

CDM Programme of Activities Call for Public Inputs



SUBMISSION: Cool nrg International Pty Ltd

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Australia Head Office 269 Stewart Street Brunswick East, Victoria 3057 Australia Phone +61 3 9387 2964 ACN 124 334 158

Europe Grosvenor Gardens House 35-37 Grosvenor Gardens London SW1W 0BS Phone +44 20 7953 4081

North America Suite 300, 250 University Ave Palo Alto CA 94301 Phone +1 415 395 6027

Mexico Vosgos 220 apt 102b Col. Lomas de Virreyes CP 11000 Phone +52 55 55400909

www.coolnrg.com

Programmatic CDM

The opportunity

Cool nrg International welcomes the opportunity to provide input into the call for public comments on Programme of Activities issued by the Executive Board at its 41st meeting.

The CDM has attracted global attention over the last 12 months, including significant criticism from some NGOs, academia and sections of the media. Whether warranted or not, this criticism is having a significant impact on how CDM is viewed both by the general public, and the climate change policy community. This could result in limitations on the use of CDM credits within the global climate agreement post-2012.

Limiting the quantity of CDM credits in cap and trade schemes, however, won't improve CDM quality, where claimed offsets are additional and deliver sustainable development. Better quality requires – alongside a better-resourced CDM Secretariat – greater focus on programmatic CDM, rather than one-off, large-scale industrial projects.

It is therefore critical that the functionality of programmatic CDM is maximised.

Programmatic CDM can facilitate dispersed end-use energy efficiency activities that engage with the individual actions of millions of people over a wide geographic area.

Emissions reductions aggregated over the lifetime of installed efficiency measures can equal the abatement from large-scale projects. Such rapid, and market driven domestic energy efficiency that begins with simple technologies such as efficient lighting will spur future uptake of other energy savings measures.

Programmatic CDM can also have an impact on emissions growth in a broad range of developing countries. Both in developing countries where improved living standards are driving energy consumption and in least developed countries where energy savings can lead to significant poverty alleviation.

In order for the potential of PoA to be realised, a pragmatic, workable framework must be implemented for project developers and investors to put into practice. Cool nrg International's submission addresses four key areas of Programme of Activities requiring clarification or amendments:

1. Clarification of the rules regarding de-bundling
2. Liability issues for DOEs
3. Project Participants at the level of CPA
4. Energy efficiency methodologies under PoA

Clarification of De-bundling Rules

The role of activity implementers

Some practical issues in the treatment of de-bundling arise when considering the case of demand side energy efficiency projects using a small-scale programmatic approach.

Guidance provided by the Executive Board at its 36th meeting (EB 36, annex 27) for determining the occurrence of de-bundling requires clarification. In particular, the interpretation of de-bundling rules where different Activity Implementers under a SSC-PoA work in the same geographic region.

Further, the role played by Activity Implementers, their relationship to the Coordinating Entity of the PoA and any restrictions on the type of entity that may be an Activity Implementer is also worthy of additional guidance.

This issue is best explored through the use of an example.

- Coordinating Entity establishes a SSC-PoA to distribute 4 million Compact Fluorescent Lamps (CFLs) in “City A”
- Each CPA is responsible for distributing 1 million CFLs
- Each CPA has a different Activity Implementer
- The project boundary of each CPA is different as it includes only the households from “City A” that receive that Activity Implementer’s CFLs
- Activity Implementers use the same distribution hubs provided by the Coordinating Entity
- The Coordinating Entity ensures data management and record keeping systems are in place to avoid double counting of emission reductions, or overlap in the boundary between CPAs

Under the current guidance, despite operating in the same geographical proximity, this scenario is possible because each CPA has a different Activity Implementer, and as such there is no requirement to maintain a 1km ‘buffer’ between the project boundaries of adjacent CPAs.

However, project developers remain unclear as to whether there are any rules regarding the relationship between different Activity Implementers. Can Activity Implementers be subsidiaries of the Coordinating Entity? Can an individual be an Activity Implementer?

Clarification of these rules will have significant impacts on how PoA are implemented on the ground, particularly in the context of residential energy efficiency where project boundaries cannot be determined *ex-ante*, and Activity Implementers are likely to be implementing CPAs in adjacent areas.

Recommendation: Cool nrg International recommends that the EB does not restrict the types of entities that can be Activity Implementers, or place limitations on their relationship to the Coordinating Entity.

Liability issues in PoA

Reduce barriers to participation of DOEs in PoA

DOE liability for erroneously issued CERs from PoA carries significantly higher financial risk than for normal CDM projects. Whilst there has been some public discussion as to whether this risk really is material for DOEs, the reality of the current situation facing project developers is that only two DOEs are willing to engage in validation of PoAs – Det Norske Veritas Certification AS and PricewaterhouseCoopers South Africa.

Given the already well documented resource constraints currently facing DOEs, there is limited, if any possibility of PoA contributing significant emission reductions without greater participation from DOEs. If PoA is to be implemented at scale, the EB must resolve this liability issue in such a way that enables more DOEs to engage in PoA validation.

Recommendation: Two solutions to the liability issue are possible. Firstly, reduce the size and scope of the liability borne by DOEs; secondly, enable DOEs and Coordinating Entities to come to agreements in which liability is shared or transferred.

1. The liability of a DOE having requested the inclusion of a CPA should be limited to only cases where *significant deficiencies* are identified in the relevant validation of the CPA requested to be included in the PoA by the DOE. Further, it is suggested - considering that CDM, and in particular PoA are “learning by doing” - to remove DOE’s liability for CERs issued for CPAs included in the PoA at an earlier stage. This could be achieved through a revision of para 18 of the Procedures for registration of a PoA: “The Board will decide whether to exclude additional CPAs and if so, the consequences described in paragraph 15 (a) ~~and (b)~~ apply. Only once all required cancellations have been confirmed, the hold described in 15 (c) shall be lifted.”
2. In order to make it possible for DOE liability to be shared or passed through to the Coordinating Entity, we suggest the following addition to para 15 (b) of the Procedures for registration of a PoA: “Within 30 days of the exclusion of the CPA, an amount of reduced tonnes of carbon dioxide equivalent to the amount of CERs issued to the PoA as a result of the CPA having been included, shall be transferred to a cancellation account maintained in the CDM registry by the Executive Board. Responsibility for the acquisition and transfer of the CERs will rest with either the DOE that included the CPA or the Coordinating Entity of the PoA, or be shared between the parties. The responsible party(ies) will be mutually agreed and clearly nominated to the Executive Board through the Modalities of Communication prior to the registration of the PoA.”

Project Participants

Nominating project participants at the level of CPA

Current rules governing programmatic CDM stipulate that Project Participants should be nominated at the level of the PoA. Recent experience of Cool nrg has raised the issue of whether it would be beneficial to proponents of PoA if Project Participants could also be nominated at the level of CPA, rather than only at the level of PoA.

The reason for this is that buyers of CERs often require that they be listed as a Project Participant. In the process of negotiating an ERPA buyers are likely to request Project Participant status for the purpose of receiving issued CERs directly into their registry account. As a Project Participant, buyers may also negotiate rights such as a requirement to sign all forwarding requests, veto power over the addition of new project participants and supervision of all communication with the Executive Board.

In the context of PoA, such rights can prove to be commercially problematic for the Coordinating Entity as the seller of CERs. Firstly, a buyer may be only involved in the purchase of CERs from one CPA, and yet as a Project Participant may have a level of control over the entire PoA. This could restrict the Coordinating Entity's ability to attract and manage additional CER buyers for future CPAs. If this occurs, the commercial viability of PoA will be undermined, reducing its potential as an abatement mechanism under CDM.

Recommendation: Allow Project Participants to also be nominated at the level of CPA. By doing this, the standard commercial agreements between sellers and buyers which have developed in the CER market can continue to take place, without compromising the ability of the Coordinating Entity to manage the PoA. If this approach were adopted, each time a new CPA is included in the PoA the Coordinating Entity would nominate Project Participants in the CPA-DD and provide a new Modalities of Communication document stipulating the role of each Project Participant in the CPA.

Energy Efficiency Methodologies

Do not limit the transformative potential of PoA

The EB, Secretariat and CDM participants such as the World Bank have all noted the potential for PoA to transform markets through technology transfer and rapid adoption of low carbon alternatives. Under PoA there is the potential for energy efficiency technologies to be progressively rolled-out in communities across countries, transforming energy consumption patterns.

Demand-side energy efficiency is largely absent from the current CDM project portfolio and pipeline. The table below illustrates the difficulties project developers have had in implementing energy efficiency methodologies approved by the EB to date.

Methodology Available Since	Methodology Reference #	Title	Number of Registered Projects
6 December 2004	AM0017	Steam system efficiency improvements by replacing steam traps and returning condensate	0
6 December 2004	AM0018	Steam optimization systems	10
25 February 2005	AM0020	Baseline methodology for water pumping efficiency improvements	0
16 February 2007	AM0046	Distribution of efficient light bulbs to households	0
30 November 2007	AM0060	Power saving through replacement by energy efficient chillers	0
16 May 2008	AM0068	Methodology for improved energy efficiency by modifying ferroalloy production facility	0
1 November 2002	AMS II.C.	Demand-side energy efficiency activities for specific technologies	4*
1 November 2002	AMS II.E.	Energy efficiency and fuel switching measures for buildings	5*
22 October 2004	AMS II.F.	Energy efficiency and fuel switching measures for agricultural facilities and activities	0
1 February 2008	AMS II.G.	Energy Efficiency Measures in Thermal Applications of Non-Renewable Biomass	0
2 August 2008	AMS II.J.	Demand-side activities for efficient lighting technologies	0

*One project uses both AMS II.C. and AMS II.E.

Source: UNFCCC CDM Database (<http://cdm.unfccc.int/Projects/projsearch.html>), status of approval of Sectoral Scope 3 methodologies and registration of projects applying these methodologies as of 30 July 2008. Note that some of the 31 projects that apply AMS II.D. (Sectoral Scope 4) also include end-use efficiency measures.

(Source: A. A Niederberger, Policy Solutions, August 2008)

It is therefore very troubling that in its last meeting (EB 41) the Executive Board revised two energy efficiency methodologies (AMS II.C. and AMS II.J.) to include provisions that apply only to PoA that significantly reduces their utility. Additional conservative requirements on energy efficiency PoA is likely to hinder efforts to scale-up energy efficiency under CDM.

Both methodologies relate to demand side energy efficiency activities for a range of technologies. A Baseline Penetration discount factor (BP) has been added for application in PoAs only. BP reduces the total CERs generated by CPAs by an amount equivalent to the proportion of existing energy efficient technology already in the project area.

For example, if energy efficient lighting already constitutes 25% of lights used in households in a CPA location, emission reductions from that CPA must be discounted by 25%. This is despite the methodology already requiring that efficient light bulbs directly replace inefficient light bulbs. As a PoA progressively replaces old inefficient lighting stock in a region, the BP discount becomes greater and greater.

The effect of this discount is two-fold:

1. This mechanism creates an inherent disincentive to transforming the efficiency of a particular technology. Once the proportion of efficient technologies in a region has increased because of CPAs, BP discounting will reduce the viability of further efficiency improvements.
2. Because of the large CER discount applied to CPAs, only those countries or regions with high emission factors will be able to support energy efficiency PoAs. This will again draw a greater proportion of CDM investment into the emissions intensive grids of China and India, forgoing the potential of PoA to deliver emission reductions and sustainable development in underrepresented regions with lower emissions factors.

Whilst project developers support the need for CDM to maintain a robust and conservative approach to the issuance of CERs, the correct balance must be struck between conservatism

and pragmatic action on energy efficiency. CDM has already struggled to deliver energy efficiency. Overly conservative methodological approaches to the quantification of emission reductions generated by PoA actually stops abatement activities occurring undermining the objectives of CDM.

Recommendation: Remove BP discounts from energy efficiency methodologies for PoA. In addition, the EB should refrain from applying additional, conservative variables to current or future PoA methodologies.

For further information please contact:

Philip Cohn

phil.cohn@coolnrg.com / +613 9387 2964

Australia Head Office 269 Stewart Street Brunswick East, Victoria 3057 Australia Phone +61 3 9387 2964 ACN 124 334 158

Europe Grosvenor Gardens House 35-37 Grosvenor Gardens London SW1W 0BS Phone +44 20 7953 4081

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