

PMR Project Implementation Status Report (ISR)-Chile



Gobierno
de Chile

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1. SUMMARY INFORMATION

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| Implementing Country: | Republic of Chile |
| Reporting Period: | From 09/05/2014 to 05/20/2015 |
| Report Date: | 05/20/2015 |
| Implementing Agency: | Ministry of Energy |
| Contact Person: | Juan Pedro Searle, Sustainable Development Division, Ministry of Energy |

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| Grant Executed By: | Recipient: Agencia de Cooperación Internacional, AGCI |
| Grant Effectiveness and Closing Dates: | 09/05/2014 - 09/05/2017 |
| Grant Amount (USD): | USD 3,000,000 |

2. OVERVIEW

- The Grant became effective on September 2014.
- Progress on technical activities is pending.
- The Coordination Team has been appointed in early May 2015.
- Work plans and TORs for each of the components will be initiated shortly after their contracts have been signed.

3. IMPLEMENTATION REPORT BY COMPONENT

Differences between the Objectives/Activities in the Market Readiness Proposal and the Grant Agreement

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| <p>Are there any important and material differences between the objectives/activities proposed in the Market Readiness Proposal and endorsed by the Partnership Assembly of the PMR and those agreed to in the Grant Agreement with the Delivery Partner and described in the Project's Results Framework?</p> | <p><u>Yes</u>, in terms of the carbon pricing instrument chosen. This is a result of new developments in the country regarding economic instruments to tackle environmental problems.</p> <p><u>No</u>, regarding the MRV and Registry component of the MRP and the Stakeholders engagement and capacity building component.</p> |
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3. IMPLEMENTATION REPORT BY COMPONENT

- The carbon tax legislation (as part of a tax reform) was passed on September 2014 (the PA was informed on this at its 9th meeting).
- A great deal of analytical and preparatory work will be needed to support its implementation.
- Understanding the interaction (and impacts) of this carbon tax with existing policies and other carbon pricing instruments (such as an ETS) and its alignment with economic growth and with mid- to long-term mitigation and development goals —especially in the energy sector— would be crucial to support government as well as other stakeholders' needs during this process.
- The window of opportunities is still open to explore other economic instruments to tackle climate change, so, ETS will still be a major topic to be addressed under this PMR initiative.

3. IMPLEMENTATION REPORT BY COMPONENT

Implementation Progress by Component

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| A. Component 1: Regulatory, Economic and Institutional Analyses to assess the viability of one or more carbon pricing instruments for the energy sector | |
| Status: | Pending |
| Comments: | This component will be executed by a Technical Expert. The selection of this person was finalized on May 7, 2015. The contract is in process. |
| B. Component 2: Design and implementation of an MRV framework and registry | |
| Status: | Pending |
| Comments: | This component will be executed by a Technical Expert. The selection of this person was finalized on May 7, 2015. The contract is in process. |
| C. Component 3: Stakeholder engagement and communication strategy, and capacity building | |
| Status: | Pending |
| Comments: | This component will be executed by the Project Manager. The selection of this person was finalized on May 7, 2015. The contract is in process. |
| D. Component 4: PMR Implementation Coordination | |
| Status: | Ongoing |
| Comments: | The Project Coordination Team was selected. Contracts for each Team member are being processed by AGCI. First Coordination Meeting was held; initial tasks were assigned to the Team. |

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Important *policy or regulatory developments* related to the Grant's objectives and activities:

Developments:

- The carbon tax was being discussed in parallel to the drafting of the Grant Agreement.
- The "ETS" approach of the MRP was broadened to refer now to carbon pricing instruments.

Challenges:

- Drawing the attention of stakeholders into a discussion of new carbon pricing instruments, in a situation where the country already has one and yet it needs to be implemented.
- The communication and engagement strategy, as well as the carbon tax related studies under the Upstream Policy Analysis initiative, will be key to minimize potential conflicts and ease the introduction of new topics.
- The transition from one carbon pricing to another will need regulatory changes. Nevertheless, this would only be noticed/further addressed as the project develops.

Lessons learned:

As major carbon pricing policy and regulatory changes occur in implementing countries, the PMR should remain as flexible as it has been and facilitate these transitions (if, of course, they do not hinder or affect in any way the goals behind each of the MRPs, which is to get market readiness and implement carbon pricing instruments).

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Important changes in the *technical design or approach* related to the Grant's activities:

Developments:

- The technical design or approach concerning the MRV and Registry System (a core non-regret outcome) remains the same as was stated in the MRP. The original functions will be kept unchanged (i.e., registry of emissions and GHG transactions).
- The Government is clear that this approach should serve purposes other than the MRV of a carbon tax, and so, it will be designed keeping in mind the functions of an ETS registry.
- Given the reality of the carbon tax, a few items have been added to the original activities under Component 1, which include the analysis of the role carbon pricing may have in supporting Chile's iNDC and the regulatory, institutional and budgetary implications of linking to international systems.

Challenges:

- To get the right technical and institutional design of the entire MRV system, including the registry.
- In-country visits would provide sound information and insights on how other countries or jurisdictions have made decisions on this regard.

Lessons learned:

NA

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Key *capacity issues* (implementation, technical, financial management, procurement) related to the Grant's activities:

Developments:

- The local agency that would be in charge of receiving and managing the funds was selected (AGCI).
- AGCI will have to manage all the bidding processes and contracts derived from the procurement plan, apart from managing the specific account for the project.
- The level of coordination, consistency and timings will be very interlinked and will require a full dedication of an expert in financial and accounting issues (this has already been addressed under Component 4).

Challenges:

- Given the number of contracts that would need to be managed, this sole situation will imply a challenge to AGCI and to the Coordination Team.
- The 3,000,000 USD grant is expected to be spent in 2 years rather the 3 years indicated in the Grant Agreement. This ambitious target will require close coordination among all tasks and experts. As the project implementation develops overtime, corrections or adjustments will be applied accordingly.

Lessons learned:

NA

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Coordination with other carbon pricing initiatives, including those funded by other donors:

Developments:

Chile's Forest Carbon Partnership Facility (FCPF) project has started. One of its objectives is to generate offsets from the LULUCF sector. We do not have or envisaged other carbon pricing initiatives for the energy sector, funded by other donors.

Challenges:

-To explore the potential links of the offsetting system that is being supported through FCPF, with the design of a carbon pricing instrument such as a future ETS for the energy sector.

-To evaluate possible new features to the carbon tax, as for instance, the consideration for regulated entities to use offsets as a flexible way of complying with the tax (i.e., provided by these local offsetting system).

Lessons learned:

NA

4. PROGRESS, CHALLENGES, AND LESSONS LEARNED

Stakeholder engagement related to the Grant's activities:

Developments:

NA

Challenges:

-The discussion of carbon pricing options other than the tax could be counterproductive and so, potential conflicts will need to be averted by the Coordination Team and Focal Point.

-The stakeholder participation and engagement strategy would be essential to diminish or address any potential conflict.

Lessons learned:

NA

Other issues related to the Grant's activities

NA

5. ADDITIONAL INFORMATION

NA

Thanks for your Attention!



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