

Annex 5

INFORMATION NOTE ON THE REVISION TO THE “GUIDANCE ON CRITERIA FOR
BASELINE SETTING AND MONITORING”

A. Background

1. The work plan of the Joint Implementation Supervisory Committee (JISC) for the period 2011-2013 foresees that the “Guidance on criteria for baseline setting and monitoring” should be revised. This task was identified as a priority area.
2. The JISC work plan specifies in action 6 (e) the following areas where the guidance should be revised:
 - (a) Applying the concept of materiality in establishing the project boundary and estimating leakage;
 - (b) Clarifying the option in baseline setting of a JI-specific approach already taken in comparable cases;
 - (c) Clarifying which aspects of the CDM additionality tool (hereinafter refer to additionality tool), and its associated guidelines, are applicable under the Track 2 procedure.
3. The JISC, at its twenty-fourth meeting (paragraph 16 of the meeting report) requested the secretariat to prepare draft revised guidance for consideration by JISC 25.
4. This information note highlights options on key issues to facilitate a decision by the JISC on how the revised guidance should be drafted. An initial draft revised guidance is attached to this information note. In the following the three areas identified in the JISC work plan are discussed.

B. Applying the concept of materiality in establishing the project boundary and estimating leakage

5. The following relevant definitions are applicable under JI:
6. **Materiality:** “A concept used by AIEs in their determination of joint implementation projects in accordance with paragraph 33 of the JI guidelines and in their verification of emission reductions in accordance with paragraph 37 of the JI guidelines. Information considered in the process of determinations and verifications is material if misstatements, errors or omissions in its reporting could influence the conclusion of the determination or verification by the AIE”(Glossary of JI terms).
7. **Project boundary:** “The project boundary shall encompass all anthropogenic emissions by sources and/or removals by sinks of GHGs under the control of the project participants that are significant and reasonably attributable to the JI project. In the case of a JI SSC project, which is a JI project aimed at reducing anthropogenic emissions by sources, the project boundary is defined considering anthropogenic emissions by sources. In the case of JI LULUCF projects, the project boundary geographically delineates the JI LULUCF project under the control of the project participants. A JI LULUCF project may contain more than one discrete area of land. In this case:
 - (a) Each discrete area of land should have a unique geographical identification;
 - (b) The boundary should be defined for each discrete area and should not include the areas in between these discrete areas of land”(Glossary of JI terms).
8. **Leakage:** “The net change of anthropogenic emissions by sources and/or removals by sinks of GHGs which occurs outside the project boundary, and that is measurable and attributable to the JI project. In the case of JI SSC projects, leakage only has to be considered within the boundaries of

non-Annex I Parties, if applicable. In the case of JI LULUCF projects, only the increased anthropogenic emissions by sources and/or reduced anthropogenic removals by sinks of GHGs outside the project boundary shall be taken into account” (Glossary of JI terms).

9. The idea of materiality is to some extent already reflected in defining project boundaries. The current guidance use a threshold to consider whether an emission source is significant and should be included in the project boundaries, as follows:

- (a) Encompass all anthropogenic emissions by sources of GHGs which are:
 - (i) Under the control of the project participants;
 - (ii) Reasonably attributable to the project; and
 - (iii) Significant, i.e., as a rule of thumb, would by each source account on average per year over the crediting period for more than 1 per cent of the annual average anthropogenic emissions by sources of GHGs, or exceed an amount of 2,000 tonnes of CO₂ equivalent, whichever is lower.

10. Accordingly, all emissions by sources that amount to the less than the threshold can be ignored. These thresholds only apply to sources within the project boundary but not outside the project boundary for the estimation of leakage emissions.

11. In addition, the concept of materiality has been introduced under JI in the “Standard for applying the concept of materiality in verifications”. Under this standard, the following thresholds are used to define whether or not information is regarded as material:

- (a) Five per cent for the projects with annual average emission reductions by sources (or enhancement of removals by sinks) amounting to less than 100,000 tonnes per year; and
- (b) Two percent for projects with annual average emission reductions by sources (or enhancement of removals by sinks) amounting to 100,000 tonnes per year or more.

12. In this regard, it can be concluded that:

- (a) The idea of ignoring small emission sources that are not very material is already reflected by using a threshold approach to define significant sources within the project boundary;
- (b) The current threshold for defining the significant sources within the project boundary is stricter than the thresholds used in the standard on materiality;
- (c) The current guidelines do not provide any quantitative thresholds to consider which leakage emission sources should be estimated and which sources could be ignored.

13. The JISC may wish to consider the following action:

- (a) To extend the definition of significant sources to sources outside the project boundaries that are relevant for leakage emissions.

C. Clarifying the option in baseline setting of a JI-specific approach already taken in comparable cases

14. The following relevant definitions are applicable under JI:

15. **JI specific approach:** “An approach for baseline setting and monitoring developed in accordance with appendix B of the JI guidelines.”(Guidance on criteria for baseline setting and monitoring)

16. **Baseline:** “The scenario that reasonably represents the anthropogenic emissions by sources or anthropogenic removals by sinks of greenhouse gases (GHGs) that would occur in the absence of the proposed JI project”(Glossary of JI terms).

17. The current guidance explicitly provides two options for baseline setting and monitoring (paragraph 9):

- (a) A JI specific approach; and
- (b) Use of an approved CDM methodology.

18. In addition, paragraph 28 of the guidance implicitly allows using a JI specific approach already taken in comparable cases that the AIE has positively determined for other project(s). Options (a) and (b) apply to the overall development of a JI project, while the option in paragraph 28 only applies to the determination of the baseline. This implies that the range of options available to project developers is different for:

- (a) The determination of additionality;
- (b) The determination of the baseline; and
- (c) The monitoring of emission reductions.

19. Moreover, the current guidance may not be fully clear with regard to whether the same option (CDM methodology or JI specific approach) should be applied to all three areas (additionality demonstration, determination of the baseline, monitoring of emission reductions) or whether different options can be used for each area.

20. The JISC may therefore consider:

- (a) Whether more flexibility should be provided with regard to the choice of the options;
- (b) To further clarify the guidelines with regard to the choice of the options.

21. A potential option is included in the attached draft revised guidelines.

22. In the draft revised guidelines, three options will be provided for the determination of the baseline while only two are available for monitoring. It is proposed to introduce the option of a JI-specific approach already taken in comparable cases for baseline setting and for monitoring as well. It is proposed to implement it under section B, paragraph 9 as an option (c) with a further explanation.

D. Clarifying which aspects of the CDM additionality tool, and its associated guidelines, are applicable under the Track 2 procedure

23. The following relevant definitions are applicable under JI:

24. **Additionality:** “Additionality is defined in 3/CMP.1, Annex, paragraph 43 as follows: 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” (3/CMP.1, annex, paragraph 43).

25. Under the current guidelines, project participants may apply the most recent version of the “Tool for the demonstration and assessment of additionality” for the CDM as one of the three approaches to demonstrate additionality. This tool is amended by relevant guidelines, which include the “Guidelines on the assessment of investment analysis” and the “Guidelines for objective demonstration and assessment of barriers”. In the assessment of the secretariat the tool and the applicable guidelines can be used for JI projects. The JISC may therefore wish to clarify that the relevant guidelines are also applicable if relevant standards under the CDM are used. In revising the guidelines, it may also be clarified that the “Combined tool to identify the baseline scenario and demonstrate additionality” could also be used.



26. However, the JISC may wish to consider whether issues relating to “prior consideration” are relevant under JI. Paragraph 3 of the additionality tool shall be applied in case starting date of project activities is before the date of determination. By applying paragraph 3 of the tool, project participant shall provide evidence(s) that the incentive from the JI was seriously considered in the decision to proceed with the project activity.

27. A related clarification has been provided on behalf of the Chair of the JISC. On 21 February 2011, the Chair of JISC has received a clarification request from an AIE (Det Norske Veritas Certification AS). It was requested to clarify whether or not “prior consideration” is relevant to JI. On 23 March 2011, clarification was provided stating that:

- (a) There is no explicit mentioning in the existing JI regulations that prior consideration needs to be demonstrated under JI;
- (b) Prior consideration has not yet been discussed by JISC and until then, the existing guidance remains valid.
