



Annex 7

CONCEPT NOTE ON IMPACT OF UPDATE OF STANDARDIZED BASELINES ON CDM PROJECTS

I. Background

1. The use of standardized baselines can potentially reduce transaction costs, enhance transparency, objectivity and predictability, facilitate access to the clean development mechanism (CDM), particularly with regard to underrepresented project types and regions, and scale up the abatement of greenhouse gas (GHG) emissions, while ensuring environmental integrity. At the sixth meeting of the conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP 6) in Cancun, Parties agreed to decision 3/CMP.6 on the implementation of standardized baselines under the CDM.¹
2. The CMP 6 decided that Parties, project participants, as well as international industry organizations or admitted observer organizations through the host country's designated national authority, may submit proposals for standardized baselines applicable to new or existing methodologies, for consideration by the CDM Executive Board (hereinafter referred to as the Board).
3. CMP 6 also requested the Board to develop standardized baselines, as appropriate, in consultation with relevant designated national authorities (DNAs), prioritizing methodologies that are applicable to least developed countries (LDCs), small island developing states (SIDS), Parties with 10 or fewer registered CDM project activities as of 31 December 2010 and underrepresented project activity types or regions, inter alia, for energy generation in isolate systems, transport and agriculture.
4. In response to the request from the CMP 6, the Board developed the guidelines on establishment of sector specific standardised baselines (EB62, Annex 8), which was further revised by the Board (EB65, Annex 23). The Board further developed the work programme for implementation of standardised baselines (EB65, annex 22). Part of this work programme includes the need to understand the implications of standardized baselines to existing regulatory documents such as the CDM Project Standard (hereinafter referred to as the PS) the CDM Validation and Verification Standard (hereinafter referred to as the VVS) and the proposed new methodology guidelines (hereinafter referred to as the PNM).
5. In its sixty-eighth meeting, the Board considered a concept note on "the revision of the CDM project standard, CDM validation and verification standard, and proposed new methodology guidelines as a result of standardized baselines". The note and a presentation made by the secretariat to EB68 covered the possible approaches and options available to consider the extent of impact of update of standardised baselines on the new CDM projects and already registered CDM projects. The Board requested the secretariat to provide information clarifying the impacts of updated standardized baselines on the new CDM projects and/or already registered CDM projects for consideration by the Board at its sixty-ninth meeting (EB68, paragraph 117).

¹ <<http://unfccc.int/resource/docs/2010/cmp6/eng/12a02.pdf#page=2>>.



II. Objectives

6. The objectives of this concept note is to:
- (a) Identify policy options for the Board's consideration on the impact of update of standardised baselines on the CDM projects; and
 - (b) Outline the proposed next steps and timelines for implementing the changes in existing standards, namely CDM project standard and CDM validation and verification standard.

III. Key issues and proposed solutions

7. The key issue discussed in this concept note is that the Board needs to decide how the update of standardized baselines will impact the CDM projects. Following policy options are proposed for the for the Board's consideration.

A. Option-1: Updated standardised baseline will impact new projects and already registered projects

8. The Board may recall that it has defined the frequency of update of standardized baseline on interim basis as three years.² As a part of the Board's work programme on the implementation of standardised baselines, it is planned to determine the criteria for frequency of update of standardised baselines in a specific sector or region. It is expected that one of the important criteria for update of standardised baselines would be the pace of evolution of technologies in a sector and/or a country. Higher the pace of evolution in a specific sector/ country, faster will be the update of standardised baseline; and the vice versa.

9. In conducting the initial assessment, an option was identified that the update of standardized baselines will impact not only the new projects using standardized baseline but also to the registered project activities using standardized baselines. This is in line with the existing requirements of the methodologies that contain the baseline based on benchmarks such as grid emission factor. The registered renewable energy projects using option for ex-post update of grid emission factor have an impact on their emission reduction depending upon the grid emission factor in a specific project year. Following provisions may be considered under this option subject to further assessed by the secretariat:

- (a) The emission reduction of registered projects using standardised baselines should be updated for every revision in standardised baseline that may take place every seven years (to match with renewal of crediting period) in countries and sectors where technology or fuel or feedstock is evolving and becoming more efficient/ less carbon intensive at a slower pace;
- (b) The emission reduction of registered projects using standardised baselines should be updated for every revision in standardised baseline that may take place more frequently (i.e. at a frequency less than seven years) in countries and sectors where technology or fuel or feedstock is evolving and becoming more efficient/ less carbon intensive at a faster pace.

² Guidelines for the establishment of sector specific standardized baselines (Version 02.0), EB65, Annex 23.



10. Following is the rationale for this option:
- (a) Although the guidelines for the establishment of sector specific standardized baselines requires to consider the design performance of all the technologies (or fuel or feedstock) implemented in the sector at the time of developing the standardised baselines, it is expected that apart from implemented technologies in countries, the PPs should also consider in developing standardised baseline, the design performance of other technologies (or fuel or feedstock) available at the time of making investment decision;
 - (b) It is expected that all the technologies (or fuel or feedstock) available to PPs at the time of investment decision will be implemented at different pace (depending upon the pace of evolution of sector), latest by the end of the first crediting period, and therefore a revised standardised baseline during crediting period should have an impact on the emission reduction of registered projects, which is registered by using previous version of standardised baseline;
 - (c) Therefore, impact of updated standardised baselines on registered CDM projects can, in practice, capture the impact of implementation of such technologies (or fuel or feedstock).
11. However, by adopting this option, it is envisaged that the impact of update of standardized baselines on already registered projects will adversely impact the attractiveness of standardized baselines and pose investment risks to the project participants who are not in position to predict the change in baseline emission factor for their project during the crediting period.

B. Option-2: Updated standardised baseline will impact new projects only

12. It is necessary to consider the following counter-argument for option-1, particularly for paragraph 9 above that provides the rationale for option-1.
- (a) It is reasonable to consider that other technologies (or fuel or feedstock) available at the time of investment decision may be implemented at the same time as CDM project;
 - (b) Therefore, if the project uses the version of standardised baseline that is available at the time of submission of first monitoring report by designated operational entity (DOE) for issuance of certified emission reductions (CERs), it can be considered that the impact of such technologies (or fuel or feedstock) can be captured in the version that is available at the time of submission of first monitoring report;
 - (c) Based on the above reasoning, under this option following provision is recommended: Updated standardised baseline will impact the baseline emissions and additionality of new projects only. The version of standardised baseline that should be used for verification of registered project is the version available at the time of submission of first monitoring report by DOE for issuance of CERs. This version of standardised baseline should be applicable to all the verifications of the project till the end of its first crediting period.



C. Comparison of two options

13. The impact of update of standardized baselines on emission reductions of already registered projects as per option-1 may or may not be significant depending upon the level of update, however it will have adverse impact on the investor's confidence in standardized baselines. Whereas the impact of update of standardized baselines on emission reductions of new projects as per option-2 will provide predictability in standardized baselines, without compromising with environmental integrity and simplifying the requirements for the stakeholders. In both the options, as per existing CDM rules, baseline data is required to be updated at the end of renewal of crediting period, requiring the project participants to use the latest version of standardized baseline available at the time of renewal.

14. Under both the options, as a result of updates of standardised baselines, the positive list may be updated; however it will not require the reassessment of additionality of already registered project activities.

15. Based on the Board's guidance, the secretariat will include the requirement on impact of updated standardised baseline on the CDM projects in the existing standards, namely CDM project standard and CDM validation and verification standard. The secretariat will take into account any comments from the Board and / or stakeholders and submit final text on these documents for the Board's consideration by EB70.

16. The Board's decision will impact the potential project participants, Party and admitted observer organisations who submit the projects that use standardised baselines for claiming emission reduction.

17. The Board is recommended to either select one of the policy options discussed in this note, or provide further guidance on any other option it may consider appropriate.

History of the document

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01.0	27 August 2012	Initial publication as an annex to the annotated agenda of EB 69.
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