

Annex 15

Use of approved methodologies at the renewal of the crediting period

This document contains an analysis by the Meth Panel on the use of baseline and monitoring methodologies for second and third crediting periods.

Analyses of legal aspects and practical implications

1. Which version of a methodology should be used for the subsequent crediting period?

At the renewal of a crediting period, a key question is which version of a methodology should be used by project participants for the subsequent crediting period.

Legal aspects

Paragraph 39 of the modalities and procedures state that “any revision to an approved methodology shall only be applicable to project activities registered subsequent to the date of revision and shall not affect existing registered project activities during their crediting periods”.

The sentence “shall not affect existing registered project activities during their crediting periods” is ambiguous and could be interpreted in two ways:

- It could be interpreted as “shall not affect existing project activities during their **first and subsequent** crediting periods”, meaning that at the renewal of the crediting period the same version of a methodology should continue to be used for subsequent crediting periods.
- It could also be interpreted as “shall not affect existing project activities during their **current** crediting periods”, meaning that the revision of a methodology shall not affect a registered project during its crediting period but that it may affect the project for its next crediting period.

Paragraph 49 (a) of the modalities and procedures specify that a crediting period may be renewed “provided that, for each renewal, a designated operational entity determines and informs the executive board that the original project baseline is still valid or has been updated taking account of new data where applicable.”

Since this paragraph suggests that a baseline should remain “valid” in order for a crediting period to be renewed, the second interpretation on paragraph 39 would appear to be most consistent with paragraph 49 (a), insofar as a methodology revision renders the outdated version less valid.

Practical implications

Considering the practical implications in terms of quality, accuracy and consistency in the calculation of emission reductions, it is advisable that for a new crediting period project participants use the latest approved version of a methodology that is available at the time of the renewal of the crediting period, for the following reasons:

Firstly, later versions of methodologies are often of a **better quality** and contain **more recent scientific information**, e.g. more recent and accurate default emission factors based on the 2006 IPCC Guidelines for National Greenhouse Gas Inventories rather than the 1996 IPCC Guidelines. They often also provide clearer guidance and are drafted in a more precise language. In some cases, errors in previous versions (e.g. in equations) have been corrected. As a result, updated methodologies tend to provide clearer guidance and estimate emission reductions more accurately than previous versions. For example, ACM0002 – the most frequently used methodology – has been updated several times,

mostly to provide more accuracy, clarity, and flexibility in its application (e.g. on treatment of electricity imports and exports or on different weights for the OM and BM).

Secondly, using the latest approved version of a methodology increases, in the longer term, the **consistency** in the calculation of emission reductions between the same project types. For example, in case of ACM0002, the use of the same methodology version, as used at registration, for subsequent crediting periods would imply that the grid emission factors used by the registered project at renewal would be different from that of a new similar proposed CDM project registered in the same grid, depending on the version of the methodology ACM0002 used by the new proposed CDM project activity.

Thirdly, in a few cases, earlier versions of methodologies are no longer consistent with EB guidance. Where, for instance, the **approach** to calculating emission reductions has been **changed**, this could have significant implications for the calculation of emission reductions. This applies, for example, to the use of first order decay models replacing the former IPCC Tier 1 approach for GHG National Inventories to estimate avoided methane emissions from solid waste disposal sites. In this case, the continued use of the earlier version of the methodology would mean utilization of a baseline would appear to be no longer “valid” (paragraph 49(a)), and as such, result in the continued overestimation of emission reductions. In this regard, the requirement to use updated data at the renewal of the crediting period (paragraph 49(a)) may be difficult to implement, if the earlier version of the methodology contains default values or default approaches that may have been updated with more recent data in later versions of the methodology.

From the perspective of **investor certainty**, project participants have the option of a ten-year crediting period, which provides methodological certainty for a longer first crediting period, in exchange for precluding renewal. By selecting a renewable crediting period, project participants knowingly take on uncertainties regarding whether the crediting period is renewed and the level of emission reductions for subsequent crediting periods. (Note that more recent versions of a methodology may result in more or less CERs, depending on, for example, the updated default values or possible other changes in the calculation of emission reductions.)

2. What should be done if a methodology has been withdrawn?

In some cases, methodologies have been withdrawn and consolidated in another methodology. Sometimes, methodologies are withdrawn because of inconsistencies with other methodologies or methodological deficiencies that are better addressed in other methodologies. In these cases, the continued use of the withdrawn methodology would not be advisable, since, as noted above, paragraph 49 (a) requires that the baseline remains valid.

It is recommended that project participants should, in such a case, use another approved methodology for the subsequent crediting period that meets the applicability conditions of the project activity, such as the consolidated methodology that is based, in part, on the methodology originally used.

3. How should changes in the applicability conditions be treated?

Sometimes, revisions of methodologies result in changes to applicability conditions. In most cases, applicability conditions are broadened and the change would not affect projects at the renewal of their crediting period. In a few cases, the applicability conditions may be clarified or restricted, e.g. due to unforeseen project types that do not fit in the methodology but were not visualized when developing and approving the methodology. As a result, in exceptional cases, latest version of the approved methodology may not be applicable to a project activity. In few other cases, it could also occur that parts of the revised methodology are difficult to apply to the project activity, for example, because

historical data that is required by the revised version of the methodology has not been collected during the first crediting period.

In these cases, project participants could either use another approved methodology of their choice or they could request a deviation from the latest approved version of the methodology, explaining how they intend to handle the issue of the latest version of approved methodology not being fully applicable to the project activity. This approach would provide flexibility to project participants, while avoiding that the earlier version of the methodology continues to be used for the subsequent crediting period.