



CDM Executive Board opens door to unilateral CDM

The CDM Executive Board (EB) decided this week that the CDM registry should be enable;

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- non-Annex I parties and entities; to
- transfer CERs, tCERs and ICERs from their holding account in the CDM registry;
- to accounts in national registries.

This decision means that an important technical block for unilateral CDM is removed.

Methodologies approved: The EB met in Bonn this week. Today it concluded its discussions on the consolidated methodology for landfill gas CDM projects. Two methodologies for CDM projects were approved, while the EB recommended not to approve six other methodologies.

CDM Executive Board UNFCCC Cooperative Mechanisms Programme PO Box 260124 D-53153 Bonn Germany

World Bank warns too-tight CDM rules may cut “learn by doing” effect, reduce projects

The World Bank told the 1 - 3 September 2004 meeting of the CDM Executive Board (EB) “CDM represents, in our view, a unique opportunity for increasing the flow of foreign direct investments in development projects reducing GHG emissions; in short, the CDM is an important development tool. It seems, however, that the CDM Meth Panel and the EB could unduly restrict the CDM by creating excessively stringent methodologies at the outset and thereby reduce the amount of experience and restrict the knowledge base”.

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Round Up

EU price below euro10/tonne of CO2?

The price for CO2 emission certificates will initially lie below euro10/tonne of CO2 within the EU emissions trading scheme (ETS), a survey of ZEW Centre for European Economic Research in Germany says. They will go up later, though, the researchers expect.

Denmark a buyer: The recently appointed Danish Minister of Environment, Connie Hedegaard, warns that the government cannot meet its own climate pledges through quota purchases and foreign projects alone.

CO2 emissions to double by 2050: Global carbon dioxide emissions could double by 2050 if energy-saving measures are not universally introduced, said an international energy report released by the World Business Council on Sustainable Development (WBCSD) in Sydney on Monday.

Germany ready to trade: The German "Allocation law for the trading period 2005 to 2007" entered into force today, meaning that Germany now has all the institutional tools in place for trading under the EU emissions trading scheme (ETS).

US Farmers prepare to trade: Researchers at the Idaho National

Engineering and Environmental Laboratory (INEEL) believe the state has a major role to play in reducing carbon dioxide gases in the atmosphere. Changing agricultural practices across the United States could offset the carbon dioxide given off by about 25 million cars.

EU ETS 95,000t traded: After a couple of quiet holiday weeks in August, trading in the EU ETS picked up again in the middle of this week. On Thursday, 95,000 tonnes of CO2 were reported traded in the brokered market, making it the most active day in the EU ETS so far.

India, South Africa CDM hosts: Ecofys and EcoSecurities opened a process on 19 August 2004 to identify an Indian and South African organization to become local partner for establishing and hosting a CDM Centre of Excellence. The establishment of the first set of CDM Centres of Excellence (CoE) starts in India and South Africa. Ecofys and EcoSecurities now have opened a process to identify an Indian and South African organization interested in becoming the local partner for implementing and hosting the CoE. Interested organizations located in India and South Africa that are seriously considering to take such a role in the future could request the Terms of Reference (ToR) that provide further information for applicants.

For India, requests can be sent to CoE@ecofys.de. For South Africa, requests can be sent to CoE@EcoSecurities.com. The closing date for submitting applications is 30 September 2004. <http://www.kyotoexperts.com/>

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The risks:

- **Firstly:** by being excessively stringent, the learning by doing effect will be significantly disadvantaged even though we still have very little experience with the application of approved methodologies. Instead, a more reasonable and forward-looking approach would be to tighten methodologies when justified by experience with the use of a methodology.
- **Secondly:** excessive stringency is likely to reduce the number of CDM projects and thus the impact the CDM can have on the willingness of Annex I Parties to accept more stringent commitments, as well as the impact of the CDM on an overall lower carbon development path of CDM host countries and thus on achieving emission reductions that will not be credited through the CDM, said the Bank.

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World Bank says don't rush CDM approvals; proposes new level of public review so all nations can review methods

In comments on Consolidation of Methodologies by the CDM Board, to the 1 - 3 September 2004 meeting of the CDM

Executive Board (EB), the World Bank Carbon Finance Business said it supported standard rules - consolidated methodologies recently prepared by the Meth Panel of the CDM Board. Many project developers have called for such consolidation to avoid a proliferation of methodologies with very similar applicability. Consolidated methodologies should clarify and simplify the application of methodologies to concrete projects.

But, process muddy: "We therefore would like to encourage the EB to clarify the scope and process of the Meth Panel's work on consolidation. However, the Meth Panel's consolidated methodologies make it clear that the Meth Panel's work on consolidation goes beyond this as it involves the development of new and not (yet) approved methodological elements.

Mandatory standard: Moreover, the Meth Panel seems to suggest that a consolidated methodology could or should be applied as a mandatory standard methodology to all projects that would meet the applicability conditions. Thus, the consolidated methodology would replace all other methodologies that have previously been approved or submitted and would also disallow the submission and use of any new and alternative methodologies that could be applied to the same kinds of projects. It seems clear that the Meth Panel's work in this area can lead to three generic types of methodologies:

- a consolidated;
- a standard (mandatory); or
- a new methodology.

Clarification needed: These different outputs involve important distinctions with regard to process and outcome. In particular, and with regard to the subject methodologies mentioned above, we would suggest that the EB clarify the following issues:

- consolidated methodologies do not necessarily and automatically replace approved or submitted new methodologies;
- methodologies already submitted to the EB will be considered and, if possible, approved by the EB despite the ongoing consolidation endeavor;
- approved or submitted new methodologies can be used for the project for which they were submitted and possibly for projects within a certain timeframe (e.g. six months) counting from the date when a new or reformatted methodology was published; and
- use of a consolidated methodology is not mandatory, but that project developers may submit alternative methodologies to the EB for consideration and approval.

Make more room for public comments: "The World Bank suggested in the case of consolidation of previously approved methodologies:

- project proponents should be allowed to comment on the consolidation.

For standardized and new methodologies:

- a procedure essentially similar to the procedure and documentation required for new methodologies submitted by project developers should apply;
- how the methodology would be applied to a concrete project;
- public comments and desk review invited and taken into account by the Meth Panel; and
- summary of comments and how they were taken into account should be forwarded to the EB along with the methodology submitted for approval.

Time for review too short: “In the case of the consolidated methodologies currently available for comments, we would like to note that these methodologies are likely to need more work before they can be submitted to the EB for approval, that they may in fact go beyond consolidation by including elements of standardization, and that the period available for comments is very brief and advertised on short notice and may therefore not allow all interested constituencies, in particular host countries, to review the proposed methods and provide comments.

New round of review: “We would therefore like to suggest opening a new round of comments after the Meth Panel has issued a revised version of the consolidated

methodologies and before this version is submitted to the EB for approval”.

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CDM Board accused of muddle of GHG accounting methods

A submission by International Finance Corporation (IFC) to the 1 - 3 September 2004 meeting of the CDM board argued “Project participants have responded negatively to being forced to use several different types of GHG accounting methodologies (e.g., CDM, national, etc).

Prescriptiveness creates risk: “To be too prescriptive may create the risk that some eligible projects, and even some countries, may not gain the benefits of CDM. Allow project participants to rely on existing/ acceptable IPCC methodologies and national data sets. This will focus experts on using and refining accepted data/standards and facilitate standardization across different UNFCCC accounting programs. It also will make it easier for project developers, host countries and DOEs to comply with such standards.”

New proposals for simpler approaches: International Finance Corporation wanted the use and application of the new consolidated baseline emission factor methodologies made easier with adjustments to the methodologies, and said:

- new equations appear to require and allow only specific data and inputs that may be difficult and costly for all project sponsors to obtain, even where simpler or less costly appropriate alternatives exist;
- project Participants should be allowed to use alternate data or equations if they can justify such substitutions to the DOE.

Such flexibility has been allowed in the calculations of national and corporate GHG inventories, and only by doing so did many countries, industries and experts agree to UNFCCC and IPCC recommendations.

1 - 3 Sep 2004: Fourteenth of CDM board meeting debates new project approval rules

The CDM Executive Board (EB), at its fourteenth meeting on 1 - 3 September 2004 considered the recommendations by the Meth Panel for consolidated methodologies for project activities for:

- renewable energy displacing grid electricity; and
- landfill gas project activities.

These covered:

- “consolidated baseline and monitoring methodologies for zero-emissions grid-connected electricity generation from renewable sources; and

- consolidated baseline and monitoring methodologies for landfill gas project activities”.

Observer registration deadline: was 1 August 2004.

The Webcast: was available as of 1 September 2004.

Accessibility to observers: An observers room was made available to accommodate the observers. Representatives from UNFCCC admitted observer organizations and Parties are able to attend CDM EB meetings as observers. A list of all UNFCCC accredited organizations is available on the UNFCCC web site (<http://unfccc.int/resource/country/ngo.html>). The deadline for registration as an observer was three weeks before the meeting.

Documents under consideration at the meeting:

- Annex 1 - Draft third report of the Executive Board of the CDM to the COP (2003-2004);
- Annex 2 - Proposed agenda of the CDM Joint Workshop;
- Annex 3 - Procedures for review as referred to in paragraph 65 of the modalities and procedures for a clean development mechanism;
- Modalities and procedures for a clean development mechanism (CDM).

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International Finance Corporation opposes CDM Board's open project by project greenhouse accounting

The International Finance Corporation in a submission to the 1 - 3 September 2004 meeting of the CDM Executive Board (EB) wanted standards applied, and opposed an open project by project approach to emissions reporting obligations.

IFC suggestion: It argued: “The CDM regulatory framework should

- take advantage of the experience of and be fully compatible with the existing UNFCCC and Kyoto Protocol national reporting procedures and requirements;
- for consistency and ease of use, guidance from the Meth Panel should, to the extent possible, refer to existing international UNFCCC and/or IPCC GHG accounting methodologies and established emissions factors.

The reason why: “Host countries and project sponsors need such a foundation to confidently pursue project development within the CDM framework. Adoption of established norms would facilitate participation in the CDM, whereas adoption of strict or changing requirements could delay project development.

Case for closed standards development: “The consolidated methodologies should only

be issued for formal use by CDM Project Participants after the methodologies have been finalized, including all elements on baseline scenario development and determination of additionality.”

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Publishing incomplete rules creates CDM uncertainty: IFC

A submission by International Finance Corporation (IFC) to the 1 - 3 September 2004 meeting of the CDM Executive Board (EB) argued “The recent publication of the incomplete consolidated methodologies has introduced a significant degree of uncertainty into the operations of the CDM and have caused some sponsors to not proceed until the methodologies are finalized and used by others.

More confusion: “Furthermore, it is unclear whether

- approved methodologies will be replaced by consolidated methodologies; or
- whether the two will co-exist as options for project developers.

Resources spent on PDDs worthless? IFC argued “Project developers and advisors, who have spent considerable time tracking earlier methodology approvals in order to use these methodologies, are concerned that the

considerable time and resources spent on PDDs may be worthless in the event they are required to redo PDDs with future consolidated methodologies. Given the difficulty involved in applying one methodology to many projects, more methodology options available to project developers will likely increase the success of CDM."

What IFC wanted;

- all approved methodologies be eligible for use in addition to the consolidated methodologies;
- PDDs that use already Approved Methodologies (AMs) must be allowed for validations.
- In the event that the EB decides that relevant Approved Methodologies will be replaced by consolidated methodologies rather than be allowed to co-exist as alternative options, at the very least the EB should allow projects that are currently developing PDDs using Approved Methodologies to be grandfathered so they can use the Approved Methodologies for validation and registration.

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Grandfathering precedents: Such grandfathering has been seen with the IPCC: For example, when new IPCC guidance is issued for the preparation of national inventories, such guidance is prescribed for future use only and is not retroactive. This same principle should apply to the use of Approved Methodologies if the Consolidated Methodologies are expected to replace Approved Methodologies.

Eligibility of use: Eligibility of use should take into account that a proper PDD takes several months to prepare and may be almost complete just prior to the issuance of a new methodology. Consolidated methodologies should not replace relevant Approved Methodologies for at least six months. Allowing current Approved Methodologies and PDDs to be "grandfathered" will reduce unnecessary delays in CDM activity.

Call for standard accounting: "The Consolidated Methodologies should be revised to be less prescriptive. If only one consolidated methodology will be adopted in each sector, then the Meth Panel should give project participants sufficient flexibility to adjust methodologies to take into account project uniqueness, country and regional variations in order to estimate and/or account for the full volume of CERs that would be generated under particular circumstances. Participants should be able to use alternate emission estimation equations if they can substantiate such use with the DOE (which we understand to be the DOE's role)."

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Absence of a world standard on access to electricity generation data constrains CDM trading

The International Finance Corporation (IFC) told the CDM Executive Board (EB) access to electricity generation data depended on the country.

Not available in some countries: "In some electricity regulatory regimes project sponsors may not be able to obtain reliable actual average generation hours from a public or from private utilities.

Plant capacities a substitute? "While plant capacities and estimated capacity factors may not give as accurate a picture as average generation hours, in some situations this could be the most feasible approach", it argued.

The "lambda" problem: An example was calculation of the "lambda", where – due to corporate confidentiality or cost issues – certain data may not be available or released to a project sponsor. "For example, we are aware of one situation in which the project developer spent several days trying to determine the appropriate lambda for their project, only to conclude that the lambda-adjustment is more conservative than it should be. They also found that the methodology was 'written' for engineers, and is quite difficult to understand."

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CDM traders oppose CDM board plan for low "discount" factors in land fill equations

An earnings difference of the gap between 2,300,000 and 1,840,000 CERs would follow if the CDM

Executive Board (EB) applied proposed discount equations, argued International Finance Corporation (IFC) to the 1 - 3 September 2004 meeting of the CDM board.

Factors unprofitable: The IFC told the CDM Board that traders would not make the profit they seek from renewable energy or landfill gas projects if proposed "discount" factors in CDM Board equations were used to ensure conservative estimates of potential CERs. Aimed to find the "average lower range of emission reductions", these may "instead underestimate CER volumes to such an extent that it is not worthwhile for many renewable energy or landfill gas projects to make the effort to engage in the CDM process", it argued.

Higher profits wanted: At the current market prices for CERs and the high transaction costs associated with the CDM component, project participants need to sell as much volume as they can and therefore should be entitled to claim the full volume for which they can legitimately substantiate.

Case for other checks: Discounting eligible CER volumes will likely limit the CDM project pipelines and reduce market penetration of renewable technologies. After all, the CDM structure and procedures already have several checks and balances, including the use of DOEs, to ensure that only verified CERs are eventually sold in the marketplace. Discount factors may deter many projects from being implemented, including projects that otherwise

would be economically viable if they could account for the full amount of emissions reduced.

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CDN Board to apply to all landfill gas projects a baseline that occurs in one specific landfill gas project in Brazil

The International Finance Corporation (IFC) told the 1 - 3 September 2004 meeting of the CDM Executive Board (EB) a project participant for a landfill gas project (that IFC was processing) noted that if the adjustment factor of 20 per cent in the consolidated methodology is applied to their project, only 1,840,000 CERs would be registered and sold, even though the project could legitimately document a reduction of 2,300,000 CERs on its meter.

Bang goes the bottom line: The substantial adverse financial impact on project cashflows has prompted the project participant to question whether they should proceed with the project.

The Brazil case: "This participant believes that the Meth Panel may have decided to apply to all landfill gas projects a baseline situation that occurs in one specific landfill gas

project in Brazil (for which a methodology has been approved and where apparently 20 per cent of all the gas at this landfill is already collected and flared). This particular case clearly warrants a baseline of 20 per cent collection and flaring, but it does not seem appropriate or fair to extend this baseline to projects that can clearly demonstrate a baseline of a lower percentage (if any) of methane collection."

Unfairly eliminate a tranche of CERs? Such an application would unfairly eliminate a tranche of CERs that would, in many cases, clearly be demonstrated to be additional reductions. This would penalize project participants who have been developing projects based on the assumption that substantiated reductions would translate to CERs. "If they are to be used efficiently, methodologies need to be flexible to account for varying circumstances and situations" the submission argued.

Most renewable energy projects need preferential tariffs, interest rate subsidies, longer term loans, tax benefits

At the 1 - 3 September 2004 meeting of the CDM Executive Board (EB), its new post-Marrakech principle was questioned. The principle - for proof that CDM revenues alone were needed to trigger a project - was too high a hurdle, argued a CDM trader.

Rising the bar: “It was often difficult to prove that CDM revenues alone would be the definitive factor in advancing a CDM project,” argued the International Finance Corporation (IFC), in a submission to the CDM Board. “The need to demonstrate that registration as a CDM project makes the project happen is a clear requirement of investment additionality, thereby raising the bar as compared to the definition outlined under the Marrakech Accords.”

Post Marrakech twiddling? CDM Board’s Meth Panel should be careful to not introduce implicit investment additionality as it elaborates consolidated methodologies, said the submission.

Renewables need aid: “In a time where conventional fossil fired power generation is the norm and usually the least cost option, most renewable energy projects need various types of assistance to become operational, including, for example, preferential tariffs, interest rate subsidies, longer term loans, CDM revenues, preferential tax treatment, and the like. In many cases, renewable energy projects need several types of assistance.

A bundle of factors the key: “Often it is not one particular form of assistance, but rather a bundle of several that enable a project to advance.

More decision power for analysts wanted: “We would also like to stress the importance of the role of the DOEs. DOEs have undergone substantial expertise checks and their role

should be to confirm the appropriateness of the selection and application of methodologies and they should have the authority to allow for flexibility when appropriate.”

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World Bank says mandatory default 20pc discount factor in landfill projects CDMs wrong

Referring to a mandatory default 20pc discount factor in CDMs for landfill projects, the World Bank told the to 1 - 3 September 2004 meeting of the CDM Executive Board (EB), mismanaged rules could mean some project types would be attractive methodologically speaking, but others would not, creating an unhealthy imbalance across projects and perhaps creating regional differences as well.

Some nations may suffer: The World Bank in its submission said “indiscriminate and unwarranted tightening of the conservatism of consolidated or standard methodologies will result in a significant penalty at least for those projects and countries for which the methodology is not particularly fitting. This will unduly hamper the impact on sustainable development that the CDM could and should have”.

The examples - landfill: “The 20 per cent discount factor in the consolidated landfill gas

methodology was initially proposed as a sufficient condition for a specific project in an attempt to dispel any possible doubt regarding the impact of (unlikely) future regulation requiring collection of landfill gas in the baseline. During the Meth Panel and EB review process, however, the 20 per cent factor was raised to the status of a methodological element in this particular methodology. Furthermore, it appears that the process of consolidation has lifted this discount factor to the status of a necessary or mandatory element for all landfill gas projects without regard to the particular and perhaps even unique circumstances of the specific project which first introduced it.

Methodological myths: “Another example is the required use of a 50:50 weighted average of build and operating margin in electricity projects (please see also comments made in our separate submission on the consolidated landfill gas methodology). This round number weighting was originally introduced as a simplification in the modalities and procedures for small-scale projects. Again, in the consolidated methodology, this weighting appears to have reached the status of a mandatory (default) requirement for regular CDM projects that is to be applied without consideration of the particular circumstances of the project and the related electricity system. (In this context it is a particularly ironic that the consolidated methodology allows the use of weights other than 50:50, provided that the resulting emission factor is lower!).

Definition questioned: "In this context the definition of conservativeness in the CDM glossary is also a concern to us. It reads (emphasis added): In case of uncertainty regarding values of variables and parameters, the establishment of a baseline is considered conservative if the resulting projection of the baseline does not lead to an overestimation of emission reductions attributable to a CDM project activity (that is, in the case of doubt, values that generate a lower baseline projection shall be used). If interpreted literally, this definition would make it a requirement to

- use the lowest emission reduction estimate that has some (low) probability in an uncertain environment;
- because only such a low number would prevent the possibility of overestimation. Instead, a probabilistic interpretation should be used that would be satisfied if the probability of overestimation is deemed to be lower than the probability of underestimation (i.e. underestimation on average).

Uncertain hydro: "This is of particular importance where emission factors are calculated ex ante in an uncertain environment, e.g. in uncertain hydrological conditions that have an impact on hydropower generation and therefore baseline emissions. In this situation, a non-probabilistic definition of conservatism could lead to a very low emission factor that would be appropriate only if the country were experiencing a straight series of wet years (which is possible but not likely)."

Call for new review to clear up CDM rules chaos on new consolidated methodologies

Casper van der Tak, consultant, in a submission to the to the 1 - 3 September 2004 meeting of the CDM Executive Board (EB) argued the "purpose of the consolidated methodologies should be clarified in the call for inputs in order to receive proper public comments that incorporate the concerns of all stakeholders". He said as a consultant working on the development of CDM projects he had some concerns about the consolidated methodologies that are being proposed, in particular. It was not clear;

- how the consolidated methodologies will interact with already proposed new methodologies currently under consideration; and
- with already approved methodologies.

Confusions: "At least, this remained unclear to me after spending some time to figure it out. I would suggest that it may be necessary to clarify the purpose of the consolidated methodologies and extent the deadline for comments, because under the present call for inputs it is really not clear what we are commenting on, and to what extent this will influence CDM projects already under development, which in my view invalidate the public comments process". What needs public review:

Question one: the relation between the consolidated methodology and the already approved methodologies: Is the consolidated methodology meant to replace them? If so, care should be taken that the consolidated methodology is not more restrictive than the already approved methodologies (you may consider that the already approved methodologies have formed the basis for decision-making on CDM projects and on commercial contracts relating to CDM projects). The present version does not achieve this (for example, there are discrepancies between AM0005 and the proposed consolidated methodology for zero-emissions grid connected electricity generation both in applicability and calculation of the built margin emission factor. There may be other examples).

Question two: What is the relation between the consolidated methodology and the methodologies under consideration?

Question three: What is the relation between the consolidated methodology and methodologies that could be proposed in the future?

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