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Annex 2

DRAFT GENERAL GUIDANCE ON THE APPLICATION OF COMMON PRACTICE ANALYSIS**(Version 01)*****Background***

1. The Board, based on the assessment of the application of common practice analysis step of the additionality tool, considers it necessary to provide project participants and Designated Operation Entities (DOEs) with guidance on the application and validation of this step.
2. This general guidance is to be considered as a complement to existing materials in this area including the “Tool for the demonstration and assessment of additionality” and “Combined tool to identify the baseline scenario and demonstrate additionality”. The general guidance will be revised as appropriate to reflect the evolution of knowledge and best practice in this area.

General Guidance on the application and validation of common practice analysis

3. The Board re-iterates that the use of the “Tool for the demonstration and assessment of additionality” is not compulsory, unless prescribed by an approved methodology applied to the project activity.
4. The Board re-iterates that common practice step is an integral part of the “Tool for the demonstration and assessment of additionality” and shall be applied if the tool is used to demonstrate additionality, except in cases as prescribed in the tool.
5. Projects that are “first-of-its-kind” shall be exempt from common practice analysis.
6. Following project activities that generate power for supply to the grid and use step 2 of the “Tool for the demonstration and assessment of additionality”¹ shall be exempt from application of common practice analysis step:
 - (a) Solar based power generation;
 - (b) Wind based power generation;
 - (c) Hydro based power generation with capacity less than or equal to 25 MW;
 - (d) Wave based power generation;
 - (e) Tidal power generation; and

¹ Based on a very preliminary analysis it was noticed that in most countries government programmes provide financial incentives with the aim of addressing various barriers to implementing renewable energy projects. Therefore, it is recommended that common practice analysis should only be exempted in situations where project participants of such projects have undertaken investment analysis. Further, it is generally noticed that the cost of generating power using renewable sources (without taking into account subsidies or other incentives), except biomass, in most cases is higher compared to conventional power generation. Therefore, in countries where no subsidies are provided the renewable energy projects are highly unlikely to be profitable.



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f. geothermal energy based power generation;²

(f) Biomass based power generation; and

(g) Ocean thermal power generation.

7. The project participants shall use the definition of “activities that are similar to the proposed project activity”, based on technology and scale, as described in the approved methodology applied to the project activity. Where no description of “activities that are similar to the proposed project activity” is provided in the applied approved methodology, the project participants shall clearly define it in terms of technology and scale and justify the definition in CDM-PDD.

8. Where “activities that are similar to the proposed project activity” are excluded from consideration because of the fact that they were not implemented in “a comparable environment”, such as regulatory framework, investment climate, access to technology, access to financing, etc, the project participants shall present a clear comparison of aspects of the comparable environment considered. The project proponents shall justify how the “environment” is different for the project activity as compared to the “environment” under which excluded “activities that are similar to the proposed project activity” were implemented.

9. The relevant geographical area for undertaking the common practice analysis should in principle be the host country of the proposed CDM project activity. A region within the country could be the relevant geographical area if the framework conditions vary significantly within the country.

10. The DOE shall provide an assessment, in the validation report, whether all the data used in the implementation of common practice test and reported in the CDM-PDD are supported by documentation and whether the CDM-PDD clearly states the complete reference of such documentation to enable access to it by a third party. In cases where the documented data used are confidential, such data shall be submitted to the Board if demanded and shall be treated as strictly confidential by all handling this documentation (DOEs/AEs, Board members and alternates, panel/committee and working group members, external experts requested to consider such documents in support of work for the Board, and the secretariat).

11. The DOE shall provide an assessment based on local expert analysis whether the proposed project activity is a common practice or not where documented information may be difficult to access or unavailable.

² The present proposal is based on a very preliminary assessment of exempting renewable energy projects from common practice analysis by the secretariat, as requested by the Board. The secretariat has not completed its analysis and may provide alternative proposal based on the final analysis.