

CDM-MP60-A04

Information note

Approaches to demonstrating additionality of publicly funded BRTs in AM0031

Version 01.0



United Nations
Framework Convention on
Climate Change

COVER NOTE

1. Procedural background

1. At its seventieth meeting, the Executive Board (hereinafter referred to as the Board) of the clean development mechanism (CDM) approved the revision of “AM0031: Bus rapid transit projects” that removes all references to consider N₂O emissions for baseline and project emissions and introduces provisions and guidance for project proponents for the renewal of the crediting period. Following the consideration of approval of the revised AM0031 methodology, the Board requested the Methodologies Panel (hereinafter referred to as the Meth Panel) to provide alternatives to the approach of using certified emission reduction (CER) revenues for the demonstration of additionality in the methodology and submit a revised methodology for consideration of the Board at its seventy-third meeting.

2. Purpose

2. The purpose of this information note is to inform the Board about the opinion of the Meth Panel regarding the request of the Board to substitute the approach of using CER revenues for the demonstration of additionality of publicly-funded Bus Rapid Transit (BRT) systems.

3. Key issues and proposed solutions

3. In response to the request from the Board, the Meth Panel considered alternative ways to demonstrate that the CDM drives the development of publicly funded BRT systems, and devised, researched and explored potential proposals. However, none of the proposals were considered to be more appropriate than the current approach of using CER revenues to distinguish the BRT systems, the development of which is driven by the CDM, from those that would have been implemented anyway, without being registered as a CDM project
4. Being unable to identify a more appropriate approach, the Meth Panel is of the view that the current approach of using CER revenues for additionality demonstration is the best available option to address the special circumstances of publically funded BRT projects. The Meth Panel, however, suggests improving this approach by providing alternative methods of establishing CER price and deleting the current method that requires the use of last year's market price.
5. If using CER revenues is not considered as appropriate for additionality demonstration, the Meth Panel is of the view that the second best option is to use the investment analysis for all types of projects and suggests revising the methodology accordingly, as contained in Annex 5 of the MP 60 report.

4. Impacts

6. It is likely that, using the investment analysis, nearly all publicly funded BRTs would qualify as additional, which may result in the generation of non-additional CERs.

5. Subsequent work and timelines

7. Not applicable.

6. Recommendations to the Board

8. The Meth Panel recommends that the Board considers the two options provided in this information note regarding the revision of AM0031.

1. Background and mandate

1. At its seventieth meeting, the Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board) approved the revision of "AM0031: "Bus rapid transit projects".
2. The Board, when approving the revision of the methodology, further requested the Meth Panel to provide alternatives to the approach of using CER revenues for the demonstration of additionality in the AM0031 methodology and submit a revised methodology for consideration of the Board at its seventy-third meeting.

2. Key issues and proposed solutions

3. Publicly funded BRT systems are generally not profitable.¹ Hence, a conventional financial analysis of any publicly funded BRT system project activity would show that it is unlikely to be the most financially attractive or is unlikely to be financially attractive, fulfilling the conditions of Step 2 (investment analysis) of the "Tool for the demonstration and assessment of additionality". However, many publicly funded BRT system that are not financially attractive are expected to be developed in a business as usual scenario. This is because publicly funded BRT system are often developed to meet social and environmental objectives such as reducing local air pollution, congestion, noise and improving the mobility of local population among others.
4. The approach to additionality demonstration of publicly funded BRT systems using impact of CER revenues on the system's operation & maintenance costs that is currently used in "AM0031: Bus rapid transit projects" was introduced in November 2011 when the top-down revision of the methodology was approved by the Board at its sixty-fifth meeting. This approach was developed after extensive consideration by the Meth Panel based on the presentations and discussions during both, the "Practitioners Workshop on the Improvement of CDM Methodologies for Transportation" and the "Innovative Approaches for Additionality Demonstration Practitioner Workshop", hosted by the secretariat in March and June 2011 as well as submissions received in response to the calls for public inputs launched on draft revised AM0031 methodology and "ACM0016: Mass Rapid Transit Projects", which uses a conceptually similar additionality demonstration approach to the one used in AM0031. The previous approach to additionality demonstration was considered too difficult to objectively demonstrate, as stated by project proponents attending the mentioned-above workshops.
5. Stakeholders, who took part in these workshops and submitted inputs in response to the calls, as mentioned above, pointed out that publicly financed BRT systems are often unable to self-finance and cover their annual operating and maintenance costs from ticket sales and other revenue streams like advertisements inside the vehicles and stops. More specifically, according to stakeholders, national, regional or local government usually allocates funds to cover capital investment in the BRT system development. These systems are often developed to meet social and environmental objectives such as reducing local air pollution, congestion, noise and improving the

¹ Public transit systems typically cover around 33 per cent per cent of costs with fares, <<http://jacksonville.com/news/metro/2012-05-18/story/public-transit-not-profitable-enterprise-exemplified-first-coast-systems>>

mobility of local population among others. The major challenge the municipality (or any other entity operating the system) faces is to cover recurring operating and maintenance costs of the BRT system, funds for which (although often significantly smaller than capital investment in the system development) need to be obtained every year. Although the national or local government are willing to allocate funds for the system development to solve certain social or environmental problems, they are often not willing to maintain the system for the next 40-50 years. At the same time, public transit systems are often unable to self-finance and cover their annual operating and maintenance costs from ticket sales. Therefore, as pointed out by the stakeholders, the registration in the CDM could play a crucial role when a decision about the development of the BRT system is made as the revenues from the sales of CERs could be an important source of finance for annual operating and maintenance costs of the BRT system.

6. The current approach to additionality demonstration, developed by the Meth Panel, attempted to capture this contribution of the CDM to the development of public transit systems in a step-wise approach that also builds on the concepts traditionally used for demonstrating additionality and includes:
 - (a) Country level assessment to determine whether the proposed project system is common practice in the host country; or
 - (b) City-level assessment to determine whether the proposed project activity is common practice in the host city; and
 - (c) Project-level assessment, for which two procedures to demonstrate additionality are available to project developers:
 - (i) Procedure A: applicable to a private operator/investor of the public transport system: Investment analysis aims to determine whether the proposed project public transit system is economically or financially feasible, for which "Option III. Benchmark analysis" in the "Tool for the demonstration and assessment of additionality" is used;
 - (ii) Procedure B: applicable to a public entity (such as a municipality or local government) developing a public transit system in the host city: Impact of CDM registration analysis demonstrates that the CDM has an impact on decision-making regarding the decision to develop a bus rapid transit system, by showing that a certain relatively significant share of the costs associated with operating and maintaining the system need to come from the CDM. Since, as pointed out by many stakeholders, securing funds to cover operating and maintenance costs is a major problem for public entity developing and operating the BRT system, the share of at least 10 per cent of CER revenues out of total annual operating and maintenance costs was selected by the Meth Panel as a significant share to have an impact of the CDM registration on decision making related to developing the BRT.

3. Conclusion

7. In response to the request from the Board, the Meth Panel considered alternative ways to demonstrate that the CDM drives the development of the publically funded BRT systems, and devised, researched and explored potential proposals. However, none of the proposals were considered to be more appropriate than the current approach of

using CER revenues to distinguish the BRT system, the development of which is driven by the CDM, from those that would have been implemented anyway, without being registered as a CDM project.

8. Being unable to identify a more appropriate approach, the Meth Panel is of the view that the current approach of using CER revenues for additionality demonstration is the best available option to address the special circumstances of publically funded BRT projects. The Meth Panel, however, suggests improving this approach by providing alternative methods of establishing CER price and deleting the current method that requires the use of last year's market price.
9. If using CER revenues is not considered as appropriate for additionality demonstration, the Meth Panel is of the view that the second best option is to use the investment analysis for all types of projects and suggests revising the methodology accordingly.

4. Recommendations

10. The Meth Panel recommends the Board to consider the following options:
 - (a) Option 1: to maintain the existing approach contained in the current version of the methodology regarding the use of CER revenues for demonstration of additionality and provide mandate to the Meth Panel to improve this approach by providing alternative methods of establishing CER price in order to replace the current method that requires the use of the last year's market price. This is preferred option for the Meth Panel;
 - (b) Option 2: to approve the revised methodology, as contained in annex 5 of the MP 60 report, that removes the approach of using CER revenues for the demonstration of additionality and requires the use of investment analysis as the only option available in Step 3 of the additionality test.

- - - - -

Document information

<i>Version</i>	<i>Date</i>	<i>Description</i>
01.0	9 September 2013	Meth Panel 60, Annex 4 To be considered by the Board at EB 75.

Decision Class: Regulatory
 Document Type: Information note
 Business Function: Methodology
 Keywords: AM0031, additionality, transport
