



DRAFT STANDARD FOR DEMONSTRATION OF ADDITIONALITY OF A PROGRAMME OF ACTIVITIES

I. Background

1. In decision 3/CMP.1 paragraph 4, Parties requested the CDM Executive Board (hereinafter referred to as the Board) to “reassess its existing regulations related to programmes of activities in order to further clarify the application of existing rules regarding the demonstration of additionality to programmes of activities and the definition of eligibility criteria for the inclusion of component project activities in a programme of activity”.
2. At the sixtieth meeting of the Board, the Board took note of a summary of public inputs to the call on programmes of activities (hereinafter referred to as PoAs) launched at fifty-ninth meeting of the Board and agreed to a workprogramme that envisaged the consideration at its sixty-third meeting a draft standard for the demonstration of additionality of a programme of activities.
3. This draft standard is prepared in response to the request by the Board at its sixtieth meeting (EB60 report paragraph 27). It defines the requirements for the demonstration of additionality for a programme of activity.

II. Definitions, scope and applicability

A. Definitions

4. For the purpose of this standard, all definitions contained in *Procedures for registration of a programme of activities as a single CDM project activity and issuance of CERs for a PoA* and the following definitions apply :
 - (a) **Policy**¹: A policy is an expression of purpose that is indicative of a goal, a programme of action that has been decided on and oriented towards the same long-term policy objective for the reduction of GHG emissions. Written policy documentation shall be publicly available.
 - (b) **Policy PoA**: a policy PoA is a type of PoA that is generally undertaken by a public entity to:
 - (i) Implement a new policy; or
 - (ii) Enforce an existing policy that is systematically not enforced; or
 - (iii) Achieve an enhanced implementation of an existing policy.
 - (c) **Measure PoA**: a measure PoA is a PoA undertaken by a private or public entity to implement GHG emission reduction activities that are not policy driven.

¹ Policies, depending on the legal framework within which each individual country must operate, may be implemented at the national or sub-national level as instruments to manage activities that directly or indirectly lead to control of GHG emissions. Such instruments may include (1) regulations and standards that specify the abatement technologies (technology standard) or minimum requirements for pollution output (performance standard) that are necessary for reducing emissions and (2) incentive based instruments such as subsidies, tax reductions, price supports or the equivalent thereof from a government to an entity for implementing a practice or performing a specified action.

**DRAFT****B. Scope and applicability**

5. This standard shall be applied by coordinating or managing entities (hereinafter referred to as CMEs) to demonstrate the additionality of measure PoAs and policy PoAs .

III. Requirements**A. Additionality demonstration of a policy PoA**

6. For a policy PoA additionality shall to be demonstrated at the PoA level. At the CPA level the CME shall demonstrate, through eligibility criteria, how the CPA implementations results from the policy.

7. The CME should demonstrate in the PoA-DD through a barrier analysis that the policy PoA is additional. The policy PoA is additional if it is environmentally effective but faces one of the barriers described under (b) to (d). The environmental effectiveness as well as the barriers are derived from criteria for policy assessment provided by IPCC²:

- (a) **Environmental effectiveness:** It measures the extent to which the policy achieves its environmental objective of GHG emission reductions. It reduces the negative impact of human action on the environment in the form of anthropogenic GHG emissions. The environmental effectiveness of any policy is contingent on its design, implementation, participation, stringency and compliance. For the PoA to be additional, it should effectively contribute to the GHG emissions reduction.
- (b) **Cost-effectiveness of the policy:** It refers to meeting a given environmental quality goal at the least cost. If the low cost-effectiveness of a policy is related to the nature of its objective, then the policy is facing a cost effectiveness barrier.
- (c) **Distributional considerations and equity:** A policy may have barriers to apportion environmental benefits and costs evenly across stakeholders even if it meets an environmental goal at least cost. This means that such policy could face opposition from some stakeholders and presents an equity barrier.
- (d) **Institutional feasibility:** Existing institutional constraints can affect environmental policy decisions. Barriers related to acceptability for a wide range of stakeholders and support from existing institutions, notably the legal system may be prevalent. Other important considerations include human capital and infrastructure as well as the dominant culture and traditions.

8. As an alternative to requirements specified in paragraph 7 above, additionality of policy PoAs may be demonstrated through investment analysis applied at the PoA level provided the PoA-DD has included a projection of penetration of specific mitigation actions/ measures over time as a result of implementation of the policy PoA, clearly indicating the assumptions and methods used for forecasting.³

² Gupta, S., D. A. Tirpak, N. Burger, J. Gupta, N. Höhne, A. I. Boncheva, G. M. Kanoan, C. Kolstad, J. A. Kruger, A. Michaelowa, S. Murase, J. Pershing, T. Saijo, A. Sari, 2007: Policies, Instruments and Co-operative Arrangements. In Climate Change 2007: Mitigation. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change [B. Metz, O.R. Davidson, P.R. Bosch, R. Dave, L.A. Meyer (eds)], Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

³ For instance, a policy PoA providing incentives to adoption of renewable energy technologies can forecast the penetration of RE technologies in the PoA-DD depending on supply side (e.g. price per kWhr)

**DRAFT**

9. In the PoA-DD, the CME shall define eligibility criteria related to the inclusion of a CPA into the PoA. These eligibility criteria shall include criteria that, if fulfilled by a CPA ensure that it would not be implemented in the absence of the policy PoA.
10. The CME shall establish in the PoA-DD that conformity with the eligibility criteria establishes the link between the policy and the CPA.
11. CME shall document the compliance with the eligibility criteria in each of the CPA-DD.
12. For Policy PoA type described in paragraph 4(b)(ii) and 4(b)(iii) , in meeting the requirements in above paragraphs, CME shall take into account ‘*Clarifications on the treatment of national and/or sectoral policies and regulations in determining a baseline scenario (EB22, Annex 3)*’
13. For Policy PoA type described in paragraph 4(b) (i), CME shall demonstrate that there are no similar existing policies which have been implemented. If such policies exist, the requirements in the paragraph above apply.

B. Additionality demonstration of a measure PoA

14. For a measure PoA, additionality shall be established only at the CPA level. If the CPAs are to be assessed based on comparable set of requirements, then translating these requirements into eligibility criteria is an option.
15. The CME shall demonstrate the additionality of a measure PoA based on, where relevant, the eligibility criteria. The eligibility criteria are derived from one of the following guidelines for additionality:
 - (a) *Guidelines for demonstrating additionality of microscale project activities*, if the CPA complies with the emission reduction threshold and other requirements of these guidelines, irrespective of the methodology applied;
 - (b) *Information on additionality* (Attachment A to Appendix B of 4/CMP.1 Annex II), if the CPA applies a small scale CDM methodology(ies) and is not eligible to apply paragraph 15(a) above;
 - (c) The procedure specified in the additionality section of the large scale methodology(ies) or the large scale or small scale afforestation and reforestation methodology(ies) applied by the CPA, if the CPA is not eligible to apply paragraphs 15(a) or 15(b) above.
16. CME should conduct in the PoA-DD an investment analysis and/or barrier analysis for a range of parameters of technologies/measures (e.g. prices, capacities) covering all the cases intended for inclusion in the PoA, as illustrated in Annex I. In that case, eligibility criteria shall

and demand side (e.g. user perceptions, need) factors. For example, a PoA-DD may stipulate that solar photovoltaic power plants that will be implemented in any CPA will not be smaller than 250 kWp and will not be larger than 1000 kWp. If the IRR remains below the benchmark for these two capacities and comparability of input values for IRR calculation can be established (e.g. comparable feed in tariff, comparable annual average daily solar radiation), a 500 kWp PV plant included in a CPA will be automatically additional. This approach will not be applicable if there are large variations in the available renewable energy resource among the geographic locations of CPAs e.g., wind energy generation at a site varies as the cube of the wind speed prevalent in the location. Similarly investment cost of hydro power projects is highly dependent on available head, flow of water as well as the geology and geographical conditions of the site

**DRAFT**

be based on the specified range for the defined parameters, and full retesting of additionality of each CPA (e.g. via investment analysis) is not required for each CPA.

17. The CME shall establish in the PoA-DD that conformity with the eligibility criteria ensures compliance with the requirements in paragraphs above. CME shall document the compliance with the eligibility criteria in each of the CPA-DD.

18. Whether it is a measure or a policy PoAs, if it involves combinations of technologies/measures and/or methodologies, distinct eligibility criteria shall be proposed per combination applied to demonstrate additionality⁴. Types of combinations as indicated in paragraph 11.(a) to 11.(d) of “Standard for application of multiple CDM methodologies for a PoA” should be taken into account.

⁴ This is an important consideration because, if the implementation of one measure m1 (e.g. electricity generation using landfill gas) requires the implementation of another measure m2 (e.g. destruction of the methane contained in the landfill gas) then the two measures are inherently linked. In this case, the additionality is demonstrated for the group of linked measures collectively as well as for each measure separately e.g. electricity generation from landfill gas and destruction of methane in the landfill gas. If m1 is not additional, then m2 cannot be additional.

**DRAFT****ANNEX I****Best practice guidance to derive eligibility criteria for demonstration of PoA additionality**

1. The eligibility criteria for CPA inclusion with regards to additionality demonstration should take into account the specificity of the PoA and the common characteristics shared by the emission reduction activities to be implemented by the PoA in the CPAs, and it should enable the DOE to objectively validate the conformity of CPAs with eligibility criteria.

2. If barrier analysis is undertaken to demonstrate additionality, the CME should show in the PoA-DD that a emission reduction activity (e.g. the use of compact fluorescent lamp (CFL)) faces one or more barriers (e.g. investment barrier at 0.2 EUR per CFL) in a region of a country.

Subsequently, the CME should include the specific conditions into the eligibility criteria for CPA inclusion pertaining to additionality. In the example above, at least the following conditions should be included: the geographic region, the price of CFL, the conformity to the national standard and the grid connectivity of the households.

3. If investment analysis is undertaken to demonstrate additionality, in the PoA-DD the CME should

- (a) provide the range of the activities to be implemented in CPAs i.e. the lower and upper end of parameters such as capacity/cost of wind turbines to be installed that determines the emission reductions;
- (b) show that other input parameters to the investment analysis are comparable in the target region (e.g. low variability in the wind resource available and therefore low variability of load factor of wind generators); and
- (c) demonstrate that financial indicators (e.g. the associated range of investment cost per unit electricity generation) are below the benchmark or at least one alternative defined in PoA-DD. If an investment comparison analysis is conducted, the baseline alternatives to the CPAs should be identified in the PoA-DD.

Subsequently, the CME should include specific conditions into the eligibility criteria for CPA inclusion pertaining to additionality. In the example above, at least the following conditions should be included: the geographic region, the capacity range of applicable wind turbines, the cost range of applicable wind turbines, the assumptions used to estimate the associated investment cost per unit electricity generation, and the benchmark for financial indicator (or the assumptions used to calculate the financial indicator of the alternative).

**DRAFT****Stakeholder workshop (7-8 May 2011) recommendations**

1. Provide a standard for the demonstration of additionality of a programme of activities which includes criteria to:
 - (a) Provide a clear definition of policy and measures and therefore explore the use of separate additionally approach for the policy and measure based PoAs; **(done)**
 - (b) Provide further classification of policy into new and enhanced implementation/enforcement of existing policy, as the baseline conditions may differ for these two; **(done)**
 - (c) Allow demonstration of additionality of the policy based PoAs through barrier analysis and in doing that explore application of policy assessment techniques, such as IPCC policy assessment tool to demonstrate objective assessment of barriers; **(done)**
 - (d) Allow demonstration of additionality of the PoAs, based on enhanced implementation or enforcement of existing policy, through the analysis and comparison of targeted level and current level of enforcement; **(not done yet)**
 - (e) Allow demonstration of additionality of the policy based PoAs through investment analysis at PoA level if the PoA-DD provides clarity and reasonably forecasts how policy will cater down to specific mitigation actions/ measures⁵. **(done)**
 - (f) Allow the application of the current additionality tool or small-scale or/and additionality guidance to measure based PoAs; **(done)**
 - (g) Allow demonstration of additionality of the measure based PoAs through investment analysis at PoA level by defining the eligibility criteria of CPA inclusion which includes quantifying upfront in the PoA-DD the extreme levels of the mitigation actions/measures to be taken (two real case CPA-DDs required instead of one) with the condition that these two CPAs have the financial indicator below the benchmark and the input values indicators are reasonably comparable (e.g. investment cost per unit capacity of the two wind turbines does not vary significantly). Any other CPAs, having capacities in-between, will automatically be additional⁶. **(done)**

⁵ For example, consider a policy based PoA which mentions to provide incentives to the renewable energy projects in a country should reasonably forecast the penetration of the policy and therefore mentions upfront in the PoA-DD the specific technologies/measures/action that would be taken due to the implementation of this policy.

⁶ For example, a PoA-DD, which requires to add 5000 MW of renewable electricity by wind power by year 2020, may define the eligibility criteria of CPA inclusion to only add wind turbines between 250 kW and 1000 kW as the IRR remains below the benchmark for these two capacities and input values are also comparable and reasonable. For some projects where investment costs depend on technology type and site specific conditions (e.g., hydro power projects, where investment cost also depend on the geology and geographical conditions of the site and therefore on the quantity of civil construction required), this approach may not be applicable.

**DRAFT**

- (h) Define that the eligibility criteria for CPA inclusion in the PoA-DD pertaining to the additionality assessment shall include a binary checklist, which is easily assessed, unambiguous and complete. If this is not possible, in context of a specific additionality assessment, provide simplified additionality assessment at CPA level; and **(partially done)**
 - (i) Re-evaluate the implications for additionality assessments of new policies and standards at the time of renewal of crediting period of PoAs. **(not done yet)**
2. Provide a best practice guideline for demonstration of additionality of programme of activities.