

TABLE FOR COMMENTS

Name of submitter: Project Developer Forum Ltd

Affiliated organization of the submitter (if any): _____

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#	Para No./ Annex / Figure / Table	Line Number	Type of comment ge = general te = technical ed = editorial	Comment (including justification for change)	Proposed change (including proposed text)	Assessment of comment (to be completed by UNFCCC secretariat)
			ge	<p>In general we recognize that financial additionality and therefore the Guidelines on the assessment of Investment analysis has acquired a central role for the demonstration of additionality. Nevertheless we caution that financial analysis as it is conducted now only evaluates the narrow aspect of financial profitability. Moreover, according to the fundamentals of the concept this would only be a meaningful indicator of a project's viability in the context of efficient capital markets, a premise that does not hold in developing countries.</p> <p>It is therefore important to encourage and facilitate the use also of the barrier tool, as well as to encourage project developers and stakeholders to come up with alternative options to demonstrate additionality.</p>	<p>It would help to include appropriate language, such as:</p> <p>“Financial additionality focuses only on the financial attractiveness of a project. Where projects face other barriers such as lack of access to private capital markets or barriers related to technology and common practice they are encouraged to use the Barrier Analysis.</p>	

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	Title		ge	<p>We suggest to maintain the title and nature of the document as Guideline based on the following arguments:</p> <ul style="list-style-type: none"> ➤ The object of the text is to provide guidance and details to the Additionality Tool and as such must be lower in hierarchy than a tool. ➤ The document is completely dependent on the use in the context of the Additionality Tool and not functional as an Independent Standard. ➤ It has been acknowledged by the CMP that other alternative proposals for Additionality Assessments should be promoted and thus a “Standard on Investment Analysis” seems not compatible with the ambition to develop alternative approached, also for Investment Analysis. ➤ The detailed nature of the document and the fact that it relies on norms and definitions as well as changing default data indicates that it does not comply with the nature if a universal standard. 	<p>Maintain the original Title: “Guidelines on the assessment of investment Analysis”</p> <p>Another possibility could be to define it as an Appendix to the Additionality Tool, given the dependence from this Tool.</p>	

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	3		ge	<p>In order to improve the capacity of stakeholders to understand and comment on the proposed changes suggest making the study available.</p> <p>In fact some of the conclusions presented in the Draft seem to conflict with standard financial theory and practice, but an adequate discussion would require to have access to the original study.</p> <p>Among other things we identify a lack of addressing the pro's and cons of the domestic CAPM which is proposed for inclusion in section 7.1 and the international CAPM.</p> <p>Further we understand that such studies play a fundamental for parties and stakeholder to understand the fundamentals of the CDM and its evolution and thus should be in the public domain.</p> <p>In general we encourage the UNFCCC secretariat and the CDM EB to ensure that all general studies that are contracted and developed in their behalf are made public to support the evolution of the mechanism, as well as the capacity building of its users and stakeholders.</p>	NA	
	3.1.5		ge	<p>In the context of a domestic CAPM we understand that it is adequate and appropriate to use the yield of a sovereign bond with a duration that is equivalent to the operational lifetime of the project to represent the opportunity costs of funds, i.e. substituting the risk free rate and the country risk premium that would be used in an international CAPM model.</p> <p>In any case we believe that both approaches are viable alternatives and that they should be recognized by the CDM.</p>	NA	
	2.2.1		ge	<p>As mentioned and justified above we suggest to maintain the status and name of the document as Guideline. As the paragraph explains, the document is subject to use in the context of other tools and thus intrinsically lower in hierarchy.</p>	Maintain original language.	

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	4 (a)		ge	<p>The Meth Panel proposes to change the approach used in estimating the equity risk premium by replacing previous method based on arithmetic averages with a new one based on geometric averages. Given that the estimation of the equity risk premium is a key element of the estimation of the cost of equity in the build up method, any change in its estimation method should be subject to detailed consultation. Therefore, it is suggested for the Meth Panel to provide further details on the evaluation of the topic made by the external expert, making available the consultant's study and its evaluation of both alternatives.</p> <p>This suggestion becomes even more relevant considering that the observed reduction in the historical risk premium is strongly influenced by the drop in equity returns during the financial crisis of 2008. This counterintuitive effect of a reduction in the measurement of the riskiness of the equity investments due to the crisis is noted by Aswath Damodaran, the academic reference provided by the Meth Panel, who recognizes <u>that many estimation services and academics argue for the arithmetic average as the best estimate of the equity risk premium</u>. This is an important aspect to be considered as the effect of the observed anomaly is accentuated by the proposed use of the geometric average in the estimation.</p>		
	11		ed	We recommend clarifying that the default values listed in the Appendix 1 are effectively post-tax benchmarks and users that wish to follow the respective guidance will have to convert them into pre-tax benchmarks.	Add the sentence: "Project Developers that wish to use the post-tax default values listed in the Appendix 1 shall convert them in to pre-tax values using the appropriate applicable tax rate for their project and jurisdiction.	
	14		ge	We appreciate the corrections as they are presented as benchmarks derived on the basis of the CAPM and WACC are effectively based on external standard market data. Therefore the proposed amendment solves a mistake that has led to confusion and multiple problems between Project Developers and DOEs	We support the change as presented.	

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	14		te	Use of should or may is ambiguous. Please make it clear that both are acceptable but the second option (in this case) must meet certain criteria.	If there is only one possible project developer, either internal company benchmarks/expected returns may be applied, or the benchmark based on standard conditions in the market may be used. If internal company benchmarks are used,	
	15		ge	<p>We believe that it is important to discriminate clearly between an international CAPM and a domestic CAPM and to allow both options. The international CAPM has the advantage of being a more common way of determining discount rates on the basis of solid US Capital Market data, incremented by appropriate country specific risk factors.</p> <p>The domestic CAPM on the other hand might be more suitable to assess the country specific perspectives of local investors, but it is also subject to more uncertainties and variability's, even in markets that fulfil the criteria that are being presented in section. We also have to recognize that it will be difficult to find companies that have been listed for more than three years that can be considered pure plays in innovative sectors such as wind biomass and solar based energy generation.</p>	<p>Suggested change:</p> <p>If the benchmark is based on parameters that are standard in the market, the cost of equity should be determined either by: (a) selecting the values provided in Appendix A; or by (b) calculating the cost of equity using an international CAPM based on standard US capital market data and appropriate risk factors that apply for the host country and project type or (c) a domestic CAPM.</p>	
	16		ge	<p>To reflect the possibility of choosing between an international or a domestic CAPM the guidance 16 is to be slightly amended.</p> <p>As the international CAPM is based on the US capital market, which fulfils even the most stringent requirements, we understand that no equivalent guidance is necessary.</p>	<p>The cost of equity may be calculated using a domestic CAPM if all of the following conditions are satisfied, according to the most recent datasets from the World Federation of Exchanges³ and the Gross Domestic Product (GDP) from the World Bank or UNSTAT</p>	
	16		ge	<p>Would it be possible to either prepare a list of countries which meet these criteria in advance or, as they are successfully applied by project developers and validated, build up a list of countries which meet them? This would reduce the burden for both project developers and DOEs and also reduce risk for project developers.</p>	<p>Add an Appendix listing countries which meet the criteria or create a living list which the Secretariat could update as projects are successfully registered.</p>	

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	18		ge	We suggest to include reports from established research institutes as source and reference for the cost of debt as well as other economic indicators. It is the role of Bloomberg, Ibbotson and other research companies to consolidate market data and make them available.	We suggest to include option (d) reports or statements on the average capital market pricing and yield of applicable debt instruments issued by prestigious research companies are an alternative to reference the expected cost of debt.	
	22		ge	<p>According to the “Tool for the demonstration and assessment of additionality Version 07.0.0, Section 2.1.2.(c) “Investment analysis to determine that the proposed project activity is either: 1) not the most economically or financially attractive, or 2) not economically or financially feasible”.</p> <p>While a benchmark analysis (Option III) may be seen as a criteria to determine if a project is economically feasible, the comparison analysis (Option II) is suited to determine if there are other more attractive investment opportunities with the same outcome.</p> <p>In the case where the investor has no other choice than to make an investment, then comparison analysis is in fact the only option, but also in the case that an investor has different options to invest, including not investing at all, the comparison analysis makes sense.</p> <p>Based on this understanding we propose to clarify explicitly that comparison analysis remains an option for such situations as this avoids confusion.</p>	<p>We suggest to amend:</p> <p>If the proposed baseline scenario leaves the project participant no other choice than to make an investment to supply the same (or substitute) products or services, a benchmark analysis is not appropriate and an investment comparison analysis shall be used.</p> <p>In case investors have different options, but are not forced to invest, they can use the comparison analysis to show that the project is not the most economically or financially attractive.</p> <p>The discount rate used in the investment comparison shall be determined using the guidance provided above for the calculation of the benchmark. If the alternative to the project activity is the supply of electricity from a grid this is not to be considered an investment and a benchmark approach is considered appropriate.</p>	
	Appendix 1		ge	See comments on paragraph 4 (a)		
	Appendix 1	6	ge	We recommend including guidance and formula for the correct conversion of real into nominal terms.		

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