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Subject **Call for public inputs on Programme of Activities (PoA)**

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Honorable Members of the CDM Executive Board,

This input has been prepared by the Designated Operational Entities and Independent Entities Association (DIA)<sup>1</sup> and underwent further consolidation by inviting all members of the DOE/AIE Forum. It represents though the view of the DOE/AIE Forum.

We appreciate the initiative of the CDM Executive Board to improve the communication between the Board, the UNFCCC Secretariat and their stakeholders and welcome the opportunity to provide input on the "*Call for public inputs on Programme of Activities (PoA)*"<sup>2</sup>.

By having a DOE/AIE Forum we feel privileged to have a formally recognized communication channel with the Regulator which is regularly used at and in between EB meetings. We believe that regular direct interaction which goes beyond one way communication is key to enhance common understanding and efficiency within CDM.

With the intended improvements in the regional distribution of CDM and the objective of including more activities on household level or at the scale of rural communities it is obvious that the introduction of regulations which enable a predictable and reliable roll-out of programmes of activities is a key for confirming the success of the CDM at the end of the first commitment period.

The call for input asks for the provision of answers to the following questions:

- (a) What are the possible alternative concepts for a PoA?
- (b) What are the barriers in the current rules?
- (c) What are the rules that are not existing or are missing and should be there?

We take the liberty to change the order of these three questions considering that this delivers a better understanding of our line of arguments.

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<sup>1</sup> The DIA is an independent, not-for-profit organization dedicated to the development and establishment of effective processes and criteria for and related to the determination and validation and verification of emission reduction and sequestration projects and to represent the members at relevant bodies of the United Nations Framework Convention on Climate Change (UNFCCC) and other Green-house Gas ("GHG") programmes that accept UNFCCC accredited bodies to carry out determination and validation or verification.

<sup>2</sup> [http://cdm.unfccc.int/public\\_inputs/2011/poa/index.html](http://cdm.unfccc.int/public_inputs/2011/poa/index.html) .

## What are the barriers in the current rules?

Project investors as well as DOEs require calculable conditions during their activities (investments or services) within their specific market environment. Predictions need to be reliable to a certain degree especially on revenues, achievable prices, costs and involved risks. So far with regard to PoAs none of these aspects can be determined at the required minimum certainty. This might discourage entrepreneurs from taking steps that would create both, a more frequent application of PoAs as well as the development of resources to satisfy the demand of potential services for PoAs which are anyway not demanded. Against the original intention to offer cost reductions to activities with rather small scale applications but with chances for easy replicability, the recent set-up of the current rules created barriers which are considered insurmountable because of their costs and risks implications.

The following deficits with regard to the DOEs are considered as the most important ones:

- The existing guidance is unclear at specific aspects. In particular, it does not provide clarity to which extent additionality assessments need to be done at the CPA level. Diverging interpretations among DOEs as well as among DOEs and reviewers in the registration process lead to an unfavorable perception of the CDM performance by the public.
- Costs and efforts for the DOEs associated with the inclusion of CPAs are hardly predictable as long as guidance does not appear clear and fixed. This leads to some reluctance by several DOEs in offering such services.
- Even after the most recent revisions of the underlying procedure, DOEs being engaged during the inclusion of CPAs or at verification still face the unquantifiable liability risk for erroneous inclusion or excess issuances. Although the concept foresees the application of sampling methods in DOE assessments, this aspect will quite frequently force DOEs to perform very detailed assessments including site-visits for each individual CPA, as only by this means DOEs feel really responsible for difficulties that may occur randomly at an individual site.
- The procedure for reviewing erroneous inclusions is longwinded, time and cost-consuming and is considered extremely unfair. There is an obvious disproportion between the potential impacts of erroneous inclusions of CPAs (especially for small scale activities) and the efforts spent for its detection. If e.g. such a review results finally in a change of emission reductions by few CERs the defendant DOE has to cover costs which might exceed some 100.000 US\$, taking into account internal and external costs. For avoiding such risks DOE can only apply a comprehensive assessment as already described under the previous bullet point.
- It needs to be mentioned that according to the recent procedures the fact of erroneous inclusion needs to be identified and reported by the DNA or a Board member. This leads to the assumption that UNFCCC secretariat will spend tremendous efforts in future in performing additional desk reviews for all CPAs, while there is in principle no incentive for the verifying DOE to report back non-verification issues at CPA sites, which are included for a first time in a sample undergoing a higher level of scrutiny.

In summary it can be stated that the recent set-up does not deliver any incentive for DOEs spending many efforts in extending their staff or their staff's skills in order to be enabled for offering more services for PoAs. It has to be recognized that this topic is recently dedicated to a very limited group of experts within individual DOEs and no activities in adding further capacities are visible.

### **What are the rules that are not existing or are missing and should be there?**

There needs to be clear, finite and consistently applied guidance text in all relevant documents (PoA guidance/procedures, VVManual) confirming that additionality has to be assessed on PoA level. Vague guidance text like a need to demonstrate that CPAs would not have been implemented in the absence of the PoA would reinstate the additionality test at CPA level and should therefore be avoided. We recommend applying the new guidance on the additionality of VSSC activities, in case CPAs are eligible for that option, while applying a test that there are no de-bundling issues (like a modular set-up of larger installations).

If assessments of samples are accepted for CPA inclusion or verification, the acting DOE has to be released of any responsibility for issues occurring outside the scrutinized samples.

Procedures for the validation of CPAs (at inclusion) and the verification of CPAs (PoA specific validation and verification protocols, sampling plans) shall be fixed at the registration of the PoA and shall be applied by every DOE performing these services at a later stage. Thus improved consistency in the assessment can be ensured at the early beginning.

There needs to be a process that enables the replacement of the initial CPA available at the time when starting PoA validation given the case that this CPA would not meet the eligibility criteria. Otherwise such a PoA would never be able for becoming registered.

### **What are the possible alternative concepts for a PoA?**

From the DOE perspective any alternative concept needs to resolve the obstacles as described under the first section. Thus it has to address in particular liability, additionality and the issues for inclusion of CPAs.

These objectives should be achievable if more responsibility in the performance, monitoring, CPA inclusion and verification is given to the Coordinating and Managing Entity (CME). Although such needs are already included in the recent concept its importance and opportunities are quite frequently not considered.

The registration process should continue to include validation of a PoA and the first CPA as well as a template for CPAs by a DOE. In addition it should also involve the submission and validation of consistency check protocols for CPA inclusion and verification protocols. These protocols need to be applied in future assessments once the CME starts to implement and roll-out the PoA. Furthermore, the initial set of documents should contain non-ambiguous instructions how to define samples in verification activities.

Verification activities and consistency checks for CPA inclusion performed at the same time may result in single submissions to EB, thus reducing transaction costs for project participants. Both should be based on the assessment of samples as discussed in the following.

In-depths checks of all CPAs before inclusion, the collection of data according to the monitoring plan and its "preliminary verification" shall be performed by or under the responsibility of the CME according to its requirement for implementation an efficient quality management system. The "final verification" which should be connected to the effective issuance of CERs should occur not more frequent than twice a year. This verification by the DOE shall cover all monitoring reports which have been finished since the previous verification and could also include a "validation" of the batch of CPAs to be included at the same point in time. The assessments should focus on the following elements:

- the appropriate implementation of the PoA with regard to technological aspects;
- the system and internal checks for CPA inclusion, its implementation and its effectiveness;
- the system for monitoring of the required parameter, its implementation and its effectiveness;
- the system for internal verification, its implementation and its effectiveness;
- a confirmation of the amount of CERs that can be certified at a reasonable level of assurance taking into account the fact that the result is based on the assessment of samples.

Within this concept DOE's liability can only be considered under the same aspects as for standard activities (an issue which is under further discussion, too) and should only be applicable for cases of significant deficiencies which means of fraud, malfeasance or gross negligence. Gross negligence is by no way applicable to situations where individual CPAs have not been scrutinized in verification activities according to a documented sampling plan. Notwithstanding the quality of such verification reports shall be included in the performance assessment of DOEs and shall therefore remain an essential step of the accreditation procedure.

The issue of erroneous inclusion could be given a special focus in the required guidance by providing new procedures how to offset unjustified issuances. As the CME is the one who was given advantage by such erroneous inclusions it needs to be discussed with other stakeholder groups whether discounts for occurring over-issuances caused by erroneous CPA inclusion should be made by the CME once requesting issuance in a latter round of verifications during the crediting period. In such an approach erroneous inclusions shall be assessed and evaluated by the verifying DOE, which is the most likely actor to identify and report these cases. Further options to request such assessments should be given to the involved DNAs and EB, while the assessment should be made at the following verification, thus reducing transaction costs and risks at all sides.

It needs to be mentioned that this approach would not enable a change of the CME or at least, if this is still intended, a confirmation by the new CME that it takes over the responsibility for erroneous inclusions in the past.

The DOE/AIE Forum and DIA trust that these proposals are helpful to further expand a credible and effective CDM. We consider all presented elements and alternatives have the potential to reduce risks and costs for all actors, while it still protects environmental integrity at the same or more likely even higher level compared to the recent approach. We consider this a pre-requirement for getting acceptance of such material changes and creating the starting point for extending the use of the PoA approach. We are looking forward to further contributing on this matter.

Kind regards,



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Chair of the DOE/AIE Forum