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CDM Executive Board / UNFCCC
Secretariat
via online submission

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Call for Inputs
Program of Activities

Ladies and Gentlemen

We have been working in the field of energy efficiency CDM (policy, methodologies, projects) since the outset. We had hoped that the Program of Activities mode of CDM implementation would make it easier to leverage carbon finance for end-use energy efficiency efforts, which tend to be too dispersed and small-scale – and to have too high transaction costs – to be viable as single project activities, even small-scale project activities (only 18 Sectoral Scope 3 CDM projects have been registered to date).

The reality on the ground unfortunately has been disappointing, and we would like to share with the Board the full range of challenges that we have faced in our own efforts to operationalize the PoA model in practice:

- There is a lack of capacity among potential PoA managing entities to take on the challenging CDM coordination and oversight role. Identifying these entities – and subsequent training and institutional development – all require more resources and time than individual CDM project participants can muster.
- In addition to the previous point, PoAs also require a major up-front project preparation investment, without any means of rationally assessing the likelihood that a PoA submission will be registered – or when – which makes PoA an inherently high-risk venture with few means to mitigate this risk. This is partly due to the fact that there is no experience with PoA registration, but also because the rules are unclear in a number of key points, such as PoA additionality.
- Another example of a gray zone is debundling in the context of SSC PoA. We still have not managed to get a conclusive answer on whether there needs to be a 1 km buffer between CPAs implemented by a single managing entity that collectively exceed the 60 GWh limit for small-scale Type II methodologies under the PoA (even if each CPA is below the SSC limit). There would seem to be no good technical reason to require such a buffer, but this is a huge uncertainty (and

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potential logistical challenge) for end-use efficiency project developers, as our dialog with many others indicates.

- PoAs rely on approved methodologies – and viable methodologies for demonstrating the additionality of and quantifying the emission reductions from key types of end-use efficiency programs are lacking. This is no fault of PoA, but is a key reason why PoA is not meeting expectations for end-use efficiency.
- Even though the CDM Executive Board clarified that national and/or sectoral host country policies to reduce emissions that were implemented after 11 November 2001 need not be taken into account in developing a baseline scenario, the Board's panels (and ultimately the Board itself) have often required that methodologies take into account trends in energy efficiency in the project baseline estimation, whereas this is not common practice in the energy efficiency world and would appear to contradict the EB decision.
- The CDM authorities have begun putting additional methodological burdens on projects implemented in PoA mode. Even when a potentially viable methodology exists, the EB (via recommendations from its panels) has begun adopting/amending methodologies to include additional methodological requirements when they are applied to CPAs under a PoA. A recent example is the decision of the EB to require consideration of heating cross-effects from end-use efficiency activities when the small-scale methodologies AMS II.C. and AMS II.J. are applied to CPAs under a PoA (but not to single SSC activities). At the same time, the EB approved requirements for discounting emission reductions of CPAs to take into account the current level of market penetration – even in the case of retrofit projects (this is related to the issue raised in the previous bullet).
- PoAs cannot apply more than one methodology, so comprehensive green building efforts that would ideally involve a combination of on-site renewable energy supply, building efficiency measures and reduction of high global warming potential refrigerants from appliances, for example, are not possible with existing methodologies.
- The "case law" approach to methodology development does not lend itself well to programmatic approaches in the field of energy efficiency. There needs to be a stronger role for the CDM regulator to provide coherent generic guidance on quantification principles and methods, to evaluate program impacts (including broader market impacts) and to periodically adjust guidance accordingly, as required. A good model for this role are the public utility commissions that oversee utility demand-side management programs – and these bodies are beginning to collaborate to develop common/consistent EM&V protocols for energy efficiency and other demand-side resources to support energy and

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environmental policies. If PoA is to be a successful model, the institutional arrangements need to be given careful consideration.

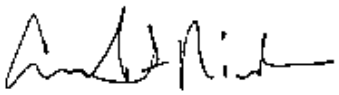
- Related to the previous point, DOEs are concerned about PoA liability provisions and PoA managing entities are often not able to assume this liability under contract, particularly when a major share of operating capital comes from CER revenues as opposed to company equity.
- The PoA model raises many difficult institutional / program management issues, which may have consequences for competition and market dynamics.
- Given the uncertainties with PoA, many host countries, are not yet in a position to approve CDM PoA.

In addition to the above challenges that are directly related to the PoA mode of CDM implementation, end-use efficiency also faces challenges of its own. Parallel efforts are therefore needed to remove barriers to end-use efficiency and transform markets, so that high-efficiency equipment, technology and practices rapidly become business as usual – with or without the incentive of carbon finance. The fact that the adoption and timely strengthening of standard and label programs by developing countries – a key component of an effective energy efficiency strategy – has been explicitly excluded from leveraging carbon finance under the CDM underscores this urgent need. In considering the post-2012 climate regime, a realistic view of what the carbon market can and cannot deliver in an overall policy package is required.

Finally, scaling up CDM on the supply side, which a programmatic approach might contribute to, is only possible if demand for CERs is sufficient to sustain a reasonable market price for CERs going forward. There is currently great uncertainty about the future of the post-2012 policy framework, country mitigation commitments and the role that carbon markets, the CDM in general and programmatic CDM approaches might play within that framework. Since the CDM is a purely policy-driven market, such considerations are crucial to PoA viability.

To overcome these PoA challenges, there is a need for decisions by Parties. An in-depth expert workshop on the topic of PoA in early 2009, perhaps with an emphasis on dispersed end-use efficiency and small-scale renewable energy opportunities, might be helpful to deliver concrete recommendations on how to overcome PoA challenges.

Sincerely



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