



Review of CDM methodology development process

Annual Meeting of the Host Country Committee on
Carbon Finance

Washington DC, 15 February 2005

Lasse Ringius. Carbon Finance Unit. World Bank

Objectives



Identify key issues for host countries in the baseline methodology development and approval process,

- Methodology development process
- Sectoral scope of methodologies

Create a basis for inputs by host countries on:

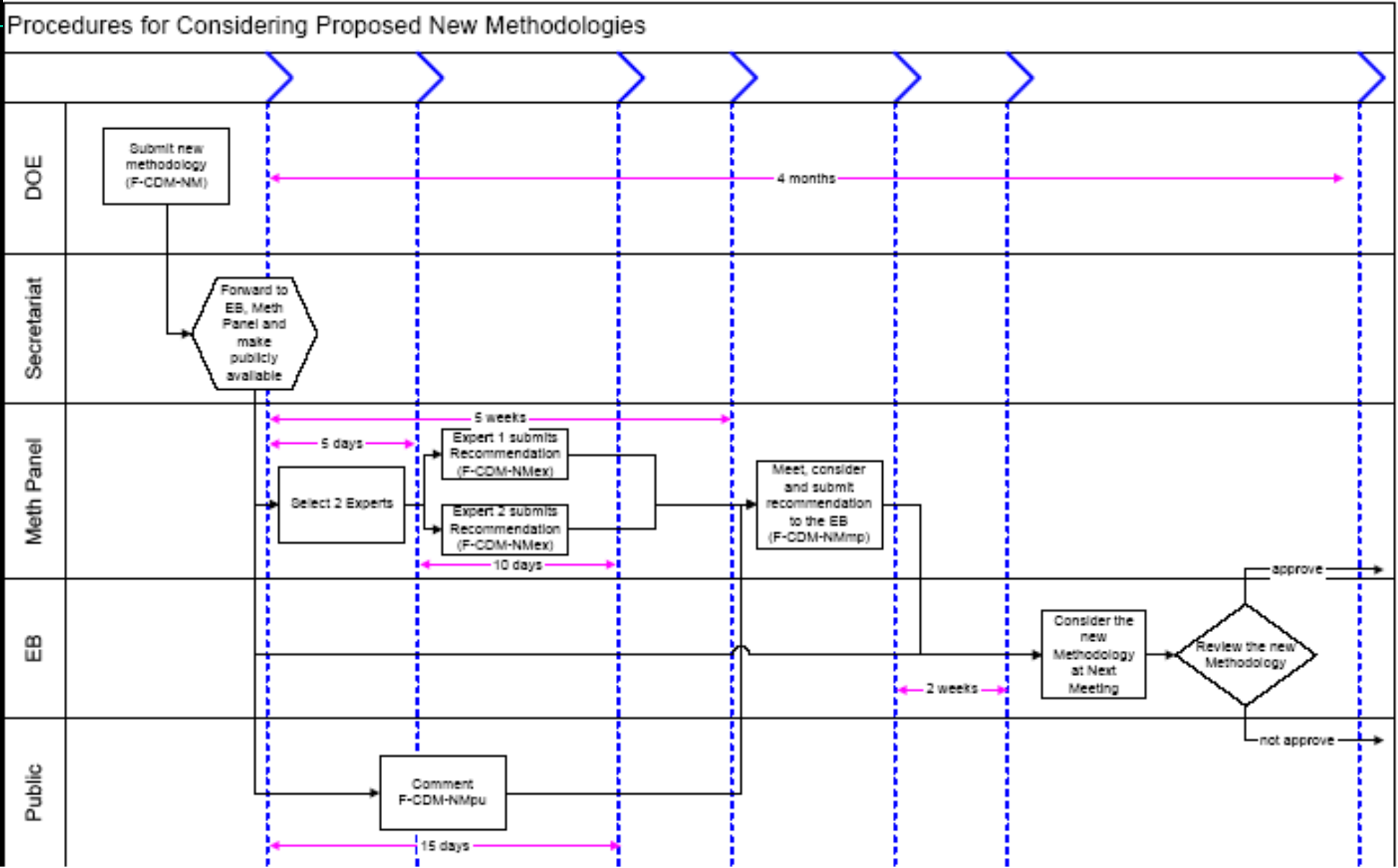
- Suggestions for improving the baseline development process
- How host countries can support and shape process

Overview



1. Procedures for reviewing new CDM methodologies
2. Baseline methodology and additionality testing
3. Sectoral scope and coverage of methodologies
4. Implications of CDM EB decisions on PCF portfolio
5. Improving the baseline development and approval process

Procedures for considering new methodology

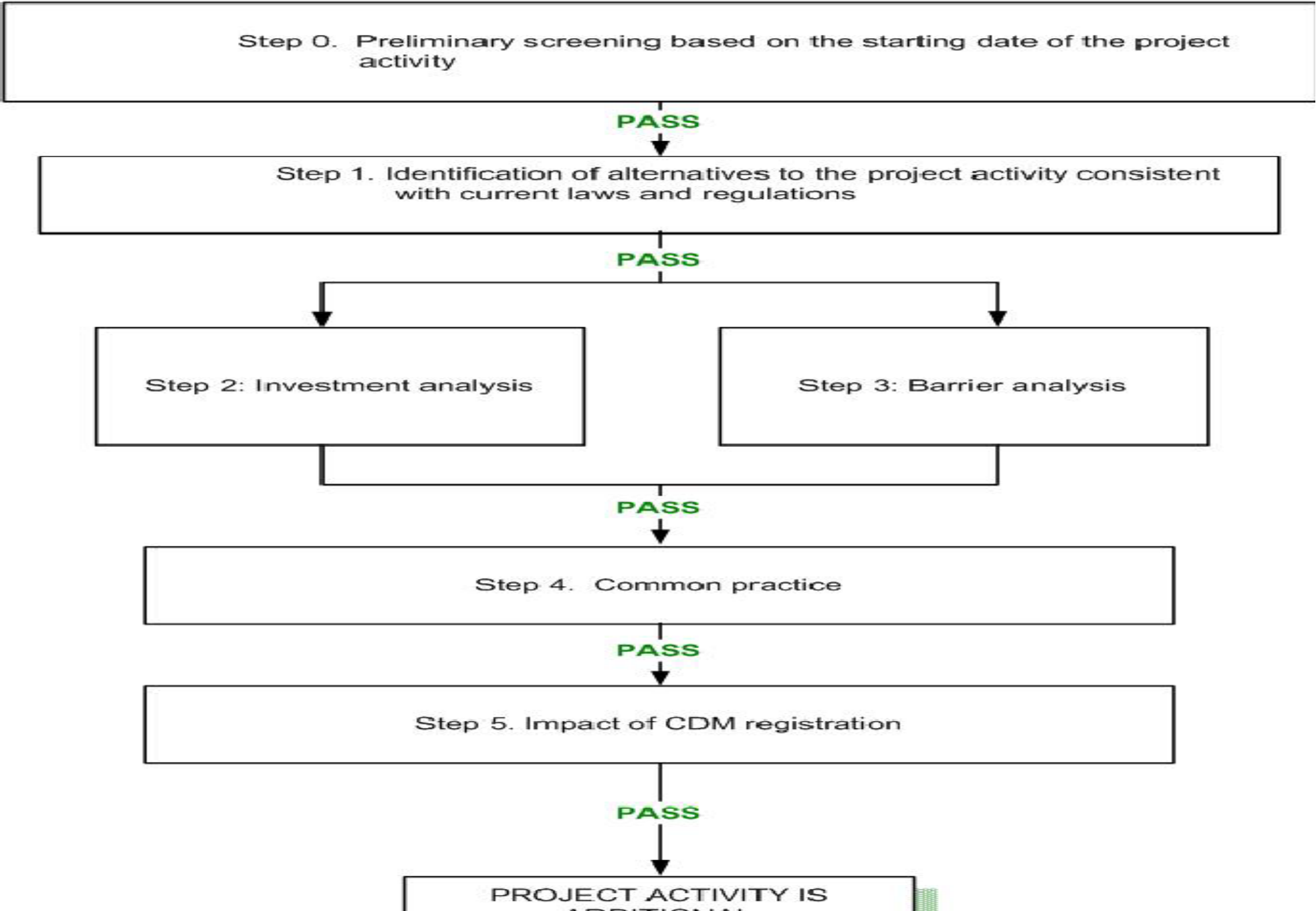


Baseline methodology components



- Justify choice of baseline approach (MA 48 a-c);
- Method for determining the baseline scenario;
- Explanation of how, through the methodology, it is demonstrated that a project is additional;
- Define, elaborate and justify formulae/algorithms to determine baseline scenario;
- Define, elaborate and justify formulae/algorithms to determine base case emissions;
- Define, elaborate and justify formulae/algorithms to determine project emissions;
- Inclusion of national policies and circumstances; and
- Leakage.

Flowchart: Additionality scheme



Scope of approved methodologies/1



Scope Number	Sectoral Scope	Methodology	Approved Small Scale Methodologies
1	Energy industries (renewable - / non-renewable sources)	AM0004 , AM0005 , AM0007 , AM0010 AM0014 , AM0015 AM0019	AMS-I.A. , AMS-I.B. AMS-I.C. , AMS-I.D. AMS-II.B.
2	Energy distribution		AMS-II.A.
3	Energy demand	AM0017 AM0018	AMS-II.C. AMS-II.E. , AMS-II.F.
4	Manufacturing industries	AM0007 , AM0008 AM0014	AMS-II.D.
5	Chemical industries		
6	Construction		
7	Transport		AMS-III.C.
8	Mining/mineral production		

Scope of approved methodologies/2



Scope Number	Sectoral Scope	Methodology	Approved Small Scale Methodologies
9	Metal production		
10	Fugitive emissions from fuels (solid, oil and gas)	<u>AM0009</u>	<u>AMS-III.D.</u>
11	Fugitive emissions from production and consumption of halocarbons and sulphur hexafluoride	<u>AM0001</u>	
12	Solvent use		
13	Waste handling and disposal	<u>AM0002</u> , <u>AM0003</u> , <u>AM0006</u> , <u>AM0010</u> , <u>AM0011</u> , <u>AM0012</u> , <u>AM0013</u> , <u>AM0016</u>	<u>AMS-III.D.</u> <u>AMS-III.E.</u>
14	Afforestation and reforestation		
15	Agriculture	<u>AM0006</u> , <u>AM0016</u>	<u>AMS-III.A.</u> <u>AMS-III.E.</u>

CFB contribution to methodology



Table 1: Status of CDM methodologies (as of 11/ 24/2004)

	CFB	Non-CFB	total	CFB share
"A" rated	5	16	21	24%
"B" rated	4	46	50	8%
"C" rated	3	14	17	18%
Total methodologies	12	76	88	14%

Source: UNFCCC CDM website.

“A” = approved and published, “B” = may be approved with modifications, “C” = not approved.

Implications of EB decisions on PCF portfolio



- By December 2004, app. 60% of the PCF portfolio covered by approved or nearly approved methodologies (up 10% from June 2004).
- Waste management
 - 4 CDM projects using AMs or ACM, 1 JI project (Liepaja)
 - No problems expected
- Energy efficiency & fuel switching
 - 2 CDM, 1 small scale, 5 JI projects
 - No approved CDM methodology yet
 - Uzbekistan: test case – feedback on supply constraints received: resubmission under preparation
 - FaL-G India: small-scale project with many actor and many sites – new simplified methodology under preparation

Methodological coverage/1



- Electricity generation
 - 12 regular, 5 small scale CDM projects, no JI
 - All CDM projects covered by AM, ACM or simplified methodology.
 - Chacabuquito: submission of national methodology for Chile. PCF methodology covered as special case.
 - El Canada: ACM under consideration – smaller loss.
 - Jepirachi: National methodology for Colombia or ACM0002 with narrower boundaries to exclude transmission bottlenecks, or 3rd party methodology when approved.
 - Jincheng: ACM0002 & new methodology for coal mine methane

Methodological coverage/2



- Land use
 - 2 CDM, 1 JI projects
 - Methodologies for A/Reforestation are now accepted for review
 - Plantar:
 - Carbonization methodology almost ready for submission
 - Still no decision on continuation activity, but EB ready to consider V&M methodology on its technical merits.
 - New fuel switch methodology for pig iron component – drawing on lessons from approved fuel switch methods.
 - A/R methodology not a priority due to swapping of sequestration credits.
- Industrial gases
 - New methodology for N₂O project in India, drawing on lessons from HFC-23 cases.

Summary description of CDM baseline development process



- The baseline methodology development process is still at the early stage
- The CDM EB has been quite successful given the limited resources available
- The process is unique – no international precedence
- Process builds on a case-law approach
- Follows a bottom-up approach
- The burden is on the project developer
- It is still very time-consuming to develop CDM projects
- It is still costly to develop CDM projects

Improving the regulatory system



- Study on reform needs and options
 - Funding gap
 - Technical expertise, resource groups to support EB, panels
 - Organization of CDM Secretariat, EB, panels
 - CEO / General Secretary for CDM
 - full time job for EB chair etc.
 - Staffing
 - Transparency and communication
- Discussions with Parties and other stakeholders
- WB / CFB support for EB and UNFCCC Sec.
 - Project developers workshop
 - Power sector workshop
 - Other support offered
- Capacity building work in and with host countries

Key questions



- Is the process timely? Too slow?
- Is the amount of required technical input reasonable? Too much reliance on technical input?
- Is the required technical input readily available? Not easily available or perhaps even unavailable?
- Is the amount of preparation reasonable and feasible? From the project proponent's point of view? From the point of view of host governments?
- Should the process be continued in its current configuration?
- Is it more likely to change? In what way?
- Is the sectoral coverage adequate?

Elements of a proactive approach



- Host country representatives on the Meth Panel and roster of experts
- Interact with government representatives on EB
- Develop projects and methodologies better suited to conditions in developing countries
- Focus on GHG intensive sectors which are not covered by methodologies