

January 12, 2011

CDM Executive Board  
P.O. Box 260124,  
D-53153 Bonn, Germany

**Subject: Response to the EB call for public inputs at its 58<sup>th</sup> meeting regarding the draft "Tool for baseline scenario identification and baseline emission calculations".**

Dear Members of the CDM Executive Board,

The Carbon Finance Unit of the World Bank welcomes the opportunity to contribute to the discussion on baseline scenario identification and baseline emission calculations. In preparing this submission three documents were considered; i) The draft tool for baseline identification ii) The draft tool for baseline emissions calculation iii) The tool for the determination of the most attractive alternative of a CDM project component. This submission is organized as follows: First, comments are provided on the general approach. Second, specific comments are made on each of the three documents.

### **1. General Comments**

The proposed documents represent a positive effort to assimilate best practice methodology approaches in order to create a systematic baseline determination approach. The development of a systematic approach can be expected to improve the quality of PDD submissions and improve the efficiency of the project assessment procedures. However, the documents as currently drafted could lead to inconsistencies and duplications with approved baseline and additionality tools, in part due to the top down approach taken in establishing the best practice approach and also due to the introduction of new terms not included in the CDM glossary and a rather complex language style which is at times difficult to follow.

It is recommended that from the start the hierarchy of decisions is referenced and it is made clear to CDM stakeholders that approved methodologies overrule tools and that project developers *may* apply the proposed simplified approach described in these document, but if there is an alternative more accurate approach the project developer may also apply their own approach. Currently the approach is written in a prescriptive way which could be misunderstood as being a requirement that all project developers must follow.

As far as possible, it is recommended that terms used should be the same as those in the CDM glossary and to the extent possible new terminology and acronyms should be avoided. The three documents themselves appear at times inconsistent and editing for consistency is needed. For example, in the tool on baseline emission calculation 4 MABS are identified (Pg. 1), however in the tool for baseline identification 5 MABS are included (Pg. 4 para 7).

## ***2. Comments on the Tool for Baseline Identification***

- This document is the weakest of the three in terms of language, structure and general typing errors. Clarity could be improved with more flow diagrams particularly for steps 1,2, and 3 as well as introducing descriptions of “output user”, “benchmark technology” and “benchmark fuel”.
- The introduction of the new concept “Methodological Approaches for Baseline Setting (MABS)” in this document triggers the introduction of several new terms such as “emission reduction activities” and “component of the proposed project activity” as opposed to CDM project activities. These new terms introduces a new categorization logic (e.g. in no 7). From what follows later in the document these new terms/concepts appear to be unnecessary;
- Para 3, Pg. 1. -The distinction between production for predefined consumption (“individually identified consumer, IIC”) and production for the market (i.e. where the consumer is not individually indentified) certainly helps to categorize different baseline identification approaches, however, it is not understandable why cases with increases of output from the IIC definition are excluded (i.e. bullet point 4 in Para 3, Pg.1 ) neither is this consistent with the considerations under no 5;
- Para 5, Pg. 3. It is not clear why in cases where additional demand is met in part by the CDM project activity and in part by other market activities it should always be assumed that those other activities are first in displacing historical consumption – in particularly not in the IIC case where it can be tracked what happens to those IICs (refer to situations 3 and 4, Pg. 3). An example is the replacement of a diesel generator by solar panels and power purchases from the grid. If the diesel generator produces 100 MWh p.a. and is replaced by solar panels producing 50 MWh p.a. and purchases of additional 100 MMh from the grid the guideline would prevent the assumption that the solar power is replacing power produced by the diesel gen set. This is overly conservative and might affect in particular micro renewable energy generation projects. It is also illogical. The very fact that the market supply is perfectly elastic for (small) individual demand whereas it is not elastic for individual investment options results in a decision making to first opt for (cheaper) self production and then residual market (i.e. grid) purchases. It is therefore reasonable to assume that self production first replaces historical consumption. This logic can be supported by assessing the respective costs for in house production and market purchases in the IIC case;
- Para 10, Pg. 5. There should not be a requirement that project proponents must justify alternative approaches to the tool. Rather the project proponent should only be required to prove that an alternative approach is conservative and accurate.
- Section II.2.3, Pg 14, Chart for MABS3. The chart presents limited options and includes methane recovery from landfill, WWT and industrial gases under this same category. It is recommended the graph MABS3 is revised and the following issues are also addressed:
  - Why is the new WWTP listed under the “PP decides not to invest”? The baseline (open lagoon) can entail investment.

- The language in the centre of the graphic: “Do the project operating parameters have impact on the GHG emissions” is inappropriate. In fact both landfill and WWT plant operations have a direct impact on the amount of methane that is generated and thus on the amount of GHG emissions.
- Para 17 and Para 18, Pg. 7. The limitation of the list of available alternatives to a project proponent is not intuitive as there is no consideration of the type of the project proponent (e.g. individual developer versus nationwide operating utility) that is certainly crucial for his/her range of investment options. It is for example not clear why a CCGT plant cannot displace a sub critical power plant which could be a probable scenario where project investments are undertaken by a large utility. Furthermore it is not clear how the MABS need to be selected in cases where technology change and fuel switch are interlinked and cannot be treated as separate components. An example is the conversion of a steam turbine (coal/Naphtha based) into a gas turbine of advanced technology that involves both fuel switch and technology switch.
- Section II.2 Para 23- 36, Pg. 9. An overly conservative ‘minimum approach’ is introduced. Under this minimum approach baseline emissions have to be assumed as the minimum of the most attractive alternative and a benchmark. In some cases the minimum requirement also includes the pre project case. This minimum approach is then systematically applied to all cases that do not involve initial investments and also to fuel switch projects. This generalization is not appropriate. A minimum approach can only be a default option for those cases where the baseline identification is not conclusive.

### ***3. Comments on the Baseline Emission Calculation Tool***

- Pg. 1 first sentence. It is not clear why the tool does not also apply to investment alternative baselines given that the tool describes how to calculate baseline emissions which is independent of the chosen baseline approach.
- Last paragraph, Pg. 8. It is not clear why “10” facilities (or projects) are required as a standard for defining the size of the relevant geographical area.
- Table 1, pg. 9. There is no reason why a level aggregation for “all regions” for industrial GHG destruction project is required unless the operation/production is highly standardized among countries.

***4. Comments on the Tool for the determination of the most attractive alternative of a CDM project component.***

The tool summarizes key EB decisions regarding how to apply the investment analysis and it is not clear why this tool is required in addition although it is useful that the document references EB guidance on national policies (e+/-).

In summary our submission is intended to show that these documents require some considerable revision and in particular substantial correction on dealing with increases in activity levels as well as more consideration of further streamlining in wording and presentation to ensure they can be practically applied.



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