

Subject: IETA response to the call for input on the "Draft tool for baseline identification," "Draft tool for baseline emission calculation," and "Draft tool for the determination of the most attractive alternative of a CDM project component"

12 January 2011
UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D 53153 Bonn
Germany

Dear Mr. Mahlung,

I am writing to you on behalf of the International Emissions Trading Association (IETA) in response to the call for input issued at EB58 regarding the "Draft tool for baseline identification," "Draft tool for baseline emission calculation," and "Draft tool for the determination of the most attractive alternative of a CDM project component".

IETA would like to submit the following comments on the package of tools as a whole. Following these first comments are then more specific comments on the "Draft tool for the determination of the most attractive alternative of a CDM project component".

Regarding the package of three draft tools:

The draft tools are very interesting from a theoretical point of view but it is not clear how they are to be applied in practice and therefore it is difficult to comment constructively. It would be helpful if it could be made clear whether the draft tools are intended to be applied:

- a) all together or individually?;
- b) to all new methodologies going forward?, and/or
- c) to all existing meths via a systematic revision of existing methodologies?.

It should also be made clear whether or not the tools are considered to be mandatory or optional.

In practice, IETA does not recommend implementing these tools without significant further review and coordination with project participants. We are concerned that the concepts are highly complex and believe that they would likely not prove very helpful to project developers or DOEs in the development and validation of CDM projects. The draft tools significantly complicate the process of baseline scenario selection to a level that is not necessary for most CDM projects. We observe that some of the approaches could help to deliver consistency across all projects (for example, the description of consumers and outputs and the methodological approaches to baseline setting) but it would be difficult to justify such a fundamental change to the CDM methodologies at this stage. Also, it would introduce a massive inconsistency between existing projects and new projects that needs to be addressed before going any further. Furthermore, the complexity of the draft tool would increase the transaction burden rather than decrease it and therefore run contrary to the existing mandates to simplify and standardize the CDM.

In our view, the concepts described in the draft tool would be better presented as a form of guidance or

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discussion paper to help advance best practice, perhaps contributing to the understanding of the role of baselines and additionality more generally.

Regarding the draft “tool for the determination of the most attractive alternative of a CDM project component”, IETA has the following questions and comments on the sections/paragraphs identified:

Title: How is the “CDM project component” defined by the EB/Meth Panel?

Para 5:

- “Taking account..... country and EB decisions on national and/or sectoral policies and regulations” should be reformulated as “Taking account....country. Project participants may also refer to EB decisions on national and/or sectoral policies and regulations.”
- Rationale: Here EB decisions cannot set solid precedents. EB decisions are only interpretations that may have been done based on incomplete information. Policies and regulations also change continuously outdating the decisions. Project participants possibilities to analyze the situation and bringing up new information should not be imperatively limited by the earlier EB decisions.

Para 7:

- How is a “project that is currently under way” defined? At which phase a project is “under way”?
- Inclusion of projects that are currently under way is problematic due to unavailability of data.

Para 8, Note 1:

- Only registered CDM projects are excluded, but projects that are *under way* are included. This leads to a situation where projects that are *under way* and developed as CDM projects need to be included. Solution:
 - o Excluding projects that are *under way*, or
 - o Excluding CDM projects that e.g. started Global Stakeholder Process.
 The first solution is preferred due to the problems related to definition and data availability of projects *under way*.

Para 8, Note 1:

- DOEs cannot handle vague guidance such as “area may be expanded” and “if possible ten such facilities”. These will be interpreted as “area shall be expanded” and “shall include ten such facilities”. As such absoluteness seems not to be intention, the guidance would need to be specified.
- The guidance should include more specific instructions as to *where* the area “may” be expanded. For example, consider a case where the host country has 5 power plants, all coal fired. Neighboring country A has nothing but coal. Neighboring country B also has wind power. In this case, it would really matter to which of the countries the area would be expanded. The conservativeness principle of CDM would probably lead to requirement of expanding to country B also in the case country A would be otherwise the more relevant choice.

Para 12:

- Requirement “all alternatives shall be compared to the same set of barriers” should be removed or reformulated. The current form would cause irrelevant work. An example: A barrier for gas fired plants is the lack of gas supply infrastructure. The sentence requires the consideration of whether this prevents hydro or wind power...
- The phrase “The assessment of the significance of barriers should take in account the level of

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access to....." seems to refer only to the technology barrier. It should be reformulated e.g. as "*For example*, the assessment of the significance of *technological* barriers should take in account the level of access to....." .

Para 15:

- The "Step 4" referred to does not seem to be included in the paper.

Para 16-22 (Step 3):

- Step 3 is not feasible:
 1. It would set excessive burden to project participants, and
 2. Data availability would not allow it to produce reliable results.

The main problem is the lack of undisputable initial values for the investment calculations. The starting point of the proposed analysis is very different to the common "CDM project vs benchmark" comparison, which initial values are from the underlying project case, usually directly from feasibility studies that are used as basis of investment decision. The proposed analysis would not have such a clear data source.

From where should the initial values be derived then? It is clear that the profitability of projects using a technology differ due to many reasons. It is clear that using e.g. typical values or randomly selected project cases would not lead to relevant results. The most advantageous potential is exploited first, and then more and more expensive potential will be brought into use. **Projects compared to one another should present the most profitable ways of increasing production of a similar product by each technology in the area at the moment of the investment decision.**

The required specific information on the relevant project cases is most likely not available. This would lead to the random selection of initial values within the framework of available project examples. Moreover, it is easy to see that, under the conservativeness principle of CDM, the most unprofitable project examples would need to be selected to represent polluting technologies and the most profitable examples selected to represent clean technologies. This would contradict the intention of comparing marginal costs of production increase.

Doing even a minimally justified investment comparison for this step would require a massive amount of background work. Effectively, country/region-level studies on marginal costs of production increase would be required as a part of the project-specific CDM eligibility demonstration. If the EB/Meth Panel really believes that the proposed comparison is necessary, the CDM EB should do it for each relevant location through top-down studies. IETA does not believe that it is a reasonable requirement to be placing on project participants.

IETA greatly appreciates the opportunity to provide our input on this issue. Please do not hesitate to contact IETA's Policy Leader for Flexible Mechanisms, Kim Carnahan, at carnahan@ieta.org should you have any questions regarding this letter.

Sincerely,

IETA input on "Draft tool for baseline identification," "Draft tool for baseline emission calculation," and "Draft tool for the determination of the most attractive alternative of a CDM project component"

A handwritten signature in black ink, appearing to read "HCD Derwent". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Henry Derwent
President and CEO, IETA