ARTICLE 6.4 MECHANISM

A6.4-SB003-AA-A05

Draft Recommendation

Requirements for the development and assessment of mechanism methodologies

Version 02.0

United Nations
Framework Convention on
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1. Procedural background

1. Decision 3/CMA.3, paragraph 6(d), requests the Supervisory Body to elaborate and further develop recommendations, for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) at its fourth session (November 2022), on the application of the requirements referred to in chapter V.B (titled 'Methodologies') of the rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (RMP) (see the annex to decision 3/CMA.3). The relevant paragraphs are as follows:

33. Mechanism methodologies shall encourage ambition over time; encourage broad participation; be real, transparent, conservative, credible, below 'business as usual'; avoid leakage, where applicable; recognize suppressed demand; align with the long-term temperature goal of the Paris Agreement, contribute to the equitable sharing of mitigation benefits between the participating Parties; and, in respect of each participating Party, contribute to reducing emission levels in the host Party, and align with its NDC, if applicable, its long-term low GHG emission development strategy if it has submitted one and the long-term goals of the Paris Agreement.

34. Mechanism methodologies shall include relevant assumptions, parameters, data sources and key factors and take into account uncertainty, leakage, policies and measures, and relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances, and address reversals, where applicable.

35. Mechanism methodologies may be developed by activity participants, host Parties, stakeholders or the Supervisory Body. Mechanism methodologies shall be approved by the Supervisory Body where they meet the requirements of these rules, modalities and procedures and the requirements established by the Supervisory Body.

36. Each mechanism methodology shall require the application of one of the approach(es) below to setting the baseline, while taking into account any guidance by the Supervisory Body, and with justification for the appropriateness of the choices, including information on how the proposed baseline approach is consistent with paragraphs 33 and 35 above and recognizing that a host Party may determine a more ambitious level at its discretion:

(a) A performance-based approach, taking into account:

(i) Best available technologies that represent an economically feasible and environmentally sound course of action, where appropriate;

(ii) An ambitious benchmark approach where the baseline is set at least at the average emission level of the best performing comparable activities providing similar outputs and services in a defined scope in similar social, economic, environmental and technological circumstances;

(iii) An approach based on existing actual or historical emissions, adjusted downwards to ensure alignment with paragraph 33 above.

37. Standardized baselines may be developed by the Supervisory Body at the request of the host Party or may be developed by the host Party and approved by the Supervisory

Body. Standardized baselines shall be established at the highest possible level of aggregation in the relevant sector of the host Party and be consistent with paragraph 33 above.

38. Each mechanism methodology shall specify the approach to demonstrating the additionality of the activity. Additionality shall be demonstrated using a robust assessment that shows the activity would not have occurred in the absence of the incentives from the mechanism, taking into account all relevant national policies, including legislation, and representing mitigation that exceeds any mitigation that is required by law or regulation, and taking a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 above.

39. The Supervisory Body may apply simplified approaches for demonstration of additionality for any least developed country or small island developing State at the request of that Party, in accordance with requirements developed by the Supervisory Body.

2. The Supervisory Body, at its first meeting, considered the concept note "Guidelines for the implementation of methodological principles, approaches and methods for the establishment of baseline and additionality" and discussed how the principles included in chapter V.B of the RMP can be further elaborated as guidance for the development of methodologies for the mechanism.

3. The Supervisory Body agreed that an informal working group on methodologies comprising its members and alternate members as well as secretariat staff would work to prepare draft recommendations for the CMA, taking into account the input provided at the second meeting of the Supervisory Body, for consideration by the Supervisory Body at its third meeting, with a view to forwarding the recommendations to the CMA at its fourth session. The Supervisory Body noted that there are capacity-building needs for host Parties to participate in the mechanism, including those relating to methodologies, to deliver higher ambition of the Parties.

2. Elaboration of the requirements in paragraphs 33 to 39 of the RMP

2.1. Normative reference

4. The "shall" requirements in this document are those that the user of this document (i.e. activity participants, host Parties, stakeholders or the Supervisory Body) is obliged to satisfy in order to claim conformance to this document. Other types of provisions in this document include (i.e. recommendations ("should"), permissions ("may"), possibilities and capabilities ("can")).

5. Reducing emissions, increasing removals and mitigation co-benefits of adaptation actions and/or economic diversification plans are collectively referred to as 'emission reductions' in this document.

2.2. Process for methodology development

6. Mechanisms methodologies may be developed by activity participants, host Parties,

stakeholders or the Supervisory Body. Mechanism methodologies shall be approved by the Supervisory Body when they meet the requirements of the RMP and those established by the Supervisory Body.

7. A bottom-up process is when mechanism methodologies are developed by activity participants or host Parties or stakeholders and submitted for the consideration and approval of the Supervisory Body. A top-down process is when the Supervisory Body and its support structure develop mechanism methodologies based on requests by the activity participants or host Parties or stakeholders.

8. The Supervisory Body shall develop the procedure for bottom-up and top-down processes for the development of new mechanism methodologies. This should:

   (a) Indicate timelines and deadlines for each milestone of the approval process;

   (b) Elaborate the requirements for the submission of an illustrative activity design document accompanying the methodology submission;

   (c) Cover the process for the revision of mechanism methodologies and for seeking clarification on mechanism methodologies;

   (d) Contain the processes for consolidating mechanism methodologies and developing methodological tools to promote consistency and accessibility; and

   (e) Contain the procedure to ensure that the approved mechanism methodologies and tools are reviewed at regular intervals to update methods and values based on latest scientific information and experience gained in implementation.

9. The Supervisory Body should undertake the top-down process to develop or revise mechanism methodologies, subject to availability of resources, to alleviate barriers due to capacity and financial constraints of host Parties or stakeholders. In this regard, once the mechanism has evolved and fully functional, the Supervisory Body should prioritize (i) the requests of host Parties that are least developed countries (LDCs)/small island developing States (SIDS); and (ii) methodologies suitable for programmatic approaches.

10. As part of the consideration and approval process of a new methodology or revision of a methodology, the Supervisory Body shall integrate a public consultation process. Such a procedure should allow a broad spectrum of stakeholders to fully engage in the methodology process as one element of measures to ensure broad participation in the mechanism. The procedure shall ensure that stakeholders have sufficient time and the information they need to determine whether and how to participate in the consultation process by making publicly available:

    (a) A summary of the mechanism methodology, including the proposed scope, objectives and technology measures covered;

    (b) Steps in the mechanism methodology approval process, including timelines and clearly identified opportunities for contributing; and

    (c) The decision-making process and how input will be taken into account.

{**Comment:** Many details, which are procedures for the operation of Article 6.4 Supervisory Body, have been elaborated in this document. Is this necessary to go to the CMA for a decision?}

2.3. Encouraging ambition over time

11. To encourage ambition over time, activity participants are expected to implement scalable mitigation or removal activities that are impactful and support the sustainable development efforts of the host Party.

12. Activity participants should progressively increase the stringency of the baselines applied (e.g. at each of the renewal of the crediting period, through dynamic baselines that are adjusted downwards periodically). Activity participants shall avoid using data sources that are not the most recent or the best available to estimate baseline emissions that overestimate emission reductions or removals undermining the objectives of the host Parties to increase ambition over time.

13. [Activity participants shall apply at least one of the following approaches]:

2.3.1. [Quantitative approach]

14. [Increasing the stringency of the baselines over time can support greater ambition. A sample approach for determining the baseline contraction factor (BCF) is illustrated in appendix 1 of this document. BCF is a multiplication factor to discount the baseline emissions of the activity to bend the emissions curve to more closely align with the trajectory of emissions that host Parties aim to achieve as communicated under the nationally determined contributions (NDCs), if applicable, or long-term low-emission development strategies (LT-LEDs) if they have submitted one.

15. BCFs may be optionally developed by the host Parties at their discretion and made publicly available, including the methods used. It may include multiple factors for different sectors, or one factor covering multiple sectors and may be updated at periodic intervals. The Supervisory Body may also develop and publish sector-specific BCFs. Where country-specific and sector-specific factors are developed by the Supervisory Body that are applicable to certain host Parties or group of host Parties, it shall be done in consultation with the relevant national authorities.

16. The Supervisory Body may develop and approve a procedure to guide the development of BCFs at a future meeting of the Supervisory Body.

{Comment: 'Supervisory Body may …approve guidance/procedure on ……at a future meeting of the Supervisory Body' is repeated in multiple locations throughout the text. Is it necessary to indicate where Supervisory Body may do more work as it seems to be an option for the Supervisory Body anyway?**}**

17. Activity participants shall apply the BCF(s) to adjust the activity baseline emissions downwards where the BCF(s) has been made available by the host Party or the Supervisory Body.

18. Where BCFs have not been made available by the host Party or the Supervisory Body:

(a) Option 1 for the Supervisory Body: Activity participants shall apply an interim default contraction factor to adjust the activity baseline emissions downwards, irrespective of the sector(s) in which activity is taking place. The interim default contraction factor shall be developed and approved by the Supervisory Body at a future meeting of the Supervisory Body;

(b) Option 2 for the Supervisory Body: Activity participants shall apply an interim default contraction factor to adjust the activity baseline emissions downwards, irrespective of the sector(s) in which the activity is taking place, at a uniform rate of [1.1 per cent] [1.9 per cent] per year.][1]]

{Comment 1: there may be no direct link between quantitative restrictions and ambition at the national level or activity level, this needs to be further discussed

Comment 2: Stakeholder consultations will be needed before the Supervisory Body approves any interim default baseline contraction factor**}**

2.3.2. Qualitative approach

19. Activity participants should show that the planned activities or measures are replicable and scalable using one or more of the approaches listed below:

(a) When using a programmatic approach, progressively including more efficient and less greenhouse gas-intensive project technologies/measures in the distribution plan, considering experience gained in host Parties. This may include, for example, new and efficient zero and low-emission technologies;

(b) Expanding the user base of the project technology and/or installation of more project equipment/measures among the existing users over a period (i.e. wider geographic coverage or greater penetration among the potential end users or more comprehensive mitigation measures among the existing users), demonstrated using empirical data;

(c) Additional coverage of sectors over a period demonstrated using empirical data; [i.e. an activity is contributing to increasing ambition in the NDCs by expanding the sectoral coverage (e.g. more coverage of sectors covered or coverage of more sectors).]

(d) Activity participants may refer to national or international standards such as the International Organization for Standardization (ISO) standards (e.g. ISO 14067:2018 and ISO 14097:2021) or other sources such as the guidance on the

[1] Based on a [25 per cent]/[50 per cent] and [75 per cent]/[50 per cent] weightage for a historic and prospective decrease in carbon intensity. The Intergovernmental Panel on Climate Change Sixth Assessment Report Working Group III notes in its recent report that 'Global energy intensity (total primary energy per unit gross domestic product) decreased by 2 per cent per year between 2010 and 2019. In the same period, carbon intensity (carbon dioxide from fossil fuel combustion and industrial processes per unit primary energy) decreased by 0.3 per cent per year, with large regional variations. For comparison, the carbon intensity of primary energy is projected to decrease globally by about 3.5 per cent per year between 2020 and 2050 in modelled scenarios that limit warming to 2 °C (>67 per cent), and by about 7.7 per cent per year globally in scenarios that limit warming to 1.5 °C (>50 per cent) with no or limited overshoot'.

indicator 'paradigm shift' under the investment framework[2] of the Green Climate Fund to elaborate the anticipated longer-term change in achieving decarbonisation of the economy through increased ambition. In doing so, they should provide an outline of how the activity can catalyse impact over time, accompanied by a robust and convincing theory of change for replication and upscaling of the activity results, including the long-term sustainability of the results.

2.4. Encouraging broad participation

20. Mechanism methodologies shall encourage broad participation by:

    (a) Being simple, clear, predictable and easy to apply (e.g. simplified and standardized additionality demonstration) and applicable in combinations for broad sectoral and technology coverage;

    (b) Including a robust and inclusive stakeholder consultation process as described in paragraph 10 above;

    (c) Incentivizing actions from a range of stakeholders such as consumers, technology providers, financiers and policy makers, local communities, indigenous people and youth;

    (d) Encouraging the establishment of continuous communication channels with the stakeholders throughout the implementation of the Article 6.4 activities.

2.5. Being real, transparent, conservative, credible

21. Mechanism methodologies shall ensure that the results of Article 6.4 activities represent actual tonnes of greenhouse gas emissions reduced or removed and shall provide credible methods for estimating results of Article 6.4 activities arising from the technologies/measures implemented. Such estimation should be based on up-to-date scientific information such as that from Intergovernmental Panel on Climate Change (IPCC) sources and reliable data gathered through robust monitoring methods, excluding extraneous cofactors affecting emission reductions or removals (e.g. reduction of level of service, impact of weather).

22. Mechanism methodologies shall require transparent descriptions of the source of the data used, the assumptions made, the references used and the underlying steps deriving the estimates of the results of Article 6.4 activities, where necessary, including equations.

23. The application of mechanism methodologies shall result in conservative outcomes from the measures applied or the options chosen (e.g. due to the paucity of data, assumptions applied or multiple alternatives available) and shall not overestimate the results of Article 6.4 activities. Where relevant, the mechanism methodologies shall require the accounting of uncertainty associated with modelled and surveyed data parameters and provide methods to quantify, manage and account for the impact of uncertainty (e.g. accounting of the uncertainty range of IPCC default values as per annex III of document FCCC/SBSTA/2003/10/Add.2 titled 'Table of conservativeness factors').

[2] https://www.greenclimate.fund/projects/investment-framework.

24. The application of mechanism methodologies shall result in credible outcomes. The methodology shall require the Article 6.4 activity to have a robust monitoring and data capture system as well as a reporting system. Where secondary data is used, the mechanism methodology shall require that the activity developer demonstrate that it is from a best available source.

2.6. Being below business as usual

25. The baseline selected following the approach described under section 2.14 shall be clearly demonstrated as being below business-as-usual (BAU). For that purpose, the mechanism methodology shall require the identification of the BAU scenario(s) and provide an approach for the calculation of BAU emissions.

26. The selection of the baseline based on the approach(es) described in paragraph 49 coupled with the application of the BCF(s) as described in section 2.3.1, can demonstrate that the baseline emissions determined are below BAU emissions.

2.7. Avoid leakage where applicable

27. Leakage is the net change of anthropogenic emissions by sources of greenhouse gases (GHGs) which occurs outside the project boundary, and which is measurable and attributable to the Article 6.4 activity, as applicable.

28. Mechanism methodologies shall require the activity participant to:

    (a) Identify the potential sources of leakage in a typical activity covered by the mechanism methodology including, but not limited to, used equipment transferred outside of the project boundary and diversion of resources (e.g. renewable sources as biomass residues currently being used to generate thermal or electrical energy) from other activities;

    (b) Include provisions to avoid or minimize all sources of leakage as far as possible;

    (c) Quantify the leakage that cannot be avoided and deduct it from the achieved results of the Article 6.4 activities;

    (d) Follow any guidance from the designated national authority (DNA) of the host Party on leakage, where available.

    {**Comment:** For some classes of activities, jurisdictional monitoring may be necessary}

2.8. Recognizing suppressed demand

29. Suppressed demand in the context of an Article 6.4 activity is a situation where services provided to a population are insufficient to meet the basic human needs of this population due to poverty or lack of access to modern infrastructure and where the growth of emissions resulting from meeting such needs requires special consideration in the assessment of Article 6.4 baseline scenarios.

30. Mechanism methodologies shall recognize suppressed demand only in situations where a minimum service level to meet basic human needs such as for lighting, cooking, safe drinking water and shelter, is unavailable to the end user of the service prior to the implementation of the activity. [The Supervisory Body should take into account host

Parties definition of jurisdictions where the quality of service prevalent in the sector falls short of basic human needs].

31. Suppressed demand may be addressed by considering that the baseline scenario is not the historical condition, but an alternative technology that provides a level of service comparable to the proposed Article 6.4 activity, where the baseline equipment or measure cannot realistically provide the level of service of the Article 6.4 activity.

32. The Supervisory Body will assess if suppressed demand is a plausible situation for a given context on a case-by-case basis and, where relevant, it will recognize suppressed demand by including benchmarks and default factors in specific methodologies. Activity participants may use such factors while applying the methodology, however activity participants shall not directly estimate supressed demand while applying a methodology.

2.9. Contributing to the equitable share of mitigation benefits between participating Parties

33. Activity participants shall describe the measures taken to bring certainty to prompt delivery of mitigation benefits to the participating Parties.

34. This requirement will be operationalized through the DNAs, acknowledging that it is their full right to demand an equitable share of benefits as a pre-condition for authorization of Article 6.4 activities to achieve their NDCs. Activity participants shall follow any guidance from the DNAs in this regard.

35. [The implementation of BCF(s) described under section 2.3.1 will contribute to equitable sharing of mitigation benefits].

36. [The Supervisory Body may specify a minimum share of mitigation benefits as a per centage share of overall mitigation benefits, where necessary differentiated by sector or class of activity, that the activity participants shall ensure, are made available to the host Party, at a future meeting of the Supervisory Body, taking into account any stakeholder inputs.]

37. [Equitable sharing of mitigation benefits, will contribute to increasing ambition over time and alignment with long-term temperature goals of the Paris Agreement as the emissions reductions not credited would accrue to the host Parties]

2.10. Aligning with long-term temperature goals of the Paris Agreement

38. Mechanism methodologies shall align with long-term temperature goals of the Paris Agreement and, with respect of each participating Party, contributing to reducing the emission levels in the host Party and aligning with its NDC (if applicable), its LT-LEDS (if it has submitted one) and the long-term goals of the Paris Agreement.

39. Mechanism methodologies shall require that the activity participant demonstrates that the proposed Article 6.4 activity does not hinder, and on the contrary:

    (a) Contributes to the achievement of mitigation measures in the host Party while aligning with its latest NDC (if applicable) or LT-LEDs (if it has submitted one) (e.g. by making reference to positive lists that are potentially published by the host Party if available or showing that there is no lock-in of emission-intensive technologies); [and/or]

(b) [Contributes to increasing ambition in the NDCs by expanding the sectoral coverage (e.g. more coverage of sectors covered or coverage of more sectors).]

40. Activity participants shall follow one or more of the qualitative [and/or] quantitative approaches described in section 2.3 (e.g. BCF and paradigm shift) to further ensure alignment with the long-term goals of the Paris Agreement.

2.11. Including data sources and accounting for uncertainty

41. Mechanism methodologies shall include relevant assumptions, parameters, data sources and key factors and take into account uncertainty, leakage, policies and measures, and relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances, and address reversals, where applicable.

42. Methodologies should be transparent, comprehensive and comprehensible. Where relevant, requirements shall be expressed in terms of performance rather than specification of a product (e.g. requirements for an efficient lamp are described in terms of lighting services specified in lumens per watt rather than the specification of a light-emitting diode (LED) lamp from a specific manufacturer), and these requirements should be verifiable.

43. If it is necessary to invoke a requirement in a methodology that appears elsewhere in another methodology, this should be done by reference and not by repetition. If a test method or a procedure is, or is likely to be, applicable to two or more methodologies, a tool shall be prepared on the method itself, and each methodology shall refer to it to prevent potential deviations on account of repetitions.

44. Mechanism methodologies shall include relevant assumptions, parameters, data sources and key factors and take into account uncertainty for the calculation of a conservative GHG emission reduction as described in paragraph 23.

2.12. Taking into account policies and measures and relevant circumstances

45. Mechanism methodologies shall take into account policies and measures, and relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances, including for the demonstration of additionality and determining the best available technology for the purposes of baseline as described in section 2.14.

46. In this regard, the Supervisory Body may develop and approve further guidance at a future meeting of the Supervisory Body.

2.13. Addressing Reversals

47. Mechanism methodologies shall address reversals of emission reductions that are reliant on continued storage of carbon or removals using a consistent approach specified under the guidance on removals.

48. In this regard, the Supervisory Body may develop and approve further guidance at a future meeting of the Supervisory Body.

2.14. Requirements on baselines

49. Each mechanism methodology shall require the application of one of the approach(es) below to estimate the baseline emissions. Activity participants may apply more than one approach (i.e. a combination of approaches), provided that the components of each of the approaches is clearly and separately described. Activity participants shall justify the appropriateness of the choices made (e.g. it results in baselines emissions that are below BAU, contributes to equitable sharing of mitigation benefits among the participating Parties).

    A performance-based approach, taking into account:

    (a) Best available technologies that represent an economically feasible and environmentally sound course of action, where appropriate [, further adjusted downwards through the application of the BCFs];

    (b) An ambitious benchmark approach where the baseline is set at least at the average emission level of the best performing comparable activities providing similar outputs and services in a defined scope in similar social, economic, environmental and technological circumstances [, further adjusted downwards through the application of the BCFs];

    (c) An approach based on existing actual or historical emissions, adjusted downwards [through the application of the BCFs].

50. A host Party may determine a more ambitious baseline requirement at its discretion. Where such a requirement has been specified, activity participants shall apply those requirements.

51. The Supervisory Body may undertake further assessment of the relevance of an approach or a combination of multiple approaches chosen for a particular context, including the methods to ensure the baseline emissions are below BAU, and develop and approve separate guidance on baselines at a future meeting.

2.15. Additionality

52. Article 6.4 activities shall result in reductions of emissions by sources or removals of greenhouse gases from the atmosphere that are additional to any that would otherwise occur and shall not lead to an increase in global emissions.

53. Additionality shall be demonstrated using a robust assessment that shows the Article 6.4 activity would not have occurred in the absence of the incentives from the mechanism, taking into account all relevant national policies, including legislation i.e. the activity shall represent mitigation that exceeds any mitigation that is required by law or regulation

54. Activity participants shall take a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with the requirements discussed under sections 2.3 to 2.14 above.

55. The additionality demonstration shall be done by establishing that:

    (a) Without the incentive from the mechanism, the activity would not be economically viable; and

(b) The activity represents mitigation that exceeds any mitigation that is required by law or regulation; and

(c) The activity's carbon intensity is aligned with an emission trajectory that contributes to achieving the long-term goals of the Paris Agreement.

56. The Supervisory Body may approve a list of technologies that are considered automatically additional. In that case, the activity participant may confirm that the activity is part of a positive list of activities established by the Supervisory Body.

57. The Supervisory Body may consider the following criteria for establishing a positive list including, but not limited to:

(a) The ability to predetermine the technologies and measures and specify the necessary conditions with a high degree of certainty (e.g. emission intensity, efficiency, cost and penetration of technologies), where relevant on a regional basis (e.g. global average penetration rates of some technologies may be high, yet the same technologies may have low penetration rates in LDCs/SIDS);

(b) Procedures are developed to review and update the positive list of technologies at regular intervals based on up-to-date science and data.

58. The Supervisory Body may develop and approve separate guidance on the demonstration of additionality and the positive list of technologies at a future meeting, including simplified approaches for demonstration of additionality.

2.16. Standardized baselines

59. A standardized baseline is a baseline developed for a host Party or a group of host Parties on a sub-national, national or group-of-countries basis rather than on an activity basis, to facilitate the calculation of GHG emission reductions and removals and/or the determination of additionality for Article 6.4 activities, while providing assistance for assuring environmental integrity.

60. The approaches for the baselines referred to above under section 2.14 shall also be applied for the development of the standardized baseline.

61. Standardized baselines may be developed by the host Party and approved by the Supervisory Body following an assessment against the procedures for the development of a standardized baseline that shall be developed and approved by the Supervisory Body.

62. Standardized baselines may be developed by the Supervisory Body in consultation with the host Party when a host Party has made such request for assistance. The Supervisory Body shall prioritize the requests received from the host Parties that are LDCs/SIDS.

63. Standardized baselines shall be established at the highest possible level of aggregation in the relevant sector of the host Party.

64. The level of aggregation shall be determined and proposed by the host Party, taking into account the following:

(a) A default level of aggregation shall comprise the facilities or equipment producing the similar type of output within the geographical boundaries of one Party. The

level of aggregation may be expanded to a group of Parties with similar circumstances relating to the output;

(b) A default group of facilities should be disaggregated when significant dissimilarities exist in the performance of facilities or groups of facilities in the country/region. In this case, the disaggregation shall be carried out according to relevant criteria, such as production scale, installed capacity or age of the facilities, and standardized baselines values should be determined for each group of similar facilities;

(c) Disaggregation should not result in standardized baselines with overlapping applicability (e.g. overlap would occur in cases where there is a standardized baseline for overall energy efficiency in commercial buildings and another standardized baseline for energy-efficient lighting in commercial buildings).

65. The default validity period of a standardized baseline is three years, starting from its approval by the Supervisory Body. A host Party may propose a longer validity period by providing justification. After the standardized baseline has expired, the updated standardized baseline shall be developed and approved by the Supervisory Body subject to host Party making a request for the update. The updated standardized baseline shall not impact already registered activities up to the end of their first crediting period.

66. The Supervisory Body may develop and approve separate guidance on standardized baselines at a future meeting of the Supervisory Body.

Appendix. [Baseline contraction factor]

1. [The following definitions apply for determining a baseline contraction factor:

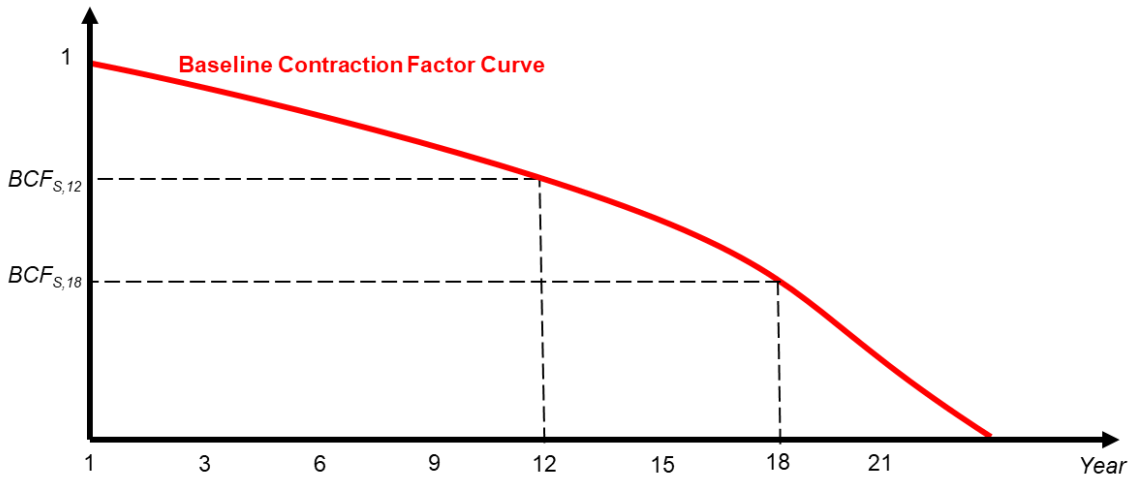
   (a) **Baseline contraction factor in year y ($BCF_{S,y}$):** value between 1 and 0 decreasing with time used to discount and cap the baseline values for activities undertaken in a [sector] [sub-sector] [activity type] *S*. This factor is updated at pre-determined intervals e.g. yearly. For simplification purposes, the contribution of removals is not explicitly reflected;

   (b) **Baseline contraction factor trajectory for [sector] [sub-sector] [activity type] S ($BCFC_S$):** the curve representing the variation of the baseline contraction factor with time for a given [sector] [sub-sector] [activity type]. It is an emission trajectory (descending curve) and should be aligned with the host Party's nationally determined contributions, long-term low-emission development strategies or with the long-term goals of the Paris Agreement;

   (c) **Baseline emissions in year 0 in a [sector] [sub-sector] [activity type] *S* ($BE_{S,1}$):** baseline emissions or emission intensity benchmarked for [sector] [sub-sector] [activity type] *S* in year *0* i.e. point in time when benchmarking efforts are concluded and emissions or emission intensity are determined. It is the starting point of the baseline contraction factor trajectory when **$BCF_{S,0}$** is 1.

2. The diagram below illustrates the BCF_S.

Figure 1. Illustration of Baseline Contraction Factor Curve



3. The baseline contraction factor for a specific year y can be inferred from the diagram. In the example, two baseline contraction factors were identified for year 12 ($BCF_{S,12}$) and for year 18 ($BCF_{S,18}$).

4. The baseline emissions or the baseline emissions intensity for year 0 should be identified for the [sector] [sub-sector] [activity type] S ($BCF_{S,0}$).

5. Finally, the discount or the cap for the baseline emissions for [sector] [sub-sector] [activity type] S in the specific year y is determined as the product between the baseline contraction factor for the **[sector] [sub-sector] [activity type]** S in year y and the baseline emissions for the [sector] [sub-sector] [activity type] S in year 0, as follows:

$$BE_{cap,S,y} = BCF_{S,y} \times BE_{S,0}$$ Equation (1)

Where:

$BE_{cap,S,y}$	=	Cap in the baseline emissions for the **[sector] [sub-sector] [activity type]** S in year *y*
$BCF_{S,y}$	=	Baseline contraction factor for the **[sector] [sub-sector] [activity type]** S in year y
$BE_{S,1}$	=	Baseline emissions for the **[sector] [sub-sector] [activity type]** S in year 1 of the contraction curve

6. For the example above, the cap in the baseline for years 12 and 18 are calculated as:

$$BE_{cap,S,12} = BCF_{S,12} \times BE_{S,1}$$

$$BE_{cap,S,18} = BCF_{S,18} \times BE_{S,1}$$

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