

CDM Executive Board  
Attn. Mr. Rajesh Kumar Sethi  
UNFCCC Secretariat  
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Subject: Submission to public call for public input on programme of activities  
Date: 3 September 2008

Dear Mr. Sethi,

OneCarbon welcomes the opportunity provided by the Executive Board at its 41<sup>st</sup> meeting to submit input on the current procedure and guidance for registering Programme of Activities (PoA) as a CDM project activity. The guidance (Annex 38 to EB 32) and the procedures<sup>1</sup> have been available for over a year now. Experience has shown, however, that the implementation of these rules and guidances are more difficult than anticipated. Both project developers and DOEs are facing problems in the interpretation and execution of the procedures established by the Board.

The current procedure entails a number of risks, which translate into very high transactions costs for both DOEs and project developers. The advantage of PoAs of being cost effective and allowing very small activities to be registered under the CDM at a considerably low cost is therefore lost. In addition, the incentive for developing and validating PoAs is very low.

In the attached annex to this letter we list a number of issues arising from current wording in the PoA procedures, the general PoA guidance document, the guidance for determining the occurrence of de-bundling for PoAs and the glossary of CDM terms, which hinder PoAs from being implemented. The issues listed refer to:

- a) the development of PoAs;
- b) difficulties in the validation and the erroneous inclusion of CDM Project Activities (CPA);

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<sup>1</sup> "Procedures for registration of a programme of activities as a single CDM project activity and issuance of certified emissions reductions for a programme of activities" version 2

- c) submission for registration of a PoAs;
- d) the verification of CPAs; and
- e) others

We trust that with the comments provided below the Board will be able to further improve the guidance document and the procedures for registering PoAs as a CDM project activity.

Yours sincerely,



Matthias Scharte  
COO, One Carbon

## Annex

### a) Issues related to the development of PoAs

**1. Reference:**

EB 32, Annex 38, Guidance on the registration of PoAs, par. 4 and EB 35, PoA Procedures v2<sup>1</sup>, par. 24.

**Comment:**

It is stated that the coordinating/managing entity of a PoA shall be *"identified in the modalities of communication as the entity which communicates with the Board, including on matters relating to the distribution of CERs"* and thus shall be the Focal Point.

This is not practical as for PoAs just as in the case of many regular CDM projects the buyer might want to become Focal Point and be in charge of the communication related to the distribution of CERs. Hence, the concept of the managing entity and the focal point, i.e. the entity in charge of communication with the Board and the UNFCCC secretariat, shall be separated. The decision of appointing a focal point is purely of commercial nature and should not be determined by the EB.

**Suggestion:**

It should be allowed that an entity other than the coordinating/managing entity of a PoA becomes the Focal Point for communication with the Board. The Focal Point responsibilities should be set according to the modalities of communication of the CDM.

**2. Reference:**

Glossary of CDM terms (Version 4), 'Starting date of a CPA'

**Comment:**

The Glossary of CDM terms states: *"The starting date can not be before the registration date of the PoA."*

To our understanding, just as in the case of regular CDM projects, a programme could well start before its registration date and hence related programme activities would also start before the registration date.

**Suggestion:**

1. A definition for programme starting date should be introduced, e.g. the date at which the voluntary coordinated action begins.

2. The CPA starting date definition should be revised to: *"The starting date of a CPA cannot be before the starting date of the PoA."*

**3. Reference:**

EB 32, Annex 38, Guidance on the registration of PoAs, par. 7. and EB 35, PoA Procedures v2<sup>1</sup>, par. 2 (f)

**Comment:**

All CPAs under one PoA have to use a single baseline and monitoring methodology.

In practice however many projects make use of multiple methodologies (e.g. methane capture + electricity generation) since activities can be quite diverse and are not necessarily covered by one methodology.

**Suggestion:**

It should be allowed to use more than one methodology within one PoA as this allows for a wider range of project types and more flexibility. Furthermore, it would be inline with current procedures of the CDM.

**b) Issues regarding the validation of PoAs and the erroneous inclusion of CPAs**

**4. Reference:**

EB 35, PoA Procedures v2<sup>1</sup>, par. 13.-15. & 34. - 36.

**Comment:**

The liability of the validating DOE to compensate for CERs issued to erroneously included CPAs is not viable. It is the main reason why only a very limited number of PoAs are currently being developed.

Particular issues are:

- Most DOEs are not willing to validate PoAs at all.
- Those DOEs that do consider validating PoAs are charging a high risk premium, especially on the CPA level.
- DOEs prefer working with large CDM consultants rather than smaller, inexperienced project developers (such as NGOs and development organizations).
- The liability is contractually passed on to project developers.

The approach of unlimited retroactive liability for erroneously issued CERs poses a conflict to the objective of PoAs to reduce transaction costs and to facilitate the adoption of small, innovative emissions reduction measures, in particular energy efficiency (EE) and renewable energy (RE) projects. DOEs cannot be expected to undertake a simplified validation procedure for including CPAs into a PoA if faced with such a high risk. The decrease in transaction costs due to the flexible PoA scheme is countered by the additional risk related costs, either on the DOEs or the project developer side.

Mutatis mutandis par. 34.-36.

**Suggestion:**

Option 1

- Liability lies with the DOE.
- Period for involved DNAs or the Board to request exclusion of a CPA is limited to 6 month. Disqualification of a CPA after this period is not possible albeit other CPAs are disqualified.

Option 2

- No liability
- CPAs are reviewed and recommended for inclusion by the validating DOE.
- Inclusion of a new CPA is approved in a streamlined quasi-registration procedure. This would require additional resources at the secretariat.
- Quasi-registration could also consist of in depth spot checks of only a certain percentage of CPAs.

Option 3

- Liability lies with the managing entity.
- Compensation should not have to occur immediately within 30 days, but flexible during a period of e.g. 5 years.
- The quantity of erroneously issued CERs to be compensated is limited to the number of CERs issued to the corresponding CPA in the last 2 verification periods.
- Compensation CERs could be retained from future CERs generated by the same PoA. If not applicable (because too many CPAs are excluded) compensation CERs could be retained from future CERs from other projects of the same project owner. Only if the project owner fails to compensate in the mentioned period of 5 years, as a last option he has to acquire compensation CERs from the market.

Option 4

- combinations of Options 1-3

5. **Reference:**

EB 35, PoA Procedures v2<sup>1</sup>, par. 16. and 17.

**Comment:**

It is not clear under what circumstances a third DOE shall review CPAs and who pays for this service (project developer, validating DOE, EB).

Assigning an entity to review a competing firm might lead to perverse incentives and is therefore not desirable. Given the current situation of DOEs being reluctant to take on considerable risks by validating PoAs, we believe that DOEs will be even more unwilling to review a competitor and hence this option is not feasible.

Mutatis mutandis par. 37. and 38.

**Suggestion:**

- The review should be conducted by the Registration and Issuance Team.
- Thus the review should be commissioned and paid for by the Board.

6. **Reference:**

EB 35, PoA Procedures v2<sup>1</sup>, par. 6.

**Comment:**

Only in exceptional cases of small-scale (SSC) projects the EB would allow that validation and verification are carried out by the same DOE.

Especially in the context of SSC PoAs that are likely to involve sampling methods and/or surveys for reasons of cost effectiveness it would make sense to use the same DOE that is already familiar with the program situation. Furthermore, due to the current reluctance of DOEs to validate PoAs it will be cumbersome to find another DOE to undertake verification.

**Suggestion:**

Without conditions the same DOE should be allowed to conduct validation and verification in programs that use both large- and small-scale methodologies.

**c) Issued regarding the submission for registration of a PoAs**

7. **Reference:**

EB 35, PoA Procedures v2<sup>1</sup> par. 9.

**Comment:**

PoAs are currently governed by the registration procedure for large scale CDM projects.

**Suggestion:**

It would be desirable and in the spirit of facilitating the registration of small activities under a PoA to apply the SSC registration procedure to PoAs using small-scale methodologies.

8. **Reference:**

EB 33, Annex 21, Guidance de-bundling par. 1.

**Comment:**

In practice this de-bundling concept will prohibit many types of activities that are actually in the focus of programmatic CDM. E.g. in the case of energy efficiency or renewable energy household appliances like light-bulbs or woodstoves activity the project developer or

managing entity will not distribute all appliances at once but continuously.

Households within a certain community, which each can be a CPA, are likely to be within a 1km-radius. The current concept would call for including all appliances sold in a certain region, e.g. households of one community, under the same CPA.

Hence, appliances distributed in later years would have to use the same crediting period as appliances distributed in the first year as they cannot be added as a separate CPA. The dynamic character of the PoA is countered.

**Suggestion:**

We suggest to include further criteria to par. 1 a) and b):

- c) Provides a similar service to the same beneficiary (company, industrial complex, household, user) as the proposed small scale CPA.

And

- d) Is implemented at the same time as the proposed small scale CPA.

In general the concept of de-bundling appears to be cumbersome in the context of end-user appliances as such projects/programs would normally aim at slowly increasing the penetration of the appliances in *the same geographical region through the same entity*. If this type of initiatives is desired to take place under the programmatic scheme, it might also be worthwhile to exclude them from the de-bundling check. E.g. excluding CPAs that implement household technologies below a certain maximum output per unit from the de-bundling check.

**d) Issues related to the verification of CPAs**

**9. Reference:**

EB 35, PoA Procedures v2<sup>1</sup>, par. 19.

**Comment:**

The paragraph states that *"The frequency of requesting issuance by the DOE shall not be lower than every three month."*

As it stands this means that a PoA has to request issuance and hence undergo verification **at least** every three month. We consider this is a typo. Otherwise PoAs would be punished by having to pay and organize verification almost continuously.

**Suggestion:**

The phrase should read *"DOEs shall not request issuance more frequently than once every three month."* to be inline with the requirement for validation, par. 11.

**10. Reference :**

EB 35, PoA Procedures v2<sup>1</sup>, par. 2.k)

**Comment:**

Statistically sound sampling for verification of CPAs is allowed. According to EB22 Annex 2 it might be deduced that a 95% confidence level has to be applied for sampling of CPAs using large scale methodologies. Nevertheless, it is not clear, if the same applies to CPAs using SSC methodologies or if a confidence level of one sigma as stated in EB35 Annex 35 should be used.

It is also not clear how to deal with heterogeneous CPAs (e.g. appliances of the same type but with different power ratings or installed capacity). The comparability of CPAs will depend on the type of parameters that is monitored. E.g. if only the failure rate of appliances has to be monitored different capacities of CPAs could be neglected, if the performance of systems (e.g. methane generation) has to be monitored the size does matter and should be reflected in the statistical approach.

As for most (SSC) methodologies where sampling is allowed there is a lack of guidance with

regard to the design of sampling methods and what is considered statistically sound.

**Suggestion:**

General guidance or a best practice tool for sampling and statistical sound methods in the context of different kinds of CPAs should be provided to project developers and DOEs.

Criteria should be different for heterogeneous and homogeneous CPAs. A possible way to determine the homogeneity of CPAs is via different categories of monitoring parameters (binary vs. continuous).

**e) Other issues**

**11. Reference:**

Baselines for Suppressed Demand: CDM projects contribution to poverty alleviation, by Harald Winkler and Steve Thorne

<http://www.southsouthnorth.org/library.asp>

[http://cdm.unfccc.int/UserManagement/FileStorage/FS\\_455478429](http://cdm.unfccc.int/UserManagement/FileStorage/FS_455478429)

**Comments:**

A major objective of the PoA scheme is to increase the number of project activities in least developed countries, promoting energy efficient and introducing low carbon intensive technologies for the base-of-the-pyramid, thus applying the CDM to reach its very first goal *"to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention"*.

Nevertheless, the introduction of low carbon intensive technologies to regions with insufficient income and infrastructure levels will often fail to result in emission reductions or to achieve the expected extent, but will rather lead to an increase in service and hence an increase in emissions. This phenomenon known as rebound effect or in a broader application as suppressed demand is likely to be met in many evolving PoAs. It is neatly described in the referenced paper by Winkler and Thorne.

The issue of suppressed demand requires a fundamental decision as a trade-off between real and measurable emission reductions and sustainable development exists. The acceptance of suppressed demand for estimating baselines would surely boost the implementation of projects that can help to improve the conditions of living for the poorest people in the world.

**Suggestion:**

We recommend to prioritize the issue of suppressed demand at the Board and to take a general decision for which type of projects and methodologies suppressed demand can be accounted for in the baseline. This could be especially projects that take place at household level or improve public infrastructure.

In a second step several small-scale methodologies could be adjusted and concrete formulas and caps how to account for suppressed demand could be introduced in the context of PoAs. Particular methodologies where the concept of suppressed demand applies include I.A,B,C,E, II.C,E,F,G,J and III.D,I,R.

A possible approach would be determining the carbon intensity of the baseline and project technology and calculate suppressed demand in accordance with the consumed service under the project.