United Nations Framework Convention on Climate Change

Agenda item 4.1.
Paragraph 18 of the annotated agenda

Approaches for additionality demonstration

CDM EB 96

Bonn, Germany, 18 to 22 September 2017

UNFCCC Secretariat
SDM programme

Background

- EB85 requested to prepare a concept note assessing the possibility and potential implications of:
  - Introducing a threshold beyond which CDM projects are considered in common practice analysis.
  - First of its kind (FOIK) as an approach to demonstrate additionality.
- The secretariat prepared a concept note to highlight issues related to additionality approaches and discussed with meth panel and small scale working group at its 70th and 51st meeting.
- EB 90 considered the concept note and requested the secretariat and MP to jointly continue the work taking into account the inputs it provided.

Purpose

- To address the Board mandate at EB85 and EB90 regarding common practice analysis and FOIK.

Common Practice (CP) Analysis

- Current requirements for CDM projects (including those under validation)
  a) Excluded for CP analysis;
     - registered CDM projects may be widely implemented in a region and help to significantly diffuse certain types of technologies;
  b) Considered in OM in the Grid Tool;
  c) Considered in BM if operating history of power unit in the cohort>10yr;
  d) Considered in the Tool for FoiK.

- Proposal in EB90:
  Registered CDM projects shall be included in the common practice analysis if the registered CDM projects contribute to at least [20] [30] per cent of the overall output of the sector (referred to as **Option 1**).

Common Practice (CP) Analysis

- Board's comment and discussion

  a) Appropriateness of applying a single threshold for all sectors (one fits all); whereas approach in the BM calculation may be explored.

  Discussion:

  - Inclusion of CDM in BM is in a very specific context: the purpose of BM approach is a proxy to identify prospective power sources based on the recent data. Thus, it is not logical to include very old power units. Registered CDM projects are included as a second best option to displace those power units if still exists in the sample group. It has nothing to do with the CP analysis;
  - If the same approach is anyway considered, a temporal factor (i.e., vintage) would need to be added in addition to the output penetration specified in Option 1 above (**Option 2**).

Common Practice (CP) Analysis

- Board's comment and discussion

  b) Potential adverse effect:

    - Countries with higher uptake of CDM should not be punished;

Discussion:

- A blended approach informed by discussion on SB in the past may be considered (**Option 3**);
- Registered CDM projects shall be included in the CPA if the registered CDM projects contribute to >[20] [30] per cent of the overall output of the sector; and
- If registered CDM project to be excluded, it should be demonstrated that the cost of fuel/feedstock/technology used in the project is significantly higher than the maximum cost of the fuels/feedstocks/technologies that contribute to >30% of the output of the sector.

Common Practice (CP) Analysis

- Board's comment and discussion

  c) Size of Control group

  - It is much easier to pass the CP analysis in for a small country (with few technology) than big ones (with diverse technologies) in the current CP Tool.
  - Current analysis not considering how many technologies the control group consists of, was considered as the fundamental weakness.

  Discussion

  - Size of the control group depends on the defined the criteria (e.g. capacity, feedstock etc.), as well as the defined geographical area;
  - CP Tool: the size of the control group >3 (Nall – Ndiff > 3);
  - ACM0013: the no. of similar plants > 10;
  - Different number may be more appropriate specified in respective meth.
  - May also addressed in standardized approach or provision of positive list

Common Practice (CP) Analysis

Options for considering CDM projects in CP analysis:

- Option 1: To introduce a threshold based on production;
- Option 2: To introduce a production-based threshold together with vintage;
- Option 3: To introduce a production-based threshold together with financial attractiveness;

In addition, the Panel recommended that Board also consider maintaining status quo:

- CP analysis is to check what would have happened in the absence of CDM. Such a purpose is defeated in case CDM projects will be included.
- All the three options above will incur additional burdens;
- CP analysis is just a credibility check serving as a complementary step to the Investment Analysis or Barrier Analysis.

First of its kind (FoiK)

- Current requirement
  - Technologies differentiated based on criteria like energy source, feedstock, capacity, output
- Issue to be addressed
  - Technologies may still be considered as different even if criteria above are all same, e.g. Anaerobic contact reactor and Up flow anaerobic sludge blanket (UASB) for wastewater treatment;
- Earlier proposal
  - Include following guidance in paragraph 11 of the tool “additionality of first-of-its-kind project activities” (EB 84 Annex 6):
    - Technology categorized or defined as different from another technology within the same process line as per published technical papers, journals, industry associations, designated national authorities and the like.

First of its kind (FoiK)

The Board's comment

- The proposal was agreed in general;
- Two additional comment:
  a) FoiK test performed w/o looking into the setting of control group.
     - E.g. the first cement plant with an outdated technology in a very small country still qualified as FoiK; whereas in some large countries, a very advanced cement production technology may fail.
  b) A percentage (instead of being the very first) of penetration rate may be explored.

First of its kind (FoiK)

Discussion:

- FoiK test needs to be robust enough that requires no supplementary step, since it provides decisive for additionallity demonstration;
- Technology penetration (%) has been so far applied for sectors with sufficient data to derive the value. It is sector specific. A common threshold not likely derived for all sectors and hence included in the Tool.

The MP is of the view that an approach introducing a penetration-rate based threshold may be further explored if agreed by the Board:

- E.g. a common but very low threshold may be included in the FoiK Tool applicable to all sectors to minimize free riders;
- In addition, there may also be a need to stipulate the total number/production of the similar projects in the host country along with the threshold.

Proposal

- The Board may want to consider and provide input to the proposals contained in this concept note.

Thank You