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**Page** 1/4  
**Subject** Call for input on "Draft guidelines for determination of baseline and additionality thresholds for standardized baselines using the performance-penetration approach"

Dear Sir/Madam

Thank you for allowing us to provide input on the draft guideline for determination of baseline and additionality thresholds for standardized baselines using the performance-penetration approach. We support the introduction of standardised baselines, and are pleased that the secretariat is continuing their work on developing the respective framework. The PD Forum would like to give its comments on the questions raised by the UNFCCC, as well as further feedback below.

On a high level, the lack of data for determination of baseline and additionality thresholds based on the performance-penetration approach and the complex reality in relevant sectors are likely to lead to the proposed approaches being not applicable or inconclusive (discussed, with an example, in question 2 below). We would therefore like to see the approach being applied in several priority sectors as pilots, prior to further discussions on universal thresholds. Also, while the approach may work in some large economies with lots of data, smaller economies and LDCs will, most likely, face problems due to non-availability and quality of data.

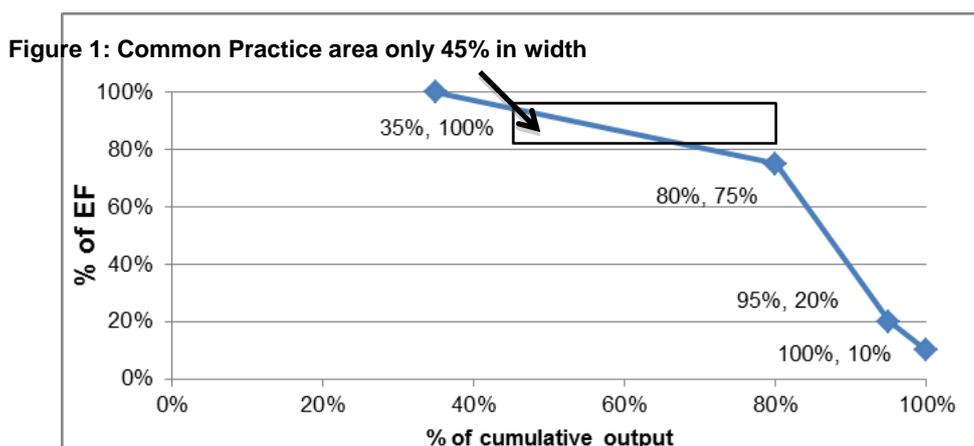
*1. Suitability of the draft guidelines to different sectors. The proposed approach could be applicable to different sectors.*

The guidelines suggest that these standardised baselines can be applied on a large scale (e.g. the electricity generation/power sector), or in the context of smaller market segments (e.g. a certain part of the cement production process). The PD Forum would appreciate a confirmation or further clarification by the secretariat and/or the Executive Board whether this assumption is correct.

Application of the draft guidelines to sectors where the definition of individual technologies is not very straight forward (due to custom-made design and varying operational parameters for example) will be challenging. The same applies also to cases where measures implemented within the same facility mutually influence each other or where the impact of individual measures cannot be easily segregated from the overall performance of the facility. In such cases, performance-penetration curves based on operational data (as opposed to design data) and determination of absolute baseline and additionality thresholds on a more aggregate level would represent an interesting alternative (as additional option to the proposed approach for example).

2. *Criteria for defining the common practice (CP) segment. The broad assumption under this approach is that when the performance-penetration curve is plotted for a sector, the segment of technologies significantly contributing to the output of the sector with similar performance levels have a relatively "flat" slope on the curve, and that the technologies included within this segment can be defined as common practice technologies. A segment box with the dimension of 50% in length and 20% in width is proposed to identify the common practice segment (please refer to step 2 of the draft guideline).*

Whilst the aim of these criteria is understandable, there are a number of situations where the proposed approach may not be able to identify the common practice segment. For example in a case where there are inefficient plants representing a cumulative output of 35% (~100% EF) and standard efficiency plants representing the next 45% of cumulative output (~80% EF), it would be clear that the standard efficiency plants (80% EF) should be considered the baseline, yet they would not be considered common practice under the guidelines (see graph below).



As mentioned under point 1 above, the same problem is likely to occur in sectors where emission factors are strongly influenced by operational practices and gradual efficiency improvements over time, resulting in a performance penetration curve without long flat segments but rather a more or less continuous slope over the entire output range.

The PD Forum suggests that pilots are first carried out in several priority sectors, in varying geographies to test this performance/penetration curve approach, rather than

fixing the common practice thresholds now. Once the curves are drawn for different industries, it will be clearer which sectors should be considered common practice. The adoption of a "one size fits all" approach seems unnecessary and premature at this stage.

The PD Forum would also like to encourage the UNFCCC Secretariat to consider further alternatives that would rely on performance-penetration curves based on operational data (as opposed to design data) and determination of absolute baseline and additionality thresholds on a more aggregate level (e.g. t CO<sub>2</sub>e/ t of cement/clinker/brick/steel produced) – especially given the fact that many industry associations worldwide already collect such operational information.

*3. Stringency of level of thresholds. In the draft guidelines, the emission factor of the output generated by most clean technologies (represented by weighted average emission factor of top 20% output level) of the identified common practice segment is used to derive the baseline emission factor (please refer to step 3 of the draft guideline).*

Notwithstanding the comments above, where a "one size fits all" approach should be further tested based on pilot applications of the guidelines, the proposed thresholds for determination of the baseline emission factor seem sensible.

*4. Exclusion of highly inefficient plants. Highly inefficient plants are considered to be outliers and excluded while plotting the performance-penetration curve for the purpose of conservativeness (please refer to step 1 of the draft guideline).*

In general, we believe that all data from a given industry should be used, and plotted to establish the performance/penetration curve. This would be important to fully understand the sector and the impact of certain technologies or measures on overall performance. Instead of excluding outliers, the PD Forum would rather argue for more flexibility in the definition of the common practice segment on a sector-by-sector basis, as argued above.

## Further comments

### *Multi-country baselines*

The draft indicates that parties, project participants, as well as international industry organizations or admitted observer organizations may decide to propose new approaches for consideration by the Board, through a DNA. In case of multi-country baselines, it is not clear how DNAs should be involved (i.e. joint submission by all involved DNAs versus one single DNA). The difficulties currently faced in obtaining LoAs for multi-country PoAs should be considered in this context. Submission by industry organisations followed by a top-down approval process driven by the Secretariat/Executive Board with involvement from affected DNAs (e.g. possibility to

provide comments, approve or reject the proposal) would lead to greater efficiency and transparency.

#### *Default thresholds for additionality*

As pointed out above, there may often be occasions where the common practice cannot be found. Paragraph 17 ("scenario 2") allows for this circumstance, with the default threshold proposed by the board of 80% for priority sectors and 90% for non-priority sectors. These thresholds are very conservative and may not incentivise the industry to use standardised baselines. If the standardised baseline framework is to lead to real and effective reductions, it is important to find the adequate balance between emission reduction ambition and adequate business incentives to effectively enable investments in emission reductions. It seems that the proposed default values will not strike such a balance, with the consequence that the standardized baseline framework may not be widely applied.

If a certain technology is found in a sector, that is less carbon intensive than 75% of all other technologies used, it cannot, in our opinion be considered common practice. We suggest lowering these thresholds (e.g. to 75% for all sectors). However, we emphasise the need to pilot this approach in several sectors, before adopting strict "one size fits all" thresholds.

#### *Need for additionality test*

According to footnote 4, page 6 "*technologies on the positive list will be additional only when it can also be demonstrated that they are facing barriers or are less commercially attractive than all of those technologies which are before the threshold.*" The need for financial additionality and/or barrier tests on top of baseline/additionality benchmarks would unduly add to increased transaction costs, reduced objectivity and reduced scaling-up potential.

Assessment of financial additionality on a sectoral basis is a daunting task given the difficulty to collect investment costs and operational costs on a sectoral level. Universal rules on definition and determination of such costs are not clear and difficult to apply, which increases the subjectivity of standardised baselines - the very issue these new approaches are supposed to tackle. In addition, companies will not be willing to disclose such information due to commercial/competition concerns.

#### *Fuel and feedstock switch*

Given the mutually influencing nature of the fuel/feedstock switch and technology switch measures in the context of industrial sectors (e.g., cement, iron & steel), segregation of measures and performances as proposed does not seem realistic. Instead, developing benchmarks related to overall performance levels (e.g. energy consumption per ton of output produced, e.g. clinker/cement or steel) seem more feasible and appropriate in the context of such sectors.

*Use of design documents*

The use of technical efficiency values as per design documents in the context of technology switch measures is questionable and might lead to high error margins in the context of emission factor calculations.

Operational parameters and design adaptations over time (e.g. cement plants) might lead to significant differences between emission factors as per design efficiencies and actual operation. The current approach based exclusively on design efficiencies also takes away incentives for industrial sectors to incrementally improve their operations beyond the original design.

Kind regards,



Dr. Sven Kolmetz

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