

**Annex 4****RECOMMENDATIONS RELATED TO PROGRAMMES OF ACTIVITIES  
ARISING FROM STAKEHOLDER CONSULTATION****(Version 01)****I. Background**

1. The latest revision of the “Procedures for registration of a programme of activities as a single CDM project activity and issuance of certified emission reductions for a programme of activities” was made by the clean development mechanism (CDM) Executive Board (hereinafter referred to as the Board) at its fifty-fifth meeting. In support of its work related objective 4 of the CDM management plan 2011 and in response to paragraph 4 of decision 3/CMP.6, the Board launched a call for public inputs on programme of activities (PoAs) at its fifty-ninth meeting. A summary of the inputs received is contained in annex 7 to the annotated agenda of the Board’s sixtieth meeting. Following consideration of the summary of the inputs, the Board in its sixtieth meeting, provided immediate clarifications regarding the PoA procedures contained annex 26 to the report and guidance to the secretariat for priority areas to be addressed in the context of the deliverables contained in the CDM management plan (CDM-MAP) 2011 and as contained in annex 27 to the report.
2. In line with the 2-year business plan and management action plan, the Board, at its fifty-ninth meeting (paragraph 44), requested the secretariat to organize a PoA workshop with a view to engage stakeholders and receive recommendations from the stakeholders on this issue for the consideration by the Board.
3. The workshop<sup>1</sup> was organised by the secretariat in order to receive advanced inputs, from the stakeholders, to the work on further improvement in the regulatory framework in line with the directions provided by the Board in its sixtieth meeting.
4. The recommendations and feedback was provided by the stakeholders in line with the issues categorised by the Board as high priority:
  - (a) Providing stakeholders with guidance on the demonstration and assessment of additionality at the programme level, in particular for policy-driven programmes;
  - (b) Enhancing the flexibility of the regulatory framework in manner that facilitates the development of programmes applying multiple emission reductions measures or technologies in a co-ordinated fashion, noting that it is likely that such programmes may need to apply multiple approved methodologies;
  - (c) Providing clarity with regard to the expectations for eligibility criteria for the inclusion of CPAs;
  - (d) Standards and guidelines related to sampling.

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<sup>1</sup> ‘Workshop on Programme of Activities under the Clean Development Mechanism : Challenges and the Road Ahead’ organised by UNFCCC Secretariat on 7-8 May 2011 at Beethovenhalle, Wachsbleiche 16, 53111 Bonn, Germany (<https://cdm.unfccc.int/workshops/poa/index.html>)



5. Following consideration of the recommendations made by the stakeholders during the workshop, the Board may wish to provide further guidance to the secretariat on the priority areas as contained in annex 27 of the sixtieth meeting report of the Board. In the sections below a summary of the inputs and recommendations is outlined for each priority area

## **II. Summary of recommendations made by stakeholders**

### **A. Addressing erroneous inclusion**

6. In line with the priority areas, as contained in annex 27 of the sixtieth meeting report of the Board, recommendations were also received from the stakeholders for providing the Board with options for addressing the uncertainty of potential liabilities arising from the erroneous inclusion of the component project activities (CPAs).

#### **1. Problem statement:**

7. It has been well documented that a major difficulty being faced in the implementation of programmatic CDM has been the reluctance of designated operational entities (DOEs) to perform inclusion of CPAs for registered programmes. This reluctance is based on legal concerns regarding the feasibility of managing the risks associated with erroneously including a CPA.

#### **2. Possible solutions:**

8. A short term solution which had broad support among stakeholders would be to revise the procedures for review of erroneous inclusion at the sixty-first meeting of the Board, to limit the CPAs for which such a review could be conducted to only those included over a given timeframe; e.g, the review of the first CPA must be initiated no later than 6 months after the first issuance of certified emission reductions (CERs) for that CPA and the extension of the review would be limited to CPAs included in the previous 1 year. In cases where an erroneous inclusion had been detected via this review further assessments of previous cases could be conducted in accordance with the broader procedures for addressing significant deficiencies in validation and verification.

9. Longer-term solutions were focused in two distinct proposals. The selection of the appropriate course of action requires the Board to reassess and define what is meant by erroneous inclusion. These differing definitions are provided below.

- (a) A CPA does not comply with the eligibility criteria specified in the POA-DD:  
This definition places responsibility with the DOE to provide an absolute level of assurance that each included CPA fully complies with the eligibility criteria. The concern raised with this view is that such an absolute level of assurance of compliance cannot be provided. The risk of erroneous inclusion could therefore not be managed by the DOE as it is based on factors outside their control. In such a scenario a number of options can be considered to address the liability:
  - (i) A “cap” on the total liability could be introduced;
  - (ii) The liability could be passed to the Coordinating/Managing Entity;
  - (iii) A CER levy could be imposed on all PoAs to create a reserve to address erroneous inclusion.



Of these options the “cap” on liability appeared to be the preferred option of participants.

- (b) A DOE has not assessed the compliance of a CPA with the eligibility criteria in accordance with requirements established in the POA-DD and/or the VVS. This definition would limit any liability for the DOE to actions directly within their own control, i.e. fraud, malfeasance or incompetence (defined as failure to comply with clear assessment requirements). This definition acknowledges the differing roles of the CME and the DOE. The role of a DOE is to validate/verify compliance with clearly established requirements, thus the DOE should only be held liable for errors that arise from failures to perform this function. The initial reaction of DOE representatives to this definition and proposal was positive. If the Board was to adopt such a definition a discussion would also be required regarding what should be done in the case where a CPA which did not meet the eligibility criteria was not identified even though the DOE has complied with the assessment requirements. The options in this situation would be to:
- (i) Accept such a situation and take no further action;
  - (ii) Exclude the CPA from the PoA and take no further action;
  - (iii) Exclude the CPA and require some cancellation of CERs from the CME or via an “insurance fund”.

## **B. Additionality of Program of Activities**

10. Stakeholders welcomed the clarifications regarding additionality issued by the Board at its sixtieth meeting (EB60, annex 26) and considered this a solid basis for providing sufficient clarity on the requirements and an objective basis for assessing additionality.

### 1. Problem statement

11. The principle that additionality is to be demonstrated at the programme level is broadly accepted. However three sets of problems have been identified related to this principle. Firstly there is insufficient existing guidance regarding the assessment of additionality for policy based programmes, i.e. where the programme consists of a new policy or the enhanced implementation/enforcement of an existing policy. Secondly many coordinating/managing entities include eligibility criteria in POA-DDs which by their nature require extensive evaluation to assess at the CPA level. Finally certain programmes contain CPAs of such heterogeneity that the definition of binary eligibility criteria confirming the additionality is more cumbersome than retesting additionality.

### 2. Identified solutions:

12. Provide a standard for the demonstration of additionality of a programme of activities which includes criteria to:

- (a) Provide a clear definition of policy and measures and therefore explore the use of separate additionally approach for the policy and measure based PoAs;



- (b) Provide further classification of policy into new and enhanced implementation/enforcement of existing policy, as the baseline conditions may differ for these two;
- (c) Allow demonstration of additionality of the policy based PoAs through barrier analysis and in doing that explore application of policy assessment techniques, such as IPCC policy assessment tool to demonstrate objective assessment of barriers;
- (d) Allow demonstration of additionality of the PoAs, based on enhanced implementation or enforcement of existing policy, through the analysis and comparison of targeted level and current level of enforcement;
- (e) Allow demonstration of additionality of the policy based PoAs through investment analysis at PoA level if the PoA-DD provides clarity and reasonably forecasts how policy will cater down to specific mitigation actions/ measures<sup>2</sup>.
- (f) Allow the application of the current additionality tool or small-scale or/and additionality guidance to measure based PoAs;
- (g) Allow demonstration of additionality of the measure based PoAs through investment analysis at PoA level by defining the eligibility criteria of CPA inclusion which includes quantifying upfront in the PoA-DD the extreme levels of the mitigation actions/measures to be taken (two real case CPA-DDs required instead of one) with the condition that these two CPAs have the financial indicator below the benchmark and the input values indicators are reasonably comparable (e.g. investment cost per unit capacity of the two wind turbines does not vary significantly). Any other CPAs, having capacities in-between, will automatically be additional<sup>3</sup>.
- (h) Define that the eligibility criteria for CPA inclusion in the PoA-DD pertaining to the additionality assessment shall include a binary checklist, which is easily assessed, unambiguous and complete. If this is not possible, in context of a specific additionality assessment, provide simplified additionality assessment at CPA level; and
- (i) Re-evaluate the implications for additionality assessments of new policies and standards at the time of renewal of crediting period of PoAs.

13. Provide a best practice guideline for demonstration of additionality of programme of activities.

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<sup>2</sup> For example, consider a policy based PoA which mentions to provide incentives to the renewable energy projects in a country should reasonably forecast the penetration of the policy and therefore mentions upfront in the PoA-DD the specific technologies/measures/action that would be taken due to the implementation of this policy.

<sup>3</sup> For example, a PoA-DD, which requires to add 5000 MW of renewable electricity by wind power by year 2020, may define the eligibility criteria of CPA inclusion to only add wind turbines between 250 kW and 1000 kW as the IRR remains below the benchmark for these two capacities and input values are also comparable and reasonable. For some projects where investment costs depend on technology type and site specific conditions (e.g., hydro power projects, where investment cost also depend on the geology and geographical conditions of the site and therefore on the quantity of civil construction required), this approach may not be applicable.



### C. Eligibility Criteria for CPA Inclusion

#### 1. Problem statement

14. Main summary of issues identified by the stakeholders are:
- (a) Eligibility criteria for inclusion of CPAs in a PoA is a key component of PoA-DD, as it is a tool to ensure environmental integrity of the PoA, inter alia, additionality of CPAs included, as well as to link with liability arising from erroneous inclusion of CPAs;
  - (b) A challenge is how eligibility criteria can accommodate potentially diverse CPAs;
  - (c) If policies of the host country change, or a methodology used is revised after the registration of a PoA, it could have implications on the appropriateness of eligibility criteria. In such situation, a challenge is to strike a balance between the predictability for project participants while ensuring environmental integrity;
  - (d) There also may be cases where CMEs wish to revise eligibility criteria to allow inclusion of more diverse or to restrict the types of CPAs. Currently a procedure and standard to process such cases is missing.

#### 2. Identified solutions

15. As indicated at the sixtieth meeting of the Board, the Board should establish a standard for setting eligibility criteria, so that they:
- (a) Can translate CDM requirements in a sufficient and simplified manner, in particular to ensure additionality of and applicability of methodology for included CPAs;
  - (b) Are measurable, verifiable, explicit and objective;
  - (c) May include exclusion criteria for certain CPAs;
  - (d) Are defined in a way so that it is easy to include CPAs;
16. Provide standards for the development of eligibility criteria for the inclusion of CPAs which includes criteria to:
- (a) Provide a clear definition of the eligibility criteria for CPA inclusion in the PoA-DD and shall include the typology of the eligibility criteria based on:
    - (i) Geographical boundary or time induced boundary taking into consideration the economic, environmental and social considerations<sup>4</sup>;
    - (ii) The condition that each CPA [or group of CPAs] has at least same baseline and monitoring requirements so as to facilitate application of sampling<sup>5</sup>;

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<sup>4</sup> For example, emission factor for electricity generation may vary between regional or state or sub-regional grids.



- (iii) The condition that if the CPAs have similar approach for demonstration of additionality, then additionality can be demonstrated at PoA level and can be included in the eligibility criteria otherwise demonstrate additionality at individual CPA level;
  - (iv) Technical specifications including the level and type of service<sup>6</sup>;
  - (v) Relationship with other PoA requirements;
  - (vi) Applicability and application of the methodology valid at the time of validation;
  - (vii) Assessment of the additionality;
  - (viii) Exclusivity on account of requirements of the CME;
  - (ix) Compliance with host country rules and regulations including letter of approval and authorisation; and
  - (x) Other PoA specific requirements.
- (b) Require establishment and implementation of the simplified management system for the CME. The rationale for this is that there is a clear role for CME with focus on shifting more responsibilities from DoE to CMEs. The implication of this is that CMEs will have responsibility on the adequacy and compliance of the eligibility criteria for CPA inclusion as mentioned in the PoA-DD and the DOE will have responsibility on checking the appropriateness of the management system established by the CME.
17. The Board should develop a procedures to define the implications of the revision of the methodologies on the eligibility criteria of CPA inclusion for the situations:
- (a) If the version of the methodology is put on hold, eligibility criteria is to be updated and applicable to the newly added CPA as per the latest revised methodology applicable at that time;
  - (b) Otherwise, at the end of crediting period of the first CPA, revise the eligibility criteria as per the latest revised applicable methodology in conjunction with re-validation of the PoA.

18. The Board should develop a procedure to allow checking of eligibility criteria of CPA inclusion at the verification stage.

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<sup>5</sup> For example, a hydropower project supplying electricity to both grid (applies AMS-I.D with baseline as grid and monitoring electricity generated) and off-grid (applies AMS-I.A with baseline as historical fossil fuel technologies) is not allowed to be part of same PoA as they need to apply different methodologies and have different baselines and monitoring requirements, which discourages application of sampling and leads to project by project assessment by DOE and does not serve the original purpose of the PoA to reduce transaction costs.

<sup>6</sup> For example generation of electricity for grid or captive needs or supply to off-grid.



### **D. Standards and Guidelines related to Sampling**

19. The stakeholders suggest to have separate standards and best practice guidance for the application of sampling which is in line with that expected by the Board as per annex 27 of the meeting report of the sixtieth meeting.

20. Provide a standard for application of sampling in context of a programme of activities which includes criteria to:

- (a) Elaborate requirements for ‘statistically sound approach’ applied to DOE validation/verification (within CPAs, at PoA level and between CPAs). Provide guidelines to avoid redundant (double) checking by DOEs through repeated surveys;
- (b) Have 90/10 precision for annual surveys and 95/5 precision for less frequent surveys especially when surveying households are appropriate requirements. 90/30 for leakage determination is appropriate;
- (c) Differentiate sampling requirements for PoAs with homogeneous CPAs applying consistent monitoring plans (e.g. for efficient lighting applying AMS II J) versus PoAs containing CPAs with differing baseline conditions. In the former case explore options to apply sampling at the PoA level or at the level of group of CPAs. Clarify under what circumstances stratification is required keeping in mind it is a more difficult method to implement and it is also expensive than other methods;
- (d) Include flexibility for timelines to conduct surveys, sampling methods indicated in the PDD versus actually used for project implementation maintaining the rigour for the key requirements. Provide flexibility for monitoring template e.g. either of the options:
  - (i) Stand-alone sampling design/reporting document prepared/checked for each CPA; and
  - (ii) Template at PoA level setting the framework of the sampling design, to be expanded by adding sampling information of a specific CPA at the time when it is validated/verified.
- (e) Incorporate the social aspects in the sampling guidance, as not only technical aspects are part of the sampling procedures;
- (f) Allow a third party to carry out the sampling which leads to avoid the conflict of interest situation;
- (g) Simplify the current sampling guidance; and
- (h) Provide guidance on determine traceability of the equipment/measure (e.g. in case of bulbs replaced).

21. Provide best practice guidance for application of sampling which includes criteria to:

- (a) Provide technology specific non binding best practice examples accounting for frequently encountered field situations (e.g. households are averse to intrusiveness, statisticians knowledgeable on CDM are hard to find,

traceability of low priced equipment such as stoves/CFLs at specified geographic locations is hard although overall retention rates could be high therefore innovative approaches may be required for retention rates);

- (b) Include equations in the guidelines/worked examples.
22. Include conservative default factors and/or standardised baselines in the methodologies.
23. Provide procedures for sampling in respective methodologies.

#### **E. Application of Multiple Methodologies and Technologies**

24. The stakeholders agreed that separate standards for application of multiple methodologies would evolve as more experience is gained in the coming months which is as expected by the Board as per annex 27 of the meeting report of the sixtieth meeting. Specific inputs/request for clarifications shall be submitted by CMEs/DOEs in this regard.
25. Main barriers identified by the stakeholders are:
- (a) Application of multiple methodologies creates an overlapping of boundaries, emissions, sources, leakage;
  - (b) Longer process to apply multiple methodologies than stand alone CDM project activity, as currently the prior approval by the Board for deviations to apply multiple methodologies is mandatory before requesting registration;
  - (c) Lack of appropriate methodologies for some sectors combined in city-wide approaches (energy efficiency in buildings, transportation & waste sector);
  - (d) Expanded combinations create opportunities but also increase the risks and therefore the CME/DOEs are reluctant to apply combinations before submitting request for approval from the Board.
26. The recommendations suggested by the stakeholders are:
- (a) In order to develop city-wide PoAs, modify the general PoA-DD format for bundle PoAs covering different sectors/combined methodologies, in the context of city-wide PoAs, the suggestion was to “aggregate PoAs” into one PoA covering different sectors, hence different CPAs can be covered within different sectors.
  - (b) Application of Multiple Methodologies is discouraging due to additional procedural delays with regard to prior approvals, flexibility should be given while assessing the first few projects/applications to encourage the use;
  - (c) Procedures for changing the CME within a PoA should be published;
  - (d) Simplify the monitoring methodology for transport and waste sectors, and default values be provided, principle of conservativeness be encouraged;
  - (e) Accept the use of models instead of monitoring huge amounts of data;
  - (f) A list identifying simple combination of methodologies would be useful;





- (g) DNA's requested further training to consultants, city managers on issues related to monitoring aspects; and
- (h) Robustness of CMEs be ensured through setting up minimum requirements on qualifications.

### III. For consideration by the Board

27. Following consideration of the recommendations made by the stakeholders during the workshop regarding the options for addressing concerns regarding liability for erroneous inclusion of a CPA, the Board may wish to consider to:

- (a) Revise the procedures for erroneous inclusion of a CPA;
- (b) Agree on a definition of erroneous inclusion; or/and
- (c) Determine the appropriate procedural means for addressing indentified erroneous inclusions.

28. Following consideration of the recommendations made by the stakeholders during the workshop, the Board may wish to decide that the draft deliverables to be prepared for consideration at its sixty-third meeting should appropriately consider all the recommendations made by the stakeholders regarding:

- (a) Additionality of Program of Activities;
- (b) Eligibility Criteria for CPA Inclusion;
- (c) Standards and Guidelines related to Sampling; and
- (d) Application of Multiple Methodologies and Technologies.

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