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|  <p style="text-align: center;"><b>CDM: Proposed new methodology - public comment form</b><br/>(Available electronically on the UNFCCC CDM web site. The layout may differ from this hardcopy form)</p>  |  |
| Name of person / organization responsible for completing and submitting this form   | Barbara Haya, International Rivers Network                                 |
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| Related F-CDM-NM document ID number   | NM-0006  |
| <p><b>Comments on the proposed new methodology:</b><br/><i>Based on an assessment of the draft PDD, evaluate the proposed new baseline and /or monitoring methodologies with respect to the Annexes 3 and 4 of the CDM PDD</i></p>  |  |
| <p><b>New baseline methodology(ies)</b><br/><i>In respect of a new baseline methodology(ies), evaluate each section of <b>Annex 3 of the CDM-PDD</b>. Please provide your comments below, also taking into consideration further questions in italics below:</i></p>  |  |
| Section 2. Description of the methodology   |  |
| Section 2.1. General approach<br><i>Is the approach selected the most appropriate (see paragraph 48 of the CDM M&amp;P)?</i>  |  |
| Section 2.2. Overall description<br><i>Adequacy of methodology description</i><br><i>Appropriateness of determining the baseline scenario proposed. Does the baseline scenario reasonably represent the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed project activity? Explain.</i>   |  |
| <p>We suggest an additional step be included in this section. The proposed methodology tests whether or not the project is the least cost option without CDM credits. It does this using "a cost indicator as a proxy to simulate an investment decision and predict its likely outcome". That is, it assumes that cost is the primary driving factor determining which plants get built. To test this assumption, the methodology must also assess whether the project <u>is</u> the least cost option with CDM credits. Otherwise, if the project is still more expensive than the least expensive option as a CDM project but is still planned to be built, there must be other non-financial reasons for building the plant. It is logically inconsistent to assert that the proposed project would only get built if it is the least expensive option, while proposing that it would be built as a CDM project when even with CDM credits it would still not be the least expensive option.</p> <p>Current prices are around \$3-5 per t/C02. El Canada would need CER prices to be more than \$11.48 / tCO2 to be the least expensive option.</p> <p><u>Our suggestion:</u> Additional steps could be added within steps 5 and 6 that would require the additional cost calculation with the inclusion of CER sales. The project would be assumed to be a part of the baseline unless it is shown that it is not the least expensive option without CER sales, but becomes the least expensive option with CER sales.</p> |  |

Section 3. Key parameters/assumptions (including emission factors and activity levels) and data sources considered and used:

*Reliability, accuracy and adequacy of data required (e.g. your expert judgement on emission factors and activity data used)*

*Key implicit and explicit assumptions (if any)*

*a. Identification*

*b. Acceptability*

*Transparency*

Section 4. Definition of the project boundary related to the baseline methodology:

*Coverage of project boundary (adequate?):*

*a. Gases and sources*

*b. Physical delineation*

Section 5. Assessment of uncertainties:

*Key implicit and explicit assumptions (if any)*

*a. Identification*

*b. Acceptability*

Section 6. Description of how the baseline methodology addresses the calculation of baseline emissions and the determination of project additionality:

Please evaluate the proposed new methodology:

*"Description of how the anthropogenic emissions of GHG by sources are reduced below those that would have occurred in the absence of the registered CDM project activity (i.e. explanation of how and why this project is additional and therefore not the baseline scenario)"*

Annex 1 countries have accepted limits on their emissions through the Kyoto Protocol. Through the CDM, an Annex 1 country is allowed to emit more than its committed amount domestically if it reduces emissions elsewhere. That is, while the CDM allows for an Annex 1 country to increase its domestic emissions, the use of the CDM must also facilitate the reduction of emissions in a non-Annex 1 country. Therefore, a project is clearly only additional if the project would not have happened without the CDM. Otherwise the use of the CDM would result in an increase in global emissions and the CERs would not represent real emissions reductions.

The language of the Marrakech Accords supports this definition. According to the Marrakech Accords "A CDM 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." It does not say "the project activity", it says "the registered CDM project activity".

The proposed baseline methodology defines additionality as "environmental additionality (i.e., the project reduced emissions)". For reasons discussed above, this definition of additionality is inappropriate.

Herein we use a definition of additionality, which we see as incontestable. Namely, a project is additional if would only happen as a CDM project.

We recognize that in many cases it is extremely difficult to prove that a project is additional (as

defined above). There are, however, simple tests that could be applied to a project that could prove with relative certainty that it is non-additional.

We propose that the following three tests for non-additionality be added to the methodology:

- 1) Has the project secured full financing prior to being accepted as a CDM project?
- 2) Has project construction already begun prior to being accepted as a CDM project?
- 3) Does the project proposal include a reasonable description as to why the project would only go ahead if it were considered a CDM project?

If numbers 1 or 2 are true, or if number 3 is false, then the project would be developed even if they were not a CDM project and must be considered non-additional. Projects that have already been fully financed or which have already begun construction without the CDM are clearly not dependent on the CDM to be built.

Another test for non-additionality would be to ask if other similar projects are under development in the region. In the case of El Canada which is being judged solely on its cost per MWh it could be asked if there are other projects being built for grid supply that have costs per MWh equal to or greater than that expected from El Canada. If so, the project would not be considered additional.

Section 7. Description of how the baseline methodology addresses any potential leakage of the project activity:

Section 8. Criteria used in developing the proposed baseline methodology, including an explanation of how the baseline methodology was developed in a transparent and conservative manner:

Section 9. Assessment of strengths and weaknesses of the baseline methodology:

Section 10. Other considerations, such as a description of how national and/or sectoral policies and circumstances have been taken into account:

*In addition, please address the following aspects*

Applicability of methodology across project types and regions

Any other comments

#### **New monitoring methodology(ies)**

*In respect of new monitoring methodology(ies), evaluate each section of Annex 4. Please provide your comments section by section:*

Notes 2 and 5 under section 1 are inconsistent as they are written.

It can either be assumed that a project displaces marginal power generation, or that it delays the building of other new capacity additions. This monitoring methodology assumes that the proposed project is small enough to displace marginal power generation (note 2). It should not then be assumed that under conditions where there is no reserve capacity on the grid, that the plant displaces other capacity that would have been built in its stead (note 5).

Instead, under conditions where there is no reserve capacity, this methodology should assume that without the proposed project there would have been power shortages and therefore no emissions are avoided by the project during these times. We suggest changing note 5 accordingly.

**Please also address the following**

**Applicability of methodology across project types and regions**

We are concerned that this methodology could be applied to projects that are large enough so that it would be unrealistic to assume that they displace marginal power. A monitoring methodology using marginal dispatch as its baseline is only appropriate for relatively small projects.

The monitoring plan discusses project size in section 1 note 2: “The methodology is best applied in situations where small (relative to overall capacity) and/or few CDM projects generate electricity that is injected into the same grid but which have little if any effect on overall capacity expansion.”

Medium and large project added to a grid would affect when other new power plants will be built. For large and medium projects, an appropriate monitoring methodology would use as the baseline new production following the building of the proposed project. It would be assumed that if the large proposed project is not built, then other projects would be built sooner to meet electricity demand. This includes other CDM projects, which, as the baseline methodology clearly states, are competing with non-CDM projects.

Only relatively small projects will have no effect on the timing of future capacity additions. Therefore the use of displaced marginal power is only appropriate for small projects.

We suggest the above quoted sentence be strengthened in the following way to avoid the application of this methodology to inappropriately large projects. “The methodology *may only be applied* to small (relative to overall capacity) and/or few CDM projects ...”

A sentence should then be added giving clear guidelines as to what size of project can be considered small, both as a single project, and when there are other CDM projects connected to the same grid.

Any other comments

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| <b>Cross-cutting issues</b>   |  |
| <ul style="list-style-type: none"> <li>• Can the presentation of the methodology/ies be further simplified?</li> </ul>                          |  |
| <ul style="list-style-type: none"> <li>• Should this methodology/ies be considered as new (see paragraph 37 (e) of the CDM M&amp;P)?</li> </ul> |  |
| <ul style="list-style-type: none"> <li>• Comparison with other relevant methodologies</li> </ul>  |  |
| <ul style="list-style-type: none"> <li>• Are the methodology/ies rigorous?</li> </ul>   |  |
| <b>Section below to be filled by UNFCCC secretariat</b>   |  |
| Related F-CDM-NM document ID number   |  |
| F-CDM-NMpu doc id number<br><i>([related F-CDM-NM ID]+pu+[id number])</i>   |  |
| Date when the form was received at UNFCCC secretariat   |  |
| Date of transmission to the EB, CDM-Meth Panel  |  |