

**DRAFT****Annex 4****DRAFT STANDARD FOR DEMONSTRATION OF ADDITIONALITY OF A
PROGRAMME OF ACTIVITIES****(Version 01)****I. Background**

1. In decision 3/CMP.6 paragraph 4, Parties requested the CDM Executive Board (hereinafter referred to as the Board) to “reassess its existing regulations related to programmes of activities in order to further clarify the application of existing rules regarding the demonstration of additionality to programmes of activities and the definition of eligibility criteria for the inclusion of component project activities in a programme of activity”.
2. At the sixtieth meeting of the Board, the Board took note of a summary of public inputs to the call on programmes of activities (hereinafter referred to as PoAs) launched at the fifty-ninth meeting of the Board and agreed to a work programme that envisaged the consideration at its sixty-third meeting of a draft standard for the demonstration of additionality of a programme of activities.
3. This draft standard is prepared in response to the request by the Board at its sixtieth meeting (EB 60 report, paragraph 27). It defines the requirements for the demonstration of additionality for a programme of activities.

II. Definitions, scope and applicability**A. Definitions**

4. For the purpose of this standard, all definitions contained in the “Procedures for registration of a programme of activities as a single CDM project activity and issuance of CERs for a PoA” and the following definition apply:
5. **Policy**¹: A policy is an expression of purpose that is indicative of a goal to reduce green house gases (GHG) emissions, and includes a programme of action that has been decided on and oriented towards the same long-term policy objective for the reduction of GHG emissions. Written policy documentation shall be publicly available.

B. Scope and applicability

6. This standard is applicable to coordinating or managing entities (hereinafter referred to as CMEs) and contains specific requirements for demonstrating the additionality of a PoA.

¹ Policies, depending on the legal framework within which each individual country must operate, may be implemented at the national or sub-national level as instruments to manage activities that directly or indirectly lead to control of GHG emissions. Such instruments may include: (1) regulations and standards that specify the abatement technologies (technology standard) or minimum requirements for pollution output (performance standard) that are necessary for reducing emissions; and (2) incentive-based instruments such as subsidies, tax reductions, price supports or the equivalent thereof from a government to an entity for implementing a practice or performing a specified action.

DRAFT**III. Requirements**

Options to meet the requirements on additionality demonstration are divided into category-I and category-II approaches.

7. **Category-I approaches:** These approaches are to be applied when a PoA is undertaken to implement GHG emission reduction activities that are mainly triggered by CDM.

- (a) *Standardized Additionality Check:* This approach should be used when CDM project activities (CPAs) are homogeneous and can be characterized by a simple and unambiguous checklist of parameters (i.e. project/subsystem size, electricity tariff level, product cost)². These parameters are then translated into eligibility criteria. Under this approach, additionality shall be established at the PoA level using guidelines indicated under paragraph 7 (b) (i) or 7 (b) (ii).
- (b) *Project-based Assessment:* This approach should be used when CPAs are not homogeneous. The additionality of the CPA shall be established by demonstrating that the CPA would not be implemented in the absence of the CDM. The CME shall derive the eligibility criteria from one of the following guidelines for additionality:
 - (i) *Guidelines for demonstrating additionality of microscale project activities*, if the CPA complies with the emission reduction threshold and other requirements of these guidelines, irrespective of the methodology applied;
 - (ii) *Information on additionality* (Attachment A to Appendix B of 4/CMP.1 Annex II), if the CPA applies a small-scale CDM methodology(ies) and is not eligible to apply paragraph 7(b) (i) above;
 - (iii) The procedure specified in the additionality section of the large-scale methodology(ies) or the large-scale or small-scale afforestation and reforestation methodology(ies) applied by the CPA, if the CPA is not eligible to apply paragraphs 7(b)(i) or 7(b)(ii) above.

The CME should conduct in the PoA design document (PoA-DD) an investment analysis and/or barrier analysis for a range of parameters of technologies/measures (e.g. prices, capacities) covering all the cases intended for inclusion in the PoA, as illustrated in Appendix I. In that case, the eligibility criteria shall be based on the specified range for the defined parameters, and full re-testing of additionality (e.g. via investment analysis) is not required for each CPA.

- (c) A combination of both standardised and project based approaches.
8. Eligibility criteria for category-I approaches:
- (a) The CME shall establish in the PoA-DD that conformity with the eligibility criteria ensures compliance with the requirements in the paragraphs above.

² See definition of homogeneous PoAs under the “Standard for Sampling and Surveys for CDM Project Activities and Program of Activities”.

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- (b) The CME shall document the compliance with the eligibility criteria in each of the CPA design documents (CPA-DDs).
 - (c) For PoAs involving combinations of technologies/measures and/or methodologies, distinct eligibility criteria shall be proposed per combination applied to demonstrate additionality. Types of combinations as indicated in paragraph 11 (a) to 11 (d) of the “Standard for application of multiple CDM methodologies for a PoA” should be taken into account.
9. **Category-II approaches:** These approaches are to be applied to a PoA undertaken to:
- (i) Implement a new policy; or
 - (ii) Enforce an existing policy that is not systematically enforced; or
 - (iii) Achieve the enhanced implementation of an existing policy.
10. These approaches to demonstrate additionality shall to be applied at the PoA level. At the CPA level, the CME shall demonstrate, through eligibility criteria, how the CPA implementation results from the policy. The following approaches are to be used to demonstrate additionality.
- (a) **Barrier Analysis:** The CME should demonstrate in the PoA-DD through a barrier analysis that the PoA is additional. The PoA is additional if it is environmentally effective but faces one of the barriers described under (b) to (d)³. The environmental effectiveness as well as the barriers are derived from the criteria for policy assessment provided by IPCC⁴.
 - (i) **Environmental effectiveness:** Measures the extent to which the policy achieves its environmental objective of GHG emission reductions. It reduces the negative impact of human action on the environment in the form of anthropogenic GHG emissions. The environmental effectiveness of any policy is contingent on its design, implementation, participation, stringency and compliance. For the PoA to be additional, it should effectively contribute to the GHG emissions reduction.
 - (ii) **Cost-effectiveness of the policy:** Refers to meeting a given environmental quality goal at the least cost. If the low cost-effectiveness of a policy is related to the nature of its objective, then the policy is facing a cost-effectiveness barrier.
 - (iii) **Distributional considerations and equity:** A policy may have barriers to apportion environmental benefits and costs evenly across stakeholders even if it meets an environmental goal at least cost. This means that such policy could face opposition from some stakeholders and presents an equity barrier.

³ Further criteria to verify these barriers, possibly including best practice examples, shall be developed at a later date. Submissions to the Board from stakeholders in this regard are welcome.

⁴ S. Gupta, D. A. Tirpak, N. Burger, J. Gupta, N. Höhne, A. I. Boncheva, G. M. Kanoan, C. Kolstad, J. A. Kruger, A. Michaelowa, S. Murase, J. Pershing, T. Saijo, A. Sari, 2007: Policies, Instruments and Co-operative Arrangements. In Climate Change 2007: Mitigation. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change [B. Metz, O.R. Davidson, P.R. Bosch, R. Dave, L.A. Meyer (eds)], Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

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- (iv) **Institutional feasibility:** Existing institutional constraints can affect environmental policy decisions. Barriers related to prevailing practice and structure of existing institutions may be prevalent. Other important considerations include human capital and infrastructure as well as the dominant culture and traditions.
 - (b) **Investment analysis:** As an alternative to the requirements specified in paragraph 10(a) above, the additionality of PoAs may be demonstrated through investment analysis applied at the PoA level, provided that the PoA-DD has included a projection of penetration of specific mitigation actions/measures over time as a result of implementation of the PoA, clearly indicating the assumptions and methods used for forecasting.⁵ If PoA level investment analysis cannot be undertaken due to reasons such as large variations of input parameters or lack of references for the assumptions applied in investment analysis, the investment analysis shall be used at CPA level for demonstrating the additionality of each CPA.
11. Eligibility criteria for category-II approaches:
- (a) In the PoA-DD, the CME shall define eligibility criteria related to the inclusion of a CPA in the PoA. These eligibility criteria shall include criteria that, if fulfilled by a CPA, ensure that it would not be implemented in the absence of the PoA;
 - (b) The CME shall establish in the PoA-DD that conformity with the eligibility criteria establishes the link between the policy and the CPA;
 - (c) The CME shall document the compliance with the eligibility criteria in each of the CPA-DDs;
 - (d) In meeting the requirements in above paragraphs, CME shall take into account the impact from existing policies on the identification of the baseline scenario.

⁵ For instance, a policy PoA providing incentives for the adoption of renewable energy (RE) technologies can forecast the penetration of RE technologies in the PoA-DD depending on factors on the supply side (e.g. price per kWh) and the demand side (e.g. user perceptions, need). For example, a PoA-DD may stipulate that solar photovoltaic power plants that will be implemented in any CPA will not be smaller than 250 kWp and will not be larger than 1000 kWp. If the IRR remains below the benchmark for these two capacities and comparability of input values for IRR calculation can be established (e.g. comparable feed in tariff, comparable annual average daily solar radiation), a 500 kWp PV plant included in a CPA will be automatically additional. This approach will not be applicable if there are large variations in the available renewable energy resource among the geographic locations of CPAs, e.g. wind energy generation at a site varies as the cube of the wind speed prevalent in the location. Similarly, the investment cost of hydro power projects is highly dependent on available head, flow of water as well as the geology and geographical conditions of the site.

**DRAFT****Appendix 1****Best practice guidance to derive eligibility criteria for demonstration of POA additionality**

1. The eligibility criteria for CPA inclusion with regard to additionality demonstration should take into account the specificity of the PoA and the common characteristics shared by the emission reduction activities to be implemented by the PoA in the CPAs, and it should enable the DOE to objectively validate the conformity of CPAs with eligibility criteria.
2. If barrier analysis is undertaken to demonstrate additionality, the CME should show in the PoA-DD that an emission reduction activity (e.g. the use of compact fluorescent lamps (CFLs)) faces one or more barriers (e.g. investment barrier at 0.2 EUR per CFL) in a region of a country.
3. Subsequently, the CME should include the specific conditions in the eligibility criteria for CPA inclusion pertaining to additionality. In the example above, at least the following conditions should be included: the geographic region, the price of CFLs, the conformity to the national standard and the grid connectivity of the households.
4. If investment analysis is undertaken to demonstrate additionality, in the PoA-DD the CME should:
 - (a) Provide the range of the parameters for activities to be implemented in CPAs, e.g. the lower and upper end of parameters such as capacity/cost of wind turbines to be installed, that determines the emission reductions;
 - (b) Show that other input parameters to the investment analysis are comparable in the target region (e.g. low variability in the wind resource available and therefore low variability of load factor of wind generators); and
 - (c) Demonstrate that financial indicators (e.g. the associated range of investment cost per unit of electricity generation) are below the benchmark or at least one alternative defined in the PoA-DD. If an investment comparison analysis is conducted, the baseline alternatives to the CPAs should be identified in the PoA-DD.
5. Subsequently, the CME should include specific conditions in the eligibility criteria for CPA inclusion pertaining to additionality. In the example above, at least the following conditions should be included: the geographic region, the capacity range of applicable wind turbines, the cost range of applicable wind turbines, the assumptions used to estimate the associated investment cost per unit electricity generation, and the benchmark for the financial indicator (or the assumptions used to calculate the financial indicator of the alternative).