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From martin.enderlin@pd-forum.net
Date 28th June 2009
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Subject **EB48: Input on procedures for changes in PDDs
(annexes 3&4 of agenda EB47)**

CHAIRMAN

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Honorable Members of the CDM Executive Board,

The Project Developer Forum (PD Forum) welcomes the progress that the EB is making on the consideration of procedures for the assessment of different types of changes from the project activity as described in the registered PDD and also the progress on elaborating procedures for requesting changes from the project activity as described in the registered PDD. These are important items which are holding up the issuance of CERs from a number of projects which are being developed by PD Forum members.

We note the discussion around major and minor changes in project activities (EB47 and Annexes 3 and 4 to the agenda of EB 47) and we would like to offer the following observations and suggestions:

With regards to the retrospective application of this guidance to existing projects, PD Forum recognizes that procedures are required to process existing projects which are currently trapped. However, the PD Forum also requests that for those projects which end up with a significant reduction in requested CERs or total rejection of future issuance, the EB considers providing guidance which recognizes that Project Participants (PPs) could have designed their projects differently had they known the consequences of changes in the project activity compared to the registered PDD.

In general, we note the draft procedures for requesting changes from the project activity as described in the registered PDD (Annex 4) are to be applied to permanent changes only. In our view, there needs to be clear guidance of what constitutes permanent change and temporary change. Furthermore, it is our opinion that permanent change can be categorized into permanent change(s) within the control of the PP and permanent change(s) that is not. It is therefore very important that clear guidance is given on these definitions for two reasons:

- 1) If in any doubt, DOE's will tend to err on the side of caution and trigger the procedures in Annex 4 to EB 47, which will create additional workload and incur both extra costs and delays for PPs.
- 2) This guidance has the potential to decline issuance of CERs to projects which have relied on CDM finance. Since CDM finance needs to be approved before investments are made, changes in the final project are highly likely. If these guidelines are not applied with care, they risk undermining investment in CDM projects by making the delivery of CERs more uncertain. With clear guidelines, PPs may be able to design their projects such that the likelihood of registration and successful issuance is maximized.

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B. Changes which may impact the additionality of the project activity

The PD Forum considered the following examples to help to define rules governing changes:

Criterion	Known at time of decision to invest	Permanent / Temporary	Does PP have control	Does change impact upon additionality*	Type of Change
Example					
Installation of additional revenue generating capacity	Known with intent**	n/a	n/a	n/a	Major
Installation of additional revenue generating capacity	Not known	Permanent	Yes	Yes	Major
Installation of additional abatement equipment	Not known	Permanent	Yes	No	Minor
Lower investment cost compared to PDD	Not known	Permanent	Yes	Yes	Major
Altered tariff / sale price after decision to invest	Not known	Permanent	No	Yes	Minor
Change in operational parameter such as power output due to increased raw material	Not known	Temporary	Yes – to the extent that the PP can capture / utilize more raw material if it is available for reasons beyond the PPs control (e.g. gas, biomass, wind)	Yes	Minor
Change in operational parameter	Known	Permanent or Temporary	Yes	Yes	Major

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*As a means of assessing the impact of the change upon additionality, any change which is within the bounds of the sensitivity analysis may be classed as having no impact upon additionality. However, changes that are beyond the bounds of the sensitivity analysis may also be shown to have no impact upon additionality because the sensitivity analysis tends to be one-dimensional whereas increases in project parameters seldom arise in isolation – for example greater output usually incurs additional operational and or raw material costs. Any assessment of impact upon additionality shall be carried out using guidance on financial analysis and interpretation of additionality that was current at the time of the original validation.

** A distinction must be drawn between knowing that the potential exists to install additional equipment (which is allowed) and intending to install additional equipment which would be evidenced by possession of, *inter alia*, permits, quotes for equipment, finance, and drawings which differ from the activity described in the PDD. Intentionally describing a different project activity from the one planned is a serious action. The validating DOE should detect such discrepancies and some DNA's attach significant liabilities to the provision of misinformation in the application for a host / non-host LoA.

Based on this analysis, the **PD Forum proposes the following consequences of a Major or Minor change:**

- A Major change triggers the procedures described in Annex 4 which will involve, *inter alia*, an assessment of impact on additionality, based on the original input data as noted in Annex 3 paragraph 6 and based upon guidance on financial analysis and interpretation of additionality that was current at the time of the original validation;
- A Minor change should be reported by the DOE in the verification report, with justification for their decision.

From this analysis it can be seen that the following **hierarchy rules** can be defined:

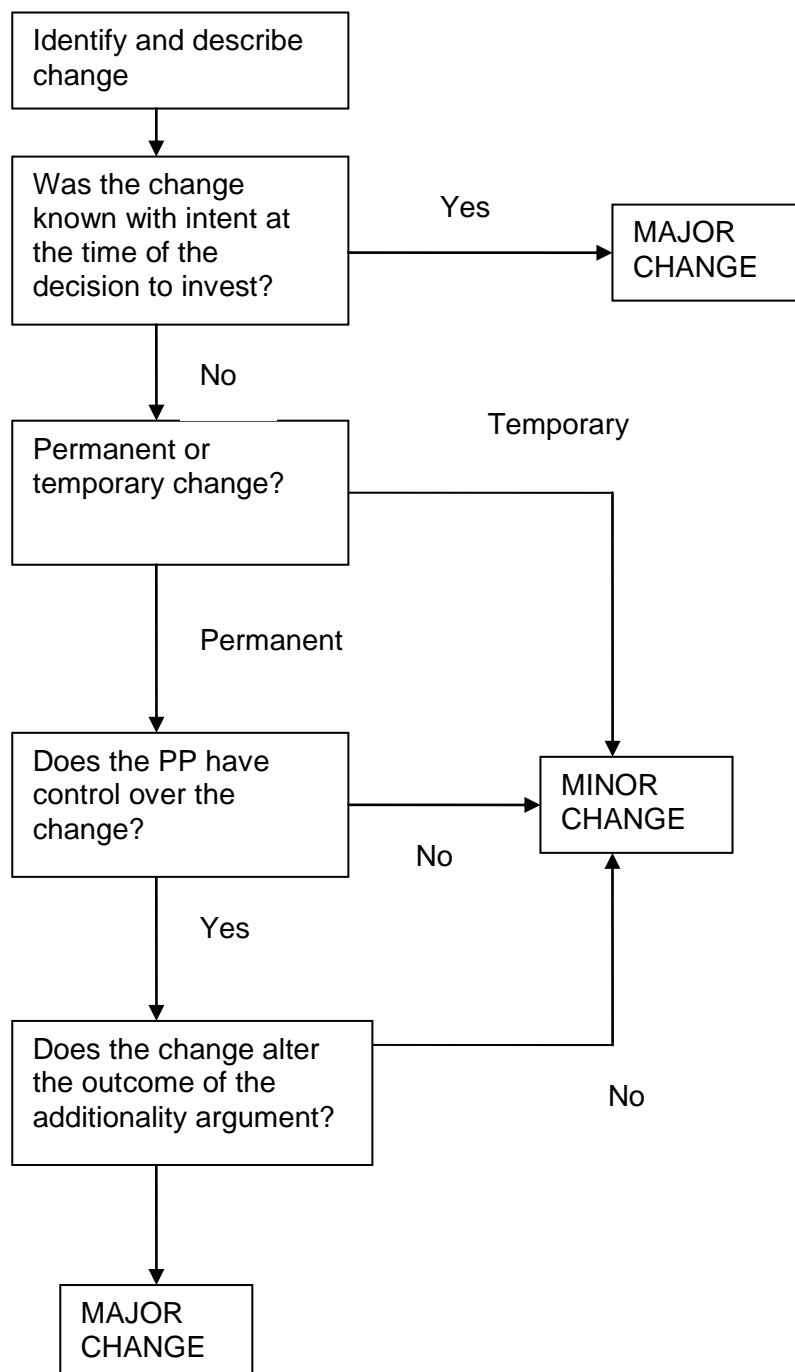
- If a change was known at the time of the decision to invest or at the original validation and there is evidence of intention install a different project activity from the outset, then it **MUST** be considered a major change.
- If different values for parameters were known at the time of investment, then the change **MUST** be considered as a major change*.
- If the change is a temporary change it **MUST** be considered to be a minor change.
- Where the PP has no control over the change, it **MUST** be considered as a minor change.
- Where the change has no impact upon additionality it **MUST** be considered minor.

* Note that the DOE is required to verify this information during the validation and this activity should have included confirmation that the data was based on objective evidence such as historic data, long term averages, contracted agreements etc.

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These rules can be represented in the following decision tree:



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Applying this guidance to options 4b) and 4c) of Annex 3 results in the following observations:

4b) Addition of component or extension of technology – could result in major or minor change depending on whether the change is permanent or not; whether it was known at the time of the decision to invest; whether it is within the PPs control and whether it impacts upon additionality arguments

4c) Removal or addition of one or more sites - could result in major or minor change depending on whether the change is permanent or not; whether it was known at the time of the decision to invest; whether it is within the PPs control and whether it impacts upon additionality arguments.

C. Changes in the category of CDM project activity.

Annex 3 paragraph 8: A periodic increase in CERs above the 60,000 CER limit may not necessarily be permanent, in which case, no assessment of impact on additionality or eligibility is required. The eligibility to apply the small scale rules has already been validated by the DOE based on information that was available at the time of the decision to invest. Unless there is evidence to suggest that additional information concerning small scale eligibility was known to the PP at the time of the decision to invest, no re-assessment is required.

Small scale project activities of type III should be capped at 60,000 and not forced to change to the large scale methodology and PDD, as is currently the case. From a practical perspective, if paragraphs 8 and 9 are adopted, PPs are likely to ensure that they simply do not capture enough methane to take them over the 60,000 limit, which is to no-one's benefit.

D. Changes which impact the applicability/application of baseline methodology

It is important to ensure that this assessment is based on information that was known to the PPs at the time of the decision to invest and the original validation, which also includes the understanding of the version of the methodology that was available at this time.

Annex 4 describes Procedures for Requesting Changes from the Project Activity as Described in the Registered Project Design Document.

Under the applicability section, it is noted that these procedures are to be applied by the DOE for permanent changes from the registered PDD. We further suggest that these procedures are also limited to changes which are classed as MAJOR.

The PD Forum welcomes the clear description of the process for initiating a request for changes to a registered PDD. In view of this guidance, we request that issues concerning potential changes in a project activity are not raised during requests for revision of monitoring plans and do not delay such requests.

We note the timeline for consideration by the RIT and the secretariat and we request that a similar time period be attached to the completeness check.

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Overall, it should be noted that the guidelines will increase risk and uncertainty in project categories that involve less controlled situations such as, *inter alia*, biogas, land fill, coal mines, avoided gas flaring, biomass and renewable energy. These kinds of projects are at risk because of the uncertainties in technology and activity levels at the time of project design. This in turn will make it harder to secure carbon finance for projects.

Conversely, these guidelines will have little impact upon project categories which involve very controlled systems such as industrial gas abatement projects and industrial energy efficiency. In these situations, conditions are relatively controlled and project activities can be designed, constructed and operated with a relatively high degree of certainty.

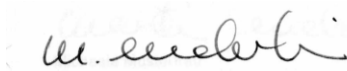
The PD Forum requests that the Board considers the broader issues associated with investment decision making in the context of CDM projects and ensures that guidelines for addressing changes in project activities do not present further barriers to the implementation of CDM projects in selected sectors. In this respect it is crucial that the EB delivers very clear guidance on the definition of major and minor changes so that project developers can design their carbon financed projects so as to maximize the likelihood of successful issuance of CERs.

PD Forum recommends the following:

- 1) The EB adopts a very clear decision making process for determining whether a change in a project activity is a MAJOR or MINOR change. This process must recognize whether changes were known at the time of the decision to invest or the original validation; whether changes are temporary or permanent; whether they are under the PPs control and whether they impact upon the additionality arguments made at the time of validation. Guidance is required for DOEs to help them objectively and consistently assess each of these criteria.
- 2) Assessment of the impact on additionality is performed using only information that was available to the PP when the decision to invest was made or at the time of the original validation. This information has already been verified by the validating DOE and therefore only the parameters in question should be changed, along with other relevant costs and revenues (eg operational expenditure).
- 3) Type III small scale projects are capped at 60,000 CERs per annum unless it can be shown that the project was not eligible for small scale meths at the time of the decision to invest or the original validation.

We hope you find input timely and helpful to agree on balanced guidelines that enable the carbon market community to invest in sustainable CDM project activities.

Yours Truly,



Martin Enderlin
Chair of the PD Forum