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FOIK/CP Public Call

BRINKS/MLEH

15 August 2011

Response to public call from EB62 on first of its kind barrier and common practice analysis.

Dear Members of the CDM Executive Board,

We refer to the public call from EB62 on FOIK and CP and have the following answers

First of its kind

(a) How would you normally define “prevailing practice” and what influences the consideration of whether such prevailing practice constitutes a barrier?

Prevailing practice refers to how a task usually is carried out, e.g. by a certain technology. A project may face barrier due to prevailing practice if it is not known in the country/region how to do carry out the task correctly and this is not readily available. This is normally related to technological barriers of a different technology than what is normally used. Such a prevailing practice barrier can be assumed only to be present among the first projects in the host country since the use of the technology is in principle then known locally. However, for large scale project it can be assumed that the technology and the necessary competence can be bought from abroad if the project is financially viable. As such FOIK may only be applied to small-scale projects or to large-scale projects below a certain size.

(b) In light of the previous answer, in your understanding, is a "first of its kind" project always facing barriers due to prevailing practice?

Not necessarily, cf. answer above.

(c) Consequently, is there a need for a FOIK concept in the additionality and combined tools or can the normal . or further improved - investment analysis or barrier analysis test sufficiently or even better capture the additionality of a project?

Yes, there is a need for a FOIK barrier, at least for smaller projects.

(d) Is it sufficiently clear what constitutes a technology that is FOIK or is additional guidance required (e.g. geographical limitations, methodologies, industry and technology, other differentiating factors...)? How would one define this guidance?

The definition of first of its kind, as used for large scale CDM projects, is clear enough. The definition used for SSC project (“among” the first of its kind) needs more clarification. It would be better if a certain number, like e.g. the three first projects, can be considered FOIK.

(e) Should there be technologies that are automatically deemed FOIK or technologies that are deemed never to be FOIK?

There could in principle be technologies that are automatically deemed FOIK. However, this should be a dynamic list, e.g. be updated annually. One such technology could be thermal solar power.

(f) Since FOIK is meant to reflect a barrier due to a very limited and quite unique application of a (new) technology, would it then be necessary to demonstrate how CDM helps to overcome this barrier?

This should not be necessary. As for investment analysis, where increased revenues obviously alleviate the financial barrier, FOIK is in general alleviated by reducing the risk for the investment by increased revenues. There is no need to repeat this in every PDD that uses FOIK.

In addition, the additionality tool refers to alleviation of barriers, not to overcome them.

(g) Should CDM projects (registered or under validation) continue to be excluded from the FOIK test in the long term? What would be a reasonable term?

It does not matter materially for a new project whether the previous projects were CDM projects or not with respect to whether the project face FOIK barriers. For this reason, the CDM status should not be taken into account in consideration of a FOIK barrier.

It may, however, depend on when the other projects were realised. If the other project was the very first of its kind and it has technological challenges related to operation, other project must have been in operation for a while before the FOIK barrier is removed. Timing of other projects is therefore of more importance than whether they have CDM status or not.

Common Practice (CP)

(a) Is there a need for a CP concept in the additionality and combined tools or can the normal . or further improved - investment and barrier analysis tests sufficiently capture the additionality of a project?

Yes, there is a need for a common practice analysis in the additionality tool. CP is not a barrier, but a credibility check after the barrier analysis and/or investment analysis. It is not believed that improvements of the barrier analysis and the investment analysis will capture this without a subsequent CP.

(b) Should this concept be introduced early on in the assessment of additionality or should it continue to be implemented as a final stage of the assessment acting as a credibility check?

Continue to be used in the final stage as a credibility check of the preceding additionality assessment.

(c) Do you agree with the current approach to determine the CP of an activity?

For most part the current approach is acceptable. However some improvements are recommended. This relates to definition of similar project in step 4a of the additionality tool, justifications of non-availability of data and above all a definition of what “common” means. The first issue is discussed under d).

There is a strong need to define what “common” means. Common practice is a different concept than FOIK (with exclusion of CDM projects). If a few projects are realized without CDM and without any known plausible reason, it is still not necessary a common way to do it. It should be defined a threshold, e.g. 5% or 10%, by which it is considered “common”. Otherwise one reckless investment for a technology in a region can in principle stop all such CDM projects in the region.

In principle it is a good idea to ask for justification for non-accessible data. However, when there are e.g. 10 projects (after step 4a), this could be cumbersome to document. This should be limited to reference to public information available from internet or books. Often not all financial data of a project are publicly available. E.g. for a hydro power plant, investment costs, O&M costs, electricity generation and electricity tariff are needed to do a complete investment analysis (given equal taxes). If not all data are publically available, comparison of the publicly available data among investment costs, electricity generation and tariff should be accepted.

(d) Is there a need to better define what constitutes a “similar activity” and the criteria used to identify essential distinctions (e.g. geographical scope, methodology, industry, technology, size, local circumstances, others criteria including the current criteria in the existing guidance)

The current definition in step 4a of the additionality tool is mostly acceptable. However,

- The size should be better defined. Based on previous reviews, EB/UNFCCC has indicated $\pm 50\%$ of the installed capacity of the project as similar size, but this has not been included in the additionality tools. This is recommended to be done.
- The scope of CDM projects could be expanded from GSP started to also included notification of intent to UNFCCC or application of LoA.

It is unclear what is meant by “methodology” in the question. CDM methodologies are not considered of relevance in this context.

(e) Is there any other alternative approach to determine the CP of an activity?

No comments.

(f) Should CDM projects (registered or under validation) continue to be excluded from the CP test in the long term? What would be a reasonable term?

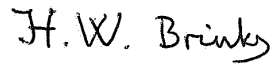
Yes, these projects were realized because of CDM and do not at all represent what is common. CDM projects should therefore be excluded without any time limit.

(g) Should there be a list of activities that are exempt from the CP test?

No (except for when a FOIK is accepted, but that is obvious).

It may also be considered to be introduced for SSC activities with a different threshold for what is considered “common”.

Yours faithfully
for DNV Climate Change Services AS



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