

**First of its Kind:**

One possible barrier that needs to be analyzed as part of the barrier analysis is whether “barriers exist due to prevailing practice”. One such barrier would be the fact that the project is “first-of-its-kind” which implicitly assumes that such “first of its kind” (FOIK) projects are facing barriers due to prevailing practice. If these can be alleviated by the CDM, then the project is additional. The questions could then be:

1. How would you normally define “prevailing practice” and what influences the consideration of whether such prevailing practice constitutes a barrier?

Prevailing Practice (PP) is defined as the dominant technology or fuel in a sector. It can be identified by ranking the various different technologies and estimating the percentage of current market share for each technology or fuel. Ideally, regional statistics from national governments would be available, but otherwise surveys could be conducted – by DNAs or PPs – and complemented by professional judgment regarding expected development in the future.

PP in itself does not present a barrier. The barrier arises because PP is a much less risky technology to choose. From a vendor perspective, a new technology contains more risks, such as:

- a. Guarantee of service – if an EPC contract can be agreed so that a level of performance or warranty, and an agreed lead-time, can be guaranteed, this can reduce the technology risk substantially. This is more difficult, however, with untried, ‘First of its Kind’ technologies.
  - b. Access to resources – This can include suppliers of capital equipment, skilled labor in operations and construction, and access to maintenance firms to provide supplies
  - c. Informational uncertainties – There is an inherent unknown in introducing a new technology, as to whether it is able to compete with existing technologies in the market. At a project level, there are also issues of firms and households adapting to new technologies, for which they may not feel comfortable. For example, a household could be unwilling to forfeit their old cooking stove for new equipment they are unfamiliar with.
2. In light of the previous answer, in your understanding, is a “first of its kind” project always facing barriers due to prevailing practice?

This is not necessarily the case. It is not inherent that PP creates a barrier; it is just that the dominant position of the PP and the risks outlined above puts a FOiK project at a competitive disadvantage.

3. Consequently, is there a need for a FOIK concept in the additionality and combined tools or can the normal ñ or further improved - investment analysis or barrier analysis test sufficiently or even better capture the additionality of a project?

Investment analysis serves as the only method for showing additionality in these instances, and can only incorporate the barriers previously mentioned if they are financially quantifiable. Using

such quantitative evidence in an indisputable manner is practically impossible however. There is also the issue that Foik projects attract higher risk premia because of lack of evidence of their successful performance. Therefore, uncovering the internal rate of return (IRR) of projects becomes exceptionally difficult.

There is a need to establish clear rules for Foik if it is to be used as part of the additionality tools, such as:

- Market penetration limits
- A clear definition of what is meant by same-purpose-technology
- Research to identify the most obviously additional technologies, financed by the CDM EB

FOIK is just another category of financial disadvantage to a project, which could be captured and explained within the framework of the additionality tool, perhaps with some additional clarification or definition. However, if there is a chance that FOIK status gains exemption from additionality testing, then a separate (prior) test would make sense.

4. Is it sufficiently clear what constitutes a technology that is FOIK or is additional guidance required (e.g. geographical limitations, methodologies, industry and technology, other differentiating factors...)? How would one define this guidance?

This remains to be clarified. It may be that a percentage measure, such as penetration rate of total energy supply, may be sufficient. This would also mean that it does not need to be the 'first' of its kind, but instead meet a very small threshold, such as 0.5%.

5. Should there be technologies that are automatically deemed FOIK or technologies that are deemed never to be FOIK?

There is a case for the inclusion of positive lists, so long as there is a mechanism for projects to argue their case for being Foik. They can also make the CDM approval process more predictable for developers, and can make the most evident cases officially Foik.

6. Since FOIK is meant to reflect a barrier due to a very limited and quite unique application of a (new) technology, would it then be necessary to demonstrate how CDM helps to overcome this barrier?

Investment analysis should make it clear whether or not the FOIK project would be able to overcome the barrier without CDM.

7. Should CDM projects (registered or under validation) continue to be excluded from the FOIK test in the long term? What would be a reasonable term?

Whether CDM projects (registered or under validation) continue to be excluded from the FOIK test depends on the context of host country, project locations, and widespread of technologies.

## **Common Practice:**

In the additionality tool, the generic additionality tests shall be complemented with an analysis of the extent to which the proposed project type (e.g. technology or practice) has already diffused in the relevant sector and region. This test is a credibility check to complement the investment analysis or barrier analysis.

1. Is there a need for a CP concept in the additionality and combined tools or can the normal ñ or further improved - investment and barrier analysis tests sufficiently capture the additionality of a project?

No, the common practice analysis contains problems because of the issues of data availability. The level of assurance is such that the results are often not of sufficient quality, and there can also be delays for projects by encountering this process.

2. Should this concept be introduced early on in the assessment of additionality or should it continue to be implemented as a final stage of the assessment acting as a credibility check?

For the time being, IETA has not reached conclusion on this matter.

3. Do you agree with the current approach to determine the CP of an activity?

The CP test relies upon overly burdensome data collection and it is unreasonable to introduce such high levels of specificity and subjectivity in looking at a single project.

4. Is there a need to better define what constitutes a similar activity and the criteria used to identify essential distinctions (e.g. geographical scope, methodology, industry, technology, size, local circumstances, others criteria including the current criteria in the existing guidance)

Yes, there is a need to better define what constitutes a similar activity and the criteria used to identify essential distinctions. If the common practice test remains necessary, then only project types deemed to be typically similar should be included. This authority could be given to the central authority, or to DOEs. Project participants can gather such information which can then be validated by DOEs. Information sources can be obtained through third party sources or publicly available government sources.

5. Is there any other alternative approach to determine the CP of an activity?

For the time being, IETA has not reached conclusion on this matter.

6. Should CDM projects (registered or under validation) continue to be excluded from the CP test in the long term? What would be a reasonable term?

If it is necessary then it should be for the duration of its registration

7. Should there be a list of activities that are exempt from the CP test?

For the time being, IETA has not reached conclusion on this matter.