



**CDM: Response form for request for clarification on  
Approved Methodologies  
(version 01.1)**

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| <i>Date of Meth Panel meeting:</i>                   | 23 - 27 January 2012   |
| <i>Title and number of request for clarification</i> | Clarification regarding the demonstration of Additionality<br>in case of transfer of assets<br>AM_CLA_0223 |

**Summary of the query:**

Please use the space below to summarize the request for clarification on the related approved methodologies.

The query raised by the DOE concerns a proposed project activity for a grid connected renewable energy generation project activity located in India. It is a bundled CDM project involving four investors. The project activity has applied ACM0002, Version 12.1.0 and is presently undergoing validation.

Each of the four investors of project activity took an individual investment decision for their respective capacities considering CDM benefits. The project activity was commissioned partly in the years 2006 and 2007. After commissioning, the investors operated their respective wind mill capacities up to the year 2010. During this period, the entire energy generated from the project activity was sold to the regional grid through Power Purchase Agreement (PPA) at a tariff rate defined by State Electricity Regulatory Commission.

In year 2010, out of four investors, three sold their respective wind turbines to another company which is engaged in the power business and is a separate legal entity (The company is referred to as "X"). While selling out the assets to this power company ("X"), the three investors gave discount in the capital price, but retained CDM rights through an agreement. This agreement has enabled the power company ("X") to own rights on the assets and to claim the revenue generated from the sale of energy to the regional grid (except the CDM revenue). Thus, through the arrangements made in this agreement, the three investors still remain the project participant while power company ("X") only acts as project owner and its operator. The project participant understands that as per the guidelines on investment analysis, additionality is required to be proven at the time of the investment decision by the project implementer under whom the investment decision for the project activity has been taken. The project participant is of the view that any changes in the asset ownership later on do not affect emission reductions/additionality of the project. In future, this power company ("X") will sell the energy generated from the transferred assets to third parties through a/the grid network (at higher tariff rate than selling to a/the regional grid).

The request states that one investor, who still owns and operates its assets, will continue operation with the same plan as at the time of the investment decision, i.e., the sale of generated power to the regional grid through the PPA in force.

The following clarifications are sought in this regard:

- In case of investors who have sold their assets to power company ("X"), who should demonstrate the additionality? Whether: (a) investors who have implemented the project activity and have retained the CDM benefits even after transfer of assets; or (b) the power company ("X")?
- At what point of time should the additionality be demonstrated? Is it: (a) only at the time of the initial investment decision (i.e. conceptualization of the project activity); or (b) only at the time of transfer of assets; or (c) at both times?

- Whether the change in the arrangement of energy sale will make any change in the project boundary and additionality ? And whether the change in arrangement has to be considered for the demonstration of additionality as the revenue from the change will be claimed by power company (“X”) only, who is only the project owner but not the project participant?

**Recommendation by the Meth Panel:**

Please use the space below to provide amendments /changes (in your expert view, if necessary).

Not applicable.

**Answer to authors of the request for clarification by the Meth Panel :**

Please use the space below to provide an answer to the authors of the above query

The Meth Panel would like to clarify as follows:

Additionality has to be demonstrated for the proposed CDM project activity. Ownership of a project could potentially be relevant in the case of determining the investment benchmark. However, the following guidance provided in paragraph 13 of the “ Tool for the demonstration and assessment of additionality” should be followed: *“in the cases of projects which could be developed by an entity other than the project participant, the benchmark should be based on publicly available data sources which can be clearly validated by the DOE”*. As wind power projects fall in the above stated types of projects mentioned in the tool, ownership is not relevant in this particular project.

With regard to the “point of time” for the demonstration of additionality, the Meth Panel clarifies that this “point of time” has to be in line with paragraph 6 of the guidance provided in the “ Tool for the demonstration and assessment of additionality”: *“Input values used in all investment analysis should be valid and applicable at the time of the investment decision taken by the project participant.”* The Meth Panel further clarifies that investment costs only constitute costs associated to the development and construction of the project. Sale of shares by one shareholder to another does not constitute an investment relevant in the context of a CDM project.

With regard to the energy sale it is not clear to the Meth Panel if the full or only part of the original PPA remains in place. If the full PPA remains in place, this shall be considered as part of the investment analysis. Any onward sale of the electricity falls beyond the project boundary and should not be considered as part of the investment analysis. If however, the full or part of the original PPA has changed and the project sells the power at a different electricity rate at the time of validation, then the DOE shall establish that the input values would have materially changed and the latest values for the electricity price should be used (see also EB 38, para 54).

Signed by the Chair, Mr. Philip Gwage

Date: 27/01/2012

Signed by the Vice-Chair, Mr. Lex de Jonge

Date: 27/01/2012

| Information to be completed by the secretariat        |                 |
|---|-----------------|
| F-CDM-AM  | AM_CLA_0223     |
| Name of the authors of the query:                     | BVCH            |
| Date when the form was received at UNFCCC secretariat | 27 January 2012 |
| Date of transmission to the EB                        | 27 January 2012 |
| Date of posting in the UNFCCC CDM web site            | 27 January 2012 |