

## CDM Highlights 74

August 2009

Monthly newsletter of the GTZ Climate Protection Programme (CaPP), written by Perspectives GmbH. Please send questions, comments or newsworthy items to [climate@gtz.de](mailto:climate@gtz.de)

### Editorial

Dear reader!

While the CDM market takes a well-deserved summer break, the CDM EB used its summer meeting to tackle a maximum workload, substantially reducing its backlog. There develops a struggle between the Meth Panel and the EB, with the former trying to increase environmental integrity, whereas the latter wants to keep decision consistency over time. The registration of the first PoA is around the corner.

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### UNFCCC, EB and its panels

- The EB met for its 48<sup>th</sup> meeting on July 17-19 took the following decisions.
  - Ernst & Young France has been accredited for forestry projects
  - KfQ and Deloitte have got an extension of their scopes to verification for waste and energy, respectively.
  - SGS is undergoing a spot check.
  - A methodology for aeration of landfills and one for renewable charcoal use were approved. The former leads to more rapid generation of CERs compared to classical landfill gas collection and flaring.
  - The EB sent the methodology for waste heat recovery from iron and steel industry back to the Meth Panel a second time. Before dealing with it again, the Meth Panel shall wait for completion of a consultancy on this issue.
  - The EB clamped down on a proposal by the Meth Panel to define a key parameter in the adipic acid N<sub>2</sub>O reduction methodology AM 21, which would have severely curtailed CER issuances in the future. The EB stated that methodologies should not be revised through the “back door” of clarifications and “advised its panels and working groups to be more cautious while responding to the request for clarification on the older versions of methodology, which may have implications in terms of redefining the requirements of these versions”.
  - The EB will not deal with any proposals regarding expanding methodology eligibility to new adipic acid plants before the COP, presumably in Copenhagen, takes a decision on this issue.
  - Regarding nitric acid plant methodology AM 34, monitoring requirements have been substantially alleviated, allowing the use of other standards than EN 14181.
  - The bus line system methodology AM 31 is expanded to cover rail systems. However, the EB rejected the Meth Panel’s proposals that electricity could be used in the baseline transport system and that higher amounts of biofuels could be used in the baseline scenario than in the project scenario. It thus confirmed its scepticism of transport biofuel issues. The methodology extension thus is limited to those cases, where a completely new rail system is introduced, which is rare.
  - After a year of deferral, the problem of plant load factors for renewable energy projects was finally tackled. In the past, projects had often estimated surprisingly low plant load factors. The guideline now requires to use either the plant load factor provided to banks and/or equity financiers or to the government when approval is sought or an estimate by a third party contracted by the project participants. The latter can of course also be manipulated and thus the issue will certainly come back to the EB. Nevertheless, cases of gross abuse will stop and thus it is likely that the inflow of hydro projects will be reduced.
  - The revision of the combined additionality and baseline tool proposed by the Meth Panel was sent back to the Panel, as the investment test rule proposed was seen as too stringent. Therefore, also the new version of biopower methodology ACM 6 was deferred.

- In a bold move, the EB approved a tool on calculation of power plant efficiency. 6 options are generally available, ranging from the manufacturer's load-efficiency function over regression analysis to derive such functions down to a default value. Default values range from 80% for coal boilers of over 10 years age to 92% for new gas boilers.
- Projects using old landfill gas methodologies have to measure methane content in intervals of the same length and can no longer choose varying periods.
- A small-scale methodology for energy efficiency improvement and renewable energy use in new residential buildings was approved (AMS III-AE). This is highly replicable. While the first option of annual ex post comparison of measured electricity consumption of a sample of project residences with a sample of baseline residences (comparison group) is conventional, the second option allows ex post comparison of measured electricity consumption with a calibrated computer simulation model of baseline residences, which is revolutionary.
- For the small-scale methodology AMS II.C on energy efficiency improvement, CERs can now only be generated for service levels up to 10% above the average output of the three most recent years. This resuscitates the "suppressed demand" issue and will certainly not stay unchallenged.
- The first PoA for distribution of energy efficient lamps in Mexico has to make only a small correction regarding the version of the methodology used.
- A form for submission of "serious consideration" of CDM projects before project start has been agreed; the submissions will be published on the UNFCCC website.
- Out of 55 Requests for Review, 33 projects will be reviewed. Out of the reviews, 12 relate to Chinese wind, 4 to waste heat recovery and 3 to gas power plants. The first large gas pipeline leak reduction project is also among the reviews.
- Out of 12 projects under review, 4 were rejected, without showing a clear trend for reasons.
- A seemingly innocuous rule in the definition of completeness of a submission for registration is a time bomb for project developers and validators alike. Hitherto, submissions could be made until the very end of the validity period of a baseline methodology. The new rule says that only a complete submission counts. Given that this is not clear until the statement of the Secretariat regarding completeness comes, developers need to take into account a reserve period to make the submission complete. This period has to be at least one month, as the Secretariat allows to prolong the deadline by the number of days the duration of the completeness check has exceeded 30 days. But given the time it takes to make the documentation complete, probably 2 months of reserve are required.
- The rules for change of project design after registration were approved. Any change needs to be validated. In a case where the validator sees a change without impact on additionality, project type/scale definition or meth applicability, it issues a notification, which shall be checked by the Secretariat within 10 working days who negotiates with the EB chair whether the case has to be decided by the EB. For cases with clear impacts, within 10 days, a RIT check is to be done, on which the Secretariat gives its opinion in another 10 days. The EB can limit the CER issuance at the level estimated in the original PDD. The EB will apply these rules from Oct. 1.
- Out of 7 Requests for Review for issuance, no project will be reviewed.
- Of the 10 reviews of issuance, one was rejected - A Brazilian hydro plant had issuance rejected due to an increase in electricity production of 58% compared to PDD estimates, which shows that rejections are made for strongly overperforming projects.
- The EB still has to deal with the following topics:
  - - Common practice test definition
  - - First of its kind barrier
  - - Baseline penetration rates for efficiency projects

### **Designated Operational Entities**

- Deloitte Cert Umweltgutachter GmbH has applied for DOE status
- At the EB meeting, DOEs stated that unless there are new rules for the "materiality" issue, they assume a materiality threshold of 1% to 5% and a reasonable level of assurance for CDM verifications. They propose a materiality threshold of 5% for all CDM projects below 100,000 CERs per year and 1% above.

### **Baseline methodologies**

- 8 new methodologies have been submitted in round 29. They relate to new nitric acid plants, transmission lines, power plant refurbishment, landfill aeration, energy efficiency in the LNG and

the steel sector, PFC reduction in semiconductor production and biofuel production. One forestry methodology has been submitted for degraded agricultural land subject to abandonment process.

### Designated National Authorities

- Long awaited, Saudi Arabia has finally notified its DNA.
- The DNA approval hitlist stands at
  - China: 2128 projects (+66). The new approvals include 21 hydro, 14 waste heat recovery, 13 wind, 4 biomass power and biogas, 2 biofuel, coal mine methane and ultra-supercritical power plants and 1 landfill gas and bus line project each. Total annual CER volume is estimated at 9.7 million. The Chinese electricity grid emissions factors have been reduced by a whopping 10-12%; they are available at [http://qhs.ndrc.gov.cn/qjzjz/t20090703\\_289357.htm](http://qhs.ndrc.gov.cn/qjzjz/t20090703_289357.htm) The reduction is startling and may be due to the fact that the DNA wanted to make the emissions factors conservative and robust in case of a validation by the EB.
  - India: 1396 projects (+87).
  - Brazil: 211 projects (+1)
  - Mexico: 189 projects (+0).
  - Vietnam: 97 projects (+5). 4 hydro plants and a landfill project estimate an annual CER volume of 0.5 million
  - Indonesia: 90 projects (+0).
  - Thailand: 82 projects (+7). The new projects include 4 wastewater and 1 biopower, landfill gas and industrial energy efficiency project each. Annual CER volume is estimated at 0.3 million.
  - Philippines: 64 projects (+0).
  - Colombia: 39 projects (+0)
  - Peru: 34 projects (+0)
  - Israel: 30 projects (+0)
  - Argentina: 24 projects (+0)
- Papua New Guinea has suspended the head of its Office of Climate Change and Carbon Trade due to alleged illegal sales of credits from REDD projects

### Project developers and consultants

- The submission of new projects fell to 80. 5 large new project entered the pipeline
  - Gas boiler and steam turbine generator system 110 MW (China, 1.5 million CERs by 2012)
  - Combined Circle Power Plant 142 MW (China, 2.3 million CERs by 2012)
  - SF6 abatement project (Korea, 2.4 million CERs by 2012)
  - Ultra-Supercritical Power Plant 2000 MW (China, 1.5 million CERs by 2012)
  - Supercritical Power Plant 1320 MW (India, 1.6 million CERs by 2012)
- Former Ecosecurities director Pedro Moura Costa and EDF Trading (see last issues) have stopped warring and agreed to now jointly bid for Ecosecurities.
- Korean Lucky Goldstar is engaging on an energy efficient refrigerator programme in India, raising the energy efficiency of refrigerators produced in India by an average of 5% annually over the next ten years.

### Incentives for CDM investment

- In the first half of 2009, 568 million primary CERs were traded for 5.4 billion Euro.
- EU allowances fell somewhat to 13.7 Euro for the spot market and 13.85 Euro for 2012 vintages. The spread to issued CERs has decreased to about 1.32 Euro. Barclays Bank has reduced the projected surplus of EU allowances from 150 million to 126 million by 2012, as industrial production recovers further. However, PointCarbon estimates an increase of the surplus from 194 to 242 million.
- The European aviation sector demand for allowances / CERs is estimated at 77 million in 2012. However, its inclusion in the trading scheme may be delayed due to data collection problems.
- Portugal's government carbon fund envisages acquisition of AAUs. So far, only 75 out of 354 million Euro budgeted have been spent.
- The International Maritime Organization could not agree on an emissions trading scheme for international shipping. So the UNFCCC has to decide what to do with this sector.

- The UK government has announced that its 34% reduction target by 2020 does not include any international offsets. So only the difference of 8% to the 42% target announced in the international negotiations could use offsets.
- Ukraine plans revenues of up to 1.4 billion Euro from the sale of AAUs.
- The 15 million of the Slovak AAUs that reached Japan have been bought by Tokyo Electric Company, Mitsui and Mitsubishi Corporation.
- The Australian government has budgeted 12 million Euro for an ADB-led programme to identify sites for CCS projects in China, India, Indonesia and Vietnam
- Gold Standard Version 2.1 has been introduced. The main change relates to the new tool for crediting pre-CDM VERs.
- Regarding post-2012 negotiations
  - Russia proposes a 50% reduction target for 2050
  - G 8 agreed on a 2050 target but did not tackle the short term

### Web news and downloads of the month

- CDM Watch has set up its website at [www.cdm-watch.org](http://www.cdm-watch.org), featuring a report on the use of the CDM by Luxembourg at <http://www.cdm-watch.org/?cat=6> It is now publishing a newsletter before each meeting of the Executive Board.
- Wathanyu Amatayakul and Joergen Fenhann assess how a power plant emission standard could serve as basis for an electricity sector crediting mechanism. Download at <http://www.cd4cdm.org/Publications/ElectricityCreditingPlantsEmissionStandard.pdf>
- Bakker et al. discuss differentiation in the CDM through discounting and other schemes, download at <http://www.rivm.nl/bibliotheek/rapporten/500102023.pdf>
- IGES has compiled options on the future Kyoto Mechanisms under the international negotiation: [http://enviroscope.iges.or.jp/modules/envirolib/upload/2454/attach/iges\\_awg\\_km\\_e.zip](http://enviroscope.iges.or.jp/modules/envirolib/upload/2454/attach/iges_awg_km_e.zip)
- IGES' CDM in Charts" is now upgraded to Ver. 8.0 including the results of EB 48. Download at <http://enviroscope.iges.or.jp/modules/envirolib/upload/835/attach/charts.pdf>
- The Joint Implementation Action Group, a lobby organization fighting for the continuation of JI after 2012, has launched its website at [www.jiactiongroup.com](http://www.jiactiongroup.com)
- A wealth of presentations from the Latin American Carbon Forum can be downloaded at <http://www.latincarbon.com/2009/english/presentations.htm>
- Wang and Firestone use econometric models and international trade theory to analyze host country success in setting up CDM projects, download at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1428437](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1428437)
- An annual prize in memory of Bernhard Schlamadinger will be given to the best article in Climate Policy Journal on forestry issues regarding the Kyoto Mechanisms. The prize of 1000 Euro is sponsored by Terra Carbon, Joanneum Research and Climate Strategies. See <http://www.climatestrategies.org/the-schlamadinger-prize.html>
- By the end of July, 220 buyers (+8) from 35 countries (+0), 286 (+1) sellers from 60 countries (+0) and 611 service providers (-2) from 61 countries (+0) had listings on CDM Bazaar. India leads the list of service providers with 146 entries, followed by the UK with 60, US with 55, China with 49 and Brazil with 32. 55 projects and project ideas (+0) have been posted by sellers.

### GTZ CDM capacity development

"The Bachat Lamp Yojana (BLY) PoA is developed by the Indian Bureau of Energy Efficiency (BEE) and technically supported by the GTZ is now under global stakeholder consultation and open for public comments under:

<http://cdm.unfccc.int/ProgrammeOfActivities/Validation/DB/WOW1YYO9VEFAM3D6H2GJ4BZ4AW9YJL/view.html>

### Other news

- The "Governance of Clean Development" Project at the University of East Anglia is inviting applications for the first of its visiting fellowships for a 4-6 week period in spring 2010. The deadline for applications is 25 September 2009. Send proposal with 3 page description, CV and contact details of 2 referees to [Nicola.Jenner@uea.ac.uk](mailto:Nicola.Jenner@uea.ac.uk)

- The 4<sup>th</sup> International Conference on Renewable Energy Investments and CDM will be held by the Chilean Economic Development Agency (CORFO) in Santiago on September 7-8. Information is available at <http://www.investchile.com/energyconference/>

### **Country of the month: Macedonia**

Macedonia has become the frontrunner of Balkan countries in CDM matters after the ratification of the Kyoto Protocol in July 2004. Its CDM regulation is laid down in the modified Law on the Environment (Official Gazette nr.24/2007 art.190a). The Ministry of the Environment and Physical Planning is the DNA. Italy is the most active investor country and supported elaboration of a project pipeline ([http://www2.minambiente.it/pdf\\_www2/CDM\\_Portfolio\\_Balcani\\_2007/CDM\\_Portfolio\\_Macedonia/CDM\\_Portfolio\\_Macedonia\\_280407\\_EN.pdf](http://www2.minambiente.it/pdf_www2/CDM_Portfolio_Balcani_2007/CDM_Portfolio_Macedonia/CDM_Portfolio_Macedonia_280407_EN.pdf)). In February 2007 the "National strategy for CDM for the first commitment period 2008-2012 of the Kyoto Protocol" was published (see <http://www.moepp.gov.mk/WBStorage/Files/National%20Strategy%20Kyoto%20Protocol.pdf>); it had been supported by UNDP and the Regional Environmental Center. In March 2007, the World Bank held a capacity-building workshop. Recently, a CDM guide written by Norsk Energi was published ([http://www.moepp.gov.mk/WBStorage/Files/Norsk%20Energi%20CDM%20Training%20Manual\\_EN.pdf](http://www.moepp.gov.mk/WBStorage/Files/Norsk%20Energi%20CDM%20Training%20Manual_EN.pdf)). So far, a bundle of hydro project (1 million CERs by 2012) was rejected due to lack of additionality while a gas cogeneration plant is currently under review. Only a small biopower plant has been registered.

### **Number of the month**

- 150-200 million AAUs: volume that needs to be sold to reach the revenue target set by the Ukrainian government. This would be equal to about a tenth of the global CER volume forecast from all CDM projects.

### **CDM counter (as of July 31, 2009)**

- Pending large-scale baseline methodologies: 35
  - of which forestry: 2
- Pending small-scale baseline methodologies: 10
- Approved and published large-scale baseline methodologies: 92 (including 14 consolidated ones)
  - of which forestry: 11 (including 2 consolidated ones)
- Approved and published small-scale baseline methodologies: 52
  - of which forestry: 6
- Notified DNAs: 140 (113 host countries, 27 buyer countries)
- Companies applying to become operational entity: 14
- Accredited operational entities: 26
  - Of which 22 for verification
  - 2 DOEs have withdrawn
  - 0 DOEs are suspended
- Projects currently open for public comments on PDD: 128
  - Of which 1 are a PoA
- Projects in the validation phase: 3065
  - Of which 66 have applied for registration since the end of the last month
  - Of which 96 are in the period where a request for review can be launched
  - Of which 143 are under completeness check
  - for 23 of which a request for review has been launched
  - Of which 68 have to make corrections
  - Of which 34 are undergoing review

- Of which 12 are PoAs
- Of which 98 apply for the Gold Standard
- Expected CERs until 2012 from projects at validation: 1458 million
  - Of which 195.0 million from those that officially applied for registration
    - Of those 32.5 million from projects with request for review
  - Of which 27.3 million from projects that need to make corrections
  - Of which 32.5 million from those undergoing review
- Projects that failed during validation: 648
  - Of which 116 have been rejected by the EB
  - Of which 31 have officially been withdrawn
  - Of which 122 got a negative validation report
  - Of which 379 dropped out of validation
- CER estimates until 2012 from projects failed before registration: 316 million
  - Of which 72.1 million from EB-rejected ones
  - Of which 11.2 million from withdrawn ones
  - Of which 72.0 million from validator-rejected ones
  - Of which 160.9 million from projects that dropped out of validation
- Registered projects: 1752
  - **expecting 1737 million CERs by 2012**
  - Of which 0 are PoAs
  - Of which 13 fulfil the Gold Standard
  - Host countries: 56
  - Buyer countries: 14
- Issued CERs: 320 million
  - Projects with issued CERs: 547
  - Of which 4 Gold Standard projects
  - Rejected requests for issuance: 11 (0.6 million CERs)
  - Withdrawn requests for issuance: 19 (1.9 million CERs)
- CER price: 6-8 Euro for high quality post-2012 vintages, 7.5-9 Euro for medium-risk forwards, 8-9 Euro for low-risk forwards, 9.5-10.5 Euro for registered projects, 11-11.5 Euro for issued CERs, 12.4 Euro BlueNext spot price on Reuters.

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## Imprint

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