

## Article # 30

### A pragmatic and programmatic approach to “CDM” Projects in energy conservation and efficiency

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I had previously pointed out in paper # 25 the window dressing in CDM projects with respect to additionality.

However within the framework of the Energy Conservation Act two present barriers may be removed for programmatic approaches under CDM as well as future CDM projects based on benchmarking.

- (i) The first barrier is that specific energy consumption per product mix of individual firms in a sector are not collected and validated annually;
- (ii) The second barrier is a weak benchmarking and comparison of the energy performance of firm in a sector as compared to other in the same sector.

Both barriers (i) and (ii) will be removed by provisions of the Energy Conservation Act within 2 years because both data sets will be validated and certified by a combination of self declarations and appraisal by accredited energy auditor firms. Under the Energy Conservation Act we expect within two years 1000 energy audit reports annually proposing estimated 15,000 – 30,000 recommendations, or 15 to 30 per report, for measures how to reduce energy consumption from at least 8 important industrial sectors which either have a high energy intensity, or high specific energy cost, or posing a significant demand on the national energy supply chain. The annual assessment and observation of BEE and the MoP for the last 8 years have shown a clear trend that at least 300 larger firms invest on the average US \$ 1 Million per year in energy efficiency measures. However the investment pattern clearly shows mostly measures with a short pay back period of less than 2 years. Moreover, implementation of measures is staggered over years depending on availability of equity or loans. Furthermore measures compete with other investment priorities of the firm that are either more essential or have an even better return.

There is certainly room for “collective bargaining” of an industrial sector and the group of accredited energy auditors with the CDM Executive Board to negotiate with the help of the Government of India a different strategy for CDM that overcomes a real barrier prescribed best as:

“The present market for investment in energy efficiency measures in India is only tapped at 20% based on investment levels”.

The careful reader may notice that such a statement makes little sense without the qualifier in between the lines “technically sound and financially viable projects”. However additionality criteria under CDM in general assume that “technically sound and financially viable” projects do not qualify under CDM since they would have been done anyway, unless overcoming prohibitive barriers. Financial viability is also a negotiable term. The purely financial additionality argument is controversial in a market that is only covered by 20%.

Don't blame the companies or even the DNA, PDD developers or validators on the situation. They react intelligently to a strange CDM strategy to reduce CO<sub>2</sub> emissions in a very allocation inefficient way. In other words CDM projects looking only at the financial argument are mainly increasing CO<sub>2</sub> emissions because investment money and revenue streams from CER's are diverted away from measures with better allocation efficiency in terms of tons of CO<sub>2</sub> mitigated per US \$ of investment or life cycle costs, as long as the projects have really overcome barriers. The key is now to define a consistent argumentation concerning barriers that can be supported by the energy audit system.

In order to prepare a programmatic CDM which is feasible under the protocol or even a “benchmarking” CDM which is under discussion we need the help of an industrial sector and those energy auditor firms who conduct the audits in this sector.

Whoever is interested in discussing these issues and participate may write to us. A sensible approach would be to amend the format of mandatory energy audits by a 1-2 page PIN stating the CDM relevance, barriers addressed and also include in the report an impact monitoring and verification protocol that copies the CDM approach and methodologies, even if the measure is not yet CDM approved or will never become a CDM project. In the latter case at least the project developers and energy auditors would have an international recognised verification protocol as a basis for an ESCO contract if both sides so desire.