CLEAN DEVELOPMENT MECHANISM

CDM-MP59-A13

Draft Clarification

Clarifications related to the “Guidelines on the assessment of investment analysis”

Version 02.0

United Nations
Framework Convention on
Climate Change

COVER NOTE

1. Procedural background

1. Two issues regarding the application of investment analysis were identified by the secretariat during its assessment of projects and entities. Clarifications from the Methodologies Panel (Meth Panel) were sought by the secretariat. The Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) at its seventieth meeting considered the clarification provided by the Meth Panel and agreed not to approve it, for the following reasons:

   (a) It is not necessary for a project that applies twice for renewal of crediting period to have a lifetime of more than 20 years;

   (b) The Board cannot make retroactive application of new requirements, such as default value of equity benchmarks, compulsory for project participants.

2. The Board requested the Meth Panel to reconsider the underlying issues taking into account these inputs.

2. Purpose

3. The clarification aims to clarify the requirements for: (a) the determination of the period of assessment; and (b) the applicability of the default values for the expected return on equity.

3. Key issues and proposed solutions

4. As per the enclosed clarification.

4. Impacts

5. The projects selecting renewable crediting period are not allowed to use the minimum of ten years as the period of assessment for investment analysis.

5. Recommendations to the Board

6. The Meth Panel recommended that the Board consider and agree on the clarifications provided for the "Guidelines on the assessment of investment analysis", as contained in annex 13 to the MP 59 report, and take note that the Meth Panel agreed to assess the need for updating the default values for the expected return on equity at a future meeting.

1. Introduction

1. The following clarifications on the application of the "Guidelines on the assessment of investment analysis" are provided to address two issues identified during the assessment of projects and entities, namely: (a) the determination of the period of assessment and (b) the applicability of the default values for the expected return on equity.

2. Clarifications

2.1. Determination of the period of assessment

2. If project participants choose a ~~renewal of~~ renewable crediting period~~, it is implicit that the life time~~ and if the technical lifetime of the CDM project activity is more than 20 years, ~~and in this case the assessment of~~ the investment analysis shall be conducted for ~~at least~~ 20 years and~~, if applicable,~~ include the fair value of the project activity assets at the end of the assessment period.

3. If project participants choose a renewable crediting period and if the technical lifetime of the CDM project activity is less than 20 years, the investment analysis shall be conducted over a period corresponding to the technical lifetime of the project activity and the fair value at the end of the assessment period shall be set at zero. ~~Furthermore, the first sentence in Paragraph 3 of the “Guidelines on the assessment of investment analysis” (version 5) where it is stated that the period of assessment should not be limited to the proposed crediting period is clarified as follows: in any case the period of assessment of investment analysis shall not be less than the chosen crediting period. The rest of the provision in paragraph 3 stands as it is in the guidelines.~~

2.2. Applicability of the default values for the expected return on equity

4. The default values for the expected return on equity as adopted by the Board at its sixty-second meeting are ~~also applicable to~~ based on long term historical returns and therefore may also be applied by projects with a start date prior to the sixty-second meeting of the Board.

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Document information

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