The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 473-1000
Cable Address: INTBAFRAD
Cable Address: INDEVAS

July 7, 2009

CDM Executive Board
c/o UNFCCC Secretariat
P.O. Box 260124
D-53153 Bonn
Germany

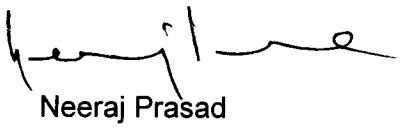
Sub: Submission of inputs on the reasons for no or low application of approved methodologies in CDM project (EB 47)

Honorable Members of the CDM Executive Board,

We appreciate the CDM Executive Board's call for public inputs on the reasons for no or low application of approved methodologies in CDM project *(Para 33, EB 47)* and welcome the opportunity to contribute our experience to enhanced application of CDM methodologies. The enclosed inputs are presented for consideration of the CDM Executive Board.

We would be happy to provide clarifications and contribute to further discussion on the subject if the Executive Board would consider this helpful.

With kind regards,



Neeraj Prasad
Carbon Finance Unit, The World Bank

No or low application of approved methodologies in CDM projects

The World Bank welcomes the opportunity to share our experience of developing new methodologies and of applying methodologies to projects. This note broadly covers the three scenarios, the first involving a new methodology developed and approved for a specific project but never used by the project; the second involving no or low application of an approved methodology and the third involving changing versions of a methodology during validation and post-registration.

Projects operate in a dynamic environment, continuously evolving to meet the financial, operational and technological constraints of the project owner. Approved methodologies on the other hand are largely static, with strict limitations on applicability, baselines, quantification of emission reduction and monitoring. In cases where methodologies are modified, revisions are specific to a project and generally result in greater complexity. Even in new methodologies which are written for a specific project, oftentimes, at the time of approval, clauses and requirements are included or language is modified, rendering it unusable.

As the physical projects go through feasibility, design and implementation, technical modifications are undertaken to optimize the operation. The CDM process, undertaken in parallel with the physical project does not allow the same level of flexibility and the ensuing difference poses a challenge when a methodology is applied to a project and when it is checked verbatim, at the time of validation and verification. The quest for conservativeness and precision in a methodology is legitimate but there are often real tradeoffs that need to be appreciated: this can work to make the methodology unusable in practice in many circumstances and/or too costly when compared to the expected CER revenues.

Many methodologies are used only once or twice because the reality is that there is very little incentive to submit a broadly applicable methodology, given costs involved in developing a methodology. A typical project developer would want to maximize the chances that the methodology is approved, and if that means including restrictions in the name of conservativeness suggested by desk reviewers of CDM panels and working groups, then it may be worth it to incorporate these restrictions. Please find below a few overall suggestions to improve the development and application process of CDM methodologies.

1. Establishment of a full-time, professional methodology group: with a formal link with panel of experts from research institutions, industry associations and practitioners.

- To allow incorporation of common industrial best-practices and reduce response time.
- To enable approval of methodologies in a shorter time frame and avoidance of long work in progress (WIP) timelines
- Facilitate communication with the CDM EB
- Improve communication with methodology developers.
- Provide technical guidance, as required, to DOE on methodology application

2. Formal involvement of project proponent during Meth Panel meeting:

- This will enable follow-up and contribution to the technical discussions of the panels on the methodology submitted and ensure better understanding of the information used, reasons and concerns in providing recommendations on the methodology.
- This will also increase transparency and provide a formal feedback opportunity during the stage of "final" modifications to new methodologies, before approval by panels and EB. These "final" changes often make new methodologies unusable even to the original underlying project.

3. Invite feedback on scope, applicability and replication potential of methodology:

- Applicability of methodologies is oftentimes restricted to specific sub-sectors and countries, due to the stringent technical and data requirements.

- It would be useful to provide a summary of methodology to all DNAs and/or to industry associations/bodies, research institutions to ensure wider applicability.
- The new methodology submission form could also include a section, optional perhaps, on 'replicability potential' for the proposed methodology

4. Improve flexibility in application of methodologies: This could be developed as general guidance to DOE and project proponents. Currently, validation/verification of methodology application is a process of 'verbatim' comparison and does not allow for consideration of valid technical alternatives and concerns.

- Identify changes in the methodology that should not require request for clarification, revision or deviation, or communication with Meth Panel / SSC-WG
    - Minor changes, which can be made with a certain discounting factor (e.g., 2% discount; change in monitoring approach including type of metering equipment; addition of a minor auxiliary processes)
    - Identify other changes, which can be made with higher levels of discount values to account for potential uncertainty (e.g., minor changes in boundary definitions)
    - Approaches to resolve difference in interpretation of methodological requirement between DOE and project owner; considering the limited technical expertise available with the DOE
- Identify extent of changes to the methodology, which should be
    - resolved in a clarification request in a virtual meeting process, with a clear timeframe
    - required to request for revision
    - required to request for deviation
- Provide guidance on the treatment of changes to project during implementation phase
    - to resolve difference with underlying newly approved methodology
    - to align with new versions of methodologies
    - to align with consolidated versions of methodologies
- Define procedures to allow use of large-scale methodology for a small-scale project, using simplified guidelines and procedures, to avoid duplication of effort
- Develop performance based indicators in place of elaborate/cumbersome monitoring procedures that could be verified by DOEs and yield results similar to those under elaborate/cumbersome monitoring.

5. Increase the validity of an expiring methodology from 8 months to 12 months:
The extension of this time period has become critical as the delays in validation of projects have grown because of the increased work load of the DOEs. This is especially important for projects with a long-lead time for preparation.

6. Methodology development and assessment need to address sector specific requirements:
Transport sector perspective
Of the seven approved methodologies for transport projects, only two have been successfully used in registered projects, and these two methodologies only have one associated project each:

Transport Methodology	Description	Number of Registered Projects
AM0031	Bus Rapid Transit	1
AM0047	Waste Oil to Bio-Diesel	0
AMS-IIIC	Low GHG Emissions Vehicles	1
AMS-IIIS	Low GHG Emissions Vehicles in Commercial Fleets	0
AMS-IIIT	Plant Oil Diesel Use	0
AMS-IIIU	Cable Cars	0
AMS-IIIAA	Efficiency Retrofit Technologies	0

While the problem of underutilized methodologies persists among all sectors, within transportation, the issue is particularly acute. Following are a few key reasons as to why this sector has experienced difficulties.

- Inconsistent Interpretation of Methodologies

Inconsistent methodology interpretation has been particularly relevant in the case of projects seeking registration using AM0031. In general, projects proceeding the originally approved Bogota BRT have been held to higher standards with regards to additionality and leakage. For example, following are MP37's comments on the additionality section of a BRT PDD, which were based on AM0031 guidelines:

"The main concern is that the proposed barriers are very subjective and difficult to validate in an objective manner. COP/MOP4 requested the CDM Executive Board to "further enhance the objectivity of approaches used to assist in the demonstration and assessment of additionality while ensuring environmental integrity". The current approach in AM0031 requires improvement in that regard."

While the Panel's concerns about the original methodology's rigor in leakage and additionality considerations may be justified, their application of a double standard is not, as it creates confusion among project sponsors as to what the "true" criteria are for a project.
Unless a methodology is dropped or revised, a methodology's interpretation and acceptability should remain consistent.

- Unrealistic boundary, leakage and additionality requirements

Four of the seven transport methodologies require that vehicles replaced as part of a project activity must be scrapped. In general, scrapping is not a financially viable option for project sponsors. Further, when vehicles are not scrapped, the net impact on emissions reductions is not necessarily eroded, for example, in the case of buses, old buses are often resold to poorer cities or countries, where they either replace *even worse* buses (in terms of emission and/or energy efficiency) or expand the capacity of public transit – both of which are positive outcomes in terms of emissions reductions. Buses that are not resold due to inoperability are scrapped and recycled for parts anyway – implying that setting up an elaborate monitoring scheme to ensure scrapping may not be necessary.

Methodologies that seek to account for emissions reductions due to modal shift (e.g., AM0031 and AMS IIIU) require extensive ongoing monitoring and survey work to ensure leakage calculations are accurate. In the case of AM0031, surveys are conducted every 6 months over the life of a project to ascertain whether a BRT rider would have taken another mode if not for the BRT. After ongoing operations over a period of years, these survey questions reveal little (e.g., after five years of operations in a developing city with a constantly changing landscape, it would be difficult for a respondent to indicate now non-existent alternatives that would have taken in absence of the project) yet continue to demand resources from the Project Entity. Given that most BRT projects are very small in terms of emission reductions, these annual resource requirements seem unrealistic.

In terms of additionality, the issue in transport sector is further complicated by the fact that the cost of transport projects is generally very large relative to the amount of emissions reductions achieved. One wouldn't justify the construction of a subway system, for example, solely because it would mitigate transport sector GHG emissions, even though the project would, in fact, have a tremendous impact on emissions over a long period of time (e.g., imagine what transport GHG emissions in New York City would be if it hadn't begun building its extensive subway network a century ago). As written, additionality criteria, while appropriate for some sectors, are not necessarily appropriate for all.