IETA
INTERNATIONAL EMISSIONS TRADING ASSOCIATION

8 July 2009

CDM Executive Board
UNFCCC Secretariat
Martin Luther King Strasse 8
P.O. Box 260124
D-53153
Germany

Dear Mr. de Jonge,

I write to you in response to the call for input launched at EB 47 on the reasons for no or low application of approved methodologies in CDM project activities. Many IETA member companies are writing to the Executive Board directly to explain difficulties they have encountered in relation to specific methodologies and specific project types, and we urge you to address carefully the detailed issues they raise. In order to avoid duplication of effort, in this letter IETA will focus only on some overarching and often-repeated problems, which are outlined in the next few pages. Examples to illustrate these issues are provided. This outline is followed by five specific suggestions, which IETA hopes will prove useful as the Executive Board moves forward in this process.

Issues Leading to Low- or No-Use Methodologies

- **Changes made during the methodology approval, revision, or consolidation process often result in unworkable methodologies with overly strict applicability criteria and monitoring requirements.**

Explanation: IETA has witnessed that attempts to expand the applicability of CDM methodologies and/or otherwise change methodologies on the part of the Meth Panel/EB/Secretariat have had ambiguous results to date and should be made very carefully. In many cases, the changes made by the Meth Panel and EB result in a methodology that is no longer workable in relation to the project for which the methodology was designed. IETA believes that inadequate communication between project developers and the Meth Panel, Secretariat, and EB during consideration of methodology approvals, revisions and consolidations has proven and continues to prove very troublesome. IETA also believes that the unilateral decisions that are made in relation to, for example, additional applicability criteria, shows a lack of transparency in the methodology approval processes, where unilateral decisions can be made by the Methodology Panel without explanation or significant engagement with the entities that spent a great deal of time and funds developing the methodology. Please see the following for examples of changes made during the methodology approval, revision, or consolidation process that have led to the approval of low- or no-use methodologies:

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(1) Because of further procedures added to the leakage calculations during the methodology approval process in order to ensure that the methodology is sufficiently conservative, AM0047 faces challenges in the monitoring of waste oil/fat availability and demand, which are deemed necessary to account for leakage. In the case of AM0047, the requirement is to annually monitor the availability and demand of waste oil/fat used by the project in a radius around the plant representing a maximum distance travelled to get this raw material. However, if the radius is extended over hundreds of kilometres, the data collection is unfeasible. In this and many other similar cases, these extra procedures are not workable in practice, making the whole methodology unworkable.

(2) The monitoring plan for AM0047 poses difficulty during the crediting period because it requires continuous monitoring of the biodiesel produced, methanol consumed and glycerol produced. This assumes a continuous production process and monitoring that must be carried out by installing continuous flow meters. It is, however, not possible to install continuous flow meters due to batch type process at several bio diesel production facilities, making this methodology unworkable in those cases.

(3) ACM0015, as approved, is only workable if very special local conditions are present. In particular, if the availability of alternative raw materials and the costs of inputs are not "just right", the project will not be able to demonstrate additionality.

(4) Concerning AM0077, the requirement to identify all end users is unworkable. Among other things, it is difficult for projects with uncertain associated gas production to get long-term commitments from CNG end-users.

(5) With AM0070, a baseline benchmark procedure that sets a higher bar for leading manufacturers makes the application of this methodology very difficult.

(6) With AM0042, it is very difficult to know the exact meaning of the applicability criteria, e.g. the definition of "degraded land". Indeed, there is significant room for interpretation for most of the 14 criteria, and the risk of EB not accepting the demonstration in the end is perceived to be rather high, especially since there are no reference projects.

(7) ACM0006 version 8 may not, as currently written, be used in relation to cogeneration projects in the sugar industry that will predominantly use bagasse available from the sugar mill but also co-fire (10-20%) other biomass residues that is available in surplus quantities in the region. The methodology requires that "The combined tool to identify baseline scenario and demonstrate additionality" be used, which is only applicable if all the alternatives to the project are in control of the project participants- the use of purchased biomass residues in absence of the project is not. This fact does not, in fact, violate any of the applicability conditions of ACM0006 version 8 itself, however, and version 8 would be applicable if these projects were simply allowed to use the "Tool for demonstration and assessment of additionality" in place of the "The combined tool to identify baseline scenario and demonstrate additionality." The requirement to use the combined tool in this case has proven a significant and unnecessary barrier to the use of this methodology.

(8) In the case of AM0079, the project emissions calculation imposed by the Meth Panel does not capture the impact of the project activity on fugitive emissions at the chemical plant; as a result, the methodology is unusable and a request for revision will be required to correct the flaw.

- **Applicability conditions placed on methodologies are often incompatible with how investment decisions are made in the industry in question.**

Explanation: One problem with the fact that the Meth Panel and EB make changes to methodologies unilaterally is that the changes made often do not take into account the specific methods of operation of the industry in questions. For example, AM0077 version 01 "Recovery of gas from oil wells that would otherwise be vented or flared and its delivery to specific end-users" has a three-year venting/flaring data requirement and does not allow new facilities to receive credits. This is a problem for two main reasons.

First, the decision to invest in gas flare reduction facilities is made based on a long-term assessment of the likely future associated gas production profile, in order to design appropriately sized gas-handling facilities. Taking CDM revenue into account from the planning stage onward would be much more likely to lead to adequately sized gas-gathering facilities being built. With offshore platforms, the process of adding facilities post-construction is far more complex and needs, in most cases, to be integrated into the platform design from the beginning. In other words, in both cases, decisions taken about flaring vs. venting would be better to be made as a facility was constructed, not after.

Second, the maximum oil production and, consequently, the highest rates of associated gas production typically occurs at the start-up of new wells. For this reason, the addition of this technology would be most useful in the first few years of operation, not after three years.

Given this explanation, it is easy to see that the applicability conditions of this methodology do not align with the practices in this industry. Such non-alignment is a barrier to the most effective use of this and other methodologies and will undoubtedly have a direct effect on their usage.

- **The requirements for extensive baseline data for approved methodologies are often overly stringent for projects taking place in a developing country context.**

Explanation: Data availability in developing countries is significantly below that of developed countries, yet CDM methodologies often require measurements of extensive historical baseline data, including a requirement that as much as 10 years of data be used to set the benchmark in some cases. For example, with AM0070, the non-availability of historical market data to calculate the benchmark has been a serious impediment to use. Similarly, the requirement for three years of historical data for AM0077 is very prohibitive due to the nature of the construction of oil field developments, where new wells are added to existing pipelines and processing facilities. It is highly unlikely that any individual well will have three years of data because, previously, there would have been typically little value in its measurement to the operators. Furthermore, because oil fields are developed over time, it is unlikely that three years of data from a single set of wells would be available.

- **Monitoring requirements for small-scale methodologies are often overly stringent.**

Explanation: Small businesses, government entities, and organizations in LDCs have serious difficulties obtaining data and undertaking extensive monitoring, yet the current approach to assessing SSC methodologies and projects does not consistently take this into account. For SSC AMS I.C, concerning the use of biomass stoves, the small-scale working group added to the meth a requirement to demonstrate annual operating efficiency, which for small

installations is a significant hardship, if not an impossibility. Although a new revised version of AMS-I.C was produced at the last Small-Scale Working Group meeting in order to address this problem, the addition of such stringent requirements, without communication with the meth developers or project developers likely to use the methodology, occurs quite frequently and speaks again to the need to consistently treat small-scale projects differently from large-scale projects, as envisioned by the Marrakech Accords.

- **Projects are often required to use a specific technology or measurement techniques that may not be the most efficient.**

Explanation: In some cases, methodologies are very specific about technology types and monitoring techniques that may not always be the most appropriate. These strict requirements mean that almost identical project activities cannot be registered because they do not fit the technology as detailed in the methodology. Examples of methodologies that have been causing project developers such grief include AM0025 and ACM0014.

IETA Suggestions

(1) Review Period for Consolidated and Revised Methodologies

IETA proposes that in cases where a **revision** to a methodology has been requested, a one-week 'review' period should be incorporated within established timelines for the project developers that requested the revision to provide feedback on the revised methodology *before it is published*.

IETA proposes that in cases where methodologies are being **consolidated**, the EB should incorporate a mandatory two-week public 'review' period within established timelines, for project developers to provide feedback on the proposed consolidated methodology *before it is published*.

These review periods will cut out a significant amount of the back-and-forth between the Meth Panel and project participants related to the practicability of revised or consolidated methodologies. By reducing the number of new versions, it will also help stabilize the methodology pool, which will, in turn, reduce bottlenecks caused by a rush to avoid project expiry.

(2) Communication regarding Proposals for New and Revised Methodologies

IETA proposes that the EB/Meth Panel allow project developers to present, in person or via a conference call or webcam interface, their proposed new methodology or their proposed methodology revision to the Meth Panel directly before or during deliberation.

IETA believes that the presentation of methodologies will facilitate the methodology development and approval process significantly by providing an open forum through which misunderstandings can be clarified immediately. This forum should lead to the approval of workable meths and meth approvals the first time around.

(3) **Communication Regarding Proposed New Methodologies**

IETA proposes that the Meth Panel and their support staff increase the frequency with which they utilize telephone calls to the DOE/project participant to ask for clarification or further explanation related to proposed new methodologies. This simple procedure to a greater extent will significantly speed up the process.

(4) **Strengthen and Enforce the Distinction Between SSC and LS Projects**

IETA proposes that the Parties instruct the EB to strengthen and consistently enforce the distinction between small-scale (SSC) and large-scale (LS) projects, where SSC baselines and monitoring do not require extensive historical data or expensive monitoring.

(5) **Provide for Expanded Applicability by Allowing Technological Flexibility in Methodology Design.**

IETA believes that ensuring that methodologies, when approved, revised, or consolidated, entail reasonable flexibility as to what technologies can be used will help to avoid any subsequent need for lengthy and expensive revisions.

IETA is very grateful for the opportunity to submit our views and offers our support as the Executive Board moves forward in these welcome efforts to address low- and no-use methodologies.

Sincerely,

Henry Derwent, President