Issues on Additionality for Carbon Mitigation Projects

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Topics

- Project cycle and role of the PDD
- Defining additionality
- Proving additionality of your project

The CDM

- Rules based mechanism
- Complex regulatory structures
- Many actors participating
- Transparency of processes
- Time consuming

Principles of the CDM

- Consistency
- Transparency
- Impartiality
- Independence
- Confidentiality

Recent regulatory efforts to streamline and facilitate processes with on-going CDM Policy Dialogue

Basis of CDM evaluations

- ✓ Precision
- ✓ Conservadurism
- ✓ Relevance
- ✓ Credibility
- ✓ Reliability
- ✓ Completeness

The Project Design Document

- Develop PDD
  - Descriptions
    - Current situation
    - Project
    - Estimated reduction
  - Additionality tests
  - Monitoring Plan
  - Stakeholder consultation
  - Environmental Impact

A CDM project is additional …

✓If GHG emissions are reduced below those that would have ocurred in the absence of the registered project activity

✓PPs have to write an explanation on how and why the project is additional and therefore not the baseline scenario in accordance to selected baseline methodology

✓There are tools and approaches available for the demonstration of additionality

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Additionality in the CDM

- Complex issue to address, with many regulations in place
- Depends on the scale of the project: large scale vs. small scale (less than 15 MW, 60 GWh, 60 kton CO2eq)
- For small scale project activities, approach based on identification of barriers to project activity / guidance from EB
- For large scale project activities, approach based on the use of tools and guidance from EB

Small scale CDM additionality

1. Project participants shall provide an explanation to show that the project activity would not have occurred anyway due to at least one of the following barriers:

(a) Investment barrier: a financially more viable alternative to the project activity would have led to higher emissions;

(b) Technological barrier: a less technologically advanced alternative to the project activity involves lower risks due to the performance uncertainty or low market share of the new technology adopted for the project activity and so would have led to higher emissions;

(c) Barrier due to prevailing practice: prevailing practice or existing regulatory or policy requirements would have led to implementation of a technology with higher emissions;

(d) Other barriers: without the project activity, for another specific reason identified by the project participant, such as institutional barriers or limited information, managerial resources, organizational capacity, financial resources, or capacity to absorb new technologies, emissions would have been higher.

The context of the project activity is very important

Small scale additionality

2. The positive list of grid-connected renewable electricity generation technologies that are automatically defined as additional, without further documentation of barriers, consists of the following grid-connected renewable electricity generation technologies of installed capacity up to 15 MW:

(a) Solar technologies (photovoltaic and solar thermal electricity generation);

(b) Off-shore wind technologies;

(c) Marine technologies (wave, tidal).

Small scale additionality

6. For project activities up to five MW that employ renewable energy as their primary technology and for energy efficiency project activities that aim to achieve energy savings at a scale of no more than 20 GWh per year, simplified modalities for demonstrating additionality has been approved by the Board.[9]

7. For demonstration of additionality, the following documents provide additional guidance or guidelines.

(a) EB 35, Annex 34 "Non-binding best practice examples to demonstrate additionality for SSC project activities" or its update <http://cdm.unfccc.int/Reference/Guidclarif/ssc/index_guid.html>;

(b) EB 50, Annex 13 "Guidelines for objective demonstration and assessment of barriers" or its update <http://cdm.unfccc.int/Reference/Guidclarif/meth/index_guid.html>.

[9] See EB 54, Annex 15 "Guidelines for demonstrating additionality of renewable energy projects =< 5 MW and energy efficiency projects with energy savings <= 20 GWH per year or its update <http://cdm.unfccc.int/Reference/Guidclarif/ssc/index_guid.html>.

Small scale additionality (micro scale)

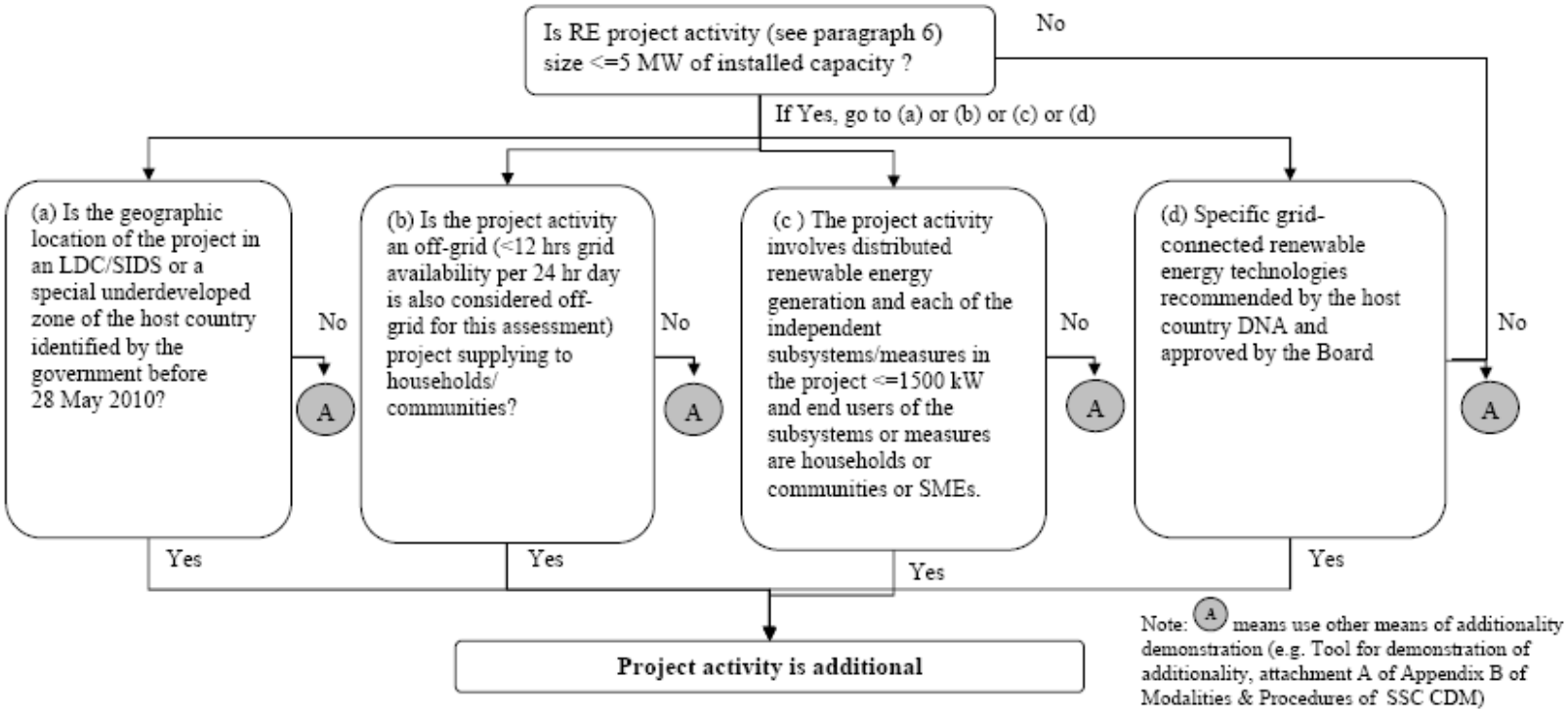


Figure 1: Microscale additionality test for RE project activities

Small scale additionality (micro scale)

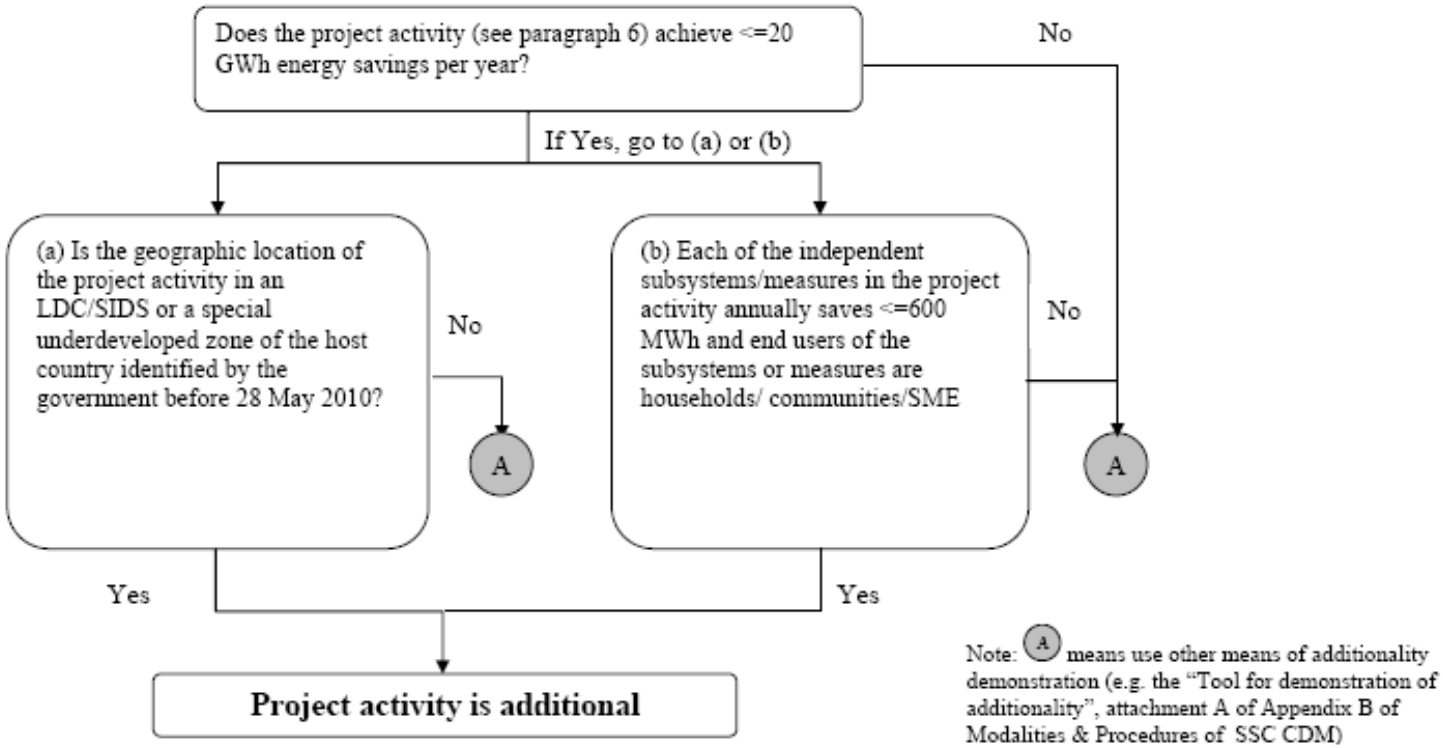
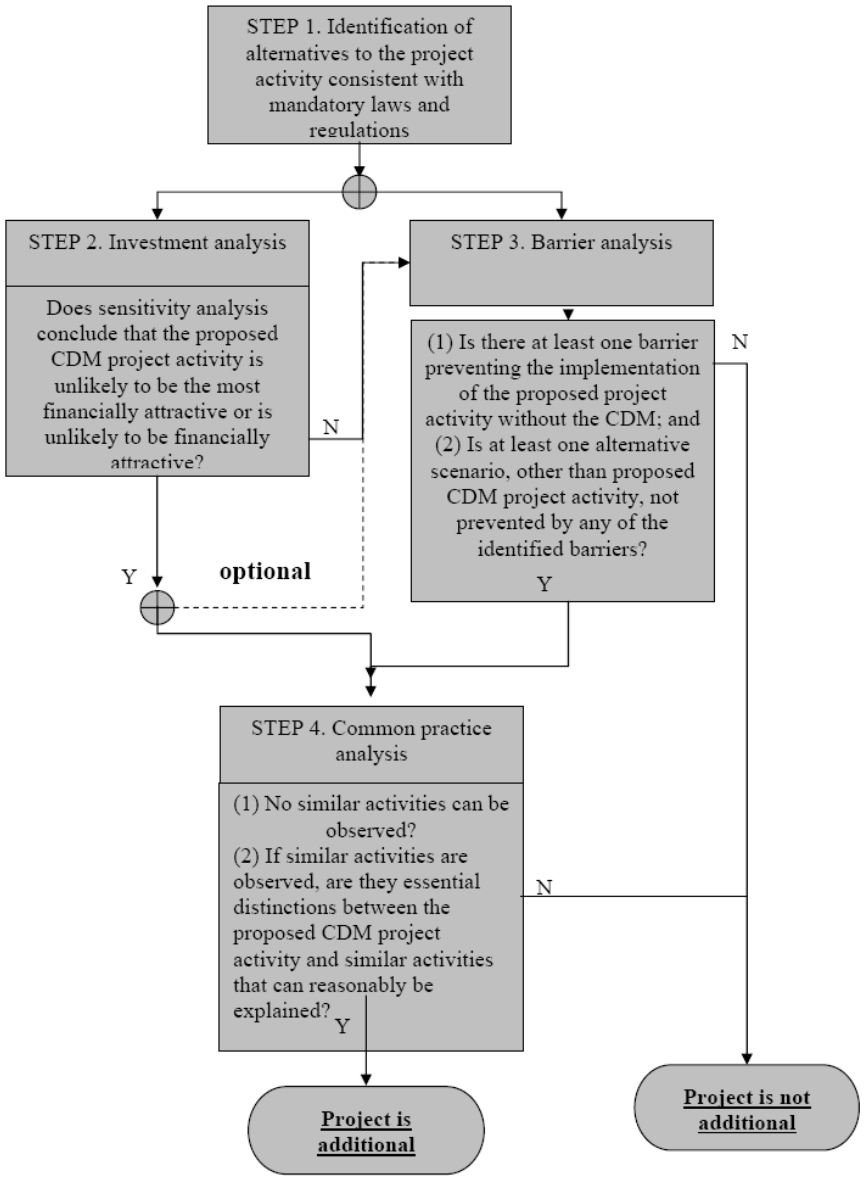


Figure 2: Microscale additionality test for EE project activities

Additionality of large scale project activities

Prescreening	Has the project started already? Was CDM taken into account?
Generate alternatives	Can you generate other options to achieve the same result?
Financial test	Compare alternatives and project
Barriers analysis	Identify barriers that limit execution of project activities
Common Practice analysis	Identify similar activities; Were they not subject to same limitations?



Tool for determination of additionality in the CDM

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ACP MEAs

Specific guidelines on additionality

- Guidelines on assessing a financial analysis of a project
- Guidelines on additionality of first of its kind project activities
- Guidelines on common practice
- Guidelines on assessing the existence of barriers

Default factor for additionality based on return to a project developer equity

- Approved at EB 62
- Applicable to different categories of projects in many countries
- Based somehow on the CAPM but limited to including risk free rates, equity risk, country risk and adjusts for sector risk
- Relates to capitalmarket behaviour in the USASe relaciona a comportamiento de mercados de capital por ejemplo USA
- Expressed in real terms and if financials are nominal can be adjusted by country inflation
- Uses Moody´s for country benchmarks

Groupings of sectors considered

Group 1:
1. Energy Industries;
2. Energy Distribution;
3. Energy Demand;
13. Waste handling and disposal.

Group 2:
4. Manufacturing industries;
5. Chemical Industries;
6. Construction;
7. Transport;
8. Mining/Mineral production;
9. Metal production;
10. Fugitive Emissions from fuels;
11. Fugitive Emissions from production and consumption of halocarbon, and Sulphur hexafluoride;
12. Solvent use.

Group 3:
14. Afforestation and reforestation;
15. Agriculture.

For example …

	Moody's Rating for Bonds	Group 1	Group 2	Group 3
Bangladesh	Ba3	12.75	13.75	12.25
Barbados	Baa3	11.75	12.75	11.25
Belize	B3	14.5	15.5	14
Benin		13.25	14.25	12.75
Bhutan		13	14	12.5

If you choose to use then at validation detailed analysis of your proforma but not of the benchmark

Issues on additionality

- Critical issue at validation
- Insufficient demonstration of additionality in many aspects is a #1 source of clarifications and corrections in a PDD validation
- Pr4epare assumptions book for your financial sheets
- Extreme care with selection of starting date of the project activitiy and prior consideration forms
- Make the financial analyst understand the need to consider guidances on investment analysis for the additionality of the proformas