

**Annex 18****ELEMENTS FOR THE DEVELOPMENT OF GUIDELINES FOR BASELINE DETERMINATION****(Version 01.0)****I. Background**

1. The clean development mechanism (CDM) Executive Board (hereinafter referred to as the Board), in paragraph 41 of the report of the sixtieth meeting of the Board mandated:

“41. The Board considered the summary of the public inputs to the call on the draft “Tool for baseline scenario identification and baseline emission calculations” and the recommendations of the Meth Panel based on the practitioner’s workshop on the draft “Tool for baseline scenario identification and baseline emission calculations”. The Board requested the secretariat, in consultation with the Meth Panel, if appropriate, to develop a concept note on a general methodological framework for baseline determination for consideration by the Board at its sixty-fourth meeting.”

2. This note is an initial draft document that outlines the key features of the baseline standard for the Boards consideration and discussion at its sixty-fifth meeting.

II. Definitions

3. The definitions used in the “Guideline for the establishment of sector specific standardized baselines” apply for the purpose of this document.

III. Key differences between different approaches of baseline standardization

4. The following are three approaches for standardization of methodological requirements with respect to baseline setting. They include: (i) the development of ‘standardized’ or ‘default’ factors or operational parameters in the methodology; (ii) “guideline for the establishment of sector specific standardized baselines”; and (iii) the proposed “guidelines for baseline determination for a measure”.

A. Use of default factors

5. The use of default factors is simple for project developers. However, the following limitations have been identified with the development of methodology-specific default factors:

- (a) Default factors are applicable to all the non-annex-I countries and they do not accommodate the specificities of a country’s circumstances;
- (b) Default factors bring simplicity, but in limited area of mitigation;
- (c) A default factor applicable to all non-annex-I countries cannot be developed for most of the methodologies, and therefore it cannot be used for many project types.

B. Use of sector-specific standardized baselines

6. The “guidelines for establishment of sector specific standardized baselines” are developed to bring highly scalable mitigation activities of greenhouse gas (GHG) emissions based on simple criteria, while reducing transaction costs. They are country- and sector-specific and aimed at crediting only those activities which cross defined thresholds of performance. This means that the stringency of additionality and baseline threshold determine the eligibility and size of crediting under standardized baselines.



7. There is a possibility that some project participants may not wish to use standardized baselines, on grounds such as:

- (a) Standardized baselines are not defined for their sector;
- (b) The standardized baselines defined for their sector require them to make substantial efforts for their activity to be eligible in the positive list defined by the standardized baselines for the country or sector.

8. An example for this may include a situation where in a sector there are production technologies of different generations co-existing at the same time, and where the standardized baseline represents a performance level that is close to the top technology segment, which is extremely difficult to achieve for a plant with old technology without completely adopting a different technology route. In such cases, the project proponents will opt to develop a methodology for their project-specific cases under the existing project-based mechanisms. The “guidelines on baseline determination for measures” provide a standardized approach for baseline determination for each measure taken up under the project-based mechanisms.

IV. Key characteristics of the “guidelines on baseline determination for a measure”

9. The guidelines on the determination of baseline for measures are aimed at providing standardized approaches for baseline determination for different GHG emissions reduction measures. The underlying approach takes lessons from the best practices followed for baseline determination in existing CDM methodologies, and the rationale used by the Board in approving different methodologies and issuing guidance.

10. The main objective of the guidelines is to ensure consistency of the approaches used in determination of baseline in the different methodologies, by providing standardized approaches to determine the baseline for different investment situations and measures. The proposed guidelines elaborate when and under which circumstances ‘historical emissions’ or ‘most attractive course of action’ should be chosen as the baseline for a measure. Wherever the guidelines define that the baseline is a benchmark, it will refer the project participants to standardized baselines (if available), either recognized based on measure-specific or sector-specific emission factors.

11. The main element of the proposed guidelines will be to provide standardized approaches on how to determine the baseline scenario and the baseline for different measures in the case of projects that implement multiple measures. The following differentiation of situations can be made based on the inter-dependencies of measures taken up under the project activity:

- (a) **Situation 1:** The measures are independent (the measures can be implemented separately)
The baseline scenario and the baseline of each measure is to be determined separately.
- (b) **Situation 2:** The measures are mutually dependent (the implementation of any of them needs the implementation of the others)
The baseline scenario is to be identified globally for all the measures and the baseline identified separately for each measure.
- (c) **Situation 3:** The implementation of some measures (e.g. type A) requires the implementation of other measures (e.g. type B)
The baseline scenario of measure type A determines the baseline scenario of measure type B.



V. Key benefits of the “guidelines on baseline determination for a measure”

A. Simplification of CDM requirements

12. The baseline approach is a section of methodology, which requires the quoting of approaches of 48(a), 48(b) or 48(c) for a particular methodology. Depending on the methodology-specific context, there are multiple approaches applied to some of the methodologies (e.g. methodology ACM0012). The document will guide the methodology developer to ensure that the baseline approach quoted in the methodology strictly complies with the specific requirement of the guidelines.

13. The use of the guidelines will make additionality demonstration and baseline identification consistent.

14. The project participants have to undergo an exercise to identify the list of available realistic and credible alternatives and determine the most plausible baseline scenario, using methodology-specific guidance or guidance based on the additionality tool or the combined tool. Depending on the number of scenarios, the determination can be potentially complex and not exhaustive. The guidelines propose a standardized approach for baseline identification of measures that is applicable to the project situations.

15. There is inconsistency in the rationale applied for baseline determination in some of the existing CDM methodologies. The use of a standardized approach for baseline determination of measures will help to avoid such inconsistencies in future.

16. The assessment of baseline determination of methodologies will be simplified to a great extent, as it will mainly consist of assessing whether the methodology complies with the guidelines. Where there is no compliance, the baseline determination of the methodology will be assessed on a case-specific basis using expert judgement, as is currently the case.

17. This will also reduce the large gap between approaches followed in small-scale and large-scale methodologies with respect to baseline determination. Most of the small-scale methodologies have the baseline identified ex ante in the methodologies. This simplifies the use of small-scale methodologies.

B. Saving time

18. The guidelines provide guidance to the methodology developers and to the Methodologies Panel (Meth Panel) and help streamline the process of development and assessment of methodologies.

C. Objectivity in approaches

19. Under the current rules, there is no definition of what the “credible and realistic scenario” is, which leads to subjective interpretations. Many projects submitted for registration consider a list of many alternatives and process them through barrier analysis or investment analysis to determine the most plausible baseline scenario. Some of the barriers or financial parameters used are not transparent and indicate subjective assumptions which potentially leads to the determination of unrealistic baseline scenarios. Having a standardized approach for baseline identification in methodologies can substantially reduce the subjectivity of such analysis. The objectivity of methodologies will improve as the baseline is determined in the methodology itself, rather than by individual project activity. The predictability of the project cycle also increases, as the uncertainty related to the correctness of baseline determination will reduce.



VI. Difference in the proposed guidelines and the “combined tool to identify baseline scenario and demonstrate additionality”

20. The following differences can be identified:
- (a) The combined tool is applied to determine the baseline scenario and baseline for the entire project, whereas the proposed guideline, once applied, will be used for determination of the baseline scenario and baseline for individual measures taken up under the project activity, as explained above;
 - (b) The combined tool is used by project participants for determination of the baseline for their project-specific case, using specific financial data or barriers applicable to their projects. On the other hand, the standardized approaches for baseline determination of the proposed guidelines will be used by methodology developers to identify the baseline or narrow down the list of plausible baselines in the methodology itself;
 - (c) If project participants are using the combined tool, they have to use the process of financial analysis and barrier analysis of the projects to determine the baseline. The proposed guidelines will help to avoid lengthy and sometimes subjective analysis for many project situations.

VII. Status of proposed “guidelines on baseline determination for a measure”

21. The proposed guidelines will provide standardized approaches for determination of baselines in methodologies for most project situations. However, the document may not be exhaustive and therefore new approaches for baseline determination can also be proposed by project participants. Eventually, these approaches will be included in the guidelines by the Meth Panel, if found appropriate. Efforts will be made to cover all the project situations for which the standardized approaches for determination of baselines can be defined. However, for project situations where the provisions of guidelines cannot be used for determining the baselines in the methodology, the project participants will determine the baselines at project level using the guidance provided in the methodology.

22. The proposed guidelines will be used by the methodology developers for understanding and implementing the standardized approaches of determining the baseline for measures in the proposed new methodologies (PNMs) they submit for the consideration of the Board. The proposed guidelines will be used by the Meth Panel to evaluate the methodologies against the underlying principles and approaches in the document. The Meth Panel and secretariat will also use the guidelines for the work of top-down development and improvement of large-scale methodologies.

VIII. Key underlying rationale

23. The diagram below illustrates the key underlying rationale for determination of baselines. Apart from this illustration, the guidelines will cover many extended project situations arising out of those illustrated. There will be examples provided for the project situations to be covered in the proposed guidelines.


