

Comment: Options for Reducing the Risk of Double Counting in CDM Projects

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The Carbon Finance Unit welcomes the opportunity to contribute to the discussion on Double Counting invited by the CDM Executive Board.

Sources of double counting

The incidence of double counting is expected to occur in a CDM project in the following circumstances:

1. There are different entities in the value chain of a good or service and more than one entity can claim emission reductions. This occurs in circumstances of ambiguity regarding the project boundaries and/or ownership of emission reductions from process improvement/change among the producers, intermediaries (wholesalers, retailers, utilities, etc.) and consumers. Examples of double counting are illustrated below:

- *Changes in process:* A project developer switching a boiler from coal to biomass use might claim upstream benefits for reducing coal-bed methane emissions, while another project developer might claim credits for methane capture at coal mines.
- *Fuel switch:* Switch to lower emission fuel use e.g. in manufacturing such as cement production. Double counting could occur if the seller of the fuel claims credits and the cement manufacturer also claim credits.
- *Energy efficiency projects or programs:* In energy efficiency projects or programs there are multiple stakeholders (consumers, product developers, associations, and government programs responsible for installing the products etc) and all – in theory - could claim credits. For example the consumers in a demand side management project, such as energy efficient light bulbs or double glazing, may claim emission reductions and the producers of these products may also claim emission reductions.
- *System efficiency:* A utility installs a computer-based optimization management and supervisory tool (SCADA) which results in efficiency improvements in thermal power plants and translates into system efficiency. The utility may want to claim the emission reductions, but the individual power plants which are run more efficiently may also claim emission reductions benefits.
- *Network efficiency:* A distribution company claims credits for reduced losses due to a network upgrade and a power utility also claims credits for supplying electricity with fewer emissions associated with it.
- *Transport projects:* A plant producing ethanol that is used as a fuel in cars seeks to claim emission reductions, but the motorists who buy the fuel and generate emission reductions also claim emission reductions

2. Products that serve as intermediates in the value chain or down stream production.

Products that are used as intermediates in the integrated production process will encounter situations where the emission reductions resulting from the intermediate product may also be included in the emission reductions calculated in the production of final product.

3. Two or more sectors – When projects overlap two or more sectors, it is possible that the emission reductions are claimed separately in each sector. For example, the reductions in the fossil fuel emissions due to bio-energy project could potentially be accounted for in both the LULUCF and the energy sectors.

4. Limitations of project monitoring. Projects where difficulties in monitoring the project data and the treatment of the data in the emission reduction accounting can result in double counting. Examples of this include;

- A/R projects where there is a loss of carbon in the site preparation for the project can be treated as stock change or emission. The stock change can be considered temporary and whereas the emissions are considered permanent.

Options to minimize double counting defined in baseline methodologies

To date double counting has only been addressed by three methodologies submitted to the CDM EB. These include:

- NM0082-rev, the Khon Kaen fuel ethanol project in Thailand
 - NM0129, production of sunflower methyl-ester biodiesel in Thailand, and
 - NM0108, biodiesel production in India, which was not approved
1. **NM0082-rev:** the methodology based on Khon Kaen fuel ethanol project in Thailand, proposes that project proponents must obtain written confirmation from the host country's Designated National Authority (DNA) of its willingness and ability to ensure that no fuel switch projects are approved based on the bio-ethanol produced by the project activity. This approach requires that the Designated National Authority (national government) to be responsible for ensuring that the project activities it approves do not result in double counting. Written confirmation of this undertaking could be an explicit requirement for registration of relevant project activities.

However, this approach does not fully eliminate double counting risks since a DNA may not identify and exclude all of the potential instances of double counting. Such an approach would only be effective if penalties for non-compliance were agreed and if some kind of monitoring or enforcement by DOEs could be implemented. In projects where a public agency is also a CDM project participant, the risk that double counting might not be reported could be high. In these cases potential double counting need to be checked by the DOE, so the approach only partly reduces the risk of double counting.

2. **NM0129:** the methodology involves the production of sunflower methyl-ester biodiesel in Thailand, proposes that in the host country, only biofuel production projects or biofuel consumption projects would be eligible to generate CERs. In other words the government decides whether a methodology can be used by producers or consumers. Given that a host country government is responsible for defining a path towards sustainable development, it is theoretically feasible to request the host governments to make such a definition as part of the DNA approval for the projects. This approach could reduce the risk of double counting if monitoring of this rule was undertaken.
3. **NM0108:** the methodology proposes that agreements between the project participants and all other potential claimants of the emission reductions are developed to resolve ownership of CER disputes. In other words, fuel dealers, trucking companies, railways and other biodiesel purchasers agree not to claim CERs for the emission reductions, and the project proponent would use the "additional revenue" from the sale of CERs to subsidize the sale price of the biodiesel fuel. This approach could be feasible provided specific monitoring procedures are implemented to verify compliance within the

agreements. The fact that the first project would have an initial market advantage would encourage participation in the CDM and is part and parcel of a competitive market place. i.e., there are always some winners and some losers.

Recommendations to avoid double counting

Double counting appears to be an issue that can affect several categories of CDM projects – both existing and future ones. While double counting should be addressed, it is important that procedures are feasible, low-cost, flexible, and straightforward, and avoid increasing the complexity of the regulatory process that will burden the non-Annex I host countries.

Some measures that could be implemented to achieve this are listed below:

- The EB should identify those key sectors / project types where double counting is a potentially significant problem and the methodologies are encouraged to identify and address the issue. The EB could provide suitable guidance or a tool highlighting the sectors and project types that could experience double counting and measures that should be implemented to address it.
- Double counting should be included in the PDD as an item (e.g., section E) part of the estimation of emission reductions. The project participants should be requested to apply the EB guidance to check for the double counting and the DOE should be required to consider the issue of double counting during validation and verification to ensure that the project participants address the double counting in an adequate manner.
- The methodologies should have clear boundaries and avoid overlap between procedures, steps, and processes to ensure that only the emission reductions that can be directly attributable to the production, technology, and process improvements are covered by the methodology.
- Double counting should be dealt with in protocols for national GHGs accounting schemes and these should be consistent with the accounting approaches used in CDM and JI methodologies and project documents, along with the *ex-post* provisions for the retirement of credits that represent clear cases of double counting from the national registries of the Parties.
- Support to administrative controls to prevent double counting such as a database and accounting procedures that can prevent double counting (e.g. emission reduction ownership, technology type, location, factory/entity address and name, etc) should be maintained in the national registries in a manner that enables quick cross checks to prevent the occurrence of double counting.