

CDM-EB86-AA-A10

Revision of regulatory documents to enable implementation of microscale thresholds at unit level

Version 01.0

COVER NOTE

1. Procedural background

1. The Executive Board (hereinafter referred to as the Board) of the clean development mechanism (CDM), at its eighty-fifth meeting (EB 85), considered a concept note on the thresholds for microscale activities under programmes of activities (PoAs) as contained in annex 9 of EB 85 annotated agenda, in the context of paragraph 12 of decision 3/CMP.9 and paragraph 18(a) of decision 4/CMP.10.
2. The Board, at EB 85, requested the secretariat to start implementing Option 1 and Option 3 as recommended in the concept note mentioned above, to enable applying microscale thresholds at the unit level, which are copied below:
 - (a) “**Option 1:** One option for the Board would be to approve the application of the existing microscale thresholds at the unit level instead of the aggregate component project activity (CPA) level. PoAs already registered, PoAs undergoing validation as well as new PoAs that will be submitted in the future will be covered irrespective of whether a small-scale or large-scale methodology is applied. This would imply:
 - (i) When large-scale methodologies are applied, the intermediary microscale threshold at the CPA level (e.g. 5 MW aggregate installed capacity) is not applied; and
 - (ii) When small-scale methodologies are applied, the intermediary microscale and small-scale threshold at the CPA level (e.g. 5 MW or 15 MW aggregate installed capacity) is not applied”;
 - (b) “**Option 3:** Another option would be to develop new PoA-specific methodologies where the application of microscale thresholds to the unit level would be introduced.”
3. The implementation of Option 1 would benefit already registered PoAs and PoAs undergoing validation, as well as new PoAs that will be submitted in the future. To operationalize Option 1, revision to regulatory documents is required. On the other hand, Option 3 is related to the development of new PoA specific methodologies and would need to be implemented through the work program of the Small-Scale Working Group (SSC WG) (e.g. recommendation of new methodologies and/or revision to existing methodologies) and will not require revision of existing regulatory documents.
4. Consequently, the recommendations contained in this concept note are pertaining only to Option 1.

2. Purpose

5. The purpose of this document is to recommend revisions to the relevant regulatory requirements to operationalize the Board decision at EB 85 to allow application of microscale thresholds at the unit level rather than at the aggregate level of a CPA.

3. Key issues and proposed solutions

6. The Board, at EB 85, had agreed that, to be eligible for applying microscale thresholds at the unit level, a CPA should consist of:
 - (a) Units of capacity up to 5 MW that employ renewable energy technology or that achieve energy savings at a scale of no more than 20 GWh per year or that achieve emission reductions at a scale of no more than 20 ktCO₂e per year, located in least developed countries (LDCs) or small island developing states (SIDS) or special underdeveloped zones (SUZs) of non-Annex I countries; or
 - (b) Units of capacity up to 5 MW that employ off-grid renewable energy technology for household/community applications or specific grid-connected renewable energy technologies recommended by the designated national authorities (DNAs) and approved by the Board in accordance with the “Procedure: Submission and consideration of microscale renewable energy technologies for automatic additionality”; or
 - (c) Units of capacity up to 1,500 kW that employ distributed renewable energy generation technology or that achieve energy savings at a scale of no more than 600 MWh per year or that achieve emission reductions at a scale of no more than 600 tCO₂ per year for household/community/small and medium enterprises (SME) applications.
7. Furthermore, the Board also agreed that 95/10¹ precision shall be applied for sampling surveys to apply the microscale thresholds at the unit level.
8. To implement the Board decision referred to in paragraphs 6–7 above, the following potential solutions were considered with regard to small-scale methodologies:
 - (a) **Solution 1:** Revision of the “General guidelines for SSC CDM methodologies” and the methodological tool for “Demonstrating additionality of microscale activities” to include the related guidance;
 - (b) **Solution 2:** Revision of all small-scale methodologies to include the related guidance through version change.
9. Of these, Solution 1 was found to be more practical and an elegant solution, as the general guidelines are an integral part of each of the small-scale methodologies and it would not cause much inconvenience to the project proponents due to version changes of the methodologies.
10. With regard to large-scale methodologies, the issue of intermediary microscale thresholds referred in paragraph 2(a) above can be addressed by including guidance in the methodological tool “Demonstration of additionality of microscale project activities”.
11. For registered PoAs, a request for post-registration changes (PRCs) would be required to enable the application of microscale thresholds at the unit level. As the current versions of the “CDM project standard” (PS), and the “CDM project cycle procedure”

¹ CDM sampling standard typically requires higher level of precision of 95/10 for large scale CDM projects and surveys at PoA level while 90/10 is specified for small-scale projects and surveys done at CPA level.

(PCP) do not include explicit language to allow this type of PRC, there is a need to expand the scope of the PRC defined in these documents. The other provisions in these documents that deal with small-scale thresholds would also need to be amended accordingly.

12. It is proposed to effect the changes mentioned above through issuing an amendment to the PS, the PCP and the “Standard: Demonstration of additionality, development of eligibility criteria and application of multiple methodologies for programmes of activities” (PoA standard) and revision to “General guidelines for SSC CDM methodologies” and methodological tool “Demonstration of additionality of microscale project activities”.
13. The proposed revision to the “General guidelines for SSC CDM methodologies” and to the methodological tool “Demonstration of additionality of microscale project activities” will be presented to the Board as the outcome of the SSC WG 49-EC01 while the rest of the documents mentioned in the paragraph above are presented here.

4. Impacts

14. The proposed changes to enable the application of microscale thresholds at the unit level would provide more flexibility to coordinating/managing entities, resulting in reduced transaction costs for the implementation of PoAs, particularly for distributed small activities such as cook-stoves, solar home systems, efficient lighting and distributed energy generation.

5. Recommendations to the Board

15. The secretariat recommends that the proposed amendments to the documents listed below as contained in appendices 1–3 be adopted and that these come into effect on 16/10/2015:
 - (a) PS;
 - (b) PCP;
 - (c) PoA standard.

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Appendix 1. Amendments to the “CDM project standard (version 09.0)”

1. Changes to section 12.7 Debundling of small-scale component project activities

1. The existing paragraph 220 shall read as follows:

220. The coordinating/managing entity shall demonstrate that the proposed small-scale CPA is not a debundled component of a large-scale activity, in accordance with the “Assessment of debundling for SSC project activities” ^{23bis} ~~“Guidelines on assessment of debundling for SSC project activities”~~.

2. Changes to section 13.8 Post registration changes

2. The existing paragraph 290 shall read as follows:

290. Changes to a registered CDM PoA shall be limited to:

- (a) Changes to programme boundary to expand geographical coverage or to include additional host Parties;
- (b) The following revisions to the eligibility criteria:
 - (i) If the version of a methodology applied by the PoA is revised or replaced subsequent to being placed on hold;
 - (ii) If the revision of the eligibility criteria of a registered PoA is initiated by the Board at any time during the lifetime of the PoA if an issue related to environmental integrity is identified;
 - (iii) If the use of positive lists or related provisions is introduced or modified based on the valid version of the methodological tool “Demonstration of additionality of small-scale project activities” ~~“Guidelines on the demonstration of additionality of small-scale project activities”~~ or the methodological tool “Demonstration of additionality of microscale project activities” ~~“the Guidelines on demonstrating additionality of microscale project activities”~~;
- (c) If a PoA includes more than one generic CPA-DD, the addition of specific-case CPA-DDs corresponding to generic CPA-DDs for which a specific-case CPA-DD has not been submitted at the time of request for registration of the PoA;
- (d) Removal of methodologies and/or standardized baseline from the registered PoA;

^{23bis} If a CPA solely comprises ‘microscale CDM units’ as defined in the methodological tool “Demonstration of additionality of microscale project activities”, the requirement regarding debundling as stated here is not applicable.

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- (e) Addition or change of technologies/measures with or without addition or change of applied methodologies in the registered PoA-DD as follows:
 - (i) Changes that allow a shift to more efficient, less GHG-intensive or at least equivalent technologies/measures;³³
 - (ii) Changes that introduce complementary measures/technologies involving mass and/or energy transfer to/from the originally registered technology/measure (e.g. addition or change of Type I methodologies in a registered PoA primarily applying Type III methodologies).³⁴

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³³ Examples of this are shifting to light emitting diode (LED) lighting from compact fluorescent lamp (CFL) lighting, introducing LED lamps with the Solar Home System (SHS) instead of CFL lamps with the same SHS, shifting from AMS-II.G to AMS-I.E to distribute renewable biomass-burning cookstoves instead of efficient cookstoves using non-renewable biomass, introducing institutional cookstoves for a registered household cookstoves PoA, introducing charcoal-burning stoves (fully accounting for production emissions of charcoal) in a registered PoA that distributes household wood-burning stoves.

³⁴ An example of this is changing the utilization of recovered methane (e.g. from flaring to heat generation, from heat generation to electricity generation). This may involve the addition/change of Type I methodologies to registered PoAs applying Type III waste/wastewater methodologies.

Appendix 2. Amendments to the “CDM project cycle procedure” (version 09.0)”

1. Change to section 6.3 Changes to registered project activity or programme of activities

1. The existing paragraph 150 shall read as follows:

150. For CDM PoAs, with regard to the changes referred to in paragraph 148 (b)(v) above, only the following changes shall be allowed:

- (a) Changes to programme boundary to expand geographical coverage or to include additional host Parties;
- (b) The following revisions to the eligibility criteria:
 - (i) If the version of baseline and monitoring methodologies applied by the PoA is revised or replaced subsequent to being placed on hold;
 - (ii) If the revision of the eligibility criteria of a registered PoA is initiated by the Board at any time during the lifetime of the PoA if an issue related to environmental integrity is identified;
 - (iii) If the use of positive lists or related provisions is introduced or modified based on the valid version of the methodological tools “Demonstration of additionality of small-scale project activities” ~~“Guidelines on the demonstration of additionality of small-scale project activities”~~ or “Demonstration of additionality of microscale project activities” ~~“the Guidelines on demonstrating additionality of microscale project activities”~~;
- (c) Removal of methodologies and/or standardized baselines from the registered PoA;
- (d) Addition or change of technologies/measures with or without addition or change of applied methodologies⁵ in the registered PoA-DD as follows:
 - (i) Changes that allow a shift to more efficient, less GHG-intensive or at least equivalent technologies/measures;⁶

⁵ If the change leads to the application of a new version or a new methodology, in that case the latest version shall be applied in its entirety.

⁶ Examples of this are shifting to LED lighting from CFL lighting, introducing LED lamps with the Solar Home System (SHS) instead of CFL lamps with the same SHS, shifting from AMS-II.G to AMS-I.E to distribute renewable biomass burning cookstoves instead of efficient cookstoves using non-renewable biomass, introducing institutional cookstoves for a registered household cookstoves PoA, introducing charcoal-burning stoves (fully accounting for production emissions of charcoal) in a registered PoA that distributes household wood-burning stoves.

- (ii) Changes that introduce complementary measures/technologies involving mass and/or energy transfer to/from the originally registered technology/measure (e.g. addition or change of Type I methodologies in a registered PoA primarily applying Type III methodologies).⁷

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⁷ An example of this is changing the utilization of recovered methane (e.g. from flaring to heat generation, from heat generation to electricity generation). This may involve the addition/change of Type I methodologies to registered PoAs applying Type III waste/wastewater methodologies.

Appendix 3. Amendments to the “Demonstration of additionality, development of eligibility criteria and application of multiple methodologies for programmes of activities” (version 03.0)”

1. Changes to section 3.1 Demonstration of additionality

1. The existing paragraphs 8 – 11 shall read as follows:

8. PoAs that consist of one or more microscale projects as CPAs shall include eligibility criteria derived from all the relevant requirements of the **methodological tool “Demonstration of additionality of microscale project activities” “Guidelines for demonstrating additionality of microscale project activities”**.
9. PoAs that consist of one or more small-scale projects as CPAs shall include eligibility criteria derived from all the relevant requirements of the **methodological tool “Demonstration of additionality of small-scale project activities” “Guidelines for demonstrating additionality of small-scale project activities”**.
10. PoAs that consist of one or more large-scale projects as CPAs shall include eligibility criteria derived from all the relevant requirements contained in the additionality section of the large-scale methodologies applied to the CPAs.
11. Large-scale CPAs (i.e. CPAs that apply one or more large-scale CDM methodologies or combination of large scale and small-scale CDM methodologies), small-scale CPAs (i.e. CPAs that apply only small-scale CDM methodologies) and microscale CPAs (i.e. CPAs comprised of only units that are below the thresholds that define microscale project activities) may be included in the same PoA. **The “Guidelines for demonstrating additionality of microscale project activities” may be applied to a large-scale or small-scale CPA if all of the units in the CPA in aggregate are below the microscale thresholds. The “Guidelines for demonstrating additionality of small-scale project activities” may be used for small-scale CPAs only.**

2. The following new paragraph shall be added:

- 10_{bis} Notwithstanding the provisions in paragraphs 8–10 above, the methodological tool “Demonstration of additionality of microscale project activities” may be applied to a CPA that applies one or more large-scale CDM methodologies or small-scale CDM methodologies, or a combination of large-scale and small-scale CDM methodologies, if the aggregate size of all units in the CPA is below the microscale thresholds. However, if a CPA solely consists of ‘microscale CDM units’ as defined in this tool, this tool may be applied irrespective of the aggregate size of all units in the CPA.**

2. Changes to section 3.2 Development and update of eligibility criteria

3. The existing paragraph 16 shall read as follows:

16. The eligibility criteria shall cover as a minimum the following:⁴

- (a) The geographical boundary of the CPA including any time-induced boundary⁵ consistent with the geographical boundary set in the PoA;
- (b) Conditions that avoid double counting of emission reductions like unique identifications of product and end-user locations (e.g. programme logo);
- (c) The specifications of technology/measure⁶ including the level⁷ and type of service, performance specifications including compliance with testing/certifications;
- (d) Conditions to check the start date of the CPA through documentary evidence;
- (e) Conditions that ensure compliance with applicability and other requirements of single or multiple methodologies applied by CPAs;
- (f) The conditions that ensure that the CPA meets the requirements pertaining to the demonstration of additionality as specified in section 3.1 above;
- (g) The PoA-specific requirements stipulated by the CME including any conditions related to undertaking local stakeholder consultations and environmental impact analysis;⁸
- (h) Conditions to provide an affirmation that funding from Annex I Parties, if any, does not result in a diversion of official development assistance;
- (i) Where applicable, target group (e.g. domestic/commercial/industrial, rural/urban, grid-connected/off-grid) and distribution mechanisms (e.g. direct installation);⁹
- (j) Where applicable, the conditions related to sampling requirements for the PoA in accordance with the "Standard for sampling and surveys for CDM project activities and programme of activities";

⁴ Validating DOE and/or the Board may specify additional criteria depending on the specific characteristics of a PoA.

⁵ For example, an emission factor for electricity generation is dependent on the boundaries of regional or state or sub-regional grids.

⁶ Specifications of the technology/measure shall include the type, capacity and other key features of the design of the systems. For example, indicating the installed kW-capacity (in kW), size or dimensions, fixed/portable operation, and other key design features that makes the project cook stoves efficient, would be appropriate; however, only indicating that all cook stoves will have an efficiency X% would not be sufficient.

⁷ The level of service shall be defined in comparison with the baseline system being replaced.

⁸ See also relevant paragraphs of "CDM ~~lean Development Mechanism~~ Project Cycle Procedure".

⁹ This is to re-test the validity of assumptions made at the PoA level. For example, in a lighting efficiency application, lighting usage hours of 3.5 hours per day would be valid if the target group is residences/households. Usage hours would be different in commercial applications and vice versa.

- (k) Where applicable, the conditions that ensure that every CPA ~~(in aggregate if it comprises of independent sub units)~~ meets the small-scale or microscale threshold¹⁰ and remains within those thresholds throughout the crediting period of the CPA. However, for a CPA that consists of only units that qualify as 'microscale CDM units' as defined in the methodological tool "Demonstration of additionality of microscale project activities", this condition is not required.
- (l) Where applicable, the requirements for the debundling check, in case the CPAs belongs to small-scale or microscale project categories.¹¹ However, if a CPA solely consists of 'microscale CDM units', the requirement regarding debundling is not applicable.

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¹⁰ Please refer to the latest approved version of the tool "Demonstrating additionality of microscale project activities" ~~"Guidelines for demonstrating additionality of microscale project activities"~~ and the latest approved version of the "General Guidelines to SSC CDM methodologies".

¹¹ Please refer to the latest approved version of the tool "Assessment of debundling for SSC project activities" ~~"Guidelines on assessment of debundling for SSC project activities"~~.