

CEO endorsement stage responses to GEF Secretariat, STAP and Council comments on “Developing Market-based Energy Efficiency Program in China” (P132748 / PMIS4947)

Comments	Team’s Responses
PDO and indicators	
<p>The new PDO has a wider work scope and still focuses on “market-based mechanisms”. The change looks reasonable and it may fit the dramatic changes in energy situation. (GEFSEC)</p>	<ul style="list-style-type: none"> • Since the QER meeting in June 2014, there has been significant change of policy landscape in China. The task team had a meeting with the Ministry of Finance (MOF) and National Development and Reform Commission (NDRC) on October 13, 2014. • In the meeting, MOF confirmed to the task team that the EE output-based fiscal reward fund is now closed. The fiscal incentive fund managed by MOF was a key driver for MOF to request this project to improve the Chinese MRV system in the first place. • MOF now manages a new fiscal incentive program launched to provide 400-600 million RMB (US\$ 65-98 million) per year for three years toward the pilot Energy Conservation and Emission Reduction cities if they can reach higher targets of energy intensity reduction, carbon intensity reduction and emission reduction than those required by the 12th Five Year Plan (FYP). There have been 18 pilot cities in the program, with another 12 cities expected to join before the end of 2014. • NDRC informed the task team that they re-considered to pilot the EE trading from 17,000 enterprises to a few pilot provinces outside the ETS pilot areas, but the top design of the EE trading is still on hold by top decision makers. • At the same time, NDRC requested Bank support to the development and implementation of the 13th FYP,

	<p>particularly on allocating and implementing total energy consumption cap for the 13th FYP.</p> <ul style="list-style-type: none"> • Given these significant changes in the policy landscape, request from the government, and the importance of the upcoming 13th FYP, the focus of the project is now broadened from improving the MRV system at the PIF stage more than two years ago to supporting the 13th FYP, with a focus on MRV and market-based mechanisms. • MRV remains extremely relevant and important to the implementation of future envisioned market-based mechanisms, so it remains as one of the focuses of the project.
<p>Indicators:</p> <p>The GEF SEC welcomes the revised component outputs and wishes the project to achieve the outputs. However, the Agency needs to prepare for the risk that the government does not cap energy consumption in the 13th Five Year Plan. For example, helping the Chinese government to develop and implement carbon tax policy and framework may be another option to back up this component if the government does not cap energy consumption (GEFSEC)</p>	<ul style="list-style-type: none"> • The team has confirmed with NDRC that the upcoming 13th FYP will have a total energy consumption cap, and NDRC is fine with the proposed indicator on cap set and allocated. The team will double-check with NDRC again regarding this indicator during appraisal. Developing tax policy is the responsibility of another Dept. at MOF, and will be considered as part of the fiscal incentive policy component.
<p>The need for recirculation of the project to GEF Council and processing timeline</p>	
<p>According to the operations procedures of the GEF (see pages 18-20 of GEF PROJECT AND PROGRAMMATIC APPROACH CYCLES (GEF/C.39/Inf. 3 October 28, 2010), the project has incurred a major amendment from the PIF to the CEO Endorsement Request. Thus, the revised project documents, accompanied by a cover note to the Council highlighting the amendment and seeking Council approval, should be recirculated for a four-week comment period to the Council for review. As such, the GEF SEC formally requests the World Bank to prepare a cover note for this</p>	<ul style="list-style-type: none"> • The team has discussed the rapid policy changes in China since the PIF was approved in June 2012, and held a meeting with GEFSEC on Oct. 24, prior to the decision meeting. The Decision Meeting further endorsed the change to the project title and PDO to broaden the focus from MRV system only to the support of the 13th FYP with a focus on MRV and market-based mechanisms, to reflect the policy changes on the ground. This will require recirculation of the project to GEF Council prior to CEO

project. The cover note needs to explain in detail and justify the changes of the project outputs that are listed in Table 1. (GEFSEC)	endorsement, and the Board date for the project was pushed back accordingly
Project Design	
<p>Top design of EE trading:</p> <p>It is evident that the NDRC rejected the option of energy saving certificates trading for pilot cities or provinces, and preferred it to take place among the 17,000 industrial priority enterprises. However, in Component 1 of the GEF Data Sheet and on page 50 of the PAD, the Agency indicates that this project's pilot EE trading will take place in three selected cities, not among industrial enterprises. Please justify why the pilot energy efficacy savings trading is designed for cities even if the Chinese government (the NDRC) prefers it to take place among industrial enterprises. The GEFSEC appreciates it if the Agency provides endorsement letters or other evidence from the NDRC and the Ministry of Finance that acknowledges the changed project design and objective. (GEFSEC)</p>	<p>As noted above, discussions are still ongoing at the highest level of policy making in China, and the top level design of the EE trading has yet to be determined. It is in this context that the Government of China has requested that the focus of the project be shifted, as explained above, to cover market mechanisms for energy efficiency more broadly. This new focus is requested, and fully supported, by NDRC and MOF, the two agencies responsible for the implementation of the project.</p>

<p>Link between activity and PDO: Establishment of an M&V platform and data system for Chinese enterprises is one of the most important steps towards market-based mechanism for energy savings trading. Government fiscal incentives for energy savings are policy-oriented. It seems that the changed component is not related to the changed PDO. Please explain and justify how the government manipulated fiscal incentives will support the development of market-based mechanism in energy conservation.</p> <p>The changed outputs are less substantial than the former ones. Please articulate how this new component needs over \$106 million budget (with GEF \$10 million).</p>	<ul style="list-style-type: none"> • Fiscal incentive policies are part of the market-based mechanisms. Pricing is a fundamental market-based mechanism to spur energy conservation and related project activities therefore do support the PDO. • As mentioned in the PAD, MOF is providing 400-600 million RMB (US\$ 65-98 million) per year for three years towards the pilot Energy Conservation and Emission Reduction cities if they can reach higher targets of energy intensity reduction, carbon intensity reduction and emission reduction than those required by the 12th Five Year Plan (FYP). This component will enable 3-4 pilot cities to achieve those higher targets in cities where these would not otherwise be met, and thereby leveraging counterpart funds of at least \$90M from the central and local government and enterprises.
<p>Suggestions on project design: Page 28 of the PAD presents Project Design. The elements in the Design are important but they may not sufficient for the establishment of an M&V system in China. The Agency may consider the following elements in project design: (a) Assist the Chinese government in establishing a government agency to accredit third- party verifiers with transparent and standardized procedures; (b) Develop country-wide and city-province-level based institutional network for third-party verification accreditation. ESCOs and any third parties in cities and provinces can get licenses or accreditations to do M&V work as long as they pass the accreditation procedures; (c) Develop a database for qualified ESCOs and any third parties which are accredited to undertake M&V work; (d) Set up a database for industrial entities which have received M&V services from accredited ESCOs or third parties; (e) Establish database for industrial entities to record their</p>	<ul style="list-style-type: none"> • The task team thanks the GEF Secretariat reviewer for these helpful suggestions. The team will pursue discussions with the counterparts to consider and fully assess how various points should be taken into account during final stages of project preparation and project implementation. A number of the proposed elements are in fact already explicitly included in the project design (e.g. point (a) which is covered in some detail under Activity 1.2.4), or are implicitly envisaged, while some of the suggestions have already been implemented (e.g. point (c)).

<p>historical energy consumption and possible energy consumption caps from the government; (f) While designing the pilot energy saving certificates trading, the Agency may consider rationalized groups. This is to make the trading fair to all participants. For example, in Beijing, a few large industrial entities such as Capital Iron and Steel Corporation, Beijing Power and Heat Generation Corporation, and Beijing Petro-chemical Corporation should be put in one group for energy saving certificates trading. Other small and medium enterprises may be put in another group. (GEFSEC)</p>	
STAP comments at time of WP inclusion	
<p>STAP suggests consideration of the following issues during full project preparation:</p> <p>(1) Selection of enterprises for energy conservation investments: The Chinese government seems to have identified ten key areas/ sub-sectors for energy conservation programmes. Further, it is proposed to scale up energy conservation to 10,000 enterprises. STAP recommends adoption of scientific / economic criteria to select the sub-sectors as well as the enterprises for the pilot projects for energy conservation and MRV measures;</p> <p>(2) Lessons from the ongoing projects: China already has a large number of initiatives ongoing on piloting energy efficiency systems as well as developing market-based mechanisms. There is an ADB project to prepare ETS in Tianjin. Similar pilot projects are planned or under implementation in Shanghai, Beijing, etc. Many Chinese cities are already experimenting with some form of ETS. It is very important for this large project to have a mechanism to learn from these ongoing and finished projects;</p> <p>(3) Cost-implications of MRV: STAP suggests a critical analysis of cost-implications of MRV system for the enterprises or companies. What percent of the rewards will the cost of MRV account</p>	<p>The Team notes STAP's "consent" to the project, and thanks STAP for its constructive guidance which was taken into account during the development of the proposal, as reflected in project documentation, and in particular in the Project Description (pp 14-16 of the PAD and Detailed Project Description (pp 26-32 of the PAD). More specifically:</p> <ul style="list-style-type: none"> • The updated project design will support pilot energy conservation and emission reduction cities under the MoF fiscal incentive program to implement their EE programs at the local government level. Technical assistance will be provided in planning (including identifying and prioritizing key areas/sectors), implementation plans, policies, business and financing models to achieve EE targets; • The PAD makes numerous references to, and specific activities are targeting, the assessment of lessons from ongoing initiatives and in particular various relevant international experiences (see for example Activities 1.1.1, 1.2.1, 1.2.3, and 1.3.1 pp 27-28). The Team agrees with the reviewer that there are a

<p>for?</p> <p>(4) Methodology: Many countries already have implemented energy efficiency CDM projects which require a rigorous methodology and approach for MRV. There is a large number of methodologies available implemented under CDM. STAP is assisting GEF to develop a new EE methodology to be completed in the second half of 2012. There is an adequate experience available in planning and implementation of MRV systems globally. STAP suggests a review of existing methods and based on this review assess the need for any new methodology development or to adapt any existing methodology; and</p> <p>(5) Baseline development: This is a critical aspect of any MRV system. Baseline could be considered at individual enterprise level or sectoral level or at a geographic unit level like a city. Since there are already a large number of initiatives supported by the Chinese government as well as many other international agencies, it is necessary to develop a robust baseline GHG emissions' scenario considering the existing initiatives.</p>	<p>large number of initiatives underway, and as further noted in the PAD, coordination will take place with these many initiatives. In the planned first-year activities, all key consulting service contracts include review of domestic and international experiences of related topics;</p> <ul style="list-style-type: none"> • Cost of MRV depends on accuracy and precision requirements which are further determined by MRV objectives. Based on the international experiences, cost of MRV accounts for 3-5% of rewards and is not expected to exceed 10%. The current practice in China is much less and the project intends to improve the MRV system including its rigorousness; • The team fully agrees that existing methodologies should be assessed for their applicability in the China context, and this is fully addressed in the description of the relevant activity (1.2.3 Developing energy saving MRV methodologies, p27). All efforts of developing MRV methodologies and guidelines will be built on existing experiences and lessons learned. The related TORs include review of domestic and international methodologies and applications including those implemented under CDM. During the project preparation, international experts have been invited to be part of the team and provided valuable international experiences; <p>The importance of robust baseline requirements is well understood, and is addressed in particular in the context of activities 1.2.2, 2.1.3, and 2.2.2 (pp 27 and 31). Since the project will provide support for pilot energy conservation and emission reduction cities under the MoF</p>
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	fiscal incentive program, baseline is to be considered at the city level.
Germany Work Program Comments	
In terms of coordination with other donors in the field of climate change in China, we would like to highlight two GIZ projects implemented or planned on behalf of the German Ministry of the Environment. The project “Greenhouse Gas Monitoring in China” aims to develop technical and institutional capacities for GHG-Monitoring (2011-2013). Another four-year project on capacity building for the establishment of emissions trading schemes at local and national level is planned to start in the second half of 2012 (2012-2016). An exchange with these projects could be helpful in terms of coordinating the energy saving certificates trading with the carbon cap & trade schemes.	The team fully agrees that exchange and coordination with existing initiatives is important and thanks Germany for the specific references. As noted in the PAD, coordination will take place with these and other relevant projects.
Canada Work Program Comments	
<p>Canada welcomes this proposal, and commends China's efforts to reduce energy intensity. Energy certificates trading is an interesting and innovative element in the proposal, and we look forward to seeing how this element of the project is implemented and how this experience may guide other countries in their efforts to increase energy efficiency.</p> <p>The level of co-financing envisaged is impressive, and Canada looks forward to seeing additional details on these sources in the final project document.</p>	<p>The team thanks Canada for this complimentary comment. Project component (2) in particular will support the development and implementation of priority energy efficiency policies and programs in line with the 13th Five Year Plan, notably the envisioned total energy consumption cap and market-based mechanisms for energy savings such as the pilot Energy Saving Certificates trading scheme. This is further described in the PAD (pp 8-9 and Annex 2 pp 22-25).</p> <p>The co-financing leveraged by the project is conservatively estimated at \$104 million. As described in the incremental cost analysis (Annex 4 of the PAD), this contribution is from the central and local governments, enterprises and third-party verifiers, in particular from the Ministry of Finance Energy Conservation and Emission Reduction Pilot.</p>