

Accounting and avoiding “double counting” of transferred mitigation: Issues for the 2015 agreement

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OECD/IEA papers on UNFCCC emissions accounting and market mechanisms



Outline

- 1. Two challenges for use of mitigation transfers post-2020**
- 2. Three issues to be addressed**
 - ◆ **Registries**
 - ◆ **Governance of systems**
 - ◆ **Accounting of UNFCCC contributions**
- 3. Information on use of markets in INDCs, and elements for COP 21**

Which units matter, and how to account for net flows of units?

- **Two conditions** under which units matter for UNFCCC accounting:

“Used” by Party as **counting directly towards a target** under UNFCCC

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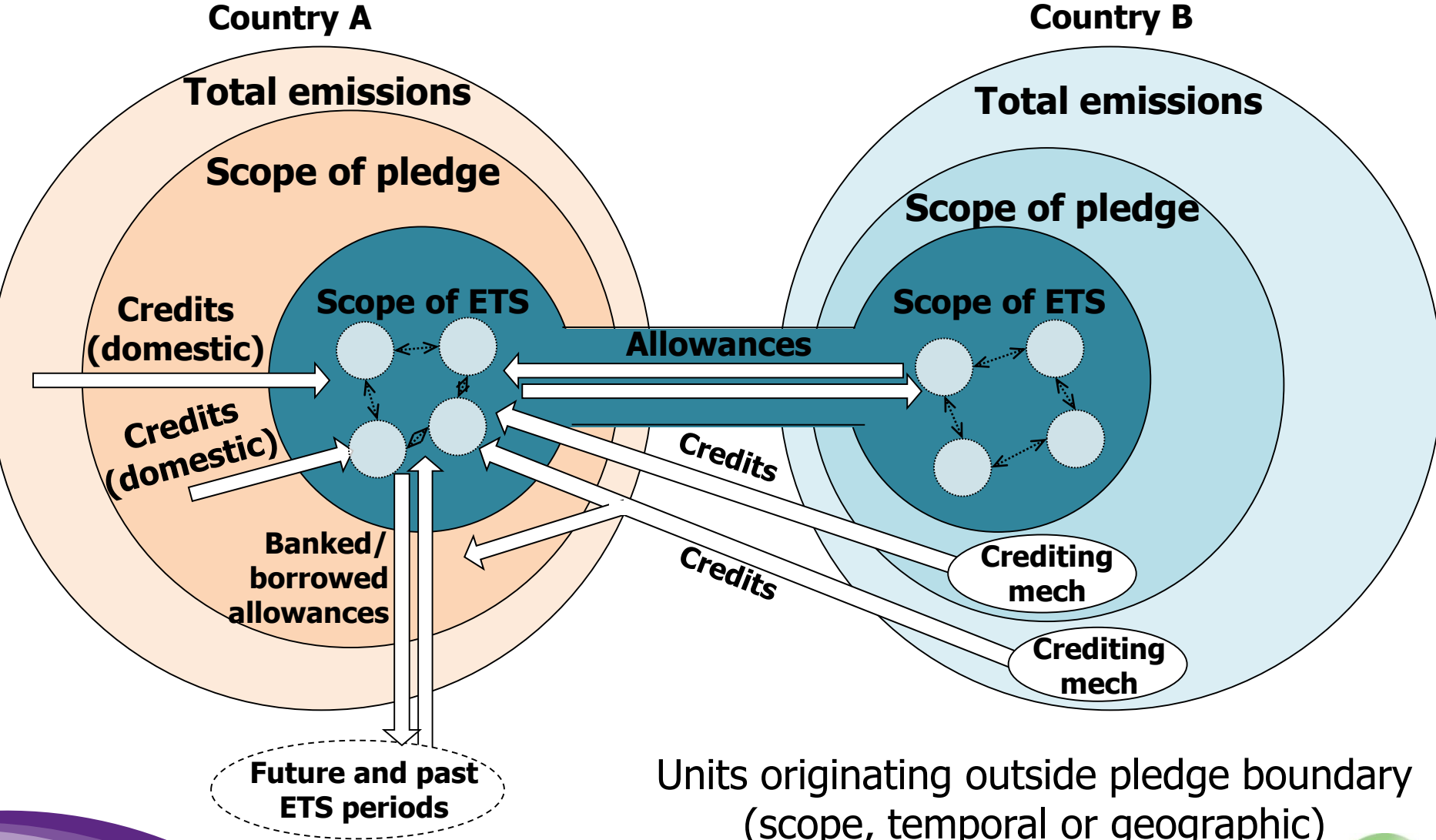
Originating **outside the boundary of the target** (geographic, scope or temporal)

Two challenges post-2020

1. Greater variety of unit flows

- ◆ Different types of units (crediting, ETS)
- ◆ Arising inside/outside NDCs
- ◆ Multi-directional flows

Challenge 1: Greater variety of unit flows



Two challenges post-2020

1. Greater variety of unit flows

- ◆ Different types of units (crediting, ETS)
- ◆ Arising inside/outside NDCs
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2. Greater variety of NDC types

- ◆ GHG: absolute, GDP-linked, baseline
- ◆ Non-GHG: renewable, energy efficiency targets
- ◆ Policies and Measures

... single or multi-year ?

... budget or milestones ?

Challenge 2: How do Parties see their targets?



Precise Budget
(exact compliance)

General Milestone
(could under- or over-achieve)

***Kyoto rules are based on budgets: Can use of
(and accounting for) units also be robust with
milestone goals?***

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Three key sets of issues to be addressed:

1. Registry/tracking arrangements

- ◆ Prevent double selling/use of units
- ◆ Reduce scope for fraud

2. Governance of unit issuance

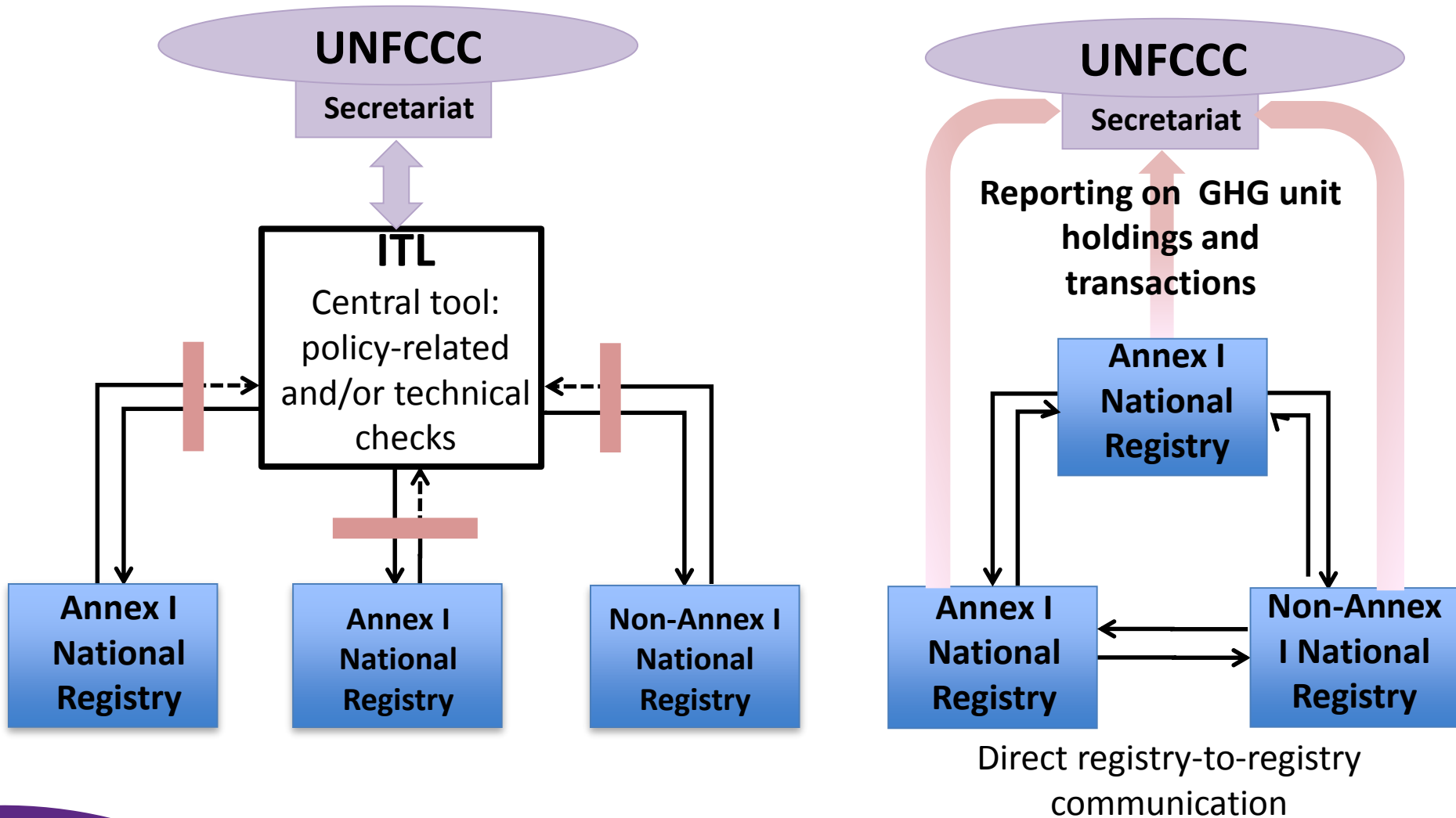
- ◆ Environmental integrity of units
- ◆ Prevent double issuance of units



3. Accounting rules for mitigation NDCs

- ◆ Prevent double claiming of emissions reductions
- ◆ Use of units under single vs multi-year targets

Issue 1: Registry/Tracking Options



Issue 2. Governance of issuance

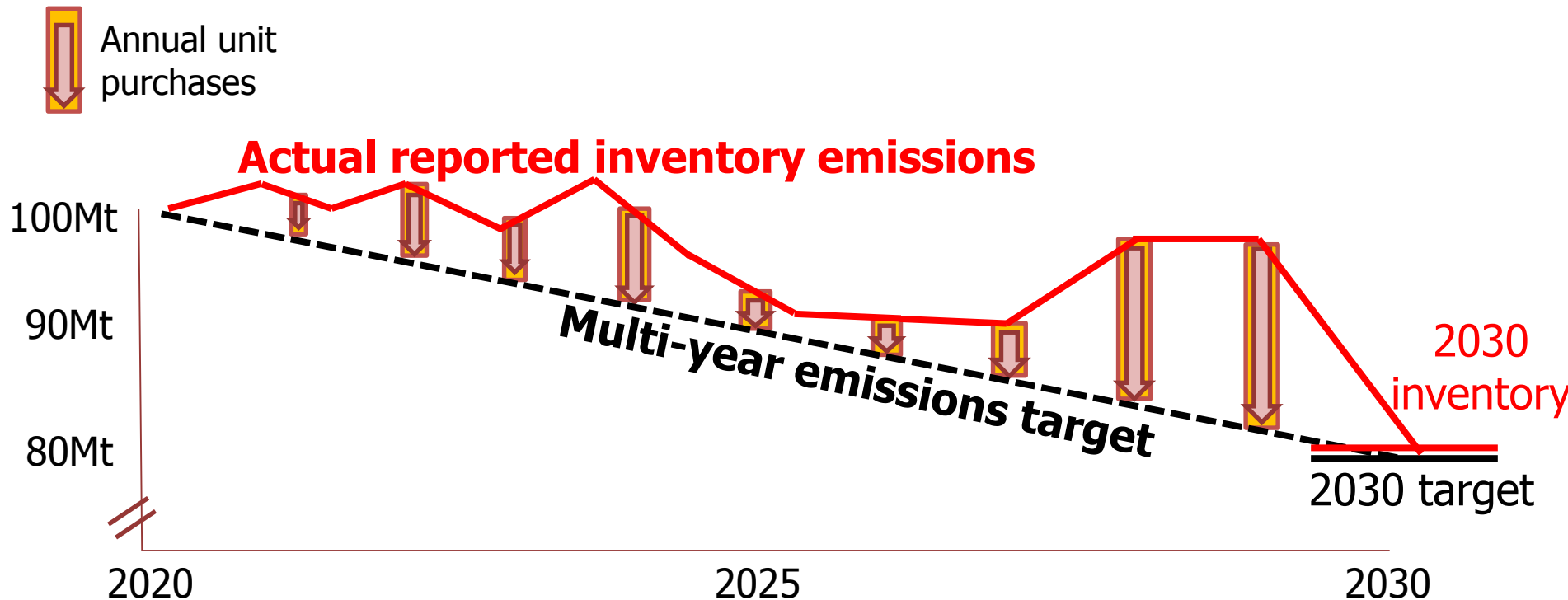
JI-like issuance	Qualification of systems issuing units	Transparency against UNFCCC-set criteria
<p>For issuance by countries (or sub-sectors) with quantified budget (AAU-like) NDCs.</p> <p>Unit quality “backed” by compliance with cap.</p> <p>MRV of NDCs underpins unit environmental integrity.</p> <p>Need measures to prevent “hot air” in caps.</p>	<p>UNFCCC body approves system issuing units</p> <p>Parameters of system (ETS, crediting system) underpin trust in unit quality.</p>	<p>Disclosure requirements only (no approval process)</p> <p>Could include facilitative expert reviews</p> <p>Meet 3rd party standards? (ISO, WRI Protocol, ...)</p> <p>Use of UNFCCC elements (registries, verifiers, baseline tools ?)</p> <p>Buyer discretion on quality</p>

Issue 3: Accounting - double claiming

- “Double claiming” = same mitigation outcome claimed by two jurisdictions because their targets are framed in a different basis
 - To avoid double claiming, need rules for types of targets eligible, and how transferred units are accounted.
- Can also have “double coverage” of transferred mitigation by GHG and non-GHG targets

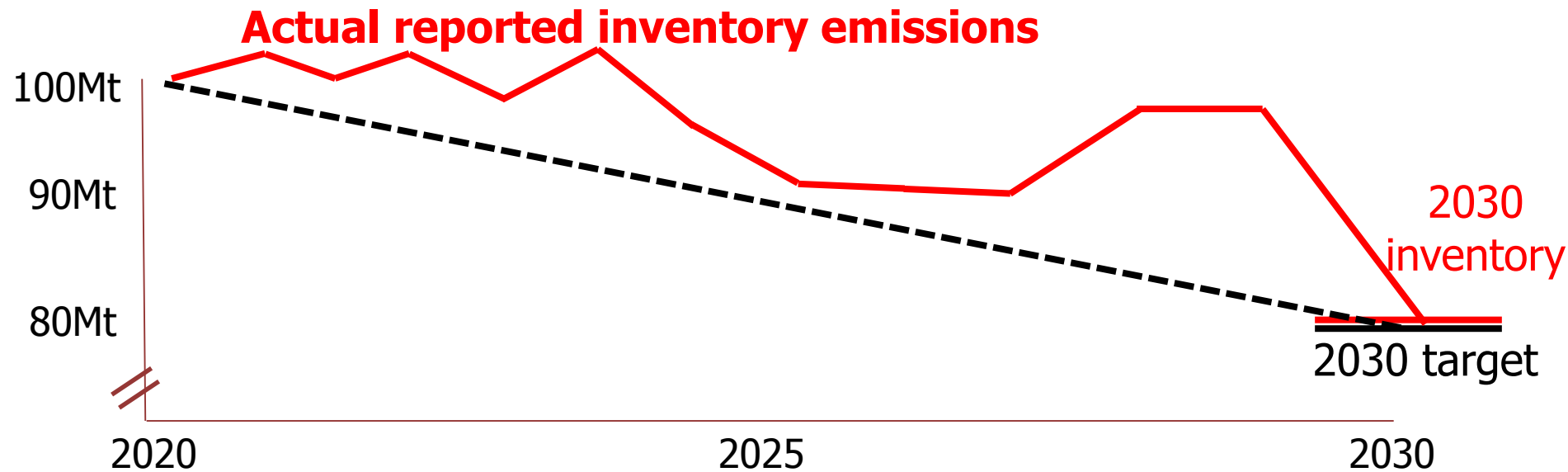
Party A	Party B	How double counting could arise
Quantified GHG target	Renewable energy (capacity)	If renewable energy target delivered in part by crediting mechanism (with units sold to Party A), could be double counting of mitigation.
Quantified GHG target	Production of clean electricity	If electricity is exported from Party B to Party A via grid interconnection, the mitigation could be counted by both Parties.

Issue 3: Accounting - Multiple-year target



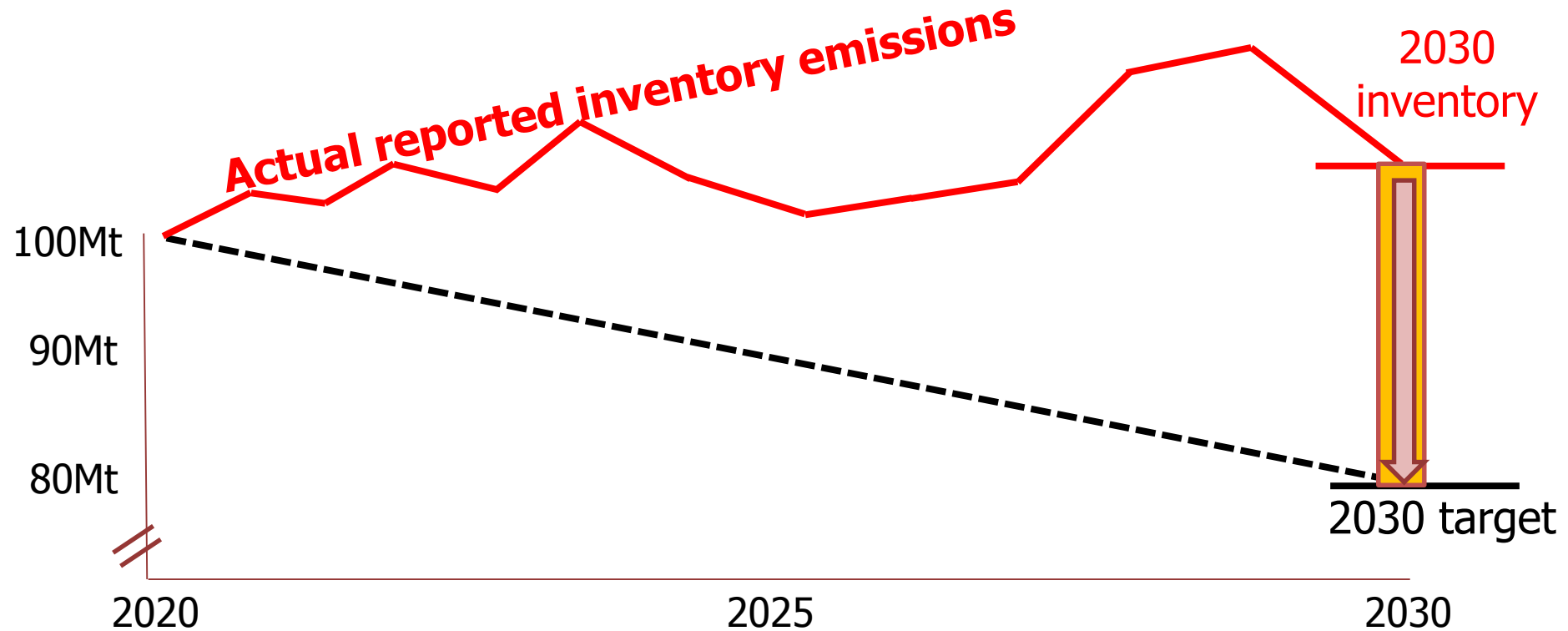
- Multi-year target avoids risk that emissions in single target year are unrepresentative of general trend
- Facilitates use of market mechanisms

Issue 3: Accounting - Single-year target



- Ex ante uncertainty over total emissions due to unknown path to target

Issue 3: Accounting - Single-year target



- Ex ante uncertainty over total emissions due to unknown path to target
- Ex ante uncertainty amplified by use of units in target year
- Gets complex when we think about “vintages” of units

Issue 3: Accounting - Options

“Strict” accounting

- GHG-based NDCs must account unit flows (+/-)
- No participation in transfers (as buyer OR seller) for Parties with single-year targets

Some flexibility?

- Quantitative/transitional limits on use of units from Parties who do not “strictly” account ?
- Use of units toward single-year targets allowed if reflects continuous action (e.g. underlying ETS) ?
- Allow unit issuance from Parties with single-year targets (question of what to report)

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INDCs : Information for Clarity, Transparency & Understanding

Information accompanying INDC helps...

- Expected activity in units that will be used for compliance (*issuance , retirement, exports, banking, ...*)
- How unit quality will be assured
- Tracking arrangements
- Accounting assumptions:
 - Whether unit transfers will be added/subtracted
 - What kind of target (budget, single/multi-year)
 - LULUCF accounting method

... but need agreed accounting rules for full clarity

What would be useful at COP 21 ? (a start)

QUESTIONS:

- ◆ *What do Parties need to know about markets and unit accounting to finalise their NDCs?*
- ◆ *To develop new "Marrakesh Accord" as a technical process, what political decisions are needed from COP?*

This points toward

1. High-level principles stated in 2015 agreement
2. Supporting COP decision:
 - Agreeing basic principles (e.g. +/- accounting, need for common definition of unit, complementarity, how issuance and transfer of units works with different types of NDCs, whether UNFCCC will have approval or transparency role for unit issuance)
 - Giving mandate for further work to develop detailed rules

Thank you for your attention

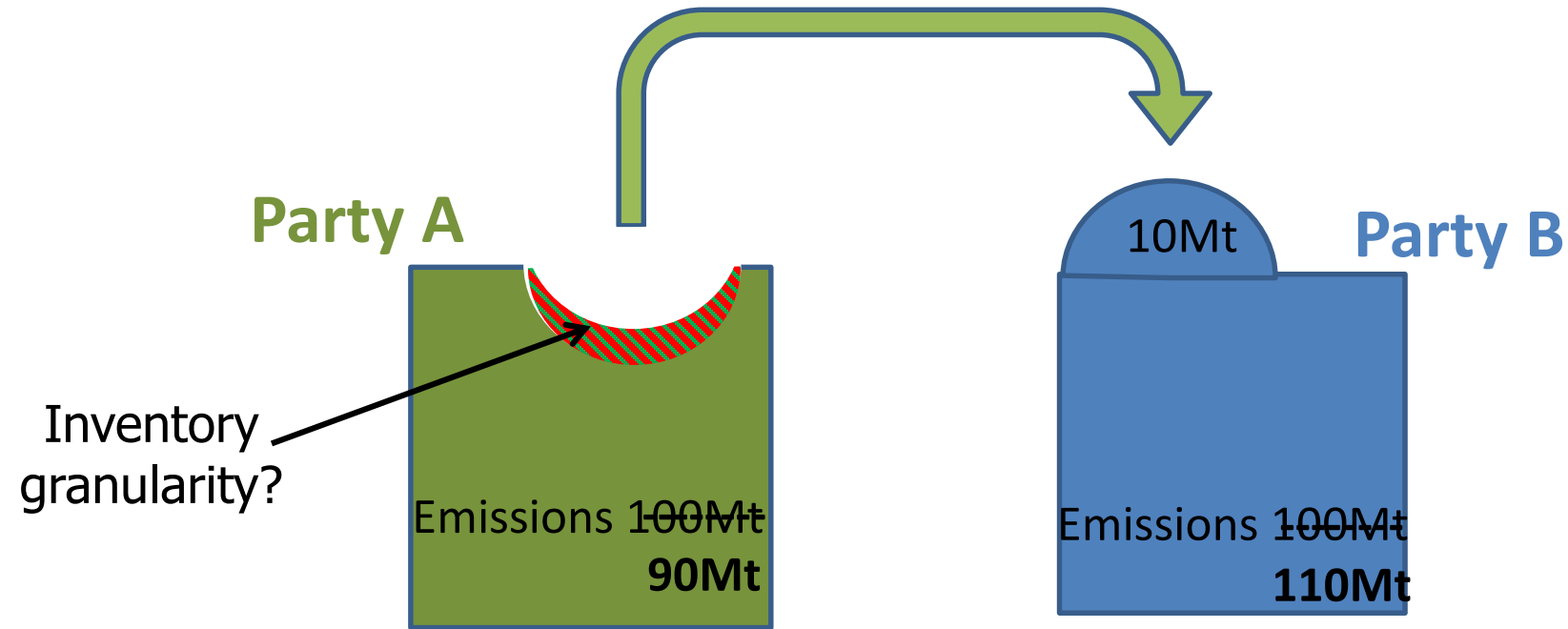
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www.oecd.org/env/cc/ccxg.htm

Spare slides

Issue 3: Accounting - double claiming



- Emissions inventory total = $90 + 110 = 200\text{Mt}$
- If Party A DOES NOT account for **export** but party B DOES account for **import**, then declared total = $90 + 100 = 190\text{Mt}$

Example: +/- Accounting

Party A: Goal 1/3 improvement in CO₂/GDP in 2025 vs 2015

2015: emissions 600Mt, GDP \$1000B (0.6kgCO₂/\$)

host of crediting system, to issue 0-100Mt in 2025

2025: GDP \$2000B (7.2% annual growth)

target emissions 1/3 improvement = 0.4kgCO₂/\$ = 800 Mt

actual inventory emissions 775Mt

actual credit issuance 50Mt (25Mt sold, 25Mt banked)

Therefore: accounted emissions 825Mt

accounted CO₂/GDP = 825/2000

= 0.41kgCO₂/\$

[if Party A retires its banked 25Mt, target met precisely]

Example: +/- Accounting

Party B: Fixed emissions goal 1000Mt in 2025

2025: target emissions = 1000 Mt

actual inventory emissions = 1025Mt

net units purchased and retired = 25Mt

accounted emissions = 1000Mt

**Party A + Party B inventory emissions = 775+1025
= 1800 Mt**

**Party A + Party B accounted emissions = 825+1000
= 1825 Mt**