2012-077-S

F-CDM-RtB

CDM: FORM FOR SUBMISSION OF "LETTER TO THE BOARD" (Version 01.1)

(To be used only by the Project Participants and other Stakeholders for submitting Letter to the Board as per Modalities and Procedures for Direct Communication with Stakeholders)

Name of the stakeholder[1] submitting this form (individual/organisation):	Project Developer Forum
Address and Contact details of the individual submitting this Letter:	Address: 100 New Bridge Street, London, EC4V 6JA Telephone number: +65 6578 9286 E-mail Address:
Title/Subject (give a short title or specify the subject of your submission)	
Please mention whether the Submitter of the Form is:	☐ Project participant ☐ Other Stakeholder, please specify
Specify whether you want the Letter to be treated as confidential[2]):	☐ To be treated as confidential ☐ To be publicly available (UNFCCC CDM web site)

Purpose of the Letter to the Board:

Please use the space below to describe the purpose for submitting Letter to the Board.

(Please tick only one of the four types in each submission)

☐ **Type I:**

☐ **Request Clarification** ☐ **Revision of Existing Rules**

- ☐ Standards. Please specify reference
- ☐ Procedures. Please specify reference
- ☐ Guidance. Please specify reference
- ☐ Forms. Please specify reference
- ☐ Others. Please specify reference

☐ **Type II: Request for Introduction of New Rules**

☐ **Type III: Provision of Information and Suggestions on Policy Issues**

Please use the space below to describe in detail the issue that needs to be clarified/revised or on which the response is requested from the Board as highlighted above. In doing this please describe the exact reference source including the version (if any).

[1] Note that DNAs and DOEs shall not use this form to submit letter to the Board.

[2] Note that the Board may decide to make this Letter and the Response publicly available

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[**To**	cdm-info@unfccc.int
From	gareth.phillips@pd-forum.net
Date	19 February 2012
Page	**2/ 9**
Subject	**Unsolicited letter relating to the annotated agenda of the 66th meeting of the CDM's Executive Board**

Honourable Members of the CDM Executive Board,

The Project Developer Forum (PD Forum) would like to express our welcome to incoming members of the Board and offer our support to the EB in what will be a critical year for the CDM.

Regarding the annotated agenda for EB66, we would like to provide input on a number of items, as outlined below.

Para 7, Annex 1 & 2: draft CDM two-year business plan for 2012-2013 and the draft CDM management plan (CDM-MAP) for 2012

The PD Forum notes with appreciation the two objectives of the EB for the period covered by these plans i.e. greater efficiency in operations and ensuring that the CDM is 'fit for the future'. Of immediate concern for project developers this year is the efficiency of the Secretariat and Board in processing requests for issuance (RfI) and request for registration (RfR), particularly in the second half of this year when volumes of RfI and RfR are expected to increase significantly.

The PD Forum is therefore supportive of the actions concerning the introduction of a risk based approach for project submissions. We urge the EB to make this process as transparent and impartial as possible and to this end suggest that the best way of ensuring impartiality is truly random sampling of project submissions.

At the very least, we suggest the EB should publish the criteria on which sampling is based to ensure that the Secretariat and EB cannot be accused of bias in the selection of projects.

Para 11, Annex 4: Compliance with indicative timelines

The PD Forum welcomes the efforts made by the Secretariat to reduce the Issuance and Registration timelines. Nonetheless, we would appreciate further resources devoted to reduce the average waiting time between the receipt of submissions for registration and issuance and the commencement of completeness check to less than 15 calendar days to meet CMP7's target.

In this context we would like to highlight that many project developers are bound contractually to deliver CERs from the first commitment period (ending on 31/12/2012) by 30/04/2012, as this is the end of the true-up period of the European ETS phase 2, the main market for CERs.

This means that for these projects the CERs from the last months of CP1 have only 120 days from publication of the monitoring report to issuance. Considering that some time is needed for the finalisation of the monitoring report in beginning of January and some time is needed for delivery from the UN registry into the national account, the total time available will be less than 120 days. For those projects that need to wait for invoices to evidence emission reductions or collect data from measurement campaigns, the timeline is even more challenging.

The EB may want to consider therefore not only sticking to the timelines previously set but to reduce the timelines for issuance if the monitoring period covers the 31/12/2012 period. We are convinced that the information and reporting check and the request for review period could be halved without putting environmental integrity at risk, at least for those projects not requesting any revision or deviation or having performed at least one verification before. Your consideration of this suggestion would be very welcome.

Para 23: Report of the fifty-fourth meeting of the Meth Panel

The PD Forum notes that annex 24 of the Meth Panel meeting report (Information Note on the "Review of large scale methodologies for their application to programme of activities") proposes a revision of the eligibility criteria in the PoA DD every one or two years (paragraph 6c) instead of at the renewal of the crediting period. We suggest that this goes against the simplification concept of PoAs. Furthermore, PD-Forum members are involved in validation of many PoAs and confirm that the concerns in the note are very frequently being addressed (and validated) in the proposed eligibility criteria.

Para 56, Annexes 10-26: revised, new and consolidated documents to operationalize the CDM project standard (PS) and CDM validation and verification standard (VVS)

The PD Forum appreciates the work of the EB and Secretariat to consolidate and improve documents and procedures through the adoption of the VVS, PS and PCP. However, we would like to again highlight our concerns regarding the Implementation plan and the timing of introduction of the new Standards and Procedures and removal of existing Standards, in light of the end of EU ETS phase 2 at the end of this year.

As highlighted in our submission of 5 February[3], we note that the grace period 1 May - 30 Sep is only 5 months months long; this is much shorter than the 8 months grace period that is standard for Approved Methodologies and Tools. Considering the extent of the changes to the rules (22 documents revised, 9 new documents and 40 documents withdrawn) we would expect that at the very minimum the grace period should extend until 8 months months after the date that the revised PDD and MR templates are approved by the Executive Board.

Para 56, Annexes 14-15: Draft guidelines for completing the POA-DD and the SSC POA-DD

We would like to comment particularly on Section A.6 of the draft guidelines (In the current PoA-DD form this is A.4.2.1):

The guidelines mentioned for completing this section on technology measures would mean at PoA-DD stage the CME will have to determine the exact technology(ies) that will be utilized, types and levels of services provided, energy and mass flow balances of the systems and equipment included in the CPAs, baseline scenario to the CPA, monitoring equipments and their locations, etc.

The guidelines also requires a list of: (a) Facilities, systems and equipment in operation under the existing scenario prior to the implementation of the CPAs in the PoA; and (b) Facilities, systems and equipment in the

[3] http://cdm.unfccc.int/stakeholder/submissions/index.html (but please note the link for our submission is not correct)

baseline scenario.

In our opinion, this is too detailed and only possible if the PP is implementing a series of identical projects. Furthermore, not knowing the configuration of future CPAs it will be difficult to define any standard monitoring equipments/locations applicable to all CPAs at PoA-DD level.

As a result, it is not possible to meet the requirements of A.6 at the PoA level and this will also not serve the purpose of a programme as any variation in CPA would make it ineligible even though the overall technology/measure remains the same.

We propose that it is more appropriate to have these guidelines at CPA-DD level. At PoA-DD level it's better to have a broad understanding of the technology /measures and potential baseline scenario information. There is no point restricting the project configuration to just one or two typical configurations when the methodology is providing flexibility with regards to project configuration and also the fact that the PoA length is 28 years.

Annex 22: Draft guidelines for completing the monitoring report form, including source table

The PD Forum would like to point out a new reporting requirement included in the "Draft guidelines for completing the monitoring report form" which may unnecessarily increase the reporting and verification burdens on project participants and DOEs. The revised guidelines now require that, if data are measured continuously, baseline, project and leakage emissions should be reported for time periods that can vary from monthly, to weekly and daily. In our view, this new reporting requirement will create unnecessary confusion and work in case of many methodologies without adding any value.

In particular, there are many methodologies where, albeit parameters are monitored continuously, emissions are not calculated continuously, but instead are aggregated during the monitoring period. One such example is the methodology for N2O abatement from nitric acid plants (AM0034) where, despite gas flows and concentrations are monitored continuously, emissions reductions are calculated per project campaigns and presented as an aggregate figure. In fact, the methodology does not even provide methods to calculate emissions for shorter intervals. Other methodologies, e.g. the landfill gas methodology ACM0001, do not have equations for the calculation of baseline and project emissions. Instead, emissions reductions are calculated directly. This new requirement would also be problematic for methodologies which apply yearly caps.

More broadly, all methodologies which include emission factors that are calculated yearly or over the monitoring period would face similar issues. In all such cases, there is little meaning and added value to calculating and reporting emissions for intervals shorter than the monitoring period. After all, detailed information for all monitored parameters would still be available in the workbooks. The PD Forum would thus like to encourage the Board to review this new requirement introduced in the "Draft guidelines for completing the monitoring report form" and revert to the original form where only aggregate figures for the monitoring period need to be reported.

In addition, we would make the following detailed comments:

- Section E: Calculation of Emission Reductions or Net Removals, Sub-section D.3: Paragraph (d) requests a "demonstration on whether the required confidence/precision has been met". Since not all methodologies have provisions on confidence intervals, we believe that this could lead to misunderstandings and would suggest to specify that this requirement only applies to cases where the methodology requires it.
- The proposed guidelines also require PDs to "include the electronic spreadsheets to present the full calculations in the monitoring report". The PD Forum would recommend that the term "include" is replaced by "attach". The full calculations are already transparently presented in the emission reductions calculation spreadsheets that are included in any request for issuance submission. Adding all the spreadsheet tables in the monitoring report would add unnecessary complexity.

Para 57, Annex 27: Draft best practices examples focusing on sample size and reliability calculations

The PD Forum would like to comment on the section of annex 27 entitled "*Proportional parameter of interest*". The equations provided in para 16 to 48 take into account the precision requirement of 10% as a *relative* unit as also required by the sampling standard (EB 65 Annex 2). While applying this equation, we noticed that it leads to a steep increase in the number of units to be sampled if the parameter of interest (i.e. the proportion p) is low.

Explanation/ Example:
The example in the draft best practice document refers to the "proportion of cook stoves in operation" which in the end is a multiplicator for calculating emission reductions, i.e. CERs per stove deployed are multiplied with the fraction of the stoves that are in operation. The potential to overestimate emission reductions in *absolute* terms however is much higher if the proportion p is high, as can be seen from the following example:

Assume:
Stoves deployed: 640,000
CERs per stove deployed/ year: 2

Case 1: High p value
Expected p value: 80%
Required sample size (simple Random Sampling, 90/10 confidence/precision, para 16): 68
Stoves in operation as determined by sample survey: 80% +/- 10%(i.e. value is between 72% and 88%)
CERs generated: 80% * 2 * 640,000 = 1,024,000
Potential overestimation: 8% * 2 * 640,000 = 102,400 CERs

Case 2: Low p value
Expected p value: 20%
Required sample size (simple Random Sampling, 90/10 confidence/precision, para 16): 1,081
Stoves in operation as determined by sample survey: 20% +/- 10%(i.e. value is between 18% and 22%)
CERs generated: 20% * 2 * 640,000 = 256,000
Potential overestimation: 2% * 2 * 640,000 = 25,600 CERs

Assuming we have correctly applied the equation, it becomes clear that for a low p value, the effort for the PP to determine the parameter increases substantially while the potential overestimation in absolute terms decreases. We would therefore suggest to change in both the sampling standard and in the best practice document that within a given confidence level, the precision should be +/- 5% in absolute terms.

In the example above, the potential overestimation would then be the same:
5% * 2 * 640,000 = 64,000 CERs, regardless of whether p = 80% or p = 20%. The required sample size would also be the same for both cases.

Para 60(d) & 61(f) - Proposed revision of ACM0019

As ACM0019 (benchmark methodology for N2O abatement in nitric acid plants) is the first CDM Methodology to apply some of the concepts of standardised baselines, it is of importance to the future of the CDM. The ambitious nature of the baseline emission factor in ACM0019 means that in most cases the baseline emission factor will be significantly lower than the actual level of the emissions in the baseline scenario. This means that it is possible for a project to have emissions at or below the emissions in the baseline scenario but above the default baseline emission factor. Therefore, the calculated 'emission reductions' would be negative, when in fact emissions have been reduced or, in the worst case, remain the same as in the baseline scenario.

The approach of accruing negative emissions reductions in version 1 of ACM0019 is both perverse, discouraging the development of projects, as well as technically incorrect, as clearly explained by the referred request for revision AM_REV_227. CDM projects that apply standardized baselines and ambitious emissions benchmarks should not be punished in this way for periods when they fail to meet the predefined emissions benchmark. The Meth Panel has attempted to address this problem in the proposed revision of the methodology, however, the improved calculation method will have only a marginal impact on project activities because it has been limited to 168 hours per year. The PD Forum urges the Board to ask the Meth Panel to reconsider this limit and to avoid such perverse situations from arising in the development of standardized baselines and emissions benchmarks methodologies.

Para 63, Annex 28 - Draft methodological tool "Combined tool to identify the baseline scenario and demonstrate additionality"

The PD Forum recognises that the proposed changes to the combined tool bring it into line with the Additionality tool v6 by the inclusion of new rules for demonstrating that a project is First of its Kind (FOIK) or is not Common practice (CP). We would like to highlight our continued concerns regarding these (as illustrated previously in our submissions of 9 & 10 October 2011[4]):

- In many countries, the data to conduct the CP analysis for projects is simply not publicly available. Even where data is available for the larger projects, for projects near the small scale threshold it is highly unlikely that the data is available. In particular in the electricity sector, the number of projects could be very large. In LDCs the data is most likely to be absent.
- We would like to suggest at least that it is possible to use variables or estimated data instead of precise statistics to show that equations (a) and (b) of sub-step 4a(4) are fulfilled if the data source is limited. E.g. if no similar project activity is observed automatically Nall=Ndiff and F=0 < 0.2. Hence, it should not be required to give an exact number for Nall and Ndiff if it can be clearly shown that the inequations are fulfilled.
- The new definitions are unclear. For example, the definition of "applicable geographical area" is, in our opinion, less clear and less workable than before. There seems to be little limit to the area that may have to be taken into account and potentially this could expand to cover the whole of non-Annex I.
- The strict application of "first" fails to recognise the fact that early adopters of technology face a number of barriers including issues such as a lack of access to guaranteed performance contracts (probably the major limiting factor when considering a new technology against a prevailing or common technology), lack of trained engineers and staff, accessible spare parts, maintenance contractors etc. These barriers are not removed by the installation of the very first piece of new technology.
- We do not agree with the text which links first of its kind technologies with a 10 year crediting period. PPs should be free to choose between the two options on the basis of whether they expect the baseline to remain valid in the future. Not all first of its kind technologies become common practice and some may remain FOIK for their lifetimes. Removing this safety net from new technology projects will discourage investors from taking on the additional risks involved in pioneering a new technology.

Finally, there is some confusion regarding when the new CP guidelines have to be used. The PD Forum would appreciate written clarification from the EB that the additionality tool v6 should only be used for projects that started GSP after the publication of v6 of the additionality tool. For projects that started GSP prior to the publication of v6 of the additionality tool, they can continue to use v5 of the additionality tool as long as the project is submitted for registration by 25 July 2012. Further clarification is requested that the additionality tool v6 supersedes the CP guidelines introduced at EB63.

Para 64 - approved methodologies AM0028 and AM0034

The PD Forum would like to express its concern about the potential reassessment, revision or withdrawal of the approved methodologies AM0028 and AM0034 (i.e. project-specific baseline methodologies for N2O abatement methodologies in nitric acid plants) in favour of ACM0019 (i.e. benchmark methodology for N2O abatement in nitric acid plants). The PD Forum firmly believes that this course of action goes against the principle held by many Parties during negotiations that standardized baselines should neither supersede existing approved methodologies, nor preclude the development of traditional approaches to baseline setting and additionality demonstration. Furthermore, a potential withdrawal of AM0034 and AM0028 would severely impact project developers who have taken

[4] http://cdm.unfccc.int/stakeholder/submissions/index.html (please note that the title on the web-page of our submission of 10 October should read "Recommending changes to Annex 11 Guidelines for First of its Kind technologies"

investment decisions and assessed risks commensurate with the returns and conditions established by the application of the existing approved methodologies. Such a change to AM0034 or AM0028 would cause serious disruptions to many project activities during the renewal of their crediting period, hurting the principle of stable regulatory environment that should guide the Board's decisions.

Further, AM0034 and AM0028 were designed for plants that started operation before 2005, whereas ACM0019 was designed for new and recently built plants that are likely to have lower emissions and therefore more likely to be able to reduce emissions below the ambitious baseline emission factor in ACM0019. Many projects currently using AM0034 would receive no CERs using ACM0019 despite reducing emissions to a level that is well below the emissions in the baseline scenario as measured in the baseline campaign. This could lead to the discontinuation of a significant number of the registered projects. Therefore, the PD Forum urges the Board to reconsider the recommendation of reviewing AM0034 and AM0028 in favour of ACM0019 and retain these meths for plants that began operation before 2005.

Para.72 of the annotated agenda: Definition of “special underdeveloped zones”

The PD Forum understands the need to further clarify this definition in the “Guidelines for demonstrating additionality of microscale project activities”. This will lead to faster validations thereby lowering transaction costs, which is in line with the original intention of the microscale guidelines. However, regarding the proposed amendments outlined in annex 19 of the SSWG 35th meeting:

- We suggest that the EB instructs the Secretariat to make an assessment of the availability of data for projects that wish to use this line of argumentation. In our view, lack of data could present a significant barrier to those wishing to use this criterion
- Further, we suggest that the term “administrative unit” needs to be more clearly defined and/ or examples given

Finally, the PD Forum noted discussions in Durban around the eligibility of capital intensive projects and projects where CER revenues only form a small component of overall revenues. It was proposed that such projects were unlikely to be influenced by CDM revenues and that therefore it was not credible to claim that these projects were going ahead a result of the Kyoto Protocol.

The PD Forum considers that this proposal amounts to a significant change to the nature of the additionality test and we have listed the following points as reasons why the CDM can stimulate the development of capital intensive projects, even when the revenues are small:

- There is no requirement in the additionality tool to show that CER revenues raise performance above a certain threshold, only that they contribute to the project’s returns
- Investment decisions are made on the basis of a wide range of variables and a weighting of a number of risks alongside pure financial returns. The value of a second or additional cash flow in EUR or USD which can be repatriated without interference from the host government (at least for now) cannot be under-estimated in this decision making process
- The assessment of the contribution of carbon revenues to overall revenues is made against projected prices. Often a value of USD10 is used in the “with-project” analysis. Many developers remain optimistic that prices will increase and over a 21 year project lifetime, or even a 10 year project life, there is considerable scope for appreciation in revenues. In which case it is not possible to accurately estimate the full extent of carbon revenues compared to other revenues. This is a judgment which individual investors must make themselves.
- In many cases, the existence of an “upside” for an investment is sufficient to trigger an otherwise marginal investment decision. Portfolio managers often manage risk by ensuring that they have a strong likelihood of making a very modest return to at least get their money back with a low rate of interest on all of their investments and if only a proportion of projects deliver an upside they can still meet their expected returns overall.
- Many projects have used the existence of an ERPA to secure debt financing for projects, so the very existence of the CERs makes the financing possible.
- Others which are funded purely by equity, often use the demonstrated revenues from the operating (built) project’s deliverables plus the carbon revenues to re-finance with debt and

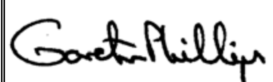
release the equity for reinvestment. (When the project is operational, revenues are flowing and the majority of risks have been negated, cheaper debt financing becomes available. Such debt finance is typically unavailable for new technologies and projects in unfavourable locations because of the perceived risks – exactly the kind of projects which the CDM encourages). Thus, the fact that CER revenues will help to release equity is more important than the relative magnitude of predicted CER revenue streams. The CERs “oil the wheels” that make the financing possible in a way that would not have happened without the Kyoto Protocol.

- The CER revenues may be pledged to senior equity investors who are required to provide a proportion of the capital before debt financing can be raised. In many cases, therefore, it may be more accurate to evaluate the magnitude of the CER revenues against the equity invested and not the total cost of the project. In this way, the CER revenues are leveraged and may carry much more weight than would otherwise be apparent.

Financing of projects is a complex exercise, and more so as projects get more capital intensive. Suggesting that CER revenues could not influence an investment decision on a capital intensive project grossly over-simplifies the investment process.

We hope that these inputs are helpful in your discussions going forward. Should there be any questions regarding our comments, please do not hesitate to contact me through the contact details provided above.

With kind regards,



Gareth Phillips
Chair
]

Please use the space below to any mention any suggestions or information that you want to provide to the Board. In doing this please describe the exact reference source including the version (if any).

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If necessary, list attached files containing relevant information (if any)	• [replace this bracket with text, the field will expand automatically with size of text]

Section below to be filled in by UNFCCC secretariat	
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