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To cdm-info@unfccc.int
From andrew.prag@pd-forum.net
Date 12 April 2010
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Subject **Call for public inputs: Simplified modalities for demonstrating additionality of small scale renewable energy and energy efficiency project activities**

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Dear Mr. Mahlung,
Honourable Members of the CDM Executive Board,

The Project Developer Forum and the International Emissions Trading Association would like to submit jointly the following response to the call for inputs on simplified modalities for demonstrating additionality for small-scale renewable energy and energy efficiency project activities.

Concern about Further Segmentation

Simplified modalities for SSC projects were originally introduced to reduce transaction costs for smaller CDM projects. Such projects can fail to attract investment simply because the volume of CERs (and therefore revenue) is too small to justify the transaction costs (TCs) that will be incurred developing the project. A key area which makes up a large part of TCs is validation of project additionality. The existing SSC modalities have had only limited success in reducing such transaction costs, however, including *but not limited to* the transaction costs of very small-scale (VSSC) projects in the renewable energy (RE) and energy efficiency (EE) field, where vast opportunities to develop projects with high sustainable development benefits lie. Before providing our recommendation for ways to streamline the modalities for demonstrating additionality for very small-scale projects, therefore, we recommend further improvements be made to the modalities for *all* RE/EE SSC projects, as making too strong a distinction for VSSC projects carries some risks for other SSC projects of the same type.

To explain, *all* small-scale projects carry high transaction costs per CER relative to large-scale projects. Specifying streamlined additionality tests for VSSC projects could unintentionally make it more difficult for regular SSC projects to demonstrate additionality by drawing an unnecessary distinction between projects with that differ only slightly in size; a project that only marginally fails to qualify for VSSC would face largely the same barriers. Although some arbitrary distinctions are necessary, such as between small and large scale projects, further distinctions could cause unnecessary problems. For example, the PD Forum and IETA are hesitant to suggest the arbitrary application of new modalities only to VSSC projects, as it might lead project proponents to artificially limit the size of their projects. We want to be sure to not unintentionally reduce the viability of good SSC projects.

Basic Recommendations

Nevertheless, VSSC projects do in many cases carry relatively higher transaction costs when compared with normal SSC projects and are often perceived to deliver greater sustainable development co-benefits. For these reasons, we believe that it would be appropriate if VSSC RE/EE projects were deemed to have demonstrated additionality if they generate emissions reductions relative to an individual or multi-project baseline – which would not necessarily have been calculated by the PP, as this adds to TCs – without undergoing *any* further financial or barrier tests.

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Beyond this suggestion, we believe that the modalities for demonstrating additionality should be immediately simplified for *all* RE/EE projects that fall within the currently established SSC threshold. In the following section, we propose some initial ideas for the simplification of modalities for *all* small-scale RE/EE projects, and we recommend that the SSC WG convene a practitioners' workshop to further elaborate these ideas.

Finally, while we understand that the Parties may choose, from time to time, to prioritize and facilitate the development of certain kinds of project types, such as RE/EE projects, we would further suggest that the EB consider simplifying the modalities for the demonstration of additionality for all SSC projects, where appropriate, *regardless of project type*, as experience with the new modalities is gained.

Recommendations for the Simplification of Modalities for Demonstrating Additionality for All Small Scale Renewable Energy (RE) and Energy Efficiency (EE) Project Activities:

Background

Currently, the guidance for demonstrating additionality for small scale projects requires the project owner to demonstrate that the project faces one of the following barriers:

- Investment barrier
- Technology barrier
- Barriers due to prevailing practice
- Other barrier

To demonstrate this, the project owner/developer has to give a detailed description of the barriers faced, generally supported by complex calculations and third party evidence. This is time-consuming and expensive because:

- Investments analysis requires access to multiple sources of third party data; and
- Barrier analysis often requires surveys or presentation of arguments to prove that conditions / technologies do not exist.
- In many cases in developing nations, third party evidence simply does not exist.

Further, the additionality argument has to be developed for each individual project meaning that no economies of scale can be found by developing multiple similar projects.

This requirement therefore acts as a significant disincentive for project owners and developers to seek carbon finance through the CDM to develop projects at this scale. We therefore commend the EB for opening this call for comments and for instructing the SSWG to follow-up on the call in an expeditious manner.

The PD Forum and IETA proposed solution

Our joint submission proposes that in order to encourage investment in projects in this category, modalities to demonstrate additionality should be simplified to a series of standardised 'yes/ no' or 'checkbox' style tests and that if a project passes these tests then it should be deemed additional. The tests should be devised in such a way that the project owner or developer need not be required to find third party information, write lengthy texts, attempt to prove counter-factual arguments or make complicated financial calculations. **At the same time, we must emphasize that the tests must be sufficiently rigorous and robust to ensure that the environmental integrity of the CDM is not called into question.**

Suggestions for the tests are given in the table below. For ease of understanding, a comparison with the current test for small scale projects is also given. As with the current system it is proposed that the new

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modalities require that projects should demonstrate that they pass just one of the tests to be deemed additional.

These are initial ideas and it is accepted that such tests will take time to develop and will require input from a number of different parties. Ultimately however, it is believed that such tests will facilitate the development of a large number of projects by removing prohibitive barriers. In the short-term, while such tests are being developed, TCs associated with demonstrating additionality for this type of project can be reduced by allowing project developers to rely on precedent of previously registered projects of a similar scale and type and also by allowing the validating DOE greater freedom to exercise judgment on the additionality of the project based on expert knowledge and experience.

Table 1: Proposed simplified tests to demonstrate the additionality of SSC projects

Current Small-Scale Test	Proposed Simplified Test
<p>Investment barrier: a financially more viable alternative to the project activity would have led to higher emissions;</p>	<p>Investment/ financial barrier: There are a number of questions related to the financing of the project and the income streams associated with the project once operational that could be asked to assess the additionality of the project. For example, once operational, is the majority (i.e. more than 50%) of the income that the project receives from carbon finance?</p> <p>If yes, the project should be deemed automatically additional. For some projects, the only or principal revenue stream is income from the CDM. For example, a company established specifically to distribute CFLs, low flow shower heads or other energy efficiency measures free of charge to end users has no revenue stream other than carbon finance. Although end users may benefit from reduced fuel bills the project owner (the distributor of the device) will not benefit from this. Such projects that fall within the SSC threshold should be automatically deemed to be additional. It should be noted that CFL programs within the small-scale category are already permitted to demonstrate additionality in this way.</p>
<p>Technological barrier: a less technologically advanced alternative to the project activity involves lower risks due to the performance uncertainty or low market share of the new technology adopted for the project activity and so would have led to higher emissions;</p>	<p>Technological barrier: Does the project performance exceed a government standard, regulation or benchmark?</p> <p>If yes, the project should be deemed automatically additional. This test could be modified to ensure that only projects that exceed a standard by a certain margin could qualify. Key to this test is that standards and benchmarks should be publicly available, without the onus on the project owner to develop the benchmark, as this could lead to higher TCs.</p> <p>The test could be based on standards set by government. For example, for a project involving energy efficiency measures in a building, if the specific demonstrated energy consumption of the building after the project is implemented is better than that required by government legislation in the host country, the project should be deemed additional.</p> <p>The test could also be based on information published by other relevant authorities such as the DNA of the host country. For example, a benchmark could be based on a grid emission factor published by a DNA provided that it conforms to an internationally-accepted standard. A project employing a technology with a lower emission factor would then be deemed automatically additional.</p> <p>In the absence of publicly available standards, a technology benchmark</p>

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	could be established based on surveys, for example of technologies available for purchase in the country in question.
<p>Barrier due to prevailing practice: prevailing practice or existing regulatory or policy requirements would have led to implementation of a technology with higher emissions;</p>	<p>Barrier due to prevailing practice: Does the technology employed by the project appear on a 'positive list' of technology types deemed to be additional?</p> <p>Projects that involve a technology that features on a 'positive list' should automatically be deemed additional. Protocols for defining positive lists should be pre-defined by the CDM EB, possibly under guidance of SBSTA. To be viable to support ongoing investment decisions, positive lists would need to have at least the following characteristics:</p> <ul style="list-style-type: none"> - be very specific to regions or countries - be very specific to technologies within sectors - be defined according to a clear and transparent protocol, possibly linked to market penetration in the region in question, or a similar means - be updated according to consistent international timescales, with clear rules for whether early-stage projects can still qualify when the list is updated <p>The lists must be dynamic so that new technologies can be added to the list quickly and with certainty. Significant work would be required to build up a robust protocol for defining such lists, and both PD Forum and IETA would be very willing to input into this detailed process at a later date.</p>
<p>Other barriers: without the project activity, for another specific reason identified by the project participant, such as institutional barriers or limited information, managerial resources, organizational capacity, financial resources, or capacity to absorb new technologies, emissions would have been higher.</p>	<p>A final test could be permitted that allows project developers or DOEs to propose other prohibitive barriers that the project may face that are specific to the project type or country in question.</p> <p>In addition, an alternative test could be designed whereby projects that are principally financed through microfinance schemes should be deemed to be additional without requiring passing through the previous tests.</p>

Again, thank you for the opportunity to comment on this matter. Please do not hesitate to contact us if you require any further comments or clarifications on this document.

Yours sincerely,



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