

Call for public input	A6.4-MEP002-A01: Draft Standard: Demonstration of additionality in mechanism methodologies (v. 01.0)
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Legend for Columns

1 = Section Number in the document

2= Paragraph number

3 = Comment - the actual feedback or observation, including justification for what needs changing

4 = Proposed change - suggest the text if possible

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Section no.	Para. no.	Comment	Proposed change (Include proposed text)
3.2	11	Proposal to revise the text because the current text is redundant and does not include the other criteria for defining additionality. The three criteria for defining project additionality are listed in para 4(b) and the overview of eligible approaches to demonstrate additionality are provided for in section 4.1.	Mechanism methodologies shall specify the approach to demonstrating the additionality of the mitigation activity. The approach shall ensure that eligible mitigation activities would not be implemented without the incentives from the mechanism and that the incentives from the mechanism enable the implementation of the mitigation activity.
3.2	15	This para requires that Mechanism methodologies shall ensure that additionality is demonstrated for mitigation activities in their entirety (e.g., the capture of landfill gas combined with use of the landfill gas for energy generation) and that additionality is not separately demonstrated for components of a mitigation activity (e.g., separately for the landfill gas capture and the use of the landfill gas for energy generation). However, this contradicts para 20(b) which states that "Mitigation activity: The proponent of a mechanism methodology may specify in the methodology an approach that is applied by each individual mitigation activity. For example, a methodology may prescribe an investment comparison analysis that must be applied by all mitigation activities to assess financial attractiveness, using an approved tool;"	Delete para 15.

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4.1	16 (new)	Suggestion to include a new para 16, which can act as a preamble to the paras in section 4.1 that outlines the decision-framework to demonstrate additionality and defines go/no-go conditions	<p>The process to demonstrate additionality in methodologies shall follow a stepwise approach. Step 1 must outline the mandatory approaches to demonstrating additionality, outlined in Paragraph 17 <i>[i.e. the current para 16]</i>. Step 2 must outline the additional selection of approaches, outlined in Paragraph 18 <i>[i.e. the current para 17]</i>, that must be used in addition to the mandatory options outlined in Paragraph 17. At least one of the additional approaches outlined in Paragraph 18 must be used to demonstrate additionality, in addition to the mandatory approaches outlined in Paragraph 17.</p> <p>In terms of the decision-framework, the host country should have the option to endorse “additionality” of an activity based on analysis provided by the project developer. For instance, host country should have the option to endorse “additionality” of an activity where a definitive regulatory assessment cannot be provided in Step 1 but financial additionality can be proven in Step 2.</p> <p>Note: this recommendation should be read in conjunction with all recommendations on Section 4.1.</p>
4.1	16	The intro text implies that all the approaches to demonstrate additionality in para 16 must be provided for in the methodologies. If so, consider making this clearer.	Mechanism methodologies shall include all the following approaches to demonstrate additionality: ...
4.1	16	<p>The intro text implies that Article 6.4 Mechanism methodologies must specify the approaches specified in paras 16 and 17 that may be used to demonstrate additionality at a project level. Will the Mechanism be responsible for developing specific tools, per approach specified in paras 16 and 17, or may/must these details be provided for in the actual methodologies?</p> <p>In para 35, related to financial viability analysis, this is specified as “The mechanism methodology or tool shall set out a detailed procedure on how the analysis shall be conducted.”</p>	

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4.1	16 (c)	<p>Proposal to move the text in square brackets related to ‘common practice’ to para 17 (d).</p> <p>Motivation: common practice analysis is a useful tool that may be used to demonstrate additionality. However, it should not be a mandatory requirement in this regard, as market conditions and economic realities often dictate what becomes common practice. A project may still face financial or other barriers despite being categorized as common practice. Dismissing such projects might ignore the nuanced challenges that different entities face, potentially limiting the eligibility of high-quality carbon credit projects that contribute meaningfully to overall mitigation of global emissions (OMGE).</p> <p>In addition, excluding projects based on the common practice criterion could discourage the adoption and diffusion of best practices and innovative technologies. When an environmentally beneficial practice becomes common, it often indicates a positive shift in industry standards. By disallowing these projects, we might slow down the spread of effective and efficient carbon reduction technologies and projects. One option is to revise the current CDM “Common Practice Tool” to avoid preventing low carbon technologies from becoming fully developed in specific countries. It makes no sense to rule out a potential Art. 6.4 GHG emission reduction project if the penetration of such project type is clearly insufficient to comply with the host country’s GHG mitigation goals.</p>	Move the text in square brackets related to ‘common practice’ to para 17 (d).
4.1	16 (c)	Is common practice analysis for additionality demonstration required for small scale project activity or only for large scale activity in-line with earlier CDM rules.	Mechanism methodologies shall include provisions to demonstrate that the relevant technology or practice is not common practice only for ‘large scale projects’

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4.1	17 (a)	<p>There appears to be a misunderstanding in the paragraph treating additionality and financially viable/unfeasible as synonyms. They are, obviously, no synonyms. CDM experience shows that a project can be apparently feasible (positive IRR) but clearly not additional compared to alternatives supplying the same product/service.</p> <p>Also, the following statement is far from reasonable: “financial performance of the mitigation activities increases decisively through carbon credit revenues”. It is not possible to validate such a statement. First, considering that the Convention will certainly not define an indicative price for the certified emission reductions, otherwise it could be forced to buy the carbon credits at this price, it is virtually impossible to accurately calculate carbon credit revenues. Second, because the meaning of “decisively” is very often different for different types of projects and for different economies. And, finally, carbon credits are not necessarily defined as commodities, making it is virtually impossible to define credible market prices for the unit prices and, therefore, for what can be reasonably defined as revenues.</p>	Copy/reproduce, as much as possible, the additionality demonstration from the CDM, something in the line of “financial performance analysis”
4.1	17 (b)	<p>CDM essentially demonstrated the barrier analysis is frequently ineffective. It shall be more accurately defined, including precise guidelines on how to quantify barriers impacts, otherwise it will often be an academic/theoretical exercise. Barriers do exist, however their actual impact is extremely difficult, commonly impossible, to validate.</p> <p>Considering dynamic nature of barriers, interpretation of ‘barrier’ can evolve over time due to technological advancements, policy changes, geography, and market conditions. How this will be accounted in standard. How to Quantify Barriers? Converting qualitative barriers into quantitative terms for analysis can be complex and challenging. Need more clarity on this.</p>	<p>1) Check how many projects were registered in the CDM using barrier analysis, prepare an analysis of successful demonstrations to look for insights.</p> <p>2) Keep the criteria mentioned in section 5.5.2. Modify letter b) Information barriers so that the project proponent can present all barriers that could have a significant impact on the financial analysis of a project, but due to insufficient information, they cannot be clearly and reliably be translated into a cost item ex ante. Such is the case, for example, if the implementation of a project activity involves operational risks that are very difficult (or impossible) to reasonably translate into a cost item in the financial analysis of the project due to lack of reliable information. Such situations (i.e. of insufficient information) should be clearly and sufficiently documented by the project proponent.</p>
4.1	17 (c)	<p>It is not clear if ‘Performance analysis’ approach includes or excludes the performance benchmark approach used in financial viability analyses. We presume this excludes the performance benchmark approach, which is discussed further under section 5.3 Consider clarifying this.</p>	Clarify if the “performance analysis” excludes performance benchmark approach.

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4.1	18	Proposal to revise the text by deleting the last sentence in the paragraph. There is no point in asking activity proponents to provide financial viability inputs and information if it will not be assessed, which is contrary to the sentence in this para that states that “Where mechanism methodologies do not apply the financial viability analysis, it shall be appropriately explained and justified why a financial viability analysis is infeasible or inappropriate.”	The financial viability analysis shall be used as the default approach. Where mechanism methodologies do not apply the financial viability analysis, it shall be appropriately explained and justified why a financial viability analysis is infeasible or inappropriate. In this case, the proponents of the mechanism methodology shall nevertheless include information on the financial viability of eligible mitigation activities, the increase in financial viability through carbon credit revenues, [and the financial viability with carbon credits], or require activity participants to provide such information.
4.2	20 (a)	Do not restrain yourself to the easy example of an activity that does not generate any revenues. Please, include at least one additional example of an activity that does generate revenues. .	
4.2	20 (a)	We understand that para 16 requires that all the stipulated approaches must be included in the methodologies. In addition, para 17 requires that one of the approaches in its sub-paras (a-c) shall be utilised, in addition to the approaches referred to in para 16. There is therefore a misalignment with para 20(a), which states that “the requirement for the proponent of a mechanism methodology to demonstrate that one or several of the approaches referred to in section 4.1 are satisfied for all, or a subset of, the mitigation activities that are eligible under the methodology.” In addition, there are misalignments with various mandatory conditions that are reflected in this para as ‘may’ or non-mandatory requirements.	Mechanism methodology: The proponent of a mechanism methodology may must require that mitigation activity proponents demonstrate that one or several of the approaches referred to in paragraph 16 in section 4.1 are satisfied for all, or a subset of, the mitigation activities that are eligible under the methodology. In addition, the proponent of a mechanism methodology may must require that mitigation activity proponents demonstrate that at least one, or a combination, of the approaches outlined in paragraph 17 are satisfied for all, or a subset of, the mitigation activities that are eligible under the methodology.
5.1	24	Agree that the text in square brackets, [enforced], should be included in this para. Motivation: host countries may have legislation in place however these may not be widely adhered to, considering the specific context or national circumstances of the host country. This will comply with the proposed text in para 28	Mechanism methodologies shall include provisions to demonstrate that the emission reductions or removals caused by the mitigation activity would not occur because of any {enforced} legal requirements.

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5.1	25 (c)	<p>Option (1) The text in square brackets be remove entirely.</p> <p>Motivation: regulatory analysis should be applicable to specific regulated interventions, for example like legislated energy efficiency requirements/ thresholds for specific technologies; prohibition of specified activities etc. For example, nitric acid project activities cannot demonstrate regulatory surplus if laws in the host country do not allow the building or operation of nitric acid without catalytic oxidation of the N2O in the tail gas.</p> <p>However, it is not practical to apply regulatory analysis to broad interventions like climate change legislation or sector level regulations that apply broad emission caps or restrictions. This is because activity proponents in such legislative environments should be allowed access to least cost mitigation measures to achieve the broad target/s or caps. Carbon credits are least cost mitigation technologies.</p> <p>This approach is further supported by the overarching principles of Article 6.4, which aims to assist host countries increase climate ambition with market mechanisms and the use of carbon credits, which represent least cost mitigation measures, and which contribute to overall mitigation of global emissions.</p> <p>Option (2) If a sector is covered by an ETS, then some GHG emission reduction initiatives may generate surplus allowances, which can be traded within the ETS, without the need of certifying them under Art. 6.4. This situation changes if the Art. 6.4 mitigation activity is implemented in a sector not covered by the ETS. This activity can then generate Art. 6.4 offsets that can be used in the ETS. Was this the original intention of 25 (c)? If this interpretation is correct, then, para should not be deleted, but revised/clarified.</p>	
5.1	25 (Box 2)	Recommend removing the text box: it raises further queries instead of providing clarity.	
5.1	27	Delete option 1.	Delete option 1.
5.1	28	Support of Option 2	For [high income countries] [countries other than LDCs and SIDS], all legal requirements shall be deemed to be enforced. Legal requirements shall only be deemed to be unenforced <i>in a country</i> if (a) Non-enforcement is widespread (i.e. more than 50%) and documented through credible, authoritative and up-to-date evidence <i>provided by the host country</i> ; and (b) [Non enforcement persists no longer than X years after the entry into force of the relevant legal requirements [, except for LDCs]]

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5.1	29	The requirement shall include no retroactive revision of analysis. Otherwise, it will be flawed.	
5.1	29 (a)	Support of Option 2	The mechanism methodology shall specify the appropriate frequency for updating the analysis, considering the context of the mitigation activity, as follows: (a) Where the analysis is applied to a specific mitigation activity, as referred to in paragraph 20(b) above, the analysis shall be conducted {Option 1: at each verification of emission reductions or removals} {Option 2: at the latest at each renewal of the crediting period} ;
5.1	30 (a)	Support of Option 1	Do not lead to the adoption or the prolongation of the lifetime of technologies or practices that are incompatible with achieving {global net zero emissions by mid-century, considering different national circumstances by countries} {the long-term goals of the Paris Agreement} .
5.3	32-44	Always applicable to the moment of investment decision. Otherwise, it will be a prevision of the past, which is not reasonable at all.	Develop supporting tools and guidelines.
5.3	32-44	The provisions for financial viability analysis were traditionally contained in the CDM’s Tool27, which remains a very detailed guideline. We presume that this approach will be mirrored under the Mechanism. In this event, are the provisions of paras 32-44 are a.) redundant and b.) not nearly as detailed as required to complete these analyses and hence the requirement for a separate tool?	Develop supporting tools and guidelines.
5.3	39	This para is inconsistent with para 33, which notes that “The type of [financial viability] analysis applied shall be suitable for the context of the mitigation activity. ... The proponents of a mechanism methodology shall justify the choice of analysis.” Suggestion is to apply the same principle to para 39, i.e. allow for activity proponents to select the most suitable financial indicator and justify the choice.	
5.3	41	Will the Mechanism be responsible for setting financial benchmarks and any updates, like the UNFCCC was responsible for developing and updating country level cost of equity % in the Appendix 1 to the CDM Tool27?	Please provide more clarity about how the financial benchmark will be provided and/or if the project proponents will have to option to propose benchmarks based on local industry/country conditions.
5.3	42 (a)	Carbon credit revenues should not be included in the financial viability analyses because it is often difficult to predict or validate the price of carbon credits. Proposal to revise the text.	(a) The mitigation activity would not meet the breach the financial benchmark, even in a sensitivity analysis ; breach the financial benchmark, even when key parameters are stressed;

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5.3	42 (b)	What is the metric or quantification for a ‘decisive increase’ in financial performance?	Precisely clarify or delete.
5.3	42 (c)	Recommend that Option C in square brackets be deleted. Carbon credit revenues should not be included in the financial viability analyses because it is often difficult to predict or validate the price of carbon credits. Using a reductio ad absurdum argument, what would happen if the proposed activity is so unprofitable that even with a high carbon price, the project activity’s financial performance can still be considered insufficient? Should such project be considered non-additional?	Remove “carbon revenues” and its implications from options 5.3 b) and 5.3 c). In both cases, carbon revenues will positively impact the financial performance of GHG emission reduction project activities.
5.3	44 (b)	Carbon credit revenues should not be included in the financial viability analyses because it is often difficult to predict or validate the price of carbon credits. Proposal to revise the text.	(b) The project activity can demonstrate that it overcomes barriers to implementation through the pursuit of financial performance of the mitigation activity increases decisively through carbon credit revenues;
5.3	44 (c)	Recommend that Option C in square brackets be deleted. Carbon credit revenues should not be included in the financial viability analyses because it is very frequently impossible to predict or validate the price of carbon credits.	
5.4	45	Extremely important, the analysis shall be further/thoroughly developed.	
5.4	45 (a)	Text addition is proposed, providing an alternative means to demonstrating common practice, as opposed to limiting the assessment to market penetration. Motivation for proposed text addition: the rate of decarbonisation of the grid on which the project is being implemented is a practical proxy variable for the assessment of additionality of renewable energy projects. If the grid is decarbonising at a rate that is slower than what is required for the achievement of the Paris objectives, then it would indicate that there are barriers to the implementation of renewable energy plant on that specific grid. In line with the principles of proving additionality, any project to be implemented on a grid that does not have the required rate of decarbonisation should be additional because of these barriers.	(a) An appropriate definition of a suitable indicator to assess common practice based on the recent uptake or existing stock or diffusion of technologies, services or practices in relation to a realistic maximum market size or potential, considering any constraints for the uptake of the relevant technology, service, or practice. With respect to renewable energy projects, common practice may be demonstrated by an assessment of the rate of decarbonisation of the host country’s grid. If the grid is decarbonising at a rate that is slower than what is required for the achievement of the Paris objectives, then the renewable energy activity should not be considered common practice;
5.5	46 (b)	Suggest removing this option in square brackets. Motivation: the USD value as this may change from time to time depending on technology; exchange rates; geographic territories etc.	
5.5	46 (c)	Support this inclusion. Could be based on typical small-scale thresholds, of 60 ktCO ₂ e/year.	

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5.6	52-55	Unless it includes financial parameters, it will be an academic exercise, i.e., unusable in the real-world praxis.	
5.6	52 (c) and 53	Comment concerns regarding the practicality of auditing a performance indicator as being “a good proxy for the likelihood of additionality for the type of mitigation activity”. Perhaps more guidance can be developed which can address the following concerns: <ul style="list-style-type: none">- Establishing the right performance benchmarks is crucial. Benchmarks must be stringent enough to ensure additionality but also realistic and achievable to encourage participation. Regular updates to these benchmarks may be necessary to reflect technological advancements and changing industry standards. Will the methodology proponents be responsible for developing performance indicators/ thresholds, or will the Mechanism be responsible for setting benchmarks and any updates, like the UNFCCC was responsible for developing and updating country level cost of equity % in the Appendix 1 to the CDM Tool27?- Poor design of benchmarks and performance criteria may inadvertently create perverse incentives, such as favouring certain technologies or practices that may not be the most sustainable in the long term.	