the service prior to the implementation of the project activity."*

**Recommendation:** the PD Forum suggests that it would be useful for the guidelines, and subsequently, revised methodologies to include details about how to recognise situations in which "suppressed demand" may be relevant. In addition, the guidelines could give examples of 'specific circumstances' in which emissions may rise above current levels. This would help increase the usability of the guidelines and subsequently the revised methodologies by project participants. Furthermore, based on the wording of para 7, it could be assumed that a suppressed demand situation is always present if the pre-project service level is lower than the minimum service level; if this is the intention, then this should be stated explicitly.



- **Identification of baseline technology:** Firstly, from the Guidelines, it is stated that potential baseline technologies and fuels should be ranked in order of increasing efficiency and the first technology that is able to meet the minimum level of service under realistic conditions is adopted as the baseline technology.

While we appreciate the clarity given in this procedure, we are concerned that no consideration is given to the technology that is currently used (i.e. that used in the situation existing prior to implementation of the project activity) and that this approach may be more appropriate in some situations.

For example, AMSICv19, states that “For renewable energy technologies that displace technologies using fossil fuels, the simplified baseline is the *fuel consumption of the technologies that would have been used in the absence of the project activity, times an emission factor for the fossil fuel displaced*”.

In addition, in the guidelines for the step-wise procedure, step 2 states that baseline alternatives must be “*in compliance with local regulations*”. We are concerned that no mention is given to non-compliance of local regulations and how this should be dealt with in this procedure.

**Recommendation:** the PD Forum suggests that the PP is given a choice to identify and select the baseline technology based on

- Either consideration of technology used in the scenario prior to the implementation of the project activity (based on interviews with relevant experts, official data from government agencies, independently commissioned studies by expert organizations/universities, surveys or sampling)
- Or using the ‘ranking’ procedure in the Guidelines.

We suggest also that Step 2 of the ‘ranking’ procedure is amended to include the situation in which local regulations “are systematically not enforced and that non-compliance with those requirements is widespread in the country”, so as to be consistent with other tools and guidelines.

- **Identification of the baseline service level:** from the Guidelines, identification of the baseline service level is based on three approaches:
  - i) The service level provided prior to the implementation of the project activity
  - ii) The service level provided under the project activity
  - iii) A minimum service level which “*satisfies basic human needs*” but “*allows an increase above the levels provided prior to the implementation of the project activity, taking into account the income and rebound effect*”.

The PD Forum welcomes the introduction of this flexible approach and appreciates that different baseline service levels will be appropriate in different situations (and for different methodologies). However, we would like to point out several potential issues with the guidelines as they currently stand:

- Little explanation is given as to which approach will be deemed appropriate for which sectoral scope/ methodology. In particular, for option 2 (project service level), questions remain about when it is possible to assume this as the baseline without considering a different layer of demand up to the minimum service level or whether it is possible that the chosen minimum service level could actually exceed the project service level.
- The definitions of the term “minimum service level” are not clear or consistent in different parts of the guideline: para. 6(c) defines minimum service level as “*a service level that is able to meet basic human needs*”. However, in para. 12(c) “minimum service level” is defined as “*a choice that reflects that the service provided prior to the implementation of the project activity would increase if it were not suppressed by the lack of income and high unit costs of the service*” (and this may well exceed the level required to satisfy basic human



needs). Para 12(c) also states that the minimum service level is set at a level “*that satisfies basic human needs and makes possible the development of the type of project*” which again suggests a different definition of the term.

- Guidelines for establishing minimum service level are not sufficiently clear. In particular, we feel that insufficient explanation/ definition is given for what constitutes a “long time horizon” (para 14) and how the criteria given in para 16 will be assessed e.g. who will be responsible for evaluating and periodically updating decisions (para 16d)? Further, we suggest that, while the guidelines state that financial viability of the CDM cannot be the predominant determining criteria, this should be used as a ‘reality-check’. There are several methodologies approved today that have never been used because the maximum revenue in the best case simply is insufficient to even cover the transaction costs from developing the PDD to validation and verification.

**Recommendation:** the PD Forum suggests that the following amendments are made to the guidelines:

- 1) Development of a positive list of already approved/acknowledged minimum service levels for e.g. electricity consumption, light hours and water purification based on guidance provided by, for example, the UN and WHO. We suggest that workable and realistic default values are defined for key areas to reduce transaction costs associated with identifying the baseline service level.
- 2) Development of a matrix to establish which approach is appropriate for which sectoral scope/ methodology. This can be based in part on existing practices. Currently, several methodologies include implicitly the concept of suppressed demand by basing baseline emissions on the service level provided under the project activity multiplied by the emission factor of the baseline technology and fuel. For example, looking at AMSICv19, baseline emissions for heat production are calculated based on the net quantity of steam/heat supplied by the project activity during the year y (equation 2 of AMSIC v19).
- 3) Amendments to definitions of the term “minimum service level” to provide clarity and remove inconsistencies
- 4) Develop further detail for the procedure to be followed to identify the minimum service level. To achieve this, it is suggested that a step-wise approach (possibly supplemented by a worked example) is developed along the lines of that given in section A.

The PD Forum once again commends the EB for approval of these guidelines and hopes that the focus is now on quick implementation of these guidelines. Much time has already been spent ensuring that the methodological approach and overarching principles are correct; now we hope that the emphasis is shifted to ensuring that methodologies are amended and project developers can actually use these to help make actual projects happen.

Kind regards,

**Gareth Phillips**  
Chair of the PD Forum



Please use the space below to any mention any suggestions or information that you want to provide to the Board. In doing this please describe the exact reference source including the version (if any).	
[replace this bracket with text, the field will expand automatically with size of text]	
If necessary, list attached files containing relevant information (if any)	<ul style="list-style-type: none"> <li>[replace this bracket with text, the field will expand automatically with size of text]</li> </ul>
<b>Section below to be filled in by UNFCCC secretariat</b>	
Date when the form was received at UNFCCC secretariat	

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**History of document**

Version	Date	Nature of revision
01.1	09 August 2011	Editorial revision.
01	04 August 2011	Initial publication date.
<b>Decision Class:</b> Regulatory <b>Document Type:</b> Form <b>Business Function:</b> Governance		