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Date 8 March 2011
Page 1/4
Subject Call for public inputs on the "Guidelines for demonstrating
additionality of renewable energy projects =<5 MW and energy
efficiency projects with energy savings <=20 GWh per year"

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

The PD Forum welcomes the opportunity to provide input to the Executive Board to facilitate work on revising and broadening the scope of the "Guidelines for demonstrating additionality of renewable energy projects =<5 MW and energy efficiency projects with energy savings <=20 GWh per year", hereafter referred to as the "Guidelines".

Firstly, the PD Forum would like to congratulate the Executive Board on the adoption of the Guidelines last year. In our view, the Guidelines represent a significant step forward in reducing the risk and transaction costs associated with developing very small scale projects. This is particularly desirable due to the fact that many of these projects are deemed to have significant co-benefits in terms of sustainable development. In addition, the fact that many such projects are located in LDCs means that the Guidelines will play a crucial role in removing barriers to the development of more CDM projects in these countries.

However, the PD Forum recognises the limitations of the Guidelines as they currently stand and therefore would like to present our suggestions to expand and improve them. These suggestions are based on practical, 'in the field' experience of using the Guidelines and the difficulties experienced when using them to demonstrate the additionality of real projects under development.

1. Expansion to Type III projects

In line with the further guidance relating to the Clean Development Mechanism from the CMP at Cancun¹ last year, the PD Forum supports the expansion of the Guidance to Type III projects. In our view, it is clear that many Type III projects, particularly those located in LDCs, would benefit from being able to use these Guidelines. And further, that many of these projects (for example 'green' transport projects or projects leading to the avoidance of methane emissions) have clear sustainable development benefits, in the same way that type I and II projects do. There is no need therefore for a distinction by methodology type on which projects can and cannot use these Guidelines.

¹http://unfccc.int/files/meetings/cop_16/conference_documents/application/pdf/20101204_cop16_cmp_guidance_cdm.pdf (para. 39)

Date 8 March 2011
Page 2/4
Subject Call for public inputs on the "Guidelines for demonstrating additionality of renewable energy projects =<5 MW and energy efficiency projects with energy savings <=20 GWh per year"

We also support the 'cut-off limit' of 20,000 tonnes of CO₂e per annum for projects wishing to use these Guidelines, as proposed in the Guidance from CMP6².

2. Application to programme of activities (PoAs) and bundled projects

Similarly, the PD Forum supports the use of these Guidelines to demonstrate the additionality of PoAs and bundled projects.

We strongly support that, in the case of PoAs, if the measures contained in CPAs amount to an installed capacity/ energy savings/ GHG savings less than the threshold presented in the Guidelines, then their use should be allowed. We consider it important that this application is made explicit in the Guidelines. At present, the criteria for demonstrating additionality for PoAs is unclear and therefore complex, costly and time consuming and this increases risk for project developers and DOEs.

It is our view, that in the spirit of the original intention of using PoAs to encourage small-scale interventions by reducing transaction costs, it is essential that additionality can be demonstrated in an environmentally robust way but in one which does not place a disproportionate burden on project developers.

Likewise, in the case of bundled projects, we suggest that if individual 'sub-projects' in the bundle are less than the threshold presented in the Guidelines, then use of them to demonstrate additionality should be allowed. It is our understanding that the SSWG has already considered this issue in response to a request for clarification³ and had already made recommendations to the Board on this issue⁴.

3. Appropriateness of the unit thresholds (e.g. 750 kW)

The PD Forum has no comments on this issue and therefore supports the wording in the Guidelines as it currently stands.

4. Definition of communities and primary technologies

- (i) *Communities.* According to the Guidelines in their current form, there is no definition given for the word 'communities'. However, it is generally used together with 'households' and 'SMEs' so we understand it to mean, for example, a village or small town.

However, when it comes to validating the use of this Guidance for projects involving 'communities', a clearer definition would be advantageous to avoid the risk of different interpretations of the definition of 'communities' by, for example, PPs, DOEs and the Secretariat. In this case, we would suggest that 'community' is defined as a village or small town with a population of <20,000 people.

- (ii) *Primary technology.* The Guidelines currently are applicable to projects "that employ

² In the case of projects using type III methodologies which generate incremental volumes of CERs (such as AMS IIF, AMS IIIA), which may surpass this threshold at some point in the future, we suggest that these Guidelines can be used up to the year when emission reductions from the project reach the threshold volume. At this point, project participants would have the option of either forfeiting CERs beyond the threshold or demonstrating additionality using standard procedures for demonstrating additionality of small scale projects. This is similar to the situation currently for small scale projects when the threshold for small scale projects is passed.

³ SSC 436, available at <http://cdm.unfccc.int/methodologies/SSCmethodologies/clarifications/50776>

⁴ SSC WG 27 para. 16b, http://cdm.unfccc.int/Panels/ssc_wg/meetings/027/ssc_027_meetrep.pdf

Date 8 March 2011
 Page 3/4
 Subject Call for public inputs on the "Guidelines for demonstrating additionality of renewable energy projects =<5 MW and energy efficiency projects with energy savings <=20 GWh per year"

renewable energy as their primary technology". However, the term 'primary technology' is not defined which can lead to the risk of varied interpretations. We assume that the major reason for the distinction of "primary technologies" was the risk of application of simplified additionality guidelines to projects with multiple components (such as landfill or biogas projects) for example, where you could potentially apply these guidelines to the entire project as long as the renewable energy component is below the 5 MW threshold.

In the light of the proposed expansion of the guidelines to type III projects (see point 1 above) and the proposed clarification on projects that combine several methodologies (see point 6 below); the revised guidelines would cover all categories (i.e. type I, II and III) of small-scale methodologies and possible combinations thereof. Given the fact that SSC methodologies already have extensive eligibility criteria and rules for the combination of different methodologies, we believe that the use of the word "primary" becomes obsolete and propose to remove this word from paragraphs 1 and 2 of the Guidelines.

- (iii) **SMEs.** We further suggest that country specific official definitions of SMEs are to be used. In the case of countries that do not have this official definition, the definition of the IFC (International Finance Corporation, part of the World Bank Group) is recommended to be used. According to IFC, small and medium enterprises (SMEs) are those that:

SMALL ENTERPRISES	MEDIUM ENTERPRISES
Employ 10 to 50 people	Employ between 50 and 300 people
Total assets and/or annual sales between \$100,000 and \$3 million	Total assets and/or annual sales between \$3 million and \$15 million

5. Application of the criteria implied in paragraph 2 (d) of the referred guidelines (EB 54, annex 15) for the host country DNAs and the Board to determine specific renewable energy technologies to be additional in the host country.

While we understand the intention and sentiment of this criterion, it is our view that it is not workable in practice. It is our understanding that since the publication of the Guidelines in May 2010, no DNAs have declared specific RE technologies to be additional and therefore the Board has not approved or rejected any of these declarations. The reasons for this are multiple but likely include a lack of institutional capacity and/ or awareness of the Guidelines by some DNAs; lack of lobbying to DNAs by project developers etc. Regardless of the reasons, it is clear that the criterion is not helpful.

Furthermore, we believe that the introduction of additional criteria or limitations by DNAs with regards to eligible technologies creates one additional layer of complexity and uncertainty for such very small-scale projects, which contradict the intention of the EB54, Annex 15 guidelines to remove such barriers and reduce transaction costs for such projects. It is also important to note that independent of the project size, the DNAs have always had control over the eligibility of CDM projects in the host country due to their ability to issue or to reject a request for DNA approval. In this sense, DNAs have already the possibility to include or exclude certain technologies on a case by case basis.

The PD Forum therefore proposes changing the wording of this criterion to

"The project activity employs specific renewable energy technologies/measures which contribute to less than or equal to 5% to national annual electricity generation in the host country, as validated by the DOE".

In this way, the Guidance would support the promotion of "underrepresented project activity types

Date 8 March 2011
Page 4/4
Subject Call for public inputs on the "Guidelines for demonstrating additionality of renewable energy projects =<5 MW and energy efficiency projects with energy savings <=20 GWh per year"

or regions", as requested in the CMP6 guidance to the Executive Board⁵.

6. Additional comments

Projects applying multiple methodologies

The PD Forum encourages the introduction of a clarification with regards to projects that combine methodologies across different projects types (i.e. type I, II and III). Applying the same logic as for small-scale CDM projects, we believe that projects applying multiple small-scale methodologies (e.g. a biogas project recovery project applying AMS.I.D and AMS.III.H) should be allowed to use the simplified Guidelines, as long each project component covered by a type I, II or III methodology stays within the thresholds defined in the Guidelines (i.e. 5 MW installed capacity for type I, 20 GWh/year savings for type II and 20,000 t CO₂e/year emission reductions for type III projects).

Projects generating thermal energy

The PD Forum also encourages a clarification with regards to the eligibility of type I projects that generate thermal or mechanical energy in combination with or excluding electricity generation (as covered by the approved methodologies AMS.I.B., AMS.I.C., AMS.I.E and AMS.I.I).

We strongly believe that small thermal or mechanical energy projects should not be treated differently to electricity generation projects, especially because thermal energy (e.g. for cooking and heating) and mechanical energy (e.g. water pumping) often represent more basic energy needs than electricity supply. Therefore, we propose to amend the Guidelines to explicitly include such project types. Based on the same logic for size limitation applied for electricity generation, type II and eventually type III projects, the simplified Guidelines should be applicable to projects with an installed capacity for thermal energy generation of 15 MW_{th} (1/3rd of SSC threshold of 45 MW_{th}) and 5 MW installed capacity for mechanical energy generation.

Finally, in light of the CMP decision on standardised baselines and request for alternative approaches to demonstrating additionality, and the discussions in the baselines workshop of 4-5 March in Bonn, the PD Forum would like to ask the EB to consider expanding this approach to a greater subset of small scale projects, for example all type I projects, or all projects employing specific technologies such as solar PV.

We hope that these suggestions are useful in your discussions going forward and, as always, we would be more than happy to discuss these and any other issues with you.

Kind regards,



Rachel Child
Co-Vice Chair of the PD Forum

⁵http://unfccc.int/files/meetings/cop_16/conference_documents/application/pdf/20101204_cop16_cmp_guidance_cdm.pdf