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CDM Executive Board
UNFCCC Secretariat
Martin-Luther-King-Strasse 8
53153 Bonn, Germany

Response to the Call for Public Inputs on “Draft Tool for Baseline Emissions Calculation” and “Draft Tool for Baseline Identification”

Dear Mr. Mahlung,
Honorable Members of the CDM Executive Board,

As a researcher and climate policy analyst who studies the CDM with the ambition to contribute to improving the mechanism as it evolves, I welcome this opportunity to engage in a mutually beneficial dialogue with the CDM Executive Board (EB).

Modifying the CDM’s rules and methodologies to enhance its sustainable development contributions to those countries that continue to be underrepresented should be a priority of ongoing reforms, including the proposed draft tools that are the subject of this call. The EB deserves credit for its continuous efforts to work towards wider participation, e.g. through micro-scale projects, standardized baselines and the forthcoming loan scheme. These concerns should also be reflected more visibly in the design of the proposed tools to adapt them better to the specific circumstances of LDCs, SIDS and African parties.

Hence, in response to the call for public input on the Draft Tool for Baseline Emissions Calculation, I recommend with regard to section “II.A Baseline Emissions Calculation Based on Benchmark”:

1. Priority Project Activities

1.1. Benchmarks can simplify baseline emissions calculations and reduce transaction costs. A key challenge, however, is to prioritize baselines of highly replicable project types with significant sustainable development benefits for the livelihoods of many people, e.g. household-level renewable energy projects, while safeguarding environmental integrity. Although the choice which indicators are most appropriate and which data is relevant depends on the specific sector or methodology, all benchmarking efforts should be guided by these ambitions.

1.2. As private project developers may be reluctant to bear the significant initial costs, adequate financing should be secured by the EB for the top-down development of benchmarks that meet the above-mentioned standards, and related capacity building for their implementation, including demonstration projects.

1.3. Such reform efforts should always be undertaken in an inclusive, consultative process.

2. Benchmarks for National Grid-Emission Factors in LDCs

2.1. With regard to methodology-specific benchmarks, grid-connected electricity generation from renewable energy (esp. ACM0002, AMS-I.D.) is a sector of particular concern for low-carbon development strategies. Hence, providing strong incentives to meet legitimate development goals, while avoiding high-emission technologies, strengthens the CDM's effectiveness and legitimacy.

2.2. Low grid-emission factors (GF), which currently serve as baselines for the calculation of emission reductions in this sector, however, strongly disadvantage developing countries with a clean, hydro-dominated electricity generation portfolio. Although the second version of the grid tool has begun to account for suppressed or unmet demand, it does not adequately capture the realities of electricity supply and demand in many developing countries. As suppressed demand is diffuse and data availability often limited, it is admittedly challenging to develop approaches that are simultaneously conservative and realistic. Yet, clearly, the specific circumstances of LDCs including grid size and generation capacity per capita, geographical isolation, and main sources of widely used fuels etc. need to be better incorporated in the calculation of baseline emissions.

2.3. Hence, recalling section V. of the "Policy options to assess grid-emission factors published by national authorities" (CDM EB 54, Annex 4), and Decision -/CMP.6 "Further guidance relating to the CDM", paragraphs 46 and 51, I propose to calculate baseline emissions of grid-connected renewable electricity generation CDM projects in LDCs, and/or in countries whose energy supply per capita is below a certain threshold deemed necessary to fulfill basic needs, by using top-down floor benchmarks for the combined margin of national grid-emission factors. This proposal would be straightforward to implement, monitor and verify with existing methodologies, and could rapidly become effective. A conservative benchmark could for instance be set just below the grid-emission factor of the most-efficient gas power plant technology. Even at this conservative level, such a floor benchmark would dramatically improve the incentives to develop renewable electricity CDM projects in many LDCs and potentially unlock considerable untapped potential to promote human and economic development, while reducing pressure on ecosystems.

2.4. The appropriate way forward to develop this floor benchmark needs to be discussed further. The already existing prioritization of energy generation in the standardized baselines process suggests to include this issue there, e.g. as a priority item in the related technical workshop that is to be held before SBSTA 35.

In response to the call for public input on the Draft Tool for Baseline Identification, I recommend:

3.1. The tool should make it more explicit that the special circumstances of LDCs, SIDS and African parties require alternative or simplified approaches to identify baselines. For instance, the possibility that demand for electricity remains suppressed in the absence of a CDM project is not sufficiently expressed in the Methodological Approach for Baseline Setting (MABS) 5 (Displacement of a more GHG intensive output by a less GHG intensive output produced by the project), as elaborated in section II.1., paragraph 18, or section II.2.5.1. This problem needs to be more visibly addressed in the proposed draft tool, for instance by developing a simplified approach or benchmarks for projects in LDCs and underrepresented countries, as introduced above.

3.2. An additional proposal for baseline identification specifically in the grid-connected renewable electricity sector, would be to allow CDM project developers for projects in LDCs and/or in countries whose energy supply per capita is below a certain threshold deemed necessary to fulfill basic needs, to choose between a (sub-)regional GF and the national GF. Allowing a (sub-)regional GF, calculated as the average of the national GFs of one (sub-)region, could ensure that parties with low GFs despite insufficient levels of generation capacity are not disadvantaged and incentives for further investments in clean energy are provided. Still, it has to be considered conservative, as such an average (sub-) regional GF will always remain lower than other individual grid-emission factors.

3.3. Open questions to be addressed include whether the EB or the DNAs would have to approve such a (sub-)regional GF, and how its development would be financed.

I hope these proposals can contribute to the design of the tools and the broader reform process and look forward to further opportunities for greater engagement with the Secretariat and EB members on these issues.

Sincerely,

A handwritten signature in black ink that reads "Stephan Hoch". The signature is written in a cursive, slightly slanted style.

(Stephan Hoch)