

# DRAFT

## Annex 4

### **DRAFT WORK PLAN OF THE EXECUTIVE BOARD TO DEVELOP RECOMMENDATIONS TO COP 8 ON SIMPLIFIED MODALITIES AND PROCEDURES FOR SMALL SCALE PROJECT ACTIVITIES UNDER THE CLEAN DEVELOPMENT MECHANISM**

#### **Note by the secretariat**

#### **I. INTRODUCTION**

1. Paragraph 6, subparagraph (c) of decision 17/CP.7 on modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol requests the executive board “to develop and recommend to the Conference of the Parties (COP), at its eighth session, simplified modalities and procedures for the following small-scale clean development mechanism project activities:

(a) Renewable energy project activities with a maximum output capacity equivalent of up to 15 megawatts (or an appropriate equivalent);

(b) Energy efficiency improvement project activities which reduce energy consumption, on the supply and/or demand side, by up to the equivalent of 15 gigawatthours per year;

(c) Other project activities that both reduce anthropogenic emissions by sources and directly emit less than 15 kilotonnes of carbon dioxide equivalent annually”.

2. This note intends to assist the executive board in developing a work plan to elaborate recommendations to the COP 8 on simplified modalities and procedures for small-scale CDM project activities. It addresses elements requiring technical and analytical inputs and proposes a possible course of action for the work until COP 8.

#### **II. ACTION TO BE TAKEN**

3. According to paragraph 18 of the modalities and procedures for a clean development mechanism contained in the annex to decision 17/CP.7 (hereafter referred as “modalities and procedures”), “the executive board may establish committees, panels or working groups to assist it in the performance of its functions. The executive board shall draw on the expertise necessary to perform its functions, including from the UNFCCC roster of experts. In this context, it shall take fully into account the consideration of regional balance.”

4. The executive board may wish to envisage the establishment of a panel of experts to elaborate draft simplified modalities and procedures for small-scale CDM project activities. Draft terms of reference for such a panel, including minimum qualification requirements of panel members and possible deadlines for submission of documentation, have been added in the attachment to this note. The executive board would need to bear in mind necessary budgetary implications regarding the work of such a panel.

### III. WORK ON DEFINITIONS

5. In developing simplified modalities and procedures for CDM small-scale project activities, the executive board may consider to further clarify definitions related to CDM small-scale project activities which are contained in decision 17/CP.7 and in the modalities and procedures.

#### **A. Criteria for small-scale CDM project activities in subparagraph 6 (c)**

6. The executive board may wish to provide further definitions related to eligible small-scale CDM project activities criteria listed in subparagraph 6 (c) of decision 17/CP.7. Clarifications may be required on the following issues:

(a) **Criterion (i) of subparagraph 6 (c): Renewable energy project activities with a maximum output capacity equivalent of up to 15 megawatts (or an appropriate equivalent):** Definitions may be needed for “renewable energy” and “appropriate equivalent” of 15 MW. Clarification may be required on whether and how a renewable energy project activity larger than 15 MW may be subdivided into smaller units which would meet the size criterion.

(b) **Criterion (ii) of subparagraph 6 (c): Energy efficiency improvement project activities which reduce energy consumption, on the supply and/or demand side, by up to the equivalent of 15 gigawatthours per year:** A clarification on the definition may be needed for “energy efficiency improvement project activities” and for the point in the project activity lifetime at which reductions are to be measured.

(c) **Criterion (iii) of subparagraph 6 (c): Other project activities that both reduce anthropogenic emissions by sources and directly emit less than 15 kilotonnes of carbon dioxide equivalent annually:** The executive board may elaborate on the types of project activities which qualify under criterion (iii), possibly providing further detail (see sub-bullet (d) below).

(d) The current formulation in subparagraph 6 (c) does not specify whether small-scale CDM project activities may **qualify under more than one of the three criteria**. May a project activity not qualifying under criterion (i) or criterion (ii) still be eligible under criterion (iii)<sup>1</sup>? The executive board may clarify whether the criteria are mutually exclusive. It may also further refine each of the three criteria in order to facilitate categorization of project activities under each criterion.

(e) Some CDM project activities may have **components that could fit in different criteria** of paragraph 6, subparagraph (c). The executive board may examine conditions under which the project activity could be eligible as a whole or whether emissions reductions could be claimed separately for different components of a project.

(f) Emissions from a project activity may decrease or increase over time. The executive board may wish to further clarify up to which point in the CDM project activity **lifetime reference values** in the three criteria apply.

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<sup>1</sup> e.g. Could a 50 MW renewable energy project qualify under criteria (iii)?

**B. Classification of eligible small-scale CDM project activities by sectors or project types**

7. The executive board may wish to further classify small-scale CDM project activities by sectors and project types. This classification may assist in relating projects to the three criteria of paragraph 6 (c).
8. The classification may also assist in assessing whether simplified modalities and procedures are effective in facilitating small-scale CDM project activities (by technology, sector and project type).

**C. Further clarifications related to the modalities and procedures**

9. The executive board may also envisage clarifying definitions contained in the modalities and procedures that could be of particular relevance for small-scale CDM project activities, such as the definition of project activity boundary.

**IV. WORK ON CRITERIA FOR ASSESSING SIMPLIFIED MODALITIES AND PROCEDURES**

10. The executive board may wish to identify criteria for assessing simplified modalities and procedures for small-scale CDM project activities. Such criteria may relate to: Environmental integrity, transaction costs and facilitation of financing, regional and sub-regional distribution and sustainable development benefits associated with such an activity.

**A. Environmental integrity**

11. Because of the size of small-scale CDM project activities, errors in the accounting of greenhouse gas emissions from such projects may in absolute terms be smaller than for larger project activities. However, the sum total of errors depends on the total number of CDM project activities undertaken under this provision, in particular on whether and how the “additionality” criterion is implemented. (paragraph 43 of the modalities and procedures stipulates that “a CDM project activity is additional if anthropogenic emissions of greenhouse gases by sources are reduced below those that would have occurred in the absence of the registered CDM project activity”).
12. The executive board may wish to address how the additionality criterion will be handled for small-scale CDM project activities and whether additionality may be applied differently to each criterion of subparagraph 6 (c).

**B. Transaction costs and financing**

13. A key concern behind the call for simplified modalities and procedures for projects of small-scales is the higher cost per unit of certified emission reductions (CER) as compared to larger projects. Transaction costs are seen as a major cost factor.
14. Areas in which transaction costs accrue are validation and registration, monitoring, verification and certification (including for baseline calculation and verification), and issuance of CERs. The executive board may assess which simplifications could be envisaged for any of these stages in the project cycle.

**C. Contribution to regional and sub-regional distribution**

15. According to subparagraph 5 (h) of the modalities and procedures the executive board is requested to “report to the COP/MOP on the regional and sub-regional distribution of CDM project activities with a view to identifying systematic or systemic barriers to their equitable distribution”. The executive board may therefore consider developing simplified modalities and procedures for CDM small-scale project activities in a way to benefit regional and sub-regional equitable distribution.

**D. Sustainable development benefits**

16. According to article 12 one of the purposes of the CDM shall be “to assist Parties not included in Annex I to the Convention in achieving sustainable development”. Preamble paragraph 4 of decision 17/CP.7 further affirms “that it is the host Party’s prerogative to confirm whether a CDM project activity assists it in achieving sustainable development”. In developing simplified modalities and procedures for small-scale CDM project activities, the executive board may take into account the extent of sustainable development benefits to host countries.

**V. POSSIBLE SIMPLIFICATION OF MODALITIES AND PROCEDURES FOR SMALL-SCALE CDM PROJECT ACTIVITIES**

17. The executive board may consider simplification of modalities and procedures for small-scale CDM project activities based on clear definitions and criteria as well as drawing on experience from existing small-scale projects.

18. Possibilities for project bundling may also constitute issues for analysis of the executive board.

19. The executive board may consider whether simplified modalities and procedures should be applicable to all project activity categories and be “technology neutral”, or whether the level of simplification should differ from one category to another.

20. The simplification of modalities and procedures may include: (a) baseline and monitoring methodologies and (b) requirements and steps related to the project cycle.

**A. Simplification of baseline and monitoring methodologies**

21. The modalities and procedures recognize that simplified modalities and procedures shall apply to both the establishment of baselines (subparagraph 45 (d)) and the monitoring plan (paragraph 55).

22. Simplification of baseline methodologies may pertain to the following:

- (a) The assessment of additionality.
- (b) Appropriate level of standardization of baseline parameters.
- (c) Project activity boundary.
- (d) Leakage calculation.
- (e) Project activity crediting period.

23. The simplification of the monitoring methodology may include the possible use of existing standard values and existing data reporting systems.

**B. Simplified project cycle**

24. The simplification of requirements and steps in the project cycle may pertain to: the feasibility of simplifying individual project cycle steps (validation, monitoring, verification and certification and issuance) or the feasibility of combining them (e.g. monitoring and verification and certification).

25. In this context considerations may also be given to special provisions for the engagement of accredited operational entities in small-scale CDM project activities.

32. Areas for simplifying modalities and procedures may include the following:

(a) Specific **validation and registration** requirements, in particular those referred in paragraph 37 of the modalities and procedures;

(b) Requirements related to the project design document (Appendix B of the modalities and procedures);

(c) Validation and registration procedures and deadlines (in particular as referred in paragraphs 40 and 41 of the modalities and procedures) could in be adjusted to the needs of small-scale CDM project activities;

(d) Implementation of requirements of the **monitoring** plan (in particular those referred in paragraph 53 of the modalities and procedures);

(e) Implementation of requirements for **verification and certification** (in particular those referred in paragraph 62 of the modalities and procedures);

(f) Viability of **issuing CERs** ex-ante for small-scale CDM project activities;

(g) The desirability of fully or partially exempting small-scale CDM project activities from the share of proceeds for adaptation and/or the coverage for administrative expenses of the CDM.

(h) Feasibility of a **designated operational entity** to perform both, validation and verification, for a small-scale CDM project activity (in accordance with subparagraph 27 (e) of the modalities and procedures);

(i) Possibilities for promoting the accreditation of local operational entities in developing countries, such as for a scope of accreditation limited to small-scale CDM project activities (bearing in mind subparagraph 4 (b) of the modalities and procedures).

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## *Attachment*

### **TERMS OF REFERENCE FOR A PANEL TO ELABORATE DRAFT SIMPLIFIED MODALITIES AND PROCEDURES FOR SMALL-SCALE CDM PROJECT ACTIVITIES**

#### **A. Work to carried out**

1. The panel shall elaborate draft simplified modalities and procedures for small-scale CDM project activities for the consideration of the executive board at its fourth meeting. The draft shall contain technical recommendations on each of the elements of the executive board's work plan on simplified modalities and procedures for small-scale CDM project activities.
2. In preparing the draft, the panel shall take into consideration existing technical and analytical work, experience based on completed or ongoing small-scale projects in relevant fields and issues raised in the note by the secretariat.
3. The final draft shall be submitted to the executive board by the stipulated deadline. The executive board may call on expert reviewers to comment on the draft.

#### **B. Membership**

##### **Qualifications**

4. In addition to expertise requirements outlined in the executive board's criteria for composition and procedures of panel/working groups, experts nominated for this panel shall:
  - (a) Have demonstrated working experience, of at least **xx** years, with CDM small-scale project activities in developing countries;
  - (b) Have demonstrated technical/scientific experience in one of the following areas:
    - (i) Baseline and/or monitoring methodologies in activity areas related to at least one of the three small-scale criteria defined in paragraph 6 (c) of decision 17/CP.7,
    - (ii) Small scale project activity implementation in activity areas related to at least one of the three small scale criteria defined in paragraph 6 (c) of decision 17/CP.7, including procedures related to project activity accreditation, validation, monitoring and verification.
    - (iii) Small scale project activity financing in activity areas related to one at least one of the three small scale criteria defined in paragraph 6 (c), including experience related to removal of investment barriers related to specific small scale project activity and technologies.
  - (c) To the extent possible, have worked or published on issues related to small-scale project activities under the CDM.

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## **Size and composition:**

5. The panel to elaborate the draft simplified modalities and procedures for CDM small-scale CDM project activities (hereafter called “the panel”) shall be composed of ten members.
6. The executive board shall select members of the panel. The composition of the panel shall be the same as for the executive board, i.e. one member from each of the five United Nations regional groups; two other members from the Parties included in Annex I; two other members from the Parties not included in Annex I; and one representative of the small island developing States, taking into account the current practice in the Bureau of the Conference of the Parties.
7. The executive board may in addition seek comments on drafts by the panel by expert reviewers, selected in accordance with the executive board’s criteria for composition and procedures of panel/working groups and reviewers.

## **C. Resource requirements**

8. Panel members and expert reviewers shall receive, in accordance with United Nations rules and regulations:
  - (a) A fee for the days worked/work accomplished,
  - (b) If required to travel, a ticket and daily subsistence allowance.
  - (c) In addition, costs for meeting facilities and communication would need to be covered.