



## Annex 18

### INFORMATION ON FEES TO COVER ADMINISTRATIVE COSTS RELATING TO ACTIVITIES OF THE JOINT IMPLEMENTATION SUPERVISORY COMMITTEE

#### A. Background

1. According to paragraph 7 of decision 9/CMP.1 any administrative costs arising from procedures contained in the annex of the decision (hereinafter referred to as the JI guidelines) relating to the functions of the Joint Implementation Supervisory Committee (JISC) shall be borne by both Annex I Parties and the project participants according to specifications to be set out in a decision by COP/MOP 1. In this context, the COP/MOP, by its decision 10/CMP.1, requested the JISC to develop provisions for the charging of fees.

2. The COP at its seventh session invited Annex I Parties to finance the administrative expenses for operating joint implementation under Article 6 by making contributions to the UNFCCC Trust Fund for Supplementary Activities in order to facilitate preparatory work by the secretariat (paragraph 2 of decision 16/CP.7). Furthermore, the COP/MOP urged Annex I Parties to make prompt voluntary contributions in 2006 to the Trust Fund for Supplementary Activities to fund administrative expenses for implementing Article 6 of the Kyoto Protocol in the biennium 2006-2007, which are in addition to provisions made in the UNFCCC programme budget for the biennium 2006-2007.

3. With this background, the JISC, at its third meeting, requested two JISC members/alternate members (Mr. Maurits Henkemans and Mr. Marcos Castro), supported by the secretariat, to prepare an information paper on fees to cover administrative costs relating to activities of the JISC for consideration by the JISC at its fourth meeting.

4. The present document is prepared by the secretariat taking into account the inputs from Mr. Henkemans and Mr. Castro. It provides for projections of resources required to cover administrative costs relating to activities of the JISC until the end of the first commitment period and expected income for the same period under two case load scenarios, as an input for consideration by the JISC.

#### B. Principles

5. Following the practice of the CDM, the JISC may wish to adopt the following principles for setting the structure of fees to cover administrative costs relating to the activities of the JISC:

- (a) Certain cost required to provide basic functioning of the JISC regardless of the case load of appraisal/review of determinations and accreditation (e.g. process development and review) shall be covered by the core budget of the secretariat;
- (b) With regard to fees for appraisal/review under the verification procedure:
  - (i) Fees shall be based on share of proceeds;
  - (ii) Any payment to be charged before the project generates ERUs shall be an advance payment of share of proceeds;
  - (iii) If the project does not proceed to the appraisal/review of the determination of ERUs under the JISC, such advance payment shall not be reimbursed up to a certain level;
  - (iv) Reduced rate in the share of proceeds shall be applied for small-scale projects. In addition, advance payment shall be exempted for small-scale projects;

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- (c) With regard to fees for accreditation:
- (i) Application fee shall be a non-reimbursable and fixed rate basis, irrespective of the number of sectoral scopes that an independent entity applies in one accreditation;
- (ii) Costs associated with the work of an assessment team undertaking detailed assessment of an applicant independent entity in accordance with the accreditation procedure, shall be paid by the applicant independent entity directly to the assessment team;
- (d) The fee level shall be based on the total cost in the medium- to long-term, but not in the short-term. The JISC shall regularly review the fee structure and level and make a recommendation on it, as appropriate, to the COP/MOP for its adoption.

**C. Assumptions**1. Case load scenarios

6. For the estimation of the resources required to operate the procedure under paragraph 30-45 of the JI guidelines (hereinafter referred to as the JI Track 2 procedure) and the JI accreditation procedure, two scenarios have been developed in terms of the number of determination reports processed under the JI Track 2 procedure and the number of applications for accreditation, as summarized in table 1.

**Table 1. Projection of case load**

|   | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|------|------|------|------|------|------|------|
| <i>Standard scenario</i>                                      |      |      |      |      |      |      |      |
| Number of determination reports (PDD) submitted               | 25   | 100  | 20   | 20   | 20   | 20   | 20   |
| Number of determination reports (ERUs) submitted <sup>1</sup> |      |      |      | 109  | 124  | 139  | 154  |
| Number of application for accreditation <sup>2</sup>          | 5    | 20   |      |      | 5    | 20   |      |
| <i>Modest scenario</i>  |      |      |      |      |      |      |      |
| Number of determination reports (PDD) submitted               | 25   | 100  | 20   |      |      |      |      |
| Number of determination reports (ERUs) submitted <sup>1</sup> |      |      |      | 109  | 109  | 109  | 109  |
| Number of application for accreditation <sup>2</sup>          | 5    | 5    |      |      | 5    | 5    |      |

1) The rate of projects proceeding to the determination of ERUs after the determination regarding PDD is assumed to be 75%.

2) It is assumed that accreditation will be obtained by entities in 1 year in average, followed by 3 year recurring re-accreditations.

2. Fee structure and levels

7. Fees for accreditation:
- (a) Application fee: USD 15,000 per application (one-off payment, non-reimbursable);
- (b) Costs of the work by assessment teams: direct payment from applicant or accredited independent entities<sup>1</sup>.

<sup>1</sup> Details are defined in the document entitled "Indicative level of fees to be paid to joint implementation assessment team by applicant independent entity or accredited independent entity" (P-JI-ACCR-[05]).

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8. Fees for processing determination reports are charged at two stages: first at processing of determination reports regarding PDD and the second at processing of determination reports of ERUs:
- (a) Share of proceeds (SOP):
    - (i) USD 0.10 per ERU for the first 15,000 t CO<sub>2</sub> in a given calendar year;
    - (ii) USD 0.20 per ERU for any amount in excess of 15,000 t CO<sub>2</sub> in a given calendar year.
  - (b) The fee for the first stage is the SOP applied to the expected average annual emission reduction for the project over its crediting period;
  - (c) The fee for the first stage is an advance payment of the SOP if the project proceeds to the second stage. If the project does not proceed to the second stage, any fee for the first stage above USD 30,000 is reimbursed;
  - (d) No fee for the first stage is to be paid for JI projects with expected average annual emission reduction over the crediting period below 15,000 t CO<sub>2</sub> equivalent;
  - (e) Maximum fee for the first stage is USD 350,000.

**D. Conclusions**

9. Required resources and net expected income in each year is summarized in table 2 below. From this table, it can be concluded that the assumed fee levels, which are the same as in the case of the CDM, are appropriate to fully recover the required resources over the course of the first commitment period, taking into account the uncertainty of the projection of the case load.

**Table 2. Summary of required resources and expected income (thousand USD)**

|                                 | 2006        | 2007          | 2008          | 2009       | 2010         | 2011         | 2012         | 2006-2012    |
|---------------------------------|-------------|---------------|---------------|------------|--------------|--------------|--------------|--------------|
| <i>Standard scenario</i>        |             |               |               |            |              |              |              |              |
| Required resources <sup>1</sup> | 1,029       | 1,849         | 1,601         | 1,778      | 1,803        | 1,827        | 1,852        | 11,738       |
| Net income <sup>2</sup>         | 153         | 612           | 62            | 2,445      | 2,847        | 3,400        | 3,428        | 12,948       |
| <b>Balance</b>                  | <b>-876</b> | <b>-1,237</b> | <b>-1,539</b> | <b>667</b> | <b>1,044</b> | <b>1,573</b> | <b>1,576</b> | <b>1,210</b> |
| <i>Modest scenario</i>          |             |               |               |            |              |              |              |              |
| Required resources <sup>1</sup> | 1,029       | 1,676         | 1,448         | 1,593      | 1,593        | 1,593        | 1,593        | 10,524       |
| Net income <sup>2</sup>         | 153         | 387           | 62            | 2,377      | 2,452        | 2,452        | 2,377        | 10,260       |
| <b>Balance</b>                  | <b>-876</b> | <b>-1,289</b> | <b>-1,386</b> | <b>784</b> | <b>859</b>   | <b>859</b>   | <b>784</b>   | <b>-264</b>  |

- 1) Excluding core funding, which is assumed to be USD 570 thousand per year (same level as for 2006-2007, constant throughout the period considered).
- 2) Including both fees from the accreditation procedure and the processing of determination reports. As for the latter, only 25% of the income is considered as net income, since the remaining portion is reserved for the eventual payment of SOP. In calculating the income from SOP, the scale distribution of JI projects in terms of ERU generation is based on the database of the UNEP Risø Center on 112 JI projects in the pipeline (as of 20 June 2006) and is assumed to remain unchanged until the end of the period considered. To simplify the estimation, it is assumed that for all JI projects determination reports of ERUs will be submitted annually.

10. There will be a significant imbalance (deficit) between required annual resources and income flow in the first years of operation of the JI Track 2 and accreditation procedures. This deficit will need to be covered by contributions from Parties to supplementary funding to enable the processes to remain operational during this period. Furthermore, the potential risks due to fluctuations in income from the share of proceeds can be avoided by an operating cushion from the contributions from Parties and/or the collection of the fees during the same period.



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11. Despite efforts to employ the best possible assumptions for calculation of the appropriate fee levels, there still remain many uncertainties that affect the estimation of required resources and expected income. Under the fee structure assumed in this paper, the parameters that have both large uncertainties and relatively large impacts on the result of the calculation are, among others:

- (a) Number of JI projects processed under the JI Track 2 process:
  - (i) Number of determination reports regarding PDD submitted to the JISC;
  - (ii) Number of determination reports of ERUs submitted to the JISC (i.e. rate of JI projects proceeding to the stage of ERU determination under the JI Track 2 procedure).
- (b) Distribution of project scales in terms of ERU generation.

12. The parameters referred to in paragraph 11 above are heavily dependent on, the size of the JI market, the future of JI as a mechanism etc, which are very much affected by political, economic and technological circumstances in the future. For this reason, as stated in the principles above, it is important that the JISC regularly review the fee structure and level and make recommendations on it, as appropriate, to the COP/MOP for its adoption.

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