Fast-tracking Small CDM Projects - Insights from IEA and OECD work

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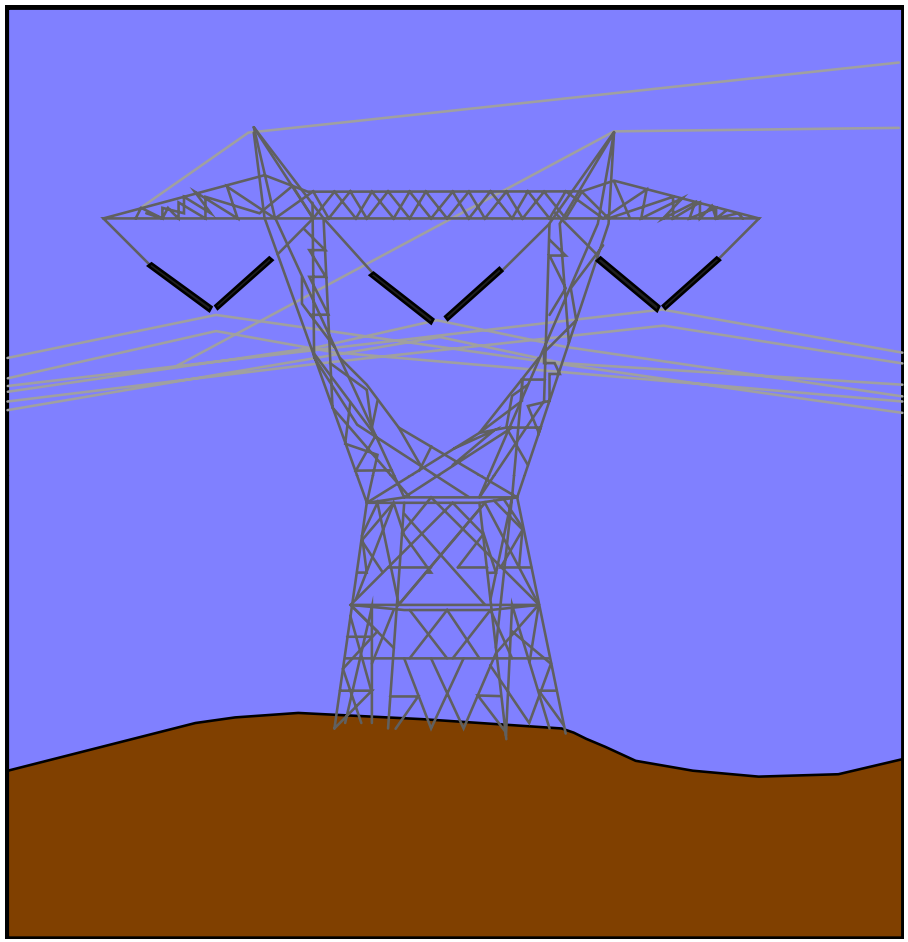
Key Questions

- Rationale for fast-tracking?
- Could fast-tracking lead to more small projects & greening the electricity mix?
- Are there downsides?
- How to fast-track?
- Key considerations?

Why Fast-track? (Transaction Costs)

- Large % of small projects' capital expenditures
- Initial costs: 20,000 CERs (@5$/t$CO_2$) or 5,000 CERs (@20$/tCO_2)
- Plus additional annual reporting, monitoring & verification costs: 2,000-3,000 CERs (@5$/t$CO_2$) or 500-750 CERs (@20$/tCO_2)
- Plus 2% Adaptation Levy

Power generation example



Possible Geographical Implications? (Recent & Planned Power Plants - # of plants)

	≤5 MW	≤15 MW	≤50 MW
South Asia (total: 1204)	120	345	621
L. America (total: 1347)	182	321	660
Africa (total: 512)	135	200	292

Source: UDI/McGraw-Hill (2000)

GHG Reduction Potential?
(Recent & Planned Power Plants - # of plants)

	≤5 MW	≤15 MW	≤50 MW
Nat. Gas (total: 836)	20	52	215
Oil (total: 1397)	448	**852**	1121
Hydro (total: 2197)	189	440	958
Other Renew. (total: 499)	64	116	275

Source: UDI/ McGraw-Hill (2000)

Key Fast-tracking element? Standardised Baselines

- Critical to reducing CDM costs, as well as minimising uncertainty and increasing transparency & consistency

Electricity projects:

- Small off-grid projects:
  - different projects: SHS, mini-hydro systems, wind-powered battery charging stations & mini-grids;
  - baseline assuming displacement of kerosene, diesel generation & diesel-based battery charging (CERUPT)
- Small grid-connected projects: baseline based on combined operating & build margins

Other possible elements of fast-tracking?

- Simplified monitoring procedures:
  - E.g. Focus on whether equipment is working; reduced monitoring frequency, sample populations...
  - Bundling monitoring activities
- Further incentives could be provided through, e.g., up-front crediting

➢ More information/analysis needed

Caveats

[redacted]

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Can Fast-Tracking Really Help?

- CDM fast-tracking could be effective where BAU costs already high (e.g. Isolated areas, difficult terrain);
- Some investments being made in renewables:
  - CER value could further stimulate investments
  - But potential is likely site-specific
- BUT overly stringent baselines might <u>not</u> lead to sufficient incentives (i.e. credits)

Can Fast-tracking Help?
A 15 MW wind project example

	Baselines	
	Weighted average all fuels baseline	Diesel (off-grid)
Discounted CERs (@ 5$/tCO2) revenue (per kWh)	0.19 cents (3.8%)*	0.29 cents (6%)*
Discounted CERs (@ 20$/tCO2) revenue (per kWh)	0.75 cents (15.3%)*	1.2 cents (23.8%)*

* Figures in parenthesis represent CER costs as a % of levelised generation cost

Private Sector Considerations & Constraints...

- Limitation is resources; not projects.
- CDM transaction costs (e.g. Defining CDM project, baseline determination, registration,...): ~US$ 100,000 + ?
- Schedule risk: risk that CDM process could delay project implementation & complicate conception of project

Conclusions

Small projects merit special consideration

Fast-tracking will help reduce transaction costs

Fast-tracking could lead to more small projects, investments & transfer, BUT but volume uncertain & highly dependent on baseline stringency & CER price, as well as cost of BAU alternative.

Incentives necessary for investments.

Importance of Clear CDM Rules:

- Update with experience

Conclusions (2)

Electricity Sector:

- Fast-tracking in electricity sector might help address *equity* concern?
- CDM potential & Good learning ground for fast-tracking
- Standardised baselines and streamlined process (including monitoring) are key fast-tracking elements
- Different baselines for off- and on-grid projects