

## Agenda item 3 b

Paragraph 32 of the annotated agenda

# First-of-its-kind

**CDM EB 61**

Bonn, Germany, 30 May to 3 June 2011



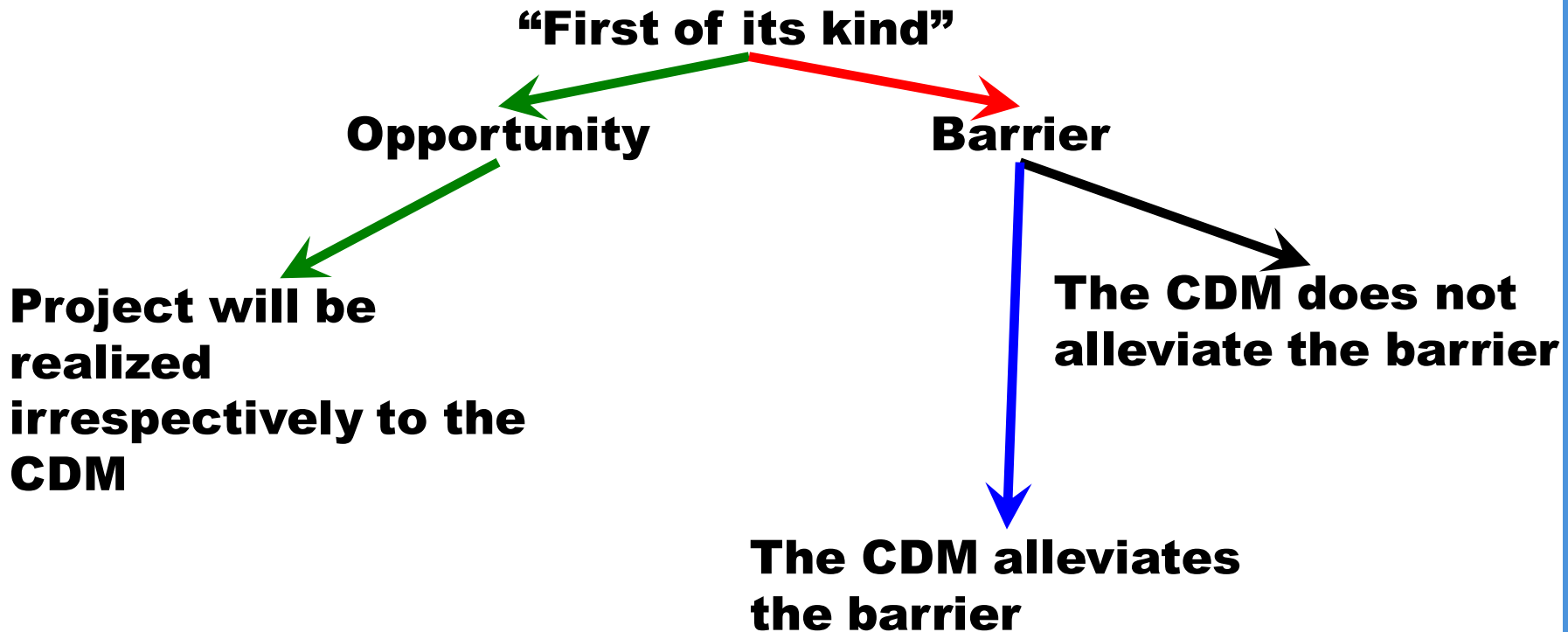
## First of its kind - a barrier or an opportunity?



**Dynamite**

**Pre-CDM technological progress explored Folk as an opportunity**

# First of its kind - a barrier or an opportunity



## “Step 3: Barrier analysis

... Determine whether the proposed project activity faces barriers that:

- (a) Prevent the implementation of this type of proposed project activity; and
- (b) Do not prevent the implementation of at least one of the alternatives.

The identified barriers are only sufficient grounds for demonstration of additionality if they would prevent potential project proponents from carrying out the proposed project activity undertaken without being registered as a CDM project activity.

***If the CDM does not alleviate the identified barriers that prevent the proposed project activity from occurring, then the project activity is not additional.”***

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**“Sub-step 3a: Identify barriers that would prevent the implementation of the proposed CDM project activity:**

**(1) Establish that there are realistic and credible barriers that would prevent the implementation of the proposed project activity from being carried out if the project activity was not registered as a CDM activity. Such realistic and credible barriers may include, among others:**

...

**c) Barriers due to prevailing practice, *inter alia*:**

**The project activity is the “first of its kind”. ”**

# Observations

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- ***There is very little guidance available regarding what constitutes a first-of-its-kind application. Observations from cases suggest that it would be useful to clarify the role of the following issues:***
  - a) Geographical limitations (e.g. country, region)**
  - b) Methodology**
  - c) Industry and/or technology**
  - d) Is second of its kind also “first”?**



# Sample Project – 3760 (Registered October 2010)

**Methodology:**

**AM 0031**

**Project Activity:** Bus Rapid Transit (BRT) system in Chongqing, China

**Description:** The project provides 81 kilometres of dedicated bus lanes until 2010 with around 350 new articulated buses. Emission reductions will be achieved by shifting passengers from other higher emission forms of transportation to the BRT. The project is the first registered CDM project in China using the methodology but not the first BRT line in China.

**Three other BRT lines already exist in China:**

- a) Beijing - built with international support in 2004 for the Olympics**
- b) Hangzhou - pilot lane and higher passenger density**
- c) Kumming - pilot lane and also not a complete BRT system (IT systems, enclosed stations, etc.)**



# Sample Project – 3424 (Registered March 2011)

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**Methodology:** AMS I.C

**Project Activity:** 12.5 MW cogeneration project producing electricity and steam, displacing fossil fuels with rice husk at a paper mill in the Philippines

**Description:** Prevailing practice is using fossil fuels or grid; CoE issued by the Energy Regulatory Commission (31st March 2008), indicates that there is no grid connected rice husk based power generating unit in the region and none in the pulp and paper industry. The DOE also indicated that no other rice husk based cogeneration unit has been registered except “La Suerte 1MW Rice Husk Cogeneration Project” which is a full scale but smaller project, implemented in the rice milling industry where biomass is available internally.



# Sample Project – 2233 (Registered June 2009)

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## ***Methodology:***

**AMS I.C**

***Project Activity:*** The project activity consists of switching from coal fired boilers (4 and 3 tph) to one biomass-fired boiler (6 tph) using rice husk to generate steam for a textile manufacturing factory in Maharashtra, India

***Description:*** The PP has indicated that this type of boiler installation is among the first in the textile sector in the region and the DOE has validated it by the means of a letter from the Directorate of steam boilers of Government of Maharashtra that indicates that such type of boiler installation is the first of its kind in the textile sector in the region



# Sample Project – 3020 (Rejected July 2010)

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***Methodology:***

**ACM 0013**

***Project Activity:*** The project activity is a new super-critical coal fired power plant in India

***Description:*** Three projects have been registered with this methodology in India and one rejected. The PP indicated that prevailing practice barrier exists since there were no operational super-critical plants in India at the time of the request for registration, even though at least one other super-critical plant had been registered.



# Observations – Need for guidance

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## Observations:

- **Improved clarity regarding what makes a proposed project activity qualify for the first-of-its-kind would simplify DOEs validations, Secretariat assessments and Board decisions for projects claiming the first-of-its-kind barrier.**
- **Helpful clarifications would include defining what geographical scope is valid as well as other valid differentiating factors such as methodology, industry, and technology.**



# How the approved AT applies barrier analysis to the FoLK

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**PPs should determine whether the proposed project activity deemed to be FoLK:**

- **Faces barriers due to prevailing practice that prevent the implementation of the proposed project activity without being registered as a CDM project activity (AT, step 3, para a); and**
- **The CDM alleviates the identified barriers that prevent the proposed project activity from occurring (AT, step 3, last line).**

**In order to demonstrate that the project activity is additional.**

**Substep 3a para c should be applied in the context of Step 3**



# “First of its kind” and technologies

**All technologies applicable in CDM projects**

**Negative list**

**Technology never poses the barrier of “first of its kind”**

**Proposed CDM project activity shall use “Barrier analysis” (except Folk) or “Financial analysis” to demonstrate additionality**

**Other technologies**

**Assessment of barrier of “first of its kind”**

**Positive list**

**Technology always poses the barrier of “first of its kind”**

**Proposed CDM project activity is additional**



## Demonstration of additionality using the “first-of-its-kind” barrier

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**A technology poses the “first-of-its-kind” barrier hence, allows for demonstration of additionality, if:**

- (a) The technology faces a barrier/s due to prevailing practice that prevents the implementation of the proposed CDM project; and**
  - (b) The technology (or a similar technology) has not been in commercial operation in the applicable geographical area at the date the project was submitted for validation; and**
  - (c) The technology (or a similar technology) has not been applied in a registered CDM project in the applicable geographical area; and**
  - (d) The technology (or a similar technology) has not been used in another proposed CDM project activity in the applicable geographical area that was submitted for validation and its CDM-PDD was published by a DOE for public comments.**
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**The Board may wish to consider whether:**

- **The note on the barrier “first-of-its-kind”**

**may form a document to serve as a basis for a call for public inputs (EB 60, para. 37).**

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# Common practice

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# Background

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- **“Tool for the demonstration and assessment of additionality”, version 5.2, step 4 requires:**
  - **For proposed large-scale CDM project activities, unless the proposed project type is first-of-its-kind, common practice analysis shall be carried out as a credibility check of the other available evidence used by the project participants to demonstrate additionality.**
  - **This is a test to complement the investment analysis or barrier analysis to confirm that the project activity is not widely observed and commonly carried out in the region.**



## Background (cntd.)

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- **Sub-step 4a of the tool requires an analysis of any other activities that are operational and that are similar to the proposed project activity (excluding CDM project activities).**
- **If similar activities are widely observed and commonly carried out, sub-step 4b of the tool requires to demonstrate why the existence of these similar activities does not contradict the claim that the proposed project activity is financially/economically unattractive or subject to barriers.**
- **This can be done by comparing the proposed project activity to the other similar activities, and pointing out and explaining *essential distinctions* between them that explain why the similar activities enjoyed certain benefits that rendered it financially/economically attractive (e.g., subsidies or other financial flows) and which the proposed project activity cannot use or did not face the barriers to which the proposed project activity is subject.**



# Background (cntd.)

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- **Sub-step 4b of the tool states that - *Essential distinctions* may include a serious change in circumstances under which the proposed CDM project activity will be implemented when compared to circumstances under which similar projects were carried out.**
- **For example, new barriers may have arisen, or promotional policies may have ended, leading to a situation in which the proposed CDM project activity would not be implemented without the incentive provided by the CDM.**
- **The changes must be fundamental and verifiable.**



## Observation....

- **While assessing requests for registration, the secretariat has observed that the validation opinion provided by the DOEs regarding common practice analysis, and in particular the exclusion of similar projects from the common practice analysis does not appear to be robust.**
- **A few observation on the exclusion of similar projects:**
  - **Similar projects having higher IRR (above the benchmark) than the proposed project activity (below the benchmark);**
  - **Calculated IRR of the similar projects higher than the proposed project activity, using the spreadsheet of the proposed project activity and input values for similar projects;**
  - **Similar projects having better water availability (higher operating hours), good geological condition, lower permanent submerged area and lower unit investment cost than the proposed project activity;**

# Observation....

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- **Similar projects having lower investment/capacity and investment/electricity output ratios than the proposed project activity;**
- **Similar projects developed by an entity having abundant experience in the industry than the entity for the proposed project activity;**
- **Similar project is an expansion project based on an existing reservoir and thus some old facilities such as the dam can be utilized, whereas the proposed project activity is a Greenfield project;**
- **Similar projects do not fall in the seismic region, whereas the proposed project activity is located in an area of intense seismic activity with a high earthquake risk and therefore requires additional investment.**



## Observation....

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- Majority of the above arguments validated by the DOE to establish the **“essential distinctions”** only points out similar projects being financially/economically attractive compared to the proposed project activity;
- The above arguments partly justifies the requirements on **“essential distinctions”** as defined under sub-step 4b of the tool – i.e ‘explain why the similar activities enjoyed certain benefits that rendered it financially/economically attractive (e.g., subsidies or other financial flows) and which the proposed project activity cannot use or did not face the barriers’.
- However, completely lacks the justification for - **essential distinctions** *“may include a serious changes in circumstances under which the proposed CDM project activity will be implemented when compared to circumstances under which similar projects were carried out.”* For example, the exclusion of similar renewable energy projects before the power sector reform in China on the ground of significant policy changes before and after this reform.

# For EB to consider....

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- **Based on the above mentioned observations:**
  - **The Board may wish to further clarify the provisions for establishing the *“essential distinctions”* under the common practice analysis (*Tool for the demonstration and assessment of additionality”, version 5.2, step 4*) under the work which is currently undertaken by the secretariat as per the Board mandate.**



# “Common practice” and technologies

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**All technologies applicable in CDM projects**

**Other  
technologies**

**Positive list**

**Proposed CDM project  
activity is subjected to  
the “common practice”  
test**

**Technology is never  
a “common practice”**

**Proposed CDM  
project activity is  
exempt from the  
“common practice”  
test**



# Identification of technologies that are “common practice”

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**A technology applied in a proposed CDM project activity shall be considered as “common practice” if**

**the technology is applied in existing facilities that provide at least [50%] of**

**the same output or service**

**like the proposed CDM project activity**

**in the applicable geographical area.**



### **The Board may wish to consider whether:**

- **The note on the assessment of “common practice”**

**may form a document to serve as a basis for a call for public inputs (EB 60, para. 37).**

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**Thank you for your attention**

