PROJECT
DEVELOPER
FORUM

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To	bquesnel@worldbank.org
From	**gareth.phillips@pd-forum.net**
Date	31st January 2014
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Subject	**Comments from PD Forum on the 25th November "Summary of consultation with representatives of private sector firms**

Dear Mr Quesnel,

Firstly, we would like to commend you and your team on the efforts you are making with the proposal to establish a Pay-for-performance auction facility for methane abatement projects. We were invited to attend your meeting in London on 25th November but unfortunately, no one was able to represent the PD Forum at the meeting although some of our members were present (including Sindicatum and South Pole Carbon). I received a copy of the Summary note that you prepared and we would like to offer some further feedback on this. Furthermore, I hope that the PD Forum can continue to be involved in the development of this initiative. It is highly relevant to our members, many of whom have developed or manage projects which could be eligible for to participate in the initiative.

We are very supportive of the concept of reverse auctions or put options once a suitable strike price has been assessed. Without wanting to complicate the process, we would observe that different technologies and projects in different countries have different underlying costs and revenues and therefore we propose that some measures are introduced to ensure that emission reductions are bought from different kinds of activities and in different geographies. One suggestion would be to group methodologies and to restrict participation in specific auctions to projects that use of one or more specified meths to deliver more than, for example, 50% of the project's emission reductions.

We understand the need for some "skin in the game" to ensure that proposed projects have a realistic chance of being implemented and producing real emission reductions. We also understand that this will encourage only *bona fide* participants and reduce the likelihood of multiple bidders joining in, bidding down the price and then never delivering. However in view of the fact that many developers and investors have already made significant investments in development and registration of projects, we hope the WB may be able to consider liaising with other institutions to enable . the development of financial packages to help overcome this barrier.

We would also highlight that leaving the full due diligence process until after the auction process is a further barrier to participation. We would suggest that limiting participation to registered CDM projects should mean that further due diligence should be unnecessary as CDM projects have already gone through several, rigorous checks. And if further due diligence is seen as necessary after the auction has taken place, we would request that these requirements and the documentation needed is made clear in advance of the auction so that potential participants can assess in advance whether this is a likely to be a barrier for them.

We agree that the WB is best placed to manage these auctions and using host country financial institutions would be a significant complication, threat to the integrity and an un-necessary use of resources.

To ensure that revenues are not captured by a few participants, we would like to propose that only primary credits are purchased – this could be ensured by requiring purchased credits to be cancelled into the UNFCCC voluntary cancellation account.

The PD Forum, in general, supports the use of CERs ahead of voluntary units, and continues to adopt this position in the current discussion on the basis that much of the voluntary sector is supported by the CDM infrastructure. At the same time, we also consider that the environmental integrity of the CDM is higher than many voluntary standards and a problem arises if the facility then tries to choose between different voluntary standards. If voluntary standards are selected, then we propose that they should be restricted to the Gold Standard and the VCS and they should be auctioned in different auctions so that structural differences in the cost of production do not interfere with the process.

Novation of contracts to provide flexibility is a good proposal however we would suggest that there should be a like-for-like provision otherwise we would be concerned about the scope for arbitrage, which would simply result in a financial gain to successful auction participants, undermining the intentions of the facility. Like-for-like could follow the methodology restrictions and possibly country or regional restrictions. Like-for-like flexibility would also provide some guarantee of the kinds of co-benefits that would be delivered.

The limit on the size of the transaction is a challenge and would tend to result in pooling of projects which encourages intermediaries, makes it harder to work with selected methodologies and also conflicts with much of the effort which has been devoted to small scale projects which may have proportionately higher sustainable development benefits. A higher threshold also increases the likelihood that the holder of an option may be unable to exercise it because of, for example, cumulative failures in the MRV process. If the route of voluntary cancellation into the UNFCCC account is taken, then, whilst we acknowledge the greater bureaucratic burden of having more smaller participants, the exercise of the option and delivery is straightforward. If projects have demonstrated their eligibility at the outset, then we see no particular need for a size threshold. As you have noted, pooling may diversify risk however, in our view it diversifies risk for the wrong person – an aggregator, not a project developer. Aggregators are important but they are not the ones needing support at this stage. Finally, concentrating on larger projects will concentrate the support in just a few places whereas spreading it across many small projects will ensure that greater support is given to the CDM infrastructure. To achieve your second objective, the mechanism needs to ensure that financial support goes to the projects and not to intermediaries.

We agree that there is some need for eligibility however we would highlight that the registration and issuance process for CDM projects is increasingly robust and, whilst we note criticisms from some stakeholders, we do not believe that methane related projects are widely criticized as non-additional. Many are abatement only (and we already have evidence that these are closing down in the absence of CER revenues) and those which generate power have relied on the methane based CERs to support investment. Therefore, we would propose that registration with the CDM EB would cover the technical aspects of eligibility. An auction window for PoA might be required in recognition of the particular challenges which PoA faces around completing issuance.

The PDF supports restricting eligibility to methane destruction projects only and not including other gases, at least in the initial stages of the facility. However, we do not support limiting eligibility to non-fossil fuel projects only. Many PDF members have developed and managed projects that abate methane in the coal mine methane, oil and gas sectors. Many of these projects have significant sustainable development and safety benefits as well as delivering sizeable volumes of additional emission reductions. While we understand the political sensitivities around including this type of project in the facility, we suggest that with restrictions in place (see below) then this type of project would be valuable to include.

Regarding country eligibility, we propose that there are no grounds to exclude countries or participants however we would recommend that the facility exercise control over the duration of the crediting period

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for example, buying emission reductions from the first seven years of activity from projects in BASIC countries, from all 21 years of activities of projects in LDC countries and 14 years from countries not included in BASIC or LDC. This will have the effect of curtailing access to advanced developing countries and supporting LDCs, consistent with the concept of these different groups assuming more responsibility for their own domestic mitigation. Apportioning support to different methodologies would also ensure that one particular technology does not dominate the market. Setting out clear guidelines of this nature from the outset would be beneficial for all participants.

An LDC premium would be a distinct advantage however if a size threshold of 300,000 tonnes were applied, it would be very challenging to bring together a big enough pool of projects to benefit from this incentive, and eventual exercise of the option would be even more challenging given the cumulative failure rate of multiple projects.

We are not supportive of the inclusion of JI projects in actions unless there is a specific window for them. The duration of their existence is also a challenge in the absence of the ratification of a second commitment period.

We look forward to further engagement on this topic.

Kind regards,

Gareth Phillips

Gareth Phillips
Chair, Project Developer Forum