

Annex 1

**CLARIFICATIONS ON ISSUES RELATING TO BASELINE AND
MONITORING METHODOLOGIES**

A. Additional guidance on elements to be included in a baseline methodology

1. When proposing a new baseline methodology, the following information elements shall be covered and reported through annex 3 of the CDM-PDD:

- (a) Basis for determining the baseline scenario:
 - Explanation of how the baseline is chosen, taking into account paragraph 45 (e)
 - Underlying rationale for algorithm/formulae (e.g. marginal vs. average, etc.)
 - Explanation of how, through the methodology, it is demonstrated that a project activity is additional and therefore not the baseline scenario (section B4 of the CDM-PDD)
- (b) Formulae/algorithms shall specify:
 - Type of variables used (e.g. fuel(s) used, fuel consumption rates, etc.)
 - Spatial level of data (local, regional, national, etc.)
 - Project boundary (gases and sources included, physical delineation)
 - Vintage of data (relative to project crediting period)
- (c) Data sources and assumptions:
 - Where the data are obtained (official statistics, expert judgement, proprietary data, IPCC, commercial and scientific literature, etc.)
 - Assumptions used

2. Project participants selecting an approved baseline methodology shall ensure that elements described in subparagraphs (a) to (c) above apply to their proposed project activity.

**B. Additional guidance on the approach contained in paragraph 48 (c)
of the CDM modalities and procedures for selecting baseline methodologies**

3. One of the three approaches for selecting a baseline methodology is defined in paragraph 48 (c) of the CDM modalities and procedures as: “the average emissions of similar project activities undertaken in the previous five years, in similar social, economic, environmental and technological circumstances, and whose performance is among the top 20 per cent of their category”.

4. Project participants wishing to select this approach shall elaborate in their submission of a proposed new baseline methodology, *inter alia*, on:

- (a) How they determine “similar social, economic, environmental and technological circumstances”, and
- (b) How they assess the “performance among the top 20 per cent of their category” defined as greenhouse gas emissions performance (in terms of CO₂equ emissions per unit of output).

5. Project participants wishing to use this approach and a related approved methodology shall assess the applicability and use the most conservative of the following options:

- (a) The output-weighted average emissions of the top 20 per cent of similar project activities undertaken in the previous five years in similar circumstances;

(b) The output-weighted average emissions of similar project activities undertaken in the previous five years under similar circumstances that are also in the top 20 per cent of all current operating projects in their category (i.e. in similar circumstances as defined above).

C. Proposed project activities applying more than one methodology

6. If a proposed CDM project activity comprises different “sub-activities” requiring different methodologies, project participants may forward the proposal using one CDM-PDD but shall complete the methodologies sections (sections A.4.2, A.4.3, A.4.4. and B to E of the CDM-PDD) for each “sub-activity”.

D. Circumstances and modalities for operationalizing paragraph 47 of the CDM modalities and procedures

7. Paragraph 47 stipulates that “the baseline shall be defined in a way that CERs cannot be earned for decreases in activity levels outside the project activity or due to *force majeure*”.

8. An output- or product-linked definition of baseline values (i.e. CO₂equ. per unit of output) shall be applied, unless the project participants can demonstrate why this is not applicable and provide an appropriate alternative.

9. The Meth Panel shall evaluate, on a case-by-case basis, whether a proposed new methodology complies with this provision.

E. Guidance regarding the treatment of "existing" and "newly built" facilities

10. If a proposed CDM project activity seeks to retrofit or otherwise modify an existing facility, the baseline may refer to the characteristics (i.e. emissions) of the existing facility only to the extent that the project activity does not increase the output or lifetime of the existing facility. For any increase of output or lifetime of the facility which is due to the project activity, a different baseline shall apply.