

**Annex 16****CONCEPT NOTE
ON THE REVISION OF THE CDM PROJECT STANDARD, CDM VALIDATION AND
VERIFICATION STANDARD, AND PROPOSED NEW METHODOLOGY GUIDELINES AS A
RESULT OF STANDARDIZED BASELINES****(Version 01.0)****I. Introduction****A. Background**

1. The use of standardized baselines can potentially reduce transaction costs, enhance transparency, objectivity and predictability, facilitate access to the clean development mechanism (CDM), particularly with regard to underrepresented project types and regions, and scale up the abatement of greenhouse gas (GHG) emissions, while ensuring environmental integrity. At the sixth meeting of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) in Cancun, Parties agreed to decision 3/CMP.6 on the implementation of standardized baselines under the CDM.¹
2. The CMP 6 decided that Parties, project participants, as well as international industry organizations or admitted observer organizations through the host country's designated national authority, may submit proposals for standardized baselines applicable to new or existing methodologies, for consideration by the CDM Executive Board (hereinafter referred to as the Board).
3. The CMP 6 also requested the Board to develop standardized baselines, as appropriate, in consultation with relevant designated national authorities (DNAs), prioritizing methodologies that are applicable to least developed countries (LDCs), small island developing States (SIDS), Parties with 10 or fewer registered CDM project activities as of 31 December 2010 and underrepresented project activity types or regions, inter alia, for energy generation in isolate systems, transport and agriculture.
4. In response to the request from the CMP 6, the Board developed the guidelines on establishment of sector specific standardised baselines (EB62, annex 8), which was further revised by the Board (EB65, annex 23). The Board further developed the work programme for implementation of standardised baselines (EB65, annex 22). Part of this work programme includes the need to understand the implications of standardized baselines to existing regulatory documents such as the CDM Project Standard (PS) the CDM Validation and Verification Standard (VVS) and the proposed new methodology guidelines (hereinafter referred to as the PNM)

B. Objectives

5. The objectives of this concept note are to:
 - (a) Identify documents and related sections that will primarily be impacted by the implementation of standardized baselines;
 - (b) Identify policy issues and options for the Board's consideration; and
 - (c) Outline the proposed next steps and timelines for implementing the changes.

¹ <<http://unfccc.int/resource/docs/2010/cmp6/eng/12a02.pdf#page=2>>.



II. Documents that will be impacted by the implementation of standardized baselines and the nature of the changes

6. An initial assessment was conducted to determine the nature of changes to impacted documents. The assessment was based on the following existing approved guidelines, procedure and forms on standardized baselines as of May 2012:

- (a) Procedure for submission and consideration of standardized baselines (Version 01.0), EB63, Annex 28;
- (b) Guidelines for the establishment of sector specific standardized baselines (Version 02.0), EB65, Annex 23;
- (c) Guidelines for quality assurance and quality control of data used in the establishment of standardized baselines (Version 01.0), EB66, Annex 49;
- (d) F-CDM-PSB: CDM proposed standardized baseline form;
- (e) F-CDM-PSB-IA: CDM proposed standardized baseline initial assessment form;
- (f) F-CDM-PSB-REC: CDM recommendation form for proposed standardized baselines.

7. It was not possible to assess the impact on A/R and CPAs in a PoA as they are not addressed in any of the above existing relevant documents.

8. The assessment showed that the following sections in the PS, VVS, and PNM are not applicable to projects using standardized baselines since projects using standardized baselines are:

- (a) Automatically additional (based on a positive list) and therefore do not require to demonstrate additionality and prior consideration of CDM;
- (b) Baseline scenario need not be determined, as the standardized baselines include the baseline scenario;
- (c) The baseline emissions are determined by the emission factor using standardized baselines.

Table 1: Documents and sections that should not be applicable to projects using standardized baselines

| PS sections | VVS sections | PNM sections |
|---|---|---|
| Demonstration of prior consideration of the clean development mechanism | Demonstration of prior consideration of the clean development mechanism | Applicability conditions |
| Establishment and description of baseline scenario | Establishment and description of baseline scenario | Baseline approaches & Baseline scenario Baseline emissions |
| Demonstration of additionality | Demonstration of additionality | Additionality |



III. Policy issues and options for the Board's consideration

9. In conducting the initial assessment, it was identified that the project standard may need a new requirement with regard to the update of standardized baselines at an appropriate frequency, that is applicable not only to new projects using standardized baseline but also to the registered project activities using standardized baselines. It should be noted that the Board has already defined the frequency of update of standardized baseline on interim basis as three years.²

10. Although it can be argued that the impact of update of standardized baselines on already registered projects may reduce the attractiveness of standardized baselines or pose additional investment risks to the project participants, it should be noted that this is in line with the existing requirements of the methodologies that contain the baseline based on benchmarks such as grid emission factor. The registered renewable energy projects using option for ex-post update of grid emission factor have an impact on their emission reduction depending upon the grid emission factor in project year *y*. Therefore, in order to ensure environmental integrity, the following proposed provisions will need to be considered and further assessed by the secretariat:

- (a) Updates to CDM projects using standardized baselines more frequently (e.g. below seven years) in countries and sectors where technology is evolving and becoming more efficient at a faster rate;
- (b) Updates to CDM projects using standardized baselines every seven years in countries or sectors where technology is evolving and becoming more efficient at a slower rate.

11. In the case of paragraph 10 (a), the impact of update of standardized baselines on emission reductions of already registered projects may or may not be significant depending upon the level of update. In the case 10 (b) the impact of update of standardized baselines on emission reductions of already registered projects is same as that of existing CDM rules, where baseline data is required to be updated at the end of renewal of crediting period.

12. As a result of updates of standardised baselines, the positive list may be updated, however the secretariat assessed that it will not impact the already registered project activity.

IV. Proposed next steps and timelines for implementing the changes

13. The secretariat will prepare draft revised text for the PS, VVS, and PNM for review by the Board at sixty-ninth meeting. The secretariat will take into account any comments from the Board and/or stakeholders and submit final text for the Board's consideration by the Board at its seventieth meeting.

History of the document

| Version | Date | Nature of revision |
|---|-------------|--|
| 01.0 | 2 July 2012 | Initial publication as an annex to the annotated agenda of EB68. |
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² Guidelines for the establishment of sector specific standardized baselines (Version 02.0), EB65, Annex 23