5th CDM Roundtable

Session II: Improving the assessment of additionality

Bonn, Germany, 10 August 2012

Background

- CMP7 requested the Board to consider possible ways of improving the current approach to the assessment of additionality, in order to continue ensuring environmental integrity.

- EB68 considered a concept note, requested the secretariat to prepare a work programme and prioritized three issues.

- One of the three issues is the consideration of CER revenues in the demonstration of additionality. The other two issues are:
  - The forecast of fuel price for the demonstration of additionality; and
  - The inclusion of projects requesting registration or under validation to determine the baseline technology.

Draft work programme

- Improvement of existing approaches
- Implementation of innovative approaches
  - Positive lists and possibly negative lists for renewable energy generation (ACM0002/AM0103)
  - Positive lists for project activities to be identified for LDCs
  - Performance benchmark for project activities to be identified from approved and rejected methodologies

Consideration of CER revenues

- Definition of additionality in the CDM M&P: A project activity is additional if anthropogenic emissions of greenhouse gases by sources are reduced below those that would have occurred in the absence of the registered CDM project activity.

- One interpretation is the theoretical model for investment analysis according to the approved tools (additionality tool and combined tool)

  - Assumption: the most financially attractive alternative is implemented.

Consideration of CER revenues

Possible ranking of financial attractiveness of three alternatives (the baseline, the project without the CDM incentives, the project)

- If the PP requests for registration,
  - ➢ project without CDM incentives < project
- If the project is additional according to the approved AT/CT
  - ➢ project without CDM incentives < baseline
- Under these two conditions, there are two possibilities
  1) project without the CDM incentives < baseline < project
     - The project is the most attractive and is implemented.
  2) project without the CDM incentives < project < baseline
     - The baseline is the most attractive scenario and it is not implemented

Consideration of CER revenues

- Distinction between the two possibilities requires to include the CDM incentives when assessing the financial attractiveness of an alternative.
- How to assess the CDM incentives?
  - CER revenues
  - Other CDM benefits

There might be two situations (how to distinguish?)

1. If CER revenues are the main incentive
   - How to estimate CER price/revenues?
   - Do CER revenues play a different role than other type of finance? How to modify investment analysis to accommodate that?
2. If other CDM benefits play a considerable role
   - What are those benefits?
   - How to quantify them conservatively and objectively?

Consideration of CER revenues

Main CDM incentives	project without the CDM incentives < project ≈ baseline	project without the CDM incentives ≈ project < baseline
CER and quantifiable benefits	Acceptable?	Discount emission reductions? Not additional? An alternative model?
Unquantifiable CDM benefits	Acceptable?	Discount emission reductions?

Assumptions:

•All the alternatives available to the PP are considered in the identification of the baseline.

Consideration of CER revenues

An alternative model to assess CER impacts

- Approved transport methodologies
- If less than 50% of the total capital investment is provided by commercial entity(ies), an impact assessment of CDM project registration is conducted by comparing the annual revenues from CERs to 10% the annual operating and maintenance costs of the project transport system.
- Where else would this model apply?
- What other alternative models could be valid?

Thank you!