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Annex 14

COVER NOTE

DRAFT GUIDELINES ON ADDITIONALITY OF FIRST-OF-ITS-KIND PROJECT ACTIVITIES AND DRAFT GUIDELINES ON COMMON PRACTICE

I. Background

1. At its 63rd meeting, the Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) adopted "Guidelines on additionality of first-of-its-kind project activities" and "Guidelines on common practice". These guidelines were also integrated in a revision of the methodological tool "Tool for the demonstration and assessment of additionality" (version 6.0.0 adopted by EB65, in the following referred to as "additionality tool") and the methodological tool "Combined tool to identify the baseline scenario and demonstrate additionality" (version 4.0.0 adopted by the Board at its sixty-sixth meeting, in the following referred to as "combined tool").

2. The Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (CMP), at its seventh session in Durban, welcomed the work undertaken by the Board to adopt guidelines on the use of "first-of-its-kind" and the assessment of "common practice", and requested the Board to further improve these guidelines, on the basis of the application of these guidelines to the project activities.

3. The Board adopted at its sixty-sixth meeting the CDM management plan for 2012 (2012 CDM-MAP). In response of the request by the CMP, the Board included in its MAP the project 159 "Improve guidelines on first-of-its-kind and the assessment of common practice".

II. Purpose

4. The purpose of this project is to bring clarity on these existing guidelines.

III. Key issues and proposed solutions

5. Key issues identified are different interpretations of the definitions and the application of the current guidelines to the project activities based on letters and queries received by the secretariat, inputs provided by the stakeholder during the Sustainable Development Mechanisms Joint Coordination Workshop, held on 25-26 March 2012 in Bonn, Germany, issues identified by the Methodologies Panel at its 56th meeting, and issues identified by the secretariat in processing of requests for registration and assessing the current guidelines.

6. Based on the above inputs from the stakeholders these guidelines were revised and presented to the stakeholder during the 5th CDM roundtable, held on 10 August 2012 in Bonn, Germany and to the Methodologies Panel at its 57th meeting. The proposed recommendations have been included in the revised guidelines, which are appendices to this document (Appendix 1 – "Draft guidelines on additionality of first-of-its-kind project activities" and Appendix 2 "Draft guidelines on common practice").

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7. For both these guidelines, the changes to the original language in the guidelines have been highlighted in yellow. The inputs from the stakeholders during 5th CDM roundtable and how these inputs have been taken into account while revising these guidelines is compiled as Appendix 3.

IV. Proposed work and timelines

8. Once these two guidelines are adopted, the Board may wish to mandate the secretariat to integrate these two guidelines as revision of the "additionality tool" and the "combined tool" for further approval by the Board and these revised tools will become effective after eight months of its adoption by the Board.

V. Impacts

9. The adoption of these guidelines will be useful for:

(a) The stakeholders while applying these two guidelines; and

(b) The Secretariat while assessing the project activities against these guidelines.

VI. Recommendations to the Board

10. The secretariat recommends the Board to adopt the draft guidelines on "additionality of the first-of-its-kind project activity" and "common practice".

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Appendix 1

DRAFT GUIDELINES ON ADDITIONALITY OF FIRST-OF-ITS-KIND PROJECT ACTIVITIES

(Version 02~~1~~.0)

I. Definitions

1. **Applicable geographical area** ~~covers~~ should be the entire host country. ~~as a default;~~ If the project participants opt to limit the applicable geographical area to a specific geographical area (such as province, region, etc.) within the host country, then they shall provide justification on the essential distinction between the identified specific geographical area and rest of the host country. ~~if the technology applied in the project is not country specific, then the applicable geographical area should be extended to other countries. If the project participants may provide justification that the applicable geographical area is smaller than the host country for technologies that vary considerably from location to location depending on local conditions.~~

2. **Measure**[1] (for emission reduction activities) is a broad class of greenhouse gas emission reduction activities possessing common features. Four types of measures are currently covered in the framework:

   a. Fuel and feedstock switch (example: switch from naphtha to natural gas for energy generation, or switch from limestone to gypsum in cement clinker production);

   b. Switch of technology with or without change of energy source including energy efficiency improvement as well as use of renewable energies (example: energy efficiency improvements, power generation based on renewable energy);

   c. Methane destruction (example: landfill gas flaring);

   d. Methane formation avoidance (example: use of biomass that would have been left to decay in a solid waste disposal site resulting in the formation and emission of methane, for energy generation).

3. **Output** is goods/services produced by the project activity including, among other things, heat, steam, electricity, methane, and biogas unless otherwise specified in the applied methodology. ~~with comparable quality, properties, and application areas (e.g. clinker, lighting, residential cooking);~~

4. **Different technologies** are technologies that deliver the same output and differ by at least one of the following (as appropriate in the context of the measure applied in the proposed clean development mechanism (CDM) project activity and applicable geographical area):

   a. Energy source/fuel (example: energy generation by different energy sources such as wind and hydro and different types of fuels such as biomass and natural gas);

   b. Feed stock (example: production of fuel ethanol from different feed stocks such as sugar cane and starch, production of cement with varying percentage of alternative fuels or less carbon-intensive fuels);

   c. Size of installation (power capacity)/energy savings:

[1] Identified measures do not cover the industrial gases, transport and afforestation/reforestation projects.

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(i) Micro (as defined in paragraph 24 of Decision 2/CMP.5 and paragraph 39 of Decision 3/CMP.6);

(ii) Small (as defined in paragraph 28 of Decision 1/CMP.2);

(iii) Large.

II. Identification of a First-of-its-kind project activity

5. A proposed project activity is the first of its kind in the applicable geographical area if:

a. The project is the first in the applicable geographical area that applies a technology that is different from any other technologies[2] able to deliver the same output and that have started commercial operation in the applicable geographical area before the project design document (CDM-PDD) published for global stakeholder consultation or start date of the proposed project activity, whichever is earlier; and

b. The project participants selected a crediting period for the project activity that is "a maximum of 10 years with no option of renewal".

III. Additionality of the first-of-its-kind project activity

6. A proposed project activity that has been ~~was~~ identified as a ~~the~~ first-of-its-kind project activity is additional.

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History of the document

Version	Date	Nature of revision(s)
02.0	27 August 2012	Published as an annex to the annotated agenda of EB69.
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[2] While identifying other technologies, project participants may also use the publically available information, for example from government departments, industry associations, international associations on the market penetration of different technologies etc.

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Appendix 2

DRAFT GUIDELINES ON COMMON PRACTICE

(Version 02~~1~~.0)

IV. Definitions

1. **Applicable geographical area** ~~covers~~ should be the entire host country. ~~as a default;~~ If the project participants opt to limit the applicable geographical area to a specific geographical area (such as province, region, etc.) within the host country, then they shall provide justification on the essential distinction between the identified specific geographical area and rest of the host country. ~~if the technology applied in the project is not country specific, then the applicable geographical area should be extended to other countries. If the project participants may provide justification that the applicable geographical area is smaller than the host country for technologies that vary considerably from location to location depending on local conditions.~~

2. **Measure**[3] (for emission reduction activities) is a broad class of greenhouse gas emission reduction activities possessing common features. Four types of measures are currently covered in the framework:

(a) Fuel and feedstock switch (example: switch from naphtha to natural gas for energy generation, or switch from limestone to gypsum in cement clinker production);

(b) Switch of technology with or without change of energy source including energy efficiency improvement as well as use of renewable energies (example: energy efficiency improvements, power generation based on renewable energy);

(c) Methane destruction (example: landfill gas flaring);

(d) Methane formation avoidance (example: use of biomass that would have been left to decay in a solid waste disposal site resulting in the formation and emission of methane, for energy generation).

3. **Output** is goods/services produced by the project activity including, among other things, heat, steam, electricity, methane, and biogas unless otherwise specified in the applied methodology. ~~with comparable quality, properties, and application areas (e.g. clinker, lighting, residential cooking);~~

4. **Different technologies** are technologies that deliver the same output and differ by at least one of the following (as appropriate in the context of the measure applied in the proposed clean development mechanism (CDM) project activity and applicable geographical area):

(a) Energy source/fuel (example: energy generation by different energy sources such as wind and hydro and different types of fuels such as biomass and natural gas);

(b) Feed stock (example: production of fuel ethanol from different feed stocks such as sugar cane and starch, production of cement with varying percentage of alternative fuels or less carbon-intensive fuels);

(c) Size of installation (power capacity)/energy savings:

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[3] Identified measures do not cover the industrial gases, transport and afforestation/reforestation projects.

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(i) Micro (as defined in paragraph 24 of Decision 2/CMP.5 and paragraph 39 of Decision 3/CMP.6);

(ii) Small (as defined in paragraph 28 of Decision 1/CMP.2);

(iii) Large.

(d) Investment climate in the date of the investment decision, inter alia:

i. Access to technology;

ii. Subsidies or other financial flows;

iii. Promotional policies;

iv. Legal regulations;

(e) Other features, inter alia:

(i) Nature of the investment ~~Unit cost of output~~ (example: unit cost~~s~~ of output is ~~are~~ considered different if they differ by at least 20%).

V. Stepwise approach for common practice

5. Step 1: Calculate applicable output range as +/-50% of the total design output or capacity of the proposed project activity.

6. Step 2: In the applicable geographical area and within the measure/technology (sub-sector[4]), identify similar projects (both CDM and non-CDM) with the applicable output range calculated in Step 1 that started commercial operation before the project design document (CDM-PDD) published for global stakeholder consultation or start date of proposed project activity, whichever is earlier for the proposed project activity.[5] ~~all plants that deliver the same output or capacity, within the applicable output range calculated in Step 1, as the proposed project activity and have started commercial operation before the start date of the project. Note their number N_{all}. Registered CDM project activities shall not be included in this step;~~

7. Step 3: Within the projects identified in step 2, identify those that are neither registered CDM project activities nor project activities undergoing validation. Note their number N_{all}.

8. Step 4~~3~~: Within similar projects ~~plants~~ identified in Step 3~~2~~, identify those that apply technologies that are different to ~~that~~ the technology applied in the proposed project activity. Note their number N_{diff}.

9. Step 5~~4~~: Calculate factor $F=1-N_{diff}/N_{all}$ representing the share of similar projects (penetration rate of the measure/technology) ~~plants~~ using a measure/technology similar to the measure/technology used in the proposed project activity ~~in all plants~~ that deliver the same output or capacity as the proposed project activity.

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[4] Examples for the subsectors are wind, hydro, waste heat recovery-based power generation in cement sector, etc.

[5] While identifying similar projects, project participants may also use the publicly available information, for example from government departments, industry associations, international associations on the market penetration of different technologies, etc.

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10. The proposed project activity is a "common practice" within a sector in the applicable geographical area if the factor F is greater than 0.2 and N_{all}-N_{diff} is greater than 3.

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02.0	27 August 2012	Published as an annex to the annotated agenda of EB69.
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Appendix 3

STAKEHOLDER INPUTS FROM 5TH CDM ROUNDTABLE: IMPROVING THE GUIDELINES ON FIRST-OF-ITS-KIND AND COMMON PRACTICE

STAKEHOLDER INPUT	STATUS OF CONSIDERATION OF INPUT		
	INCORPORATED INTO ONGOING WORK / DOCUMENT / PRODUCT	**NOT INCORPORATED INTO ONGOING WORK / DOCUMENT / PRODUCT**	**OUTCOME IN PROGRESS**
General items			
Consider a separate approach for LDCs for both FOIK and CP			Request further guidance from the Board for LDCs specific FOIK and CP approach.
Consider developing similar guidelines for afforestation/reforestation (A/R) projects		All the A/R methodologies refer to either A/R additionality tool or combined tool.	
In cases where there is a significant time lapse between GSC/start date and the end of validation, allow DOE the flexibility to request the PP to reassess the FOIK and CP analysis		The additionality of the project activity should be demonstrated based on the information available at the time of the investment decision/starting date of the project activity as per current additionality tool/guideline on the investment analysis.	
Reflect the rationale for statements, similar to the investment analysis	Accepted. Rationale for unit cost and more examples for the		

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guidelines	definitions have been included. Refer revised guidelines.		
"Geographical area"- Rethink the definition of "default"	Accepted. Refer paragraph 1 of both the guidelines.		
"Measure" - Include a paragraph/footnote to clarify that industrial gases, transport and A/R projects are not defined as "measures"	Accepted. Refer footnote 1 of both the guidelines.		
"Unit cost" – Add an example to rationalize the provision	Accepted. Refer paragraph 4 (e) of the revised guideline on the common practice.		
"Unit capacity" – Maintain the old text which refers to project capacity	Accepted. Refer paragraph 5 of the revised guideline on the common practice.		
Regarding the Stepwise Approach			
Scrap the steps and re-introduce a more flexibility common sense approach (CP is a qualitative test)		Going back to previous common practice approach will not be in line with the CMP 5 (para 24(b) and CMP 6 (para 37) mandates.	
Keep the option of applying the steps but with refinement (based on CL_Tool_15), specifically related to 'sector' and 'unit capacity'	Accepted. Refer paragraphs 5 & 6 of the revised guideline on the common practice.		
Look for the possibility to introduce the penetration rate of the technology as an alternative approach to conduct the common practice analysis		This concept is already in the current guideline on the common practice. Refer paragraph 9 of the revised guideline on the common practice.	