

**Annex 17****CONCEPT NOTE AND WORK PROGRAMME
ON IMPROVING STANDARDS AND GUIDELINES RELATED TO PROGRAMMES OF
ACTIVITIES****(Version 01.1)****I. Background**

1. At the seventh meeting of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (hereinafter referred to as the CMP), Parties agreed to decision 8/CMP.7, which included a request to the clean development mechanism (CDM) Executive Board (hereinafter referred to as the Board) to continue its work to improve the procedures on programmes of activities (PoA).

2. At its sixty-fifth meeting, the Board adopted the “Standard for demonstration of additionality, development of eligibility criteria and application of multiple methodologies for programme of activities” (hereinafter referred to as the PoA standard). The Board noted that stakeholders had provided useful practitioners’ perspectives to further improve the PoA standard as part of the consultation process in its development. As a result, the Board requested the secretariat to prepare an analysis of the inputs received indicating the feasibility, and pros and cons of each of the suggestions made, to be further considered by the Board.

3. In addition to stakeholders’ inputs described above, the PoA working group made submissions at the sixty-sixth¹ and sixty-fifth meeting of the Board.² Furthermore, several letters from stakeholders have been submitted to the Board regarding PoA issues³.

4. At its sixty-eighth meeting, the Board considered a concept note on improving PoA standards and guidelines and requested the secretariat to provide a work programme in this regard for consideration by the Board at its sixty-ninth meeting.

II. Purpose

5. The objectives of this document are to:

- a) Summarize key issues raised by stakeholders or identified by the secretariat pertaining to the PoA rules;
- b) List issues that have been already addressed by the Board by way of approval of new guidance or consolidation of existing guidance during the course of the year;
- c) For the unresolved issues, where feasible, propose options for solutions for the consideration of the Board;
- d) For the remaining issues, identify areas of further work to improve the standards and guidelines that impact the design, implementation, monitoring, validation and verification of PoAs.

¹ <http://cdm.unfccc.int/public_inputs/2012/eb66_01/index.html>.

² <http://cdm.unfccc.int/public_inputs/2011/eb65_01/index.html>.

³ <<http://cdm.unfccc.int/stakeholder/submissions/index.html>>.

**III. Key issues and proposed solutions**

6. The PoA issues both raised by the stakeholders and identified by the secretariat are summarized in the table 1 below.

Table 1. Summary of PoA issues

Acronyms used in this table: GSC-Global Stakeholder Consultation, VVS- CDM Validation and Verification Standard, PCP- CDM Project Cycle Procedure, PS- CDM Project Standard, SSC-Small Scale CDM

Issue	Description of the issue	Stakeholder recommendations on the issue	Secretariat comments / recommendations	Proposed process/ deliverables and timelines
1.	Microscale thresholds (e.g. 5 MW) applied at the aggregate CPA level leads to creation of numerous small sized CPAs leading to high transaction costs and inefficiencies in the system.	Apply microscale additionality guidelines to very small dispersed standalone units within a component project activity (CPA) such as biogas digesters, solar systems	For the major part the issue has been addressed by the Board at EB 68 through MAP 2012 project number 125 although the stakeholder proposals were not accepted in entirety i.e., small scale additionality guidelines and micro scale additionality guidelines have been revised with significantly expanded applicability (e.g. projects comprising of units that are no greater than 5% of the SSC thresholds are eligible for automatic additionality).	No further action is envisaged in this area at EB 69.
2.	Currently CMEs need to confirm that the start date of any proposed CPA is not, or will not be, prior to the commencement of the validation of the proposed CDM PoA (see appendix 1 for the extracts from PS, PCP and VVS). Engaging a DOE and performing GSC on the UNFCCC website takes considerable time from the point in time PoA is conceptualized and timing the first CPA to match the above requirement becomes tedious. In addition, the definition of the start date of a PoA is not clear, while the current version of PoA-	Many stakeholders have suggested that CMEs should be allowed to commence activities related to CPA implementation upon announcement of a PoA including notification to the Secretariat and the DNA, and should not be bound by the date when the PoA-DD is first published for GSC.	The Secretariat is of the opinion that the proposal to enable CPAs to start after the public notification to the Secretariat and the DNA would facilitate implementation of PoAs. It is a reasonable request that Board may wish to consider positively. The issue can be addressed by extending the flexibility with regard to start date that is accorded to the CDM projects to the PoAs also. To enable CPAs to start prior to GSC requires a change to the provisions contained in the PS, VVS and PCP. The PoA-DD guidelines would also have to be revised to remove the subsection “D.1. Start date of PoA”.	Revised requirements in PS, PCP and VVS proposed to EB 70 either as clarifications or as revisions. Similarly revised PoA-DD guidelines, forms and revised CDM Glossary are proposed for consideration of EB 70.



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	DD requires CMEs to describe how the start date of a PoA was determined.			
3.	<p>DOEs understand the current requirement in paragraph 14 of PCP (see appendix 1 for the extracts) that only one specific CPA-DD is required at the time of registration.</p> <p>However, recently approved versions of some large-scale methodologies (e.g. ACM0002, see appendix 1 for the extracts), require CMEs to present one specific CPA-DD for each type of CPA included in the PoA, to be validated by a DOE and submitted for the registration.</p>		<p>Potentially there are three interpretations/options for the requirements here; (a) one actual case CPA-DD required irrespective of number of technologies included during the lifetime of the PoA (b) one actual case CPA-DD for every technology that will be included during the life time of PoA upfront during the registration (c) a hybrid option requiring one actual case CPA-DD per technology but over a period of time.</p> <p>The literal interpretation of the current requirements in the PCP would mean that only one specific (or actual) CPA-DD is required at the time of registration of the PoA. While this provides flexibility to the CME for the development of PoAs, secretariat is of the opinion that it is desirable to have one actual case CPA per technology/measure type available alongside the registered PoA-DD. That would also ensure consistency with the requirements specified in revised methodologies. To allow some level of flexibility for the CMEs, the Board may wish to consider allowing PoA registration with at least one specific (or actual) CPA-DD submitted at the time of first registration of the PoA-DD. However CMEs shall submit specific CPA-DD for other type of technologies / measures planned under the PoA at a later stage after the registration but within [specific time to be decided by the Board] from the date of initial registration.</p>	<p>Policy guidance from the Board at EB 69.</p> <p>Clarifications or revised requirements for the relevant paragraphs in PS/VVS/PCP and PoA Standard proposed to EB 70.</p>



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4.	There is a need to provide the requirements and procedures for the cases when CMEs are obliged to make changes to the registered PoA-DD (e.g. to include more technologies / measures in a PoA-DD or to expand the geographic coverage of the PoA that would need an update of the eligibility criteria as per PoA standard and applicable methodologies.)	Clarification on design changes that are permitted versus those not permitted is helpful (e.g. eligibility criteria, technologies/measures, size/scale, applied methodology, methods for additionality)	Paragraph 131 of PCP states “concerning changes to the design in the registered PoA, only changes to the programme boundary to expand geographical coverage or to include additional host parties shall be allowed”. Paragraphs 21 to 25 of the PoA standard indicate a number of circumstances under which the eligibility criteria have to be updated (e.g. methodology revised after being put on hold, PoA boundary is expanded, additional eligibility criteria is stipulated by the Board at any point in time in view of environmental integrity).	Policy guidance from the Board at EB 69 regarding types of permitted changes. Clarifications or revised requirements in PS/VVS/PCP and PoA Standard proposed to EB 70 in consultation with stakeholders.
5.	Current requirements in paragraph 294 of VVS results in requirements for the CME to present ALL CPAs included in the PoA during a monitoring period to the verifying DOE.	Revise/Clarify PoA rules, VVS and guidance to complete PoA-DD to allow one or several verifications per year per CPA or per group of CPAs by the same or different DOEs	While the changes may provide flexibility to CMEs with regard to CPA verifications and thereby facilitate PoA implementation, the Board had significant reservations to accept similar requests in the past on account of potential operational difficulties that may arise (e.g. potential complexities on account of overlapping monitoring periods of CPAs, potential double counting of reductions)	Guidance is required from the Board if further work is required in this regard.
6.	VVS (footnote 43) states “... a DOE may also undertake the verification if this has been approved in advance by the CDM Executive Board”. The conditions, if any, under which such an approval is granted is unclear.	Transaction costs for PoA verifications are high, particularly true in LDCs. As for SSC project activities, for CPAs under SSC PoAs should be allowed to use the same DOE that performed inclusion services for verification services to lower verification costs.	If the Board wishes to simplify the requirements, potential options include but are not limited to: (a) a criteria based on the geographical location i.e. SSC PoAs in LDCs, (b) a criteria based on SSC PoAs as proposed by stakeholders (c) a criteria based on distributed units PoAs as in the case of simplified additionality rules. From the regulatory perspective validation and verification by a single DOE may mean reduced scrutiny of CPAs with potential impacts on impartiality, confidence level on validation	The Board has already requested for a secretariat proposal to be presented to EB 70 in the context of a DOE request. The Board may wish to provide guidance, if any, regarding any additional issues that the proposal should address.



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			conclusions. Status quo from the PPs perspective will lead to higher transaction costs, from the DOE perspective status quo will lead to split incentives for the DOE conducting verification versus validation.	
7.	<p>The current PoA process involves PoA validation, CPA scrutiny during inclusion through eligibility criteria and the verification of CPAs at each CPA level.</p> <p>Whilst this is often appropriate for single unit type CPAs, it is not appropriate for dispersed very small CPAs (e.g. cooking stoves).</p>	PoAs for dispersed very small CPA units should be registered on the basis of PoA-DDs not requiring separate CPA-DDs and not requiring the inclusion of CPAs over time as a procedural step prior to verification.	The implications of this proposal is that only PoA-DD is validated and CPAs are not validated but only verified. It may be necessary to assess if this would be feasible within the current PoA rules and modalities and procedures of CDM. Extracts from modalities are included in appendix 2. Close to 50% of the current PoA pipeline comprises of PoAs for dispersed activities.	Guidance is required from the Board if further work can be carried out under the existing framework of CDM and PoA rules.
8.	How to identify CERs from multi-country PoAs by their serial number.	Necessary measures to allow identification of CERs from multi country PoAs should be implemented.	Issue is being processed through an existing MAP 2012 project.	Nil in the context of this note
9.	Since current modalities of communication (MOC) rules for PoAs require the CME to have at least joint communication rights for all CPAs and since it will distribute CERs to individual CPAs, both investors and CPA implementers are exposed to the CME counterparty risk. The CME counterparty risk becomes a substantial barrier towards structuring ERPAs and other investments in individual CPAs.	MOC requirements should be modified to allow CPA participants to be created with MOC rights to reduce investor counterparty risks.	Issue can be processed through an existing MAP 2012 project.	Nil in the context of this note
10. Other issues: There are a few other issues related to PoA implementation that the stakeholders have raised or the secretariat has identified for which further work would be required. These include:				



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	guidance with regard to LoA process for multi-country PoAs, further elaboration of management system to be set up by CME, forms and templates when both large scale and small scale methodologies are applied, issues related to crediting period of CPAs, issues related to single sampling plan, application of bundling under the PoA, single versus multiple monitoring report format for CPAs. The secretariat will continue to work on these issues, consult with stakeholders and will make recommendations to the Board at EB 70 or later.			

IV. Impacts

7. Many of the potential impacts are already indicated in table 1 under secretariat comments. In general simplification of the rules will ease implementation of PoA pipeline. Majority of the PoAs in the pipeline are for projects in the area of demand side energy efficiency, waste and solar projects which typically involve so called 'long tail projects' i.e. small units, small owners requiring lengthy time to aggregate sizeable number of units (the shares of these types of projects under the normal CDM pipeline is comparatively less). Simplifications in some areas (e.g. post registration changes) can potentially have impacts on workload of the Board and its bodies.

V. Recommendations to the Board

8. The Board may wish to approve the proposed work programme providing guidance as necessary.



Appendix 1

Extracts of requirements in the current versions of VVS, PCP and PS

Validation and Verification Standard (VVS)

VVS paragraph 292: a DOE that has not performed validation/inclusion/renewal of crediting period activities for the PoA shall:

- (a) Identify those CPAs that it shall consider for verification in accordance with the method/procedure to be used for verification of the amount of reductions of anthropogenic emissions by sources or removals by sinks of greenhouse gases achieved by CPAs under the PoA and determined in the CDM-PoA-DD;
- (b) Take into account the possible existence of different versions of the PoA and the need to account for this in its sampling approach, to ensure that a statistically sound sample of CPAs from each version of the PoA are being verified;
- (c) Make all monitoring reports received from the coordinating/managing entity immediately publicly available in accordance with the PCP;
- (d) Systematically verify and certify the correct implementation and operation of the record-keeping system.

VVS paragraph 293: the DOE conducting the verification shall include in its verification report a description of how it applied the methods/procedures for the purpose of verification stipulated in the registered CDM-PoA-DD. The DOE shall include in its verification report a description/justification of the site visits undertaken.

VVS paragraph 294: a DOE shall request issuance of CERs for a PoA in accordance with the project cycle procedure. The request shall relate to all CPAs included in the PoA during the specified monitoring period. The monitoring periods shall be consecutive.

VVS paragraph 295: a DOE shall not request issuance of CERs for a PoA within 90 days of the previous request for issuance.

Project Cycle Procedure (PCP)

PCP paragraph 14: When submitting the PDD or PoA-DD, the DOE shall, through a dedicated interface on the UNFCCC CDM website, also submit the following information to be made publicly available:

- (h) In the case of a PoA, in addition to (a)–(g) above:
 - (i) A PoA generic CPA-DD, which specifies the generic information relevant to all CPAs that may be included in the PoA;
 - (ii) A specific CPA-DD that is based on the application of the PoA to one actual case.

PCP paragraph 184: for a PoA, the request for issuance shall relate to all CPAs included in the PoA during the specified **monitoring** period and shall not be submitted within 90 days of the previous request for issuance. The monitoring periods shall be consecutive. A request for issuance shall relate to the CERs verified as per above.

**Project Standard (PS)**

PS paragraph 160: The coordinating/managing entity shall confirm that the start date of any proposed CDM CPA is not, or will not be, prior to the commencement of the validation of the proposed CDM PoA, i.e. the date on which the PoA-DD is first published for global stakeholder consultation.

PS paragraph 233: The coordinating/managing entity shall:

- (a) Maintain all monitoring reports of all CPAs in accordance with the record keeping system identified in the registered PoA-DD;
- (b) Make available all monitoring reports requested by a DOE for verification purposes.

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In case the PoA contains several types of CPAs, the actual CPA-DD submitted for the purpose of registration of the PoA shall contain all information required as per the latest approved version of the “Guidelines for completing the component project activity design document form” for each type of actual CPA, to be validated by a DOE and submitted for the registration to the Board.



Appendix 2

Leapfrogging to verification of CPA-DDs in the case of a dispersed unit PoA

1. As per M & P of CDM “Validation is the process of independent evaluation of a project activity by a DOE against the requirements of the CDM as set out in CMP decisions on the basis of the project design document” particularly to check claims related to voluntary participation, to assess if stakeholder comments have been addressed, taking into account environmental impacts as required by host party.

Paragraph 20 of 7/CMP.1. Decides that a local/regional/national policy or standard cannot be considered as a clean development mechanism project activity, but that project activities under a programme of activities can be registered as a single clean development mechanism project activity provided that approved baseline and monitoring methodologies are used that, inter alia, define the appropriate boundary, avoid double-counting and account for leakage, ensuring that the emission reductions are real, measurable and verifiable, and additional to any that would occur in the absence of the project activity;

2. Stakeholder inputs on this issue have been mixed. On the one hand addition of CPAs by DOE (or the validation of CPAs) would provide the ‘third party check’ providing some surety for the investors. On the other hand very small dispersed standalone units may have more standardised elements than other project types, for examples cookstoves distributed being equal only the geographical differences would differentiate the CPAs in many cases; this may allow simple translation of PoA requirements into eligibility criteria requiring limited efforts/skills to check the methodology or other requirements upfront at the time of inclusion of CPA. Perhaps reduced requirements for validation at CPA level would allow more frequent verification of CPAs which has two advantages: (1) CME/CPA implementer will get CPA specific and more frequent feedback (2) Will allow DOEs to check the CPAs as implemented rather than as proposed during validation which may reduce transaction cost and reduce delays in the system.

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History of the document

Version	Date	Nature of revision
01.1	28 August 2012	Revised to include title of Appendix 2.
01.0	27 August 2012	Initial publication as an annex to the annotated agenda of EB 69.
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