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Guidance for Standardized Methods

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1 | INTRODUCTION

This document provides guidance for the VCS requirements on standardized methods. The requirements are set out in the *VCS Standard* and the *Methodology Approval Process* documents, with accompanying definitions in the *Program Definitions* document.

Standardized methods are methodological approaches that standardize the determination of additionality and/or the crediting baseline for a given class of project activity, with the objective of streamlining the development and assessment process for individual projects. Additionality and/or the crediting baseline are determined for the class of project activity, and qualifying conditions and criteria are set out in the methodology. Individual projects need only meet the conditions and apply the pre-defined criteria set out in the standardized method, obviating the need for each project to determine additionality and/or the crediting baseline via project-specific approaches and analyses.

The VCS defines two types of standardized methods: performance methods and activity methods. The former establish performance benchmark metrics for determining additionality and/or the crediting baseline. Projects that meet or exceed a pre-determined level of the metric may be deemed as additional and the same or a different level of the metric may serve as the crediting baseline. Activity methods pre-determine additionality for given classes of project activities using a positive list. Projects that implement activities on the positive list are automatically deemed as additional and do not otherwise need to demonstrate additionality. One of three options (namely, activity penetration, financial viability or revenue streams) is used to qualify the project activity for the positive list.

The VCS requirements on standardized methods should be read in full before developing or assessing methodologies or modules that use a standardized method. This guidance document provides additional information to aid the interpretation of the VCS requirements, and it is recommended that this guidance document is read alongside the relevant VCS program documents. The guidance does not form part of the VCS rules, but interpretation of the rules shall be consistent with the guidance set out in this document.

2 | GUIDANCE

The bulk of the requirements for standardized methods are set out in the *VCS Standard* under the *Methodology Requirements* section, and these relate to the development of standardized methods. Further requirements are set out under the *Project Requirements* section, which relate to the use by projects of standardized methods. There are also some requirements set out in VCS document *Methodology Approval Process*, and these relate to the approval and post-approval assessment of standardized methods.

The sections below provide guidance to the requirements set out in the *VCS Standard* and the *Methodology Approval Process*. The guidance is structured, with sections numbered, according to the

document to which they relate. Guidance has been provided for most of the requirements on standardized methods, though it has not been deemed necessary to provide guidance for every single section of the requirements in the *VCS Standard* and *Methodology Approval Process*.

VCS Standard

3 PROJECT REQUIREMENTS

3.1 GENERAL REQUIREMENTS

- 3.1.4** The requirement that projects must use a performance method if one is available means that the existing project-specific methodology is effectively withdrawn for those projects (ie, is not available to them). The VCSA will not necessarily withdraw project-specific methodologies because a new performance-based methodology may not cover all of the project activities that were eligible under the existing project-specific methodology.

Projects must not be allowed to pick and choose between performance methods and project methods because of the impact this would have on overall environmental integrity where the additionality threshold and crediting baseline are set at different levels. For example, if a methodology establishes different levels of the performance benchmark metric for the additionality threshold and the crediting baseline, there will be projects that, under business as usual, would perform at a level better than the crediting baseline but worse than the additionality threshold. Provided these projects manage to reduce GHG emissions to beneath the additionality threshold, they will be deemed additional and granted credit based upon the crediting baseline (as opposed to a project method which would grant credit in relation to their own baseline). This means they will get credit for more than the actual GHG emission reductions they achieve. The intent is to counterbalance this with projects that, under business as usual, would perform at a level worse than the crediting baseline. These projects will get credit only up to the crediting baseline, and so they will be under-compensated. Provided that the levels of the additionality threshold and crediting baseline are set appropriately, these two effects can cancel each other out, with the intent that the aggregate of projects provides overall environmental integrity. Conversely, if one allows projects to pick and choose their methodology, the latter set of projects will opt for a project method and so be granted credit for all the GHG emission reductions they achieve, while the former will opt for the performance method and their over-crediting will not be counterbalanced. It is therefore necessary to ensure that projects must all use one type of methodology or the other.

3.15 ADDITIONALITY

3.15.1 Performance methods are designed such that the additionality benchmark works together with the crediting benchmark to ensure overall environmental integrity, which means projects are not permitted to use the additionality benchmark in isolation. See the guidance below on Section 4.1.11 for further discussion on this issue. On the other hand, where there is a positive list that is available in a VCS module, projects applying a project-specific methodology may use the positive list for the demonstration of additionality (provided the positive list is applicable to such projects) and their own baseline for the calculation of emission reductions.

4 METHODOLOGY REQUIREMENTS

4.1 GENERAL REQUIREMENTS

4.1.7 The purpose of this requirement is to prevent potential gaming. Conversely, if project proponents could choose either a standardized crediting baseline or a project-specific baseline, they would choose the option that provided them with the most GHG credits (which would depend on their project performance in relation to the crediting baseline) and overall environmental integrity of the aggregate of projects applying the methodology would be negatively impacted. Note that this requirement does not preclude a project method from providing the project proponent with the option of using project-specific data or conservative default factors in the calculation of baseline emissions.

4.1.8 Performance methods use performance benchmarks to establish a given level of performance against which potential projects are assessed. Those projects that meet or exceed this level are deemed as additional (provided also that they meet any other qualifying criteria and conditions). The same (or possibly a different) level of performance can serve as the crediting baseline.

Activity methods use positive lists to deem as additional technologies or measures applied within a given context (ie, a given technology is not deemed as additional per se). For example (and for illustrative purposes only), solar systems up to 100W capacity and installed in off-grid households in Southern Africa might be a project activity that demonstrates that it has a low penetration level and becomes deemed as additional. Thus, it is this project activity that is deemed as additional, not the technology itself. It is envisaged that there will be few cases where a technology (without qualification within the context of a project activity specification) is deemed additional.

4.1.11 A performance method cannot be approved under the VCS as a separate module to be used in conjunction with existing methodologies. The performance benchmark approach is central to a methodology and will touch upon many of the sections of the methodology. For example, a performance benchmark may be used for both determining additionality and the crediting baseline, the applicability conditions may limit the eligibility of the methodology to project activities

appropriate to the performance benchmarks, and the data and parameters (monitored and not monitored) are likely to be different from those in a methodology using a project method. Therefore, any performance benchmark approach will require an entirely new methodology. Note that as set out in Section 4.1.7 of the *VCS Standard*, methodologies may use a performance method for determining additionality and a project method for the crediting baseline, provided that the environmental integrity issues raised by doing so (eg, Section 3.1.4 above) are addressed.

- 4.1.12** See guidance on Section 3.1.4 for discussion on different levels of the performance benchmark metric for determining additionality and for the crediting baseline.
- 4.1.14** Having established the distribution of performance in the underlying population and the performance benchmark metric, the performance benchmark metric becomes the yardstick against which the performance of potential projects is assessed (and additionality and crediting determined accordingly). Examples of performance benchmark metrics may include tCO₂e emitted per tonne of clinker produced (an output-based metric for the cement sector), tCO₂e of fertilizer applied by hectare of land (an input-based metric for the agricultural sector) or tCO₂e sequestered per hectare of land (a sequestration metric for improved forest management). Note that these metrics may represent an average performance level for a project (eg, not every hectare of land within the project area will necessarily hold carbon stocks at the level of the performance benchmark metric). Where input metrics are used they must address leakage. For example, if less input is applied, this may result in consistently less output, which may result in increased activity (and GHG emissions) elsewhere to fulfill the market demand (ie, leakage).
- 4.1.15** In order to establish the level of the performance benchmark it is first necessary to develop an understanding of performance within the sector. This may be in the form of a frequency distribution or other mapping of distribution. The distribution should be in relation to the applicability of the methodology or, where there are multiple performance benchmarks, in relation to each performance benchmark (ie, if applicability is narrower than the whole sector, the distribution for the whole sector does not need to be mapped). This distribution must be described in the methodology.

One of the key objectives of a performance method is to improve performance within the sector without pre-determining the technologies or measures that will be implemented (ie, it is the performance of the project activity that is the chief concern). Therefore, while a good understanding of the technologies or measures that are available for improving performance in the sector is useful, a detailed description of these is not necessarily required.

The appropriate level(s) for the performance benchmark will vary between project activities, sectors and regions. For example, the level(s) will need to be set in consideration of factors such as the technologies available to potential project proponents (and the corresponding performance improvements they can bring). Therefore it is not possible or useful for the VCS rules to specify a single benchmark level(s) that must be used by all methodologies. The approach taken is to

concentrate on process rather than outcome (ie, how the level is set rather than what the level should be). Full transparency in how the level is set is required, and the objective of the stakeholder consultation is to ensure that the level of the performance benchmark metric provides both environmental integrity and sufficient financial incentive to potential projects. Note that each of the two validation/verification bodies (assessing the methodology as part of the methodology approval process) must determine whether the requirements set out above on the stakeholder consultation have been adhered to by the methodology developer. The VCSA will also review the methodology developer's report to ensure requirements have been adhered to. Note also that although the report on the stakeholder consultation will not be attached to the final approved methodology, it will be made available on the methodology's page on the VCS website for stakeholders to view at any time.

The purpose of the stakeholder consultation is to provide input on the appropriateness of the level of the performance benchmark metric. As such, the stakeholder group is likely to be different from that of a typical project-level consultation where local communities may be a primary stakeholder. Such communities may not necessarily have a stake in the level of the performance benchmark metric, since the level at which the performance benchmark metric is set has no direct impact on the local environment or community. Hence, the primary stakeholders are likely to be groups such as industry (who have an interest in which activities will be eligible for crediting and the amount of credit that will be granted to these activities), environmental NGOs (who have an interest in the overall environmental integrity of the methodology and therefore the chosen level of the performance benchmark metric) and government and other regulatory bodies (who may be looking to regulate the sector at some future date or may be developing standardized baselines under programs such as the CDM, and are therefore interested in sector benchmarks).

The methodology developer should strive to achieve consensus between the stakeholders on the level of the performance benchmark metric. However, where consensus cannot be achieved, the methodology developer will have to determine an appropriate level, demonstrating clearly how this level takes due account of all stakeholder views. The VCS principle of conservativeness is a key principle to bear in mind when determining an appropriate level in this manner. The validation/verification bodies in their assessment of the methodology will ensure that due account has been taken of all stakeholder views, as will the VCSA in its review of the methodology.

The VCS rules do not require the level of the performance benchmark metric to be tightened over time. The underlying dataset must reflect trends in the sector, which may mean that the crediting baseline becomes tighter over time. However, there is no requirement that the level of the performance benchmark metric itself be systematically tightened over time (eg, it is not required that a level starting at the x^{th} percentile of sector performance is ratcheted down by y percent per year). It is considered that the role of GHG programs is to ensure that projects generate GHG emission reductions or removals that are additional to business as usual. A jurisdictional program such as a state or regional emissions trading program may wish to achieve a policy goal of

gradually tightening a target in a sector, but such policy goals should not necessary be achieved through GHG programs such as the VCS Program.

- 4.1.16** Stratification of the baseline and performance benchmark will be required if free-riding is to be limited. Conversely, setting one global performance benchmark without qualification for a sector may give rise to a situation where the benchmark has already been exceeded in some regions (creating a free-rider issue) and is unattainable in other regions (creating the issue that no project activity will be incentivized). The general purpose of stratification is to account for free-riders while allowing sufficient financial incentive to catalyze project activity. Stratification may be achieved by specifying multiple benchmarks or using correction factors within the methodology. For example, where electricity grid emission factors vary within the geographic scope of the methodology, multiple performance benchmarks could be defined (eg, one for each electricity grid) or a single performance benchmark could be used with correction factors to account for the different grid emission factors.

Note that this concept of stratification is the same concept as the level of aggregation used in the *CDM Guidelines for the Establishment of Sector Specific Standardized Baselines*.

- 4.1.18** The activity method as currently specified is essentially (just) a specification for a positive list – the additionality of a given class of project activity is deemed as additional up front, so that all such project activities do not need to demonstrate their additionality at the project level. Note that this different from grouped projects under the VCS and program of activities under the CDM. Under those approaches, qualifying criteria are established within the project documents to allow further project activities to be added to the project post-validation. Activity methods, on the other hand, establish qualifying criteria in a methodology or module that can be used by different projects.

4.2 METHODOLOGY REVISIONS

- 4.2.5** Where the level of activity penetration has risen to exceed the five percent threshold level, the project activity is no longer deemed additional. Therefore it is not appropriate to prolong the life of the activity method by allowing revision (and justification of additionality) using the financial viability or revenue streams options

4.3 APPLICABILITY CONDITIONS

- 4.3.2** Safeguarding against free-riding under standardized methods is a critical issue. For performance methods, it may not be sufficient to simply state that any project that achieves the benchmark is additional because there may be a whole class of project activity that meets the benchmark but that would have been implemented without the intervention created by the carbon market in the form of the GHG credit price signal. Having substantial numbers of free-riders compromises the

environmental integrity of the program. For activity methods, the same issue exists and, again, the applicability conditions should address this.

Note that the applicability conditions define the project activity, so the VCS rules on ensuring that the applicability conditions ensure exclusion of free-riders is related to the general need for stratification in standardized methods. Careful specification of the project activity (a form of stratification) is required to provide a carefully targeted performance benchmark or positive list. Stratification is an important issue generally within standardized methods and is further discussed in other relevant sections of the VCS requirements and this guidance document.

- 4.3.4** The project proponent must demonstrate that it has implemented some form of technology and/or measure, failing which the project is not eligible. The implementation will need to have occurred within the timeframes permitted by the VCS rules on project start date, since the implementation date is the project start date. For example, for non-AFOLU projects this would mean the implementation needs to occur no earlier than two years before the completion of validation (or with a slightly longer window if a new VCS methodology is being used). This requirement ensures that projects are granted credit only when they do something that is other than their business as usual (ie, activities are not eligible for crediting if they are merely continuing to do what they were already doing). Note that the project proponent's motivation in implementing the technologies and/or measures is not a consideration. Rather, it just needs to be established that implementation has occurred.

The methodology will need to specify technologies and/or measures that lead to substantial performance improvement relative to the crediting baseline and what is achievable in the sector. This means that the methodology must identify technologies and/or measures that will drive real performance improvement (or examples of such technologies or measures where it is not possible to be explicit about the precise technologies or measures that projects may actually implement). This requirement is important because projects will be granted credit based upon the difference between their performance and the crediting baseline, which can mean the project legitimately receives credit for more than the GHG emission reductions or removals it achieves (see guidance above on Section 3.1.4 for further discussion on this topic). As such, to avoid gaming it is necessary to ensure that such projects are taking substantial steps to reduce or remove GHG emissions and not just taking token measures in order to be granted credit. The onus is upon the methodology developer to demonstrate that the specified technologies and/or measures are likely to achieve this objective, failing which the methodology shall not be approved. Note that as set out in Section 4.1.15 above, a detailed description of technologies and measures is not required.

- 4.3.5** Careful stratification is required in the specification of the performance benchmark, in the absence of which one is faced with the potential for free-riders. In terms of homogeneity, it is only characteristics that have to do with the baseline scenario and additionality that are of concern (ie, the applicability conditions must ensure that the performance benchmark is applicable to project

activities that all share the same baseline scenario and characteristics with respect to additionality). Any other differences within the population of possible projects are not relevant in this context.

It is also necessary to establish the geographic scope of the methodology. However, setting an overly wide geographic scope could lead to a free-rider situation whereby the underlying conditions in a given region are substantially different from the reference area used to create the performance benchmark. Therefore the developer needs to carefully consider all regions to which the methodology will be applicable.

- 4.3.6** One of the benefits of performance methods is that they can be developed based upon a region where data are available for establishing a performance benchmark and then applied to other regions where such data are not available. However, one needs to ensure that the two areas are substantially similar or that it is conservative to apply data from one geographic area to another, otherwise there is the possibility of widespread free-riding
- 4.3.10** It is necessary to specify in conjunction with which methodologies positive lists can be used in order to allow the positive list to be used in place of the additionality demonstration otherwise required by the methodology. For example, if a CDM methodology specifies use of the CDM additionality tool, the project activity applicable under the methodology must also be applicable under the positive list, thereby allowing a project applying the methodology to demonstrate additionality using the positive list in place of the CDM additionality tool.

4.5 BASELINE SCENARIO

- 4.5.3** Standardized methods should use objective criteria for determining additionality and quantifying the number of GHG credits granted to projects. Therefore explicit determination of the most plausible baseline scenario or aggregated baseline scenario is important. Without this, additionality and the number of GHG credits granted to projects can become a process of the policy maker arbitrarily determining which activities it wants to deem additional and how many credits / how much revenue they should receive. Note that this is as important for activity methods as it is for performance methods. Although activity methods are for additionality only (ie, the crediting baseline will be handled by a performance or project method), an explicit understanding of the baseline is still an important component of additionality.

It is also expected that standardized methods will be at least as conservative in terms of environmental integrity as project methods. There may be the occasional case where an incumbent project method is overly conservative, in which case a replacement standardized method does not need to be as conservative, provided that it is demonstrated that the project method is overly conservative. Note also that the objective of ensuring that standardized methods are at least as conservative as project methods is considered important because standardized

methods have the potential to significantly scale GHG emission reduction activity and ensuring environmental integrity therefore becomes ever more important.

- 4.5.4** It is important to incorporate the concept of autonomous improvement factors where the trend in a sector is one of improving performance over time, so that performance methods do not quickly become outdated. At the same time, to provide investor certainty with respect to the number of GHG credits that will be granted to projects, projects may use a fixed level of the performance benchmark metric (ie, crediting baseline) for the duration of their project crediting period (as is the case under typical project methods).
- 4.5.5** The dataset underlying the performance benchmark is crucial to the environmental integrity of the methodology. As such, a number of requirements have been defined around data quality. Third party assessment of the dataset is important. At the same time, it may be necessary to protect the confidentiality of some data, which may be proprietary (if confidentiality is not protected, there becomes a risk that organizations may not report their data truthfully and accurately). Likewise, if data is maintained in a central repository, it must be clear who has responsibility for the database and how they will ensure integrity over the data contained within it.
- 4.5.6** For some datasets, it may be easiest to establish the performance benchmark directly in the methodology itself, as a self-contained methodology with performance benchmark data. This approach is akin to developing a project using a project method, under which the baseline emissions are established directly in the project description. Where a dataset is more involved and perhaps covering a wider geographic area, it may be desirable or necessary to maintain the dataset in a separate repository. In this case, the methodology will need to establish criteria and procedures for establishing the performance benchmark (eg, if the dataset covers a number of different regions, the criteria and procedures should provide instructions for how individual project proponents determine the additionality threshold and/or crediting baseline for their specific region and project type). The CDM proposed methodology for the cement sector (NM0302), which used the *Getting the Numbers Right* database as its dataset, took this approach.

4.6 ADDITIONALITY

- 4.6** Although it is recognized that there may be complex motivations and multiple influences on project proponents that result from the existence of carbon markets, it should be assumed, for the purpose of developing standardized methods for additionality, that the primary factor (ie, policy intervention) causing project proponents' behavior to deviate from baseline behavior is the financial incentive resulting from the GHG credit price signal. Therefore, standardized methods should be developed reflecting typical practice in the sector in the absence of such financial incentive and holding all other factors constant. The carbon markets can have other interventions besides the GHG credit price signal. For example, the success of GHG projects can lead to greater awareness of the types of technologies used by successful projects. However, for the purpose of developing standardized methods, it is considered necessary to make the simplifying

assumption that the primary factor causing project proponents to undertake project development is the GHG credit price signal.

It should be assumed that actors in a given sector use a rational strategy in their decision making. However, factors that lead behavior to be other than rational may be incorporated into standardized methods provided they are explicitly identified, quantified (where possible) and substantiated (ie, baseline estimates and additionality criteria do not have to assume that project proponents behave in an economically rational manner, but factors leading to outcomes that are not economically rational should be identified and substantiated).

Actors are generally rational and typically seek to maximize profits. However, this is not always the case, for example as when actors seek to minimize downside loss rather than maximize upside profit, maximize market share over profits, undertake activities to gain experience in a sector or undertake activities for corporate responsibility motivations. Likewise behavioral inertia or lack of information or education can prevent what otherwise appears to be a rational decision. As such, standardized methods do not have to assume a rational strategy, provided such (seemingly) non-rational strategies are widely and consistently observed and can be explained and justified.

- 4.6.7** There may be cases where reliable and more practical proxies could be used to ascertain project performance. Provided it can be demonstrated that such proxy metrics or conditions can reliably and consistently assure that projects achieve the specified level of the performance benchmark metric, they may be used. An example of this might be the use of kWh in a methodology for household energy efficiency (as proxy for GHG emissions from electricity).

The project may not perform better than the additionality threshold at all times during the project crediting period. This is permitted, recognizing that project performance (and potentially the additionality threshold, where a dynamic dataset is used) may fluctuate. Regardless, the project shall not issue credits for those periods where the additionality threshold is not met.

4.6.9 *Combination of Options in Positive List*

A positive list may use a combination of the activity penetration, financial viability and revenue streams options. For example, a positive list may be developed for one region using the activity penetration option and then subsequently revised to include a second region using the financial viability option. However, while technically possible and permitted, this scenario is not considered as a likely one.

Activity Penetration Option

The activity penetration option needs to be carefully specified. The term activity penetration is chosen because it is referring to the level of penetration of the specific project activity (eg, solar systems up to 100W capacity and installed in off-grid households in Southern Africa). It is also

important to specify that activity penetration should be determined in relation to the maximum adoption potential, as opposed to the technological potential, to ensure we are using a metric where the project activity can feasibly achieve 100 percent penetration. Determining activity penetration based upon the maximum adoption potential thus ensures the five percent threshold is a reasonable and consistent marker. For example, for wind power, one would be interested in the maximum percentage of electricity that wind power could currently contribute to the electricity grid given constraints such as the available wind resources, the current efficiency of wind turbines and current and planned transmission infrastructure. If wind power is currently supplying 20 TWh and the maximum adoption potential for wind power in the region is 100 TWh, the activity penetration is currently 20 percent.

Terms such as market penetration and technical penetration are sometimes used in the context of specifying positive lists. The VCS uses the term activity penetration, which develops the same concepts and takes into account both the market and technical potential of a project activity. It is considered important to be specific about the factors influencing maximum adoption potential in order to assess the most realistic adoption potential that does not wrongly exclude additional projects (false negatives) or allow non-additional projects (false positives). Resource availability, technological capability and implementation potential represent technical limitations commonly included in analyses of technical potential that limit the total potential adoption of an activity. Total demand, level of service and market access represent economic limitations that the project proponent does not have control over and would impose further constraints on the potential market size. If these economic constraints are not considered the maximum adoption potential could be set too high, leading to lower market penetration rates that could allow for false positives. Market price, cost of adoption, consumer education, and cultural or behavioral barriers are excluded from maximum market penetration because they represent other limitations that can more readily be overcome by the project activity in the short to medium term. If these limitations were considered the maximum adoption potential could be set too low leading to higher market penetration rates that could lead to false negatives.

Maximum Adoption Potential

Maximum adoption potential is constrained by numerous factors each imposing their own limitations on the total adoption of a project activity. These factors are expanded upon with examples and illustrations below:

- 1) Resource availability. Total wind energy potential available in the applicable geographic area, or the land available that is suitable for a given forestry practice.
- 2) Technological capability. The total wind energy potential needs to be moderated for the fact that not all the wind resource can be converted into usable energy (ie, plant load factors needs to be considered). Note that this means that for energy project activities, observed adoption (OA) and maximum adoption potential (MAP) would therefore need to be expressed

in terms of project activity output (TWh) rather than capacity (TW). The same concept may be applicable to other project activity types.

- 3) Level of service. The reliability of service refers to the fact that solar and wind power provides an intermittent service and thus the total capacity of such renewable sources that an electricity grid can accommodate is limited. The quality of service refers to the fact that a fuel efficient biomass cookstove may not provide the convenience of service provided by an electric cookstove and this may limit the market for such cookstoves among certain households in grid connected areas.
- 4) Implementation potential. Solar cookstove adoption may be limited to rural settings (ie, the technology is not appropriate for urban apartments). Likewise, household biogas plants typically require two cows, so households with fewer cows would be excluded in the determination of maximum adoption potential.
- 5) Total demand. The total demand for electricity from all sources imposes a limitation on the adoption of a renewable energy project activity. Likewise, the total demand for lighting would impose a limitation for a project activity that was replacing less efficient light bulbs with LEDs.
- 6) Market access. The availability of existing transmission lines may limit the potential for new concentrated solar power plants in remote areas.

Threshold Level for Activity Penetration

Five percent is chosen as a sufficiently conservative threshold and also follows what is considered a useful precedent established under the CDM.

Note that if the level of activity penetration is significantly lower than the five percent threshold value, it may be possible to make conservative assumptions in calculating the level, thus reducing the data requirement and cost of data collection (ie, if the real world level is low, it will be possible to demonstrate that the level is lower than five percent even if conservative assumptions are used in calculating the level).

Procedure for New Technologies

This addresses the situation of a new technology being introduced into the market that can be expected to be successful without carbon finance. The project activity is deemed to be commercially available when the entirety of the technological solution is available on a commercial basis. Individual technological components may be available in the marketplace before this time, but this does not constitute the commercial availability of the project activity. To address this potential free-rider situation, it is necessary to demonstrate that new project activities face barriers. It is not envisaged that this will be a consideration for many project activities, since most technologies and measures being used by projects have been commercially available for three or more years.

Financial Viability Option

While it is expected that most project activities will use the activity penetration option, the financial viability option is provided as a pathway for project activities that are clearly and unambiguously not the least cost option and where data collection under the activity penetration option may be prohibitively costly and time consuming.

Investment analysis from the CDM additionality tool is used because of the substantial work that has gone into its development and refinement and it therefore provides a tested and flexible method that is well understood by developers and validation/verification bodies (whereas any new metrics developed under the VCS would have to undergo a similar period of development, testing and refinement, and this might prove counter-productive). Additional specification on the use of the investment analysis step of the CDM tool is required because additionality is being demonstrated for a class of project activity rather than just a single project (for which the tool is designed).

It is important that the VCS requirements do not allow a positive list to be created based upon a small and non-representative sample of projects (ie, one needs to be confident that all potential projects allowed under the positive list are additional).

The investment analysis, and the sensitivity analysis in particular, must bear out conclusively that the entire class of project activity is additional. Positive lists will not be approved where an insufficiently strong case is made or where other evidence calls into question the additionality of the class of project activity. Such evidence would include, for example, significant numbers of projects (within the class of project activity) rejected on the grounds of inadequate demonstration of financial additionality under GHG programs such as the CDM.

The common practice test is required as a safeguard and because of the Type E+ and Type E- policy rule in the regulatory surplus test. For example, if a law is introduced in a non-Annex I country that mandates LED lighting, such law does not need to be taken into account. However, at a certain point in time, LED lighting may become common practice and at this point, it is no longer appropriate to grant credit to such activities.

Revenue Streams Option

The revenue streams option is a simple option for project activities that have no significant sources of revenue other than from GHG credits. Five percent of capital expenditure is chosen as the threshold value because a project that cannot pay its investment back in less than 20 years is deemed as unlikely to go ahead. Note that revenue and cost savings must be considered (ie, energy efficiency project activities would not automatically qualify under this attribute since cost savings can provide a significant financial incentive to undertake the project).

4.7 QUANTIFICATION OF GHG EMISSION REDUCTIONS AND REMOVALS

- 4.7.3** The project may not perform better than the crediting baseline at all times during the project crediting period. This is permitted, recognizing that project performance (and potentially the crediting baseline, where a dynamic dataset is used) may fluctuate. However, the project may not issue credits for those periods where GHG emission reductions or removals are calculated as negative. Projects are eligible to issue credits in any subsequent verification periods.

Methodology Approval Process

10 REVIEW OF STANDARDIZED METHODS

10.1 POST-APPROVAL ASSESSMENT OF STANDARDIZED METHODS

- 10.1.1** Performance methods and activity methods will need to be reviewed on a regular basis. For performance benchmarks, this means two things. First, the data and dataset underlying the performance benchmark needs to be brought up-to-date to reflect the current and latest projected performance in the sector. Second, there needs to be a re-evaluation of the level of stringency of the performance benchmark metric. For example, evidence that has subsequently come to light or the track record of projects using the methodology may suggest that the level needs to be made more (or less) stringent. For activity methods, it needs to be ensured that the project activity (technology or practice) has not become the least cost option or achieved substantial penetration in the market to the point where new projects do not need carbon finance.

For performance methods, the five yearly assessment applies whether the dataset is documented and contained within the methodology or is maintained in a separate repository that is referenced by the methodology (ie, under either circumstance, the validity of the data shall be re-assessed). The assessment by the validation/verification body shall ensure that all requirements for data and datasets set out in the *VCS Standard* have been complied with.

The VCSA will set out in due course the precise procedure by which it shall re-examine the appropriateness of the level(s) of performance benchmarks (Section 10.1.1(4) of the *Methodology Approval Process*). This is likely to involve public stakeholder consultation hosted on the VCS website and third-party experts, and the VCSA may need to consider charging a fee to cover costs. It is expected that this process would occur in parallel with the developer revising the standardized method (and the validation/verification body assessing same), in order to minimize time taken to approve the methodology.

Note also that the VCS rules provide a procedure for putting methodologies on hold where third parties or the VCSA itself find issues of concern within the methodology. This provides a

safeguarding mechanism for standardized methodologies, in that if a flaw in a methodology were revealed after it was approved, the situation could be remedied. Methodologies would not be put on hold in this way if (for example) it were merely a matter of the technology or practice achieving further penetration in the market since the approval of the methodology – this is what the three and five year reviews are for and project developers otherwise need the certainty that they can use a new methodology until such review.

10.2 INTERIM ASSESSMENT OF ACTIVITY METHODS

- 10.2.1** It is considered necessary to have an interim check that the project activity has not achieved significant gains in its penetration rate, to address situations where markets have developed rapidly and it may no longer be appropriate to allow new projects to use the positive list. At the same time, it is recognized that requiring a full re-assessment of the activity penetration rate would be overly onerous. Therefore, only a short assessment report will be required and proxies or other indicators may be used to ascertain the continuing validity of the positive list.

APPENDIX 1: DOCUMENT HISTORY

Version	Date	Comment
v3.0	1 Feb 2012	Initial version released under <i>VCS Version 3</i>

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