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CDM: FORM FOR SUBMISSION OF A "LETTER TO THE BOARD"
(Version 01.2)

This form should be used only by project participants and other stakeholders for submitting a "Letter to the Board" in accordance with the latest version of the *Modalities and procedures for direct communication with stakeholders*

Name of the stakeholder[1] submitting this form (individual/organization):	Project Developer Forum
Address and contact details of the individual submitting this form:	Address: 100 New Bridge Street, London, EC4V 6JA Telephone number: +65 6578 9286 E-mail address: office@pd-forum.net
Title/Subject (give a short title or specify the subject of your submission)	Suggestions on policy issues: Discussion on the treatment of host country national mitigation policies (E- policies) under the CDM
Please mention whether the submitter of the form is:	☐ Project participant ☒ Other stakeholder, please specify PD Forum
Specify whether you want the letter to be treated as confidential[2]:	☐ To be treated as confidential ☒ To be publicly available (UNFCCC CDM web site)

Please choose any of the type(s) below[3] to describe the purpose of this submission.

☐ **Type I:**

☐ **Request for clarification** ☐ **Revision of existing rules**

- ☐ Standards. Please specify reference
- ☐ Procedures. Please specify reference
- ☐ Guidance. Please specify reference
- ☐ Forms. Please specify reference
- ☐ Others. Please specify reference

☐ **Type II: Request for Introduction of new rules**

☒ **Type III: Provision of information and suggestions on policy issues**

Please describe in detail the issue on which you request a response from the Board, including the exact reference source and version (if applicable).

[1] DNAs and DOEs shall use the respective DNA/DOE forms for communication with the Board.
[2] As per the applicable modalities and procedures, the Board may make its response publicly available.
[3] Latest CDM regulatory documents and information are available at: http://cdm.unfccc.int/Reference/index.html .

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To cdm-info@unfccc.int

From gareth.phillips@pd-forum.net

Date 12th May 2013

Subject: Discussion on the treatment of host country national mitigation policies (E- policies) under the CDM

Dear Mr. Peer Stiansen,

Honorable Members of the CDM Executive Board,

The Project Developer Forum (PD Forum) welcomes the continuous effort of the EB and the Secretariat in improving clarity and transparency of its rules, procedures and rulings to address the guidances of the Parties to the Kyoto Protocol, especially when it comes to policy issues which are relevant for the development of CDM projects in the context of national mitigation and sustainable development efforts.

To support this effort, the PD Forum would like to draw the attention to some aspects of the renewed debate on the treatment of *"National and/or sectoral policies or regulations that give comparative advantages to less emissions-intensive technologies over more emissions-intensive technologies"*. Providing that such policies have been established after 11 November 2001, these are regulated by EB 22, Annex 3 and classified as so called "E- policies". Given the fact that many developing countries have been adopting such policies in response to the Copenhagen Accords as a direct or indirect consequence of increasing their ambition for GHG mitigation and the establishment of NAMAs, the consistent treatment of these policies under the CDM is paramount to support these mitigation activities and thus the ultimate objective of the UNFCCC.

In order to contribute to this discussion, the PD Forum would like to offer some insights and considerations as a basis for suggestions which shall contribute to a clear and transparent application of the existing rules. This shall promote mitigation ambition by developing and developed parties and avoids the perverse incentive to postpone or weaken national ambition for GHG mitigation and sustainable development. Of special concern in this respect are some recent project reviews which question the applicability of the provisions of EB 22, Annex 3 in the context of the additionality discussion.

In fact we understand that the EB, at its last meeting (EB72[4]) had decided to discuss the E+/E- policy issue at EB73[5], to take place between 27th and 31st May 2013 in Bonn, Germany. Therefore, the PD Forum understands that any input on this topic may be sent at least 2 weeks prior to the start date of the EB73 meeting, i.e. before 13th May 2013. Consequently the PD Forum would like to request the EB to include this document in the Proposed Agenda item 4.3., concerning "Policy issues" of the next EB meeting.

Before getting into details on the analysis about the current application of the E- regulation, the PD Forum

[4] Available at: http://cdm.unfccc.int/Meetings/MeetingInfo/DB/AZNJPUB6GSW20R7/view, assessed on 08 May 2013.
[5] CDM-EB73-PA, Proposed agenda: CDM Executive Board seventy-third meeting, Version 01.0, dated 6 May 2013. Available at: http://cdm.unfccc.int/Meetings/MeetingInfo/DB/GYXC7S6BWTQURDE/view, assessed on 08 May 2013.

would like to remind some key concepts, definitions and decisions as necessary to develop the discussion.

Background:

As the treatment of national mitigation policies is directly related to the definition of baselines and thus additionality, the respective definitions and rules need to be contemplated as a basis for this discussion:

- According to CMP/2005/8/Ad1, p16 paragraph 43[6] *"A CDM project activity is additional if GHG emissions are reduced below those that would have occurred in the absence of the registered CDM project activity.*"
- According to the principals defined by EB 8, Annex 1[7], any new methodology shall provide the explanation *"of how […] it is demonstrated that a project is additional and therefore not the baseline scenario".* This concept is reflected by the Additionality Tools[8] which require to "demonstrate" that the project does not represent the baseline itself, using either Investment Analysis or Barrier Analysis in combination with Common Practice Analysis.
- Financial Additionality, which is the most commonly used approach, implies to determine if the project is not a) the most financially attractive or b) financially feasible without the revenue from CERs.

To guide the elaboration of a financial investment analysis, both Additionality tools require to *"Include all relevant costs (including, for example, investment operations and maintenance costs), and revenues (including subsidies/fiscal incentives, ODA, etc. where applicable)",* but clarify with a footnote that this provision is subject to *"EB guidance on the consideration of national/local/sectoral policies and measures for the baseline setting"* (Footnote 9 of the Additionality Tool), respectively that *"according to guidance by the EB (EB 22, Annex 3), subsidies and incentives may be excluded from consideration in certain cases"* (Footnote 9 of the Combined Additionality Tool).

The guidance of EB 22, Annex 3 (Version 02)[9] was established in November 2005 on the basis of discussions and definitions that had taken place at EB 13 and EB 16 in order to assure that *"As a general principle, national and/or sectoral policies and circumstances are to be taken into account on the establishment of a baseline scenario, without creating perverse incentives that may impact host Parties' contributions to the ultimate objective of the Convention*" (Article 5).

In order to meet this objective the Board agreed to differentiate the following two (2) types of national and/or sectoral policies that are to be taken into account when establishing baseline scenarios:

(a) "National and/or sectoral policies or regulations that give comparative advantages to more emissions-intensive technologies or fuels over less emissions-intensive technologies or fuels (so called type E+ policy that increase GHG emissions)";

(b) "National and/or sectoral policies or regulations that give comparative advantages to less emissions-intensive technologies over more emissions-intensive technologies (e.g. public subsidies to promote the diffusion of renewable energy or to finance energy efficiency programs) (so called type E- policy that decrease GHG emissions)";

Further, the Board agreed that these two (2) types of policies shall be addressed as follows:

(a) "Only national and/or sectoral policies or regulations under paragraph 6 (a) that have been implemented before adoption of the Kyoto Protocol by the COP (decision 1/CP.3, 11 December 1997) shall be taken into account when developing a baseline scenario. If such national and/or sectoral policies were implemented since the adoption of the Kyoto Protocol, the baseline scenario should refer to a hypothetical situation without the national and/or sectoral policies or regulations being in place".

(b) "National and/or sectoral policies or regulations under paragraph 6 (b) that have been implemented

[6] FCCC/KP/CMP/2005/8/Add.1, p16 para 43, dated 30 March 2006. Available at: http://unfccc.int/resource/docs/2005/cmp1/eng/08a01.pdf, assessed on 08 May 2013.
[7] Available from http://cdm.unfccc.int/EB/008/repan1.pdf.
[8] This refers to the *Tool for the demonstration and assessment of additionality* v 07.0.0 and to *Combined tool to identify the baseline scenario and demonstrate additionality*, both available from http://cdm.unfccc.int/methodologies/PAmethodologies/approved
[9] Available at: http://cdm.unfccc.int/EB/022/eb22_repan3.pdf, assessed on 08 May 2013.

since the adoption by the COP of the CDM M&P (decision 17/CP.7, 11 November 2001) need not be taken into account in developing a baseline scenario (i.e. the baseline scenario could refer to a hypothetical situation without the national and/or sectoral policies or regulations being in place)".

Though these fundamental provisions were already established in November 2005, until recently, they found only very limited use[10], a finding which can be attributed to the fact that only a limited number of national support policies had existed at that time. However, this scenario has drastically changed as now diverse national mitigation support policies are being developed in many developing countries as direct response to the Copenhagen accord, the evolving establishment and definition of NAMAs and the corresponding enabling policies. As described in Annex 1, the tendency to establish such policies are especially strong in the renewable energy sector as described in Annex 1.

Given the importance of NAMA policies in the Copenhagen accord, it is also important to recall that the issue of national mitigation policies under the CDM was addressed by the CMP 5 in its "*Further guidance relating to the clean development mechanism*"[11]:

- *10. Affirms that it is the prerogative of the host country to decide on the design and implementation of policies to promote or give competitive advantage to low greenhouse gas emitting fuels or technologies;*
- *11. Requests the Executive Board to ensure that its rules and guidelines related to the introduction or implementation of the policies referred to in paragraph 10 above promote the achievement of the ultimate objective of the Convention and do not create perverse incentives for emission reduction efforts;*
- *12. Requests the Executive Board to consolidate, clarify and revise, as appropriate, its guidance on the treatment of national policies.*

In sequence of this CMP guidance, the EB established an Information Note on the implementation of E+/E- in the context of projects on the agenda of the fifty-third meeting of the CDM executive board (Version 01.1) EB53, Annex 32[12], which contains the following clarifications:

1. The Executive Board at its 22nd meeting (Annex 3) clarified the treatment of national and sectoral policies.

2. The "Tool for the demonstration and assessment of additionality" requires that this guidance on national and sectoral policies be applied in the determination and assessment of input values used in the investment analysis.

3. Therefore in assessing the suitability of tariffs applied in the investment analysis of proposed CDM project activities which supply less carbon intensive electricity than the baseline, DOEs should assess whether the tariff has been affected by any national and/or sectoral policy and if so whether this policy/policies are E+ policies or E- policies.

Status of the application of the EB 22, Annex 3 guidance:

In the light of the encouraging development of national mitigation policies which is observed in many developing countries, the E- regulation, as defined by the above mentioned references has been effectively applied in numerous cases and represents a fundamental tool to define how the CDM can support developing countries in their sustainable development and GHG mitigation objectives and thus enhance their ambitions in this respect.

The successful application in many registered projects of countries such as India, Brazil, Peru, Israel, South Africa, among other countries, exemplifies the encouraging proliferation of national mitigation policies and the importance of the E- concept for their support and the evolution of the CDM. In addition, it also allows us to understand and compare these policies, a process which is vital to promote international exchange and increasing ambition. To give a preliminary insight in the diverse evolutions, the Annex to

[10] For example Project 0603: Osório Wind Power Plant Project (registered on 28 Dec 2006) adopts standard electricity tariff as a hypothetical baseline to substitute the Feed in tariffs.

[11] Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its fith session, held at Copenhagen from 7 December to 19 December 2009. Decision 2/CMP.5: Further guidance relating to the clean development mechanism. Available at: http://cdm.unfccc.int/Reference/catalogue/document?doc_id=000001865&para_id=para-000191227#para-000191227.

[12] Available at: http://cdm.unfccc.int/EB/053/eb53_repan32.pdf, assessed on 08 May 2013.

this submission provides a brief summary of some of the policies in these countries and identifies projects which had been registered according to this concept.

In spite of the clear rules and the established practice that E- policies are taken into account for the "*determination and assessment of input values used in the investment analysis"*, the PD Forum identified that recently a minimum of six (6) projects have received a review which contains the following same comment or phrasal variations thereof:

> *"EB 22 Annex 3 and EB 16 Annex 3 are only applicable to establishing the baseline scenario, not applicable to the investment analysis of the project activity in demonstrating the additionality."*

So far, two of the projects (Project 8253 from Brazil and Project 6621 from India) had their responses analyzed and were registered without any adjustment to the original documentation or argumentation, which means that the principles of the E- regulation have been respected. In fact, in both cases the DOE clarified that the finding was not in line with their interpretation of the E- guidance and that the validation report and opinion had taken due account of the rules and principles for the identification of E- policies and for the establishment of adequate hypothetical baselines for the *determination and assessment of input values used in the investment analysis.*

At the present stage, the following reviews are still pending:

Project 7780 (India), which is conceptually equivalent to the registered project 6621 will be judged at EB 73;

Project 8531, (India) which is conceptually equivalent to the registered project 7780 and 6621;

Project 7476 (South Africa), which shares equivalent concept to the registered project 7536;

Project 8285 (Philippines).

An analysis of the responses shows that the project developers and the DOEs generally reaffirm the interpretation that the national investment incentives, providing that they have been established after 11 November 2001, are not to be contemplated in the investment analysis.

General conceptual comments for the role of the CDM as a basis for the development of New Market Mechanisms and in the Framework of Various Approaches:

It is widely recognized that the objective to limit climate change to a maximum of 2°C requires that meaningful preventive mitigation is undertaken in developing countries to avoid that their emissions grow to a level which exceeds any mitigation potential of developed countries. This can only be achieved if these developing countries are capable of establishing a clean and GHG efficient infrastructure from the start and each year of delayed action leads to the establishment of GHG intensive infrastructure which will lock in the future emission trajectory and thus increase cost of mitigation and adaptation.

To minimize this impact, which is well described by the World Energy Outlook, early action is necessary and thus we have to work with existing mechanisms until New Market Mechanisms and a fully functional Framework for Various Approaches is established. These existing mechanisms as of today are:

- The Clean Development Mechanism as project based MRV methodology;
- Certified Emission Reductions as offset instrument, which represent the only existing global carbon market instrument to date;
- Emerging National policies in the framework of NAMAs;
- Carbon financing by National and Multilateral Development Banks as part of national or multilateral climate change policy frameworks.

The fact that ambitious GHG mitigation in the long term requires a synergetic application of various tools and approaches in order to create an adequate enabling environment is increasingly understood. In complement, the different CDM projects cited in the Annex offer interesting examples to show how carbon revenues may interact with preferential tariffs, preferential loan schemes or other promotional policies as established by host countries. Moreover, these examples show how the CDM can be effectively aligned with national priorities of sustainable development. In addition to these important concepts, the use of the

CDM in synergy to such policies allows to add recognized MRV principles, backed by the competence and capacity of the DOE infrastructure which has been created in all countries that participate in the CDM.

In conclusion we want to emphasize that it is paramount to maintain the established interpretation and application of the E- principle for baseline definition and additionality discussion in order to warrant the synergy of the CDM and national policies and to safeguard the principles of CMP 5. As required by paragraph 10 it is important to allow that host countries design and implement the policies which are best suited to achieve ambitious mitigation and sustainable development in their national context, while the CDM allows us to assess and monitor the results of these policies on the basis of uniform global principles, which is essential to ensure comparability of efforts.

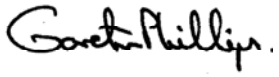
Likewise the provision of paragraph 11 is important to ensure that perverse incentives which would frustrate or weaken national efforts are avoided, that ambition is enhanced, that policies can be improved and that the current carbon market infrastructure can be maintained and developed and integrated into the Framework of Various Approaches.

In conclusion we urge the EB to reinforce the existing rules and their interpretation and application by the UNFCCC secretariat and the DOEs in a way which reinforces the synergy of the CDM with national approaches as a basis for enhanced ambition and comparable mitigation results in the crucial years before 2020.

In addition, it is important to establish an equivalent regulation for the treatment of multilateral carbon financing instruments such as those applied by the European Investment Bank, the World Bank and possibly in the future by the Green Climate Fund. The provision of adequate financing is often the key solution to the lack of access to capital which is not captured by the investment analysis and the recognition that multilateral financing is key to trigger ambitious mitigation and sustainable development policies especially in less and least developed countries is not only key for the evolution of the international climate change regime, but also for the geographical distribution of the CDM and its enhanced efficiency in less and least developed countries where capital constraints are most prevalent .

We would of course be available to discuss any of these points further with you,

Kind regards,



Gareth Phillips

Chair, Project Developer Forum

Annex I: Overview of registered CDM projects in the context of national mitigation support policies

Please Note:

This Annex is by no means complete, but shall give a first insight into the diverse policies as adopted by numerous developing countries and how they have been dealt with by registered CDM project activities.

Brazil:

Brazil has communicated its NAMAs to the UNFCCC in response to the Copenhagen Accord on 22 Jan 2010 and the communication highlights mitigation objectives in diverse areas, such as agriculture and forestry, but also in relation to the promotion of renewable energies. The communication is also very

explicit in its reference to the use of the Clean Development Mechanism to promote and implement the projects and activities comprised by these NAMA policies.
In parallel to this communication, Brazil has established the National Climate Change Policy Law (Law 12,187 from 29 December 2009) and later it's Regulation Decree 7.390 from 9 December 2010. These two legal instruments established the regulatory environment for the implementation of the policies which back the objectives of the Nationally Appropriate Mitigation Actions (NAMAs) as declared. Again this legal framework makes explicit reference to the use of the CDM in synergy to a set of national promotion policies. These instruments are defined by article 6 to be:

- *existing measures or measures to be created to stimulate measures [...] that contribute to the reduction of GHG emissions, among them the establishment of preferential criteria for tendering processes, such as those for private public partnerships, as well as the authorization or granting of concessions for the exploitation of [...] natural resources which imply the reduction of GHG emissions (§XII);*
- *specific credit lines and financing conditions offered by private and public banks (§ VII) as well as other national financial and economic measures (§ X);*
- *the financial and economic measures for climate change mitigation [...]that exist under the UNFCCC and the Kyoto Protocol (§ X).*

In summary, the evolutions of the Brazilian GHG mitigation policy clearly determines the development of CDM project activities and effectively assures their viability by: 1) defining the granting of its concession as priority due to the Projects' national interest; 2) structuring it as a Private Public Partnership with participation of state-owned companies; and 3) developing and offering adequate credit lines and financing conditions that were decisive for the economic viability of the project activities.

In terms of representativeness, the PD Forum was able to identify at least 20 CDM projects from Brazil that have already been registered considering the E- Policy concept, as presented in the table below, and there are still many equivalent projects are in the validation pipeline, a fact that illustrates the increasing importance of NAMAs and therefore the concept in the CDM context.

UNFCCC Ref. #	Project Title	Type/Tech.	Reg.Date
6208	Ibirama Small Hydropower Plant – a Brennand CDM Project Activity.	Hydro	25/07/12
6571	Wind Power Plants Seabra, Novo Horizonte and Macaúbas CDM Project	Wind	04/09/12
7035	Energisa Rio Grande SHPPs	Hydro	20/08/12
7597	Renova Area 6-8 Wind Power Project	Wind	18/10/12
7012	Calango and Caetité Wind Farms Complexes CDM Project Activity	Wind	31/08/12
7109	REB Cassino Wind Energy Complex CDM Project Activity.	Wind	17/10/12
7725	Electricity generation from renewable sources (wind) – Windfarm Complex Morro dos Ventos	Wind	23/10/12
7739	Quebra Dentes Small Hydropower Plant CDM Project Activity	Hydro	22/10/12
7196	Grid connected electricity generation from renewable source: Windfarm Complex União dos Ventos, Serveng Civilsan S.A.	Wind	17/09/12
7023	Trairi Wind Power Plant CDM Project	Wind	23/08/12
7026	Mundaú Wind Power Plant CDM Project	Wind	24/08/12
7017	Fleixeiras I Wind Power Plant CDM Project	Wind	24/08/12
7027	Porto do Delta Wind Power Plant CDM Project	Wind	24/08/12
7021	Guajiru Wind Power Plant CDM Project	Wind	24/08/12
7802	Electricity generation from renewable sources – Windfarm Campo dos Ventos II	Wind	05/11/12
8021	Delta do Parnaíba Wind Power Plant Complex CDM Project Activity.	Wind	21/11/12
7878	Aeolis Beberibe Wind Park	Wind	31/10/12

7879	Aeolis 2011 Wind Parks	Wind	31/10/12
8219	Faísas Wind Energy Complexes CDM Project Activity.	Wind	21/11/12
8253	Electricity generation from renewable sources (wind) - Windfarm Morro dos Ventos phase 2	Wind	30/12/12

Chile:
On 20 March 2008, the Chilean Government passed a law which requires that electricity utilities with more than 200MW operational capacity should generate 10% of electricity from renewable sources by 2024. This law includes geothermal, wind, solar, biomass, small hydro (up to 40 MW), and cogeneration as non conventional renewable sources, but doe not include hydro anove40 MW. The provision was enacted as of 1 January 2010 and requires that a 5% target must be met by 2014 and then the target wpoudl increase by 0.5% yearly, until 2024 when the 10% target is reached. In order to facilitate and flexibilize its application, agents of the electricity sector are allowed to trade Non Conventional Renewable Energy Certificates (NCRECs), which means that the obligation van be met, by purchasing such NCRECs from parties which have a surplus. This provision creates and additional economic incentive and thus comparative advantage for the development of renewable energies.
As presented above, the PD Forum understands that the application of the Governmental initiatives and incentives have been demonstrated to be clear examples of E-policy application.

In terms of representativeness, the PD Forum was able to identify at least 2 CDM projects from Chile, being both of them been already registered considering the E- Policy concept, as presented in the table below.

UNFCCC Ref. #	Project Title	Type/Tech.	Reg.Date
4449	Monte Redondo Wind Farm Project	Wind	12/05/11
5726	Laja Hydroelectric Project	Hydro	15/10/12

Peru:

On 2 May 2008, the Peruvian Legislative Branch in cooperation with the Ministry of Energy and Mines introduced the Renewable Energy Portfolio Standard (Decreto Legislativo de promoción de la inversión para la generación de electricidad con el uso de energías renovables). This policy introduced a binding target; for the period 2008-2013, where 5% of the national electricity consumption must come from renewable energy sources. The decree defined renewable sources as the energy generated from biomass, wind, solar, geothermal, tidal and small hydro (up to 20 MW) plants. The target will be revised every five years.

The policy also introduced other mechanisms to promote the development of renewable energy projects and achieve the target. The decree established renewable energy tenders for on-grid projects, clean energy research and elaboration of a National Renewable Energy Plan.

The policy will be reviewed in 2013, to establish the next 5-year renewable energy target.

In 2008, when Peru's target was established, the country had generated 3.7% electricity from renewable sources, out of the total 32 TWh produced that year. In 2010, when the target was met, Peru had generated 5.2% out of 35.5 TWh, coming from biomass and small hydro (up to 20 MW) sources.

In addition, Peru offers an accelerated depreciation benefit of up to 20% to renewable energy generation investments in machinery and equipment. On 30 June 2008, Peru Legislative branch and the Ministry of Energy and Mines passed a law that promotes investment in renewable energy for electricity generation and includes the accelerated depreciation incentive.

The benefit applies to investments in machinery, equipment and civil construction for installation and operation of renewable and hydro plants performed after the start of the decree publication.

As described above, the PD Forum understands that the application of the Governmental initiative and

benefits have been demonstrated to be clear examples of E-policy application.

In terms of representativeness, the PD Forum was able to identify at least 2 CDM projects from Peru, being both of them been already registered considering the E- Policy concept, as presented in the table below.

UNFCCC Ref. #	Project Title	Type/Tech.	Reg.Date
6874	Manta Hydroelectric Power Plant	Hydro	01/10/12
8414	Potrero Hydropower Plant, Peru	Hydro	30/11/12

South Korea:

In South Korea, the Government established the "Act on the Promotion of the Development, Use and Diffusion of New and Renewable Energy" (revised in 27/09/2006, No 7998) to encourage the use and development of renewable energy sources in the Republic of Korea in 2002.

This law was intented to promote investments on renewable energy projects through preferential treatments for the electricity prices as in Republic of Korea, as investiments on renewable energy projects are unusual due to the high costs and low returns of these kind of projects.

According to the above decision, the purchase price of electricity is subsidized through a specific compensation based on the generation costs by MOCIE (Ministry of Commerce, Industry and Energy).

Therefore, the PD Forum understands that the application of the "Act on the Promotion of the Development, Use and Diffusion of New and Renewable Energy" is a clear example of E-policy application, as it is a Governmental initiative that provides specific incentives for the development of renewable energy sources in the Republic of Korea.

In terms of representativeness, the PD Forum was able to identify at least 4 CDM projects from South Korea, being all of them been already registered considering the E- Policy concept, as presented in the table below.

UNFCCC Ref. #	Project Title	Type/Tech.	Reg.Date
3649	Sungsan Wind Power Project	Wind	09/09/11
1000	Hangyeong second phase SS-wind power Project	Wind	17/10/07
4661	Samdal Wind Power Project	Wind	13/04/11
6983	Korea South-East Power Co. Yeongheung Wind Farm Project 22MW	Wind	07/09/12

India:

The host country (India), electricity producers from renewable energy sources are given the option to either sell electricity to the state utility at preferential tariff by signing a long term Power Purchase Agreement (PPA) or they can apply for Renewable Energy Certificate (REC) scheme wherein they sign PPA at non-preferential tariff and they can claim for REC benefit proportional to the amount of electricity generated. Further, these RECs are tradable on power exchanges and their price varies depending on the demand from the buyers, which are primarily state owned utilities.

As per paragraph 6 and 7 of EB 22 Annex 3 which define E+ and E- policies, it is evident that REC is an E- Policy as it came into existence after 11 Nov 2001 and it gives comparative advantage to less emission intensive technologies.

In terms of representativeness, the PD Forum was able to identify at least 3 CDM projects from India, being 2 of them been already registered considering the E- Policy concept, as presented in the table below, and there are still other equivalent projects are in the validation pipeline, a fact that reinforces the increasing relevance of NAMAs and therefore the concept in the CDM context.

UNFCCC Ref. #	Project Title	Type/Tech.	Reg.Date
4209	Grid connected wind energy project in Tamil Nadu by Simran Wind Project Private Ltd.	Wind	16/12/10
6621	Grid connected clean energy project in Jamnagar, Gujarat	Wind	17/12/12
7780	Wind Power Project in Tamil Nadu by Savita Oil Technologies Ltd.	Wind	Request review

Philippines:

In the host country (Philippines), the Energy Regulatory Commission (ERC), on July 27, 2012, approved the initial Feed-in Tariffs (FITs) that shall apply to generation from renewable energy (RE) sources, particularly Run-of-River Hydro, Biomass, Wind, and Solar.

The Feed-in Tariff (FIT) Rules were established as one of the incentive mechanisms in the Renewable Energy Act of 2008 intended to accelerate the exploration and development of renewable energy resources in the Philippines.

The higher Feed-in Tariff (FIT) Rules published by the Energy Regulatory Commission of the Philippines is an incentive policy designed to promote low-emissions technologies, published after 11 November 2001.

Therefore, the Renewable Energy Act is a clear example of an E-policy, since it is a National and/or sectoral policy or regulation that gives comparative advantages to less emissions-intensive technologies over more emissions intensive technologies. As such, it qualifies as an E- policy which should be disregarded in the process of establishing additionality, in accordance with EB16 Annex 3 and EB 22 Annex 3 /21/, since the Board agreed that National and/or sectoral policies or regulations under paragraph 6 (b) that have been implemented since the adoption by the COP of the CDM M&P (decision 17/CP.7, 11 November 2001) need not be taken into account in developing a baseline scenario (i.e. the baseline scenario could refer to a hypothetical situation without the national and/or sectoral policies or regulations being in place) (EB 22, Annex 3).

In terms of representativeness, the PD Forum was able to identify at least one CDM project from Philippines, as presented in the table below. However, the project activity has received a request for review, in which appropriate response has been already provided by the project participants and the DOE, but its approval by the EB is still pending.

UNFCCC Ref. #	Project Title	Type/Tech.	Reg.Date
8285	San Lorenzo Guimaras 54 MW Wind Power Project	Wind	Request review

South Africa:

South Africa is an exceptional country from the point of view of the tariff regulations and the electricity production.

The main electricity producer in South Africa is ESKOM which is at the same time the public utility, the grid operator and owns parts of the distribution network. ESKOM owns 93% of the installed generation capacity of South Africa and supplies about 95% of South Africa's electricity, meaning that the South African electricity market is a monopoly. The 5% remaining is produced by independent producers which are mainly local authorities which operate their own power plants mostly based on coal or gas, and very few Independent Power Producers (IPPs) which are mostly based on coal/bagasse and mostly generate electricity for on-site consumption (large industrial consumers) – only feeding electricity into the grid in the case of excess generation. It is worth noting that until the publication of the renewable energy Independent Power Producer Procurement Programme (IPPPP) launched by the South African Government and which will be further explained below, there was no other programme or regulation for

IPPs, and the approval of IPPs was done on a case by case basis with private agreements between the IPPs and ESKOM which had to be ratified on a case-by-case basis by the South African parliament. The IPP was not seen as a strategy in the market as it was expected that ESKOM would provide the electricity needs in South Africa.

Regarding the generation and the installed capacity, approximately 90% of the total generated electricity is based on coal, while the installed capacity is largely dominated by fossil-fired power plants: coal power plants account for 85% followed by electricity generation based on gas (6%), nuclear (4%), pumped storage hydro power plants (3.7%), and hydroelectric power plants (1.4%). The remaining installed capacity (<0.5%) is mainly bagasse/coal; new renewable technologies represent only 0.014% of the installed capacity which shows the misrepresentation of renewable energy technologies and especially new renewable energy technologies.

The main reason for this massive share of coal generation in South Africa is due to the availability of cheap coal in South Africa which provides to coal power generation a competitive advantage over the rest of technologies. This fact is confirmed by the latest decisions made by ESKOM regarding new capacity additions, which consider mainly the re-opening of coal power plants which were closed more than 10 years ago or the establishment of new coal power plants.

Hence, South Africa is a country in which:

- Coal power generation is the prevailing technology due to its competitive advantage over other means of generation. This has caused that ESKOM, which is mandated to ensure the electricity supply at a minimum cost, has concentrated its decisions on this kind of technology;
- The development of new renewable power units has been negligible (i.e. representing 0.014% of the installed capacity) as:
  - these have a competitive disadvantage over coal which is the main driver in ESKOM's decisions;
  - out of ESKOM there is no framework for the development of these technologies by IPPs;

This changed in the last 10 years with new policies which intended to give competitive advantages to new renewable technologies (i.e. low carbon intensive technologies) in order to reduce the gap with higher carbon intensive technologies.

In November 2003, the South African Department of Minerals and Energy released its White Paper on Renewable Energy, where it established its commitment to introduce policies to achieve 10 000 GWh (0.8 Mtoe) renewable energy contribution to final energy consumption by 2013, to be produced mainly from biomass, wind, solar and small-scale hydro. However, in view of the above mix described, these objectives were never achieved.

The main regulation of the electricity sector in South Africa is the Electricity Regulation Act of 2006 (No. 4 of 2006) which determines the framework of the electricity sector. The regulations coming from this act were put into force in May 2011 by the Department of Energy through the Electricity Regulations on New Generation Capacity under the Electricity Regulation Act of 2006. The regulation changed the historical practice as it established that 70% of the new generation capacity must be implemented by the state-owned utility company ESKOM, and 30% by Independent Power Producers (IPPs)§, meaning a change towards the elimination of the monopoly. This was done anticipating the need to implement the necessary framework for IPPs which is necessary for the implementation of the Integrated Resource Plan for Electricity Integrated Resource Plan 2010-2030 for Electricity under the Electricity Regulation Act No. 4 of 2006. The Integrated Resource Plan 2010-2030 for Electricity determined the needed capacity in the system until 2030, and defined that by 2030 a significant change in the share of technologies with regard to the current situation dominated by coal: 45.9% of the installed capacity would be coal, followed by Nuclear (12.7%), Wind (10.3%), Solar PV (9.4%), Open Cycle Gas Turbine (8.2%), Hydro (5.3%), Closed Cycle Gas Turbine (2.6%), pumped storage hydro power plants (3.3%), Solar CSP (1.3%) and others (1%).

The objective is that IPPs focus on new renewable generation technologies to increase their share to 30% of the installed generation capacity in South Africa by 2030.

In order to achieve this objective, the Department of Energy launched on 3 August 2011 the Independent Power Producer Procurement Programme (IPPPP) which sets the objective to eliminate the existing barriers to the development of new renewable energy projects by private developers through the following

actions:

a) Defining a framework for the establishment of IPPs;

b) Definition of an advantageous tariff for renewable energy projects in order to compensate risks involved to the development of projects which are not present in the country and to give competitive advantage to these technologies which are in a competitive disadvantage to existing technologies which are fossil-fuel based.

This was articulated through a bidding process for IPPs under which potential IPPs would have to present a proposal with an electricity tariff always below a cap defined in the bidding documentation. It is worth noting that this is a competitive bidding process, in which the bidder with the lowest tariff is awarded the status of preferred bidder, and where the maximum possible tariff defined by the cap is not ensured.

As explained above before the implementation of the IPPPP in South Africa, the common practice has been generation with fossil fuels, specially coal, and it is expected that without such policy this situation remains as it has been shown that the fossil-fuel generation technologies are in a situation of competitive advantage with respect to new renewable energy generation technologies. As such, the application of the IPPPP has been demonstrated to be an E- policy which based on prevailing guidance by the EB should not be considered as it was implemented after 11 November 2001 and it leads to a comparative advantage to less-emission intensive technologies with respect to higher-emission intensive technologies.

In terms of representativeness, the PD Forum was able to identify at least 2 CDM projects from South Africa, being one of them been already registered considering the E- Policy concept, as presented in the table below.

UNFCCC Ref. #	Project Title	Type/Tech.	Reg.Date
7476	Lomati Biomass Power Generation Project in Mpumalanga Province	Biomass energy	Request review
7536	Neusberg Grid Connected Hydroelectric Power Plant, South Africa	Hydro	05/11/12

Please provide any specific suggestions or further information which would address the issue raised in the previous section, including the exact reference source and version (if applicable).
>>Suggestions are included in the text above, with reference to each specific issue.

If necessary, list attached files containing relevant information (if any)	• [replace this bracket with text, the field will expand automatically with size of text]

Section below to be filled in by UNFCCC secretariat	
Date when the form was received at UNFCCC secretariat	
Reference number	

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History of document

Version	Date	Nature of revision
01.2	08 February 2012	Editorial revision.
01.1	09 August 2011	Editorial revision.
01	04 August 2011	Initial publication date.
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