

Hi,

I may not be able to on the phone the entire time for WG meeting. Some high level comments in case I can't provide them verbally. I don't think point 2 needs to be discussed today though (it is more a thought for FMT to think on).

1. I think the papers are shaping up very well and are definitely going in the right direction.

2. We need to be clear of the role of the development of 'criteria and indicators'. If it becomes an expectation that these will also be developed then this could delay approval of the guidance and/or cause another process to commence that needs to develop these and seek approval. Is it therefore legitimate for the CF to be authorised to develop and distribute further criteria and indicators if they consider these to be required (which may, as applicable, include reference to other approaches or standards that the CF considers assist the assessment of an element)?

3. Pricing

- Is there a need in element 2 or 3 of the pricing paper to recognise the legitimate interests of buyers and sellers? What is driving this for me is the discussion of price reference points in section 2 and fixed pricing (ie minimum level of carbon revenues) in section 3.

Generally, I consider it legitimate for a buyer to take account of:

- the time that capital (which could have been deployed elsewhere) has been committed to the fund

- the stage that the ERP is at when the price is agreed (noting that market references, if any, are likely to be pricing generated ERs rather than future ERs)

- a legitimate return on investment that reflects the risk being taken (eg upfront payments or minimum fixed pricing reflecting a greater risk than a simple discount to floating price on delivery)

- the sources of funding that an ERP has available to it (ie a minimum fixed price may be key to a smaller ERP where the ERPA is the primary revenue flow; whereas a ERP funded by donors and host government at a larger scale may be less dependent on upfront revenue certainty)

The flipside of the above is that it is also legitimate for a seller to have regard to:

- obtaining a return on its investment in developing and managing the ERP

- ensuring that the buyers do not obtain an excessive return on their investment

So, where does the above take us? Is it possible to build in some recognition of these interests without causing that recognition to evolve into very long lists?

Some ideas are below.

INSERT FOLLOWING AT END OF MARKET SURVEYS PARA ON p.4

"It is recognised that such sources of information may not be reflective of the circumstances of the ERP (for example a market index may reflect prices for ERs already generated whereas the ERP reflects only the future possibility of generating ERs)."

INSERT AT END OF PARA AT TOP OF PAGE 5

"For example, a seller will have a legitimate interest in the relative certainty that implementation costs will be covered. On the other hand, buyers will have a legitimate interest that the pricing provides a return on investment that reflects the investment already made toward development of the ERP and the risk it is accepting under pricing structure."

4. Some comments on the methodology paper:

- Element 1: I'm not sure all parties would agree that "all relevant" pools should be included as the stepwise approach may be applicable here.

- Element 2 - I agree with IPCC ref.

- Element 3 - Agree with this as structured. I consider the Charter clearly establishes the CF as a means to test payments against verified results. I therefore strongly disagree with the suggestion the RELs element be deleted.

Element 4 - No comment

Element 5 - If we are to allow ERPs to move ahead that do not have a mechanism to address reversal risk then this would undermine the quality of the ERs.

Element 6 - No comment although query the need to identify international displacement if it as agreed that this is beyond the ERP to address (ie does this not just increase the cost of developing the ERP?)

## 5 PROGRAMMATIC ELEMENTS

Element 1 - I think we should keep this.

Element 2 - This is difficult as it is important but, at the moment, so general that it does not provide much guidance.

Element 3 - Agree that we could limit the second half.

Element 4 - No comment

Element 5 - Agree with including reference to overall financial governance

Element 6 - I don't think additional criteria would be needed.

Element 7 - No comment (yet) Thanks Andrew