ARTICLE 6.4 MECHANISM

A6.4-MEP008-A02

Draft Methodological tool

Common practice analysis

Version 02.0

United Nations
Framework Convention on
Climate Change

COVER NOTE

1. Procedural background

1. The Supervisory Body of the Article 6.4 mechanism, at its fifteenth meeting, approved its workplan for 2025 for the Methodological Expert Panel (MEP) and requested the MEP to initiate work on methodological tools that complement the demonstration of additionality of Article 6.4 activities, including common practice analysis.

2. The development of the "Tool: Common practice analysis" is part of the broader mandate to develop tools that support robust baseline setting and additionality assessments. The tool aligns with the adopted standard for demonstrating additionality and the standard for baseline setting.

3. Paragraph 19 of the "Standard: Demonstration of additionality in mechanism methodologies" requires that mitigation activities that use the investment analysis or barrier analysis for proof of additionality be complemented by a common practice analysis.

4. At its sixth meeting, the MEP initiated work on the methodological tool for common practice analysis. At its seventh meeting, the MEP finalized the draft tool and launched a call for public inputs. One input was received in response to the call.

2. Purpose

5. The purpose of this tool is to provide a standardized approach for assessing the prevalence of a proposed mitigation activity within the applicable geographical area, thereby supporting the demonstration of additionality.

3. Key issues and proposed solutions

6. The MEP considered the public comments received. Furthermore, in elaborating the draft standard, the following key issues are identified.

3.1. Requirements for activity participants and mechanism methodologies

7. This draft tool builds on the CDM tool[1] and introduces clear requirements and a stepwise procedure for conducting the common practice analysis by activity participants under the Article 6.4 mechanism. It also contains provisions on the parameters that should be specified by mechanism methodologies using this tool. This approach aims to ensure that the common practice analysis is tailored to the type of mitigation activities covered by the underlying methodology.

3.2. Approaches for conducting common practice analysis

8. The methodological tool seeks to strengthen the approach to common practice analysis in the CDM tool, by introducing two distinct and overarching approaches for assessing

[1] See https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-27-v14.0.pdf/history_view.

common practice: Approaches A and B. Approach A is based on the identification of existing 'comparable activities' and distinguishing between "similar" and "different' activities within the cohort of 'comparable activities". Approach B quantifies the penetration of a given technology, measure or practice within a well-defined target market.

3.3. Defining the applicable geographical area

9. The methodological tool requires that the definition of the applicable geographical area by the activity participant is in accordance with the provisions of the applicable mechanism methodology. It is required that a rationale and justification for the selection is provided.

10. The methodological tool further requires, under Approach A, that the applicable geographical area includes at least three activities (i.e., $N_{all} \geq 3$) to ensure that a minimum dataset size is available before proceeding with the common practice analysis. If fewer than three activities are found, the dataset is insufficient to conduct a robust common practice analysis, and the tool requires that the applicable geographical area of the assessment is widened with appropriate justification, until the minimum requirement for the size of the dataset is met.

3.4. Consideration of land-based and other removal activities

11. The methodological tool also seeks to improve the CDM tool by integrating land use and removal activities, such as forest-based activities, biochar, direct air carbon capture and storage, bioenergy with carbon capture and storage, enhanced mineralization, and agriculture-based activities. It allows for tailored application of the assessment steps to these activities.

3.5. Steps for carrying out the common practice analysis

12. A stepwise procedure for activity participants to carry out the common practice analysis has been included in the document. It includes two distinct analytical tracks, Approaches A and B, each providing a clear method for assessing common practice. Under the tool, the mechanism methodology shall specify which of these two approaches activity participants are to apply.

3.6. Common practice threshold

13. The methodological tool requires the underlying mechanism methodology to specify the threshold above which a mitigation activity is considered common practice. This allows for the specific circumstances of the relevant sector and mitigation activity to be taken into account, while also supporting consistent stringency across sectors. A single threshold value would not appropriately reflect sectoral differences (e.g., in the variety of technologies available in the sector).

14. In this context, the MEP also noted that the threshold should depend on whether the analysis is based on the total stock of a technology, measure or practice ("stock-based approach) or on its recent uptake (referred to as "time-bound" approach). The tool also provides indicative common practice threshold values to be used by mechanism methodologies: 3% for a stock-based approach and 10% for a time-bound approach. It further provides an upper limit for the threshold.

15. The MEP noted that the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) requested the Supervisory Body to ensure the

implementation of the requirements referred to in paragraph 29 of the annex to decision 3/CMA.3 in relation to the least developed countries (LDCs) and small island developing States (SIDS). The MEP further noted that the Supervisory Body, at its seventh meeting, considered the concept note "Consideration of the special circumstances of least developing countries and small island developing States", and agreed to address the special circumstances of LDCs and SIDS at the time of developing Article 6.4 methodologies and methodological tools, on a case-by-case basis.

16. In this context, the MEP identified that a higher upper threshold could be used for LDCs and SIDS to reflect their specific circumstances, recognizing that this would lower the confidence in the additionality assessment. As this was identified as a policy issue, the MEP has included two options for consideration by the Supervisory Body:

    (a) Option 1 in which there is no differentiation between LDCs and SIDS and other countries (see section 7.7 of the tool);

    (b) Option 2 provides a higher upper limit for LDCs and SIDS.

4. Impacts

17. The methodological tool will provide a standardized approach for assessing the prevalence of a proposed Article 6.4 activity within the applicable geographical area, thereby complementing the demonstration of additionality for both emission reductions and removals activities under the Article 6.4 mechanism.

5. Subsequent work and timelines

18. The MEP notes that the proposed draft tool is only applicable to activities implemented at the project level. The tool will be amended in the future, along with the revision to the "Standard: Demonstration of additionality in mechanism methodologies", to include methodological requirements for other scales (e.g., programmes of activities or large-scale crediting programmes).

6. Recommendations to the Supervisory Body

19. The MEP recommends the Supervisory Body to consider option 1 and option 2 with regard to upper limits for the common practice threshold for LDCs and SIDS and to adopt the tool, using one of the options.

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1. Introduction

1.1. Scope

1. This methodological tool provides requirements and a step-by-step procedure for conducting a common practice analysis under the Article 6.4 mechanism. It provides requirements to activity participants in evaluating the prevalence of a proposed technology, measure, or practice within the relevant sector and applicable geographical area as part of the additionality assessment. It also lays down the key elements that mechanism methodologies shall include to ensure consistent and transparent application of the tool by the activity participants.

2. Section 6 of this document provides a stepwise approach for common practice to be applied by activity participants.

3. Section 7 of this document provides detailed requirements for methodology proponents on defining and/or prescribing key parameters for the common practice analysis. The methodology proponents should consult Section 7 to (a) specify the elements in paragraph 10 above; and (b) provide clear instructions to activity participants on the application of the tool. Embedding such provisions within the methodology will ensure consistent, transparent application of the tool across all Article 6.4 activities.

1.2. Entry into force and validity

4. This document enters into force on DD/MM/YYYY and is valid for five years, until DD//MM/YYYY, unless an earlier date applies if the methodological tool is revised or withdrawn in accordance with the procedure “Development, revision and clarification of methodologies and methodological tools” (A6.4-PROC-METH-001)[1].

2. Definitions

5. The following definitions shall apply:

   (a) **Applicable geographical area**: The area over which the prevalence or diffusion of a technology, measure or practice is assessed in the context of common practice analysis. It defines the spatial boundary within which comparable activities under Approach A or the target market size under Approach B are identified;

   (b) **Applicable capacity/output range**: The range of capacity or output considered (if applicable) for identifying comparable activities under Approach A or the target market size under Approach B;

   (c) **Common practice factor (*F*)**: A unitless quantitative ratio that expresses the degree to which a technology, measure or practice is prevalent or has diffused in the applicable geographical area. Under Approach A, this corresponds to the share of similar activities among all identified comparable activities. Under Approach B, this corresponds to the market penetration;

[1] See https://unfccc.int/sites/default/files/resource/A6.4-PROC-METH-001.pdf

(d) **Common practice threshold (F_{max})**: The threshold value which is compared with the common practice factor for determining whether a technology, measure or practice is considered common practice;

(e) **Comparable activity**: An activity in the applicable geographical area that delivers the same output and provides the same level of service as the proposed Article 6.4 activity and has a capacity or output that is within the applicable range (if considered relevant);

(f) **Different activity**: A comparable activity under Approach A that differs by at least one attribute from the technology, measure or practice of the proposed Article 6.4 activity (e.g., the energy source, feedstock type). A 'different' activity shall be mutually exclusive to a 'similar' activity;

(g) **Indicator of common practice**: A quantitative metric, expressed either as the number of units or as capacity/output, used to assess common practice;

(h) **Level of service**: The quality, reliability and scale of an output provided by an Article 6.4 activity and/or in the baseline scenario;

(i) **Market penetration**: This term is used under Approach B and corresponds to the diffusion of a specific technology, measure or practice in relation to the target market size, expressed either over a specified period (e.g., share of monthly or annual sales in the target market) or at a specific point in time (e.g., the cumulative share of functional equipment installed at the time of the analysis or at the end of a calendar year in the target market);

(j) **Output**: Each good or service[2] provided by the Article 6.4 activity and/or in the baseline scenario, as specified in the mechanism methodology;

(k) **Similar activity**: An activity that employs the same technology, measure or practice as the proposed Article 6.4 activity and has all relevant attributes in common with the proposed Article 6.4 activity, as further defined in the mechanism methodology referring to this tool. Under Approach A, a 'similar activity' is a subset of the comparable activities and shall be mutually exclusive to a 'different activity';

(l) **Target market size**: This term is used under Approach B and represents the potential size of the market for a specific technology, measure or practice in the total market in the applicable geographical area, taking into consideration potential constraints to its adoption;

(m) **Technology/measure/practice**: In the context of this tool, these terms encompass the full spectrum of mitigation interventions that can be implemented as a proposed Article 6.4 activity, as follows;

(n) **Technology**: This refers to the application of hardware, software or technical processes, such as solar PV systems, carbon-capture units, direct air capture systems, pyrolysis reactors or advanced heat-recovery methods, that directly reduce emissions and/or increase removals;

(o) **Measure**: This denotes engineered or operational interventions, such as fuel switching from coal to natural gas, installation of energy-management systems, afforestation/reforestation;

[2] For example, electricity, cooking energy, municipal waste management, etc.

(p) **Practice**: This covers routine procedural or behavioural approaches, such as scheduled maintenance protocols, operator training for efficient equipment use, leak-detection and repair programs, or sustainable land-management practices;

(q) **Total market**: This term is used under Approach B and refers to the total population or capacity of a technology, measure or practice (e.g. all end users, all vehicles) in the applicable geographical area.

3. Applicability

6. This methodological tool is applicable to Article 6.4 activities that involve emission reductions and/or net removals where its use is explicitly referenced in the applicable mechanism methodology.

7. The tool may only be used if recent data on common practice is available as further elaborated in paragraph 18.

8. This tool is applicable to Article 6.4 activities implemented at the project level. The tool may be amended in the future to also cover activities implemented at other scales (e.g. programmes of activities, policies, sectoral approaches, etc.).

9. This tool may be used by mechanism methodologies related to both emission reductions and net removals.

10. Mechanism methodologies intending to use this methodological tool shall include a reference to this tool within the mechanism methodology and shall specify:

(a) Which of the following two approaches shall be used by the activity participants to conduct the common practice analysis, as further elaborated in paragraph 1818 and section 7.1 below:

(i) Approach A: which is based on the identification of existing “comparable activities” and differentiation between ‘similar’ and ‘different’ activities and is generally suited for discrete, large-scale activities; or

(ii) Approach B: which is based on the determination of a ‘target market size’ and the ‘market penetration’ of the relevant technology, measure or practice and is generally suited for highly distributed small-scale technologies and practices.

11. For both approaches A and B, the indicator of common practice to be used by activity participants when conducting the common practice analysis, including whether it is:

(i) Count-based (i.e., based on the number of units); or

(ii) capacity/output-based (e.g., based on kilowatt hours of electricity produced or megawatt of capacity installed).

(b) For both approaches A and B, whether a stock-based approach (e.g., considering all installed plants to date, or all operational devices to date) or a time-bound approach (e.g., assessing uptake or sales within a defined recent period) is used to assess common practice. If a time-bound approach is selected, the methodology shall clearly define the applicable reference period (e.g., the most recent three years) to be used for assessing common practice;

(c) For both approaches A and B, how the applicable geographical area for the common practice analysis shall be determined by activity participants (e.g., global, host country, or sub-national jurisdiction);

(d) For both approaches A and B, whether the scale of output or capacity of the technology, measure, or practice shall be considered for identifying comparable activities under Approach A, or for determining target market size under Approach B and, if so, specify the output or capacity range to be applied for such cases, or provide clear guidance for how activity participants shall determine such a range and the appropriate justification;

(e) For both approaches A and B, the common practice threshold that shall be applied to assess whether a technology, measure or practice is considered common practice;

(f) In the case of Approach A, which activities other than the Article 6.4 activity shall be considered to be comparable to the Article 6.4 activity and, within this cohort of comparable activities, which activities shall be considered similar to the Article 6.4 activity and which activities shall be considered different from the Article 6.4 activity (see definitions above), including relevant parameters for such differentiation, in line with the requirements and guidance provided in this tool;

(g) In the case of Approach B, how the market penetration of a given technology, measure or practice and the target market size shall be determined, as further outlined in section 7.6.

12. Mechanism methodologies may specify additional provisions for the application of this tool in relation to the mitigation activity types they cover. These may include sector-specific parameters, methodological considerations, or data requirements relevant to conducting the common practice analysis.

13. Where the mechanism methodology referring to this tool specifies approaches for conducting the common practice analysis that differ from those described in this tool, the requirements contained in the mechanism methodology shall take precedence.

4. Normative references

14. This document refers to the following documents:

(a) Standard: Demonstration of additionality in mechanism methodologies;[3]

(b) Standard: Article 6.4 Activity Standard for projects.[4]

5. General principles and requirements

5.1. Principles

15. The general principles described in the most recent version of the “Standard: Demonstration of additionality in mechanism methodologies” shall apply to this tool.

[3] See https://unfccc.int/sites/default/files/resource/A6.4-STAN-METH-003.pdf.

[4] See https://unfccc.int/sites/default/files/resource/A6.4-STAN-AC-002.pdf.

5.2. General requirements

16. Activity participants shall use the most recent available data to conduct the common practice analysis. The data shall not be older than three years prior to submission of the Article 6.4 project design document (A6.4-PDD) for global stakeholder consultation. Land-use activities that commonly undertake assessments over a longer period may use data older than this.

6. Stepwise approach for common practice analysis

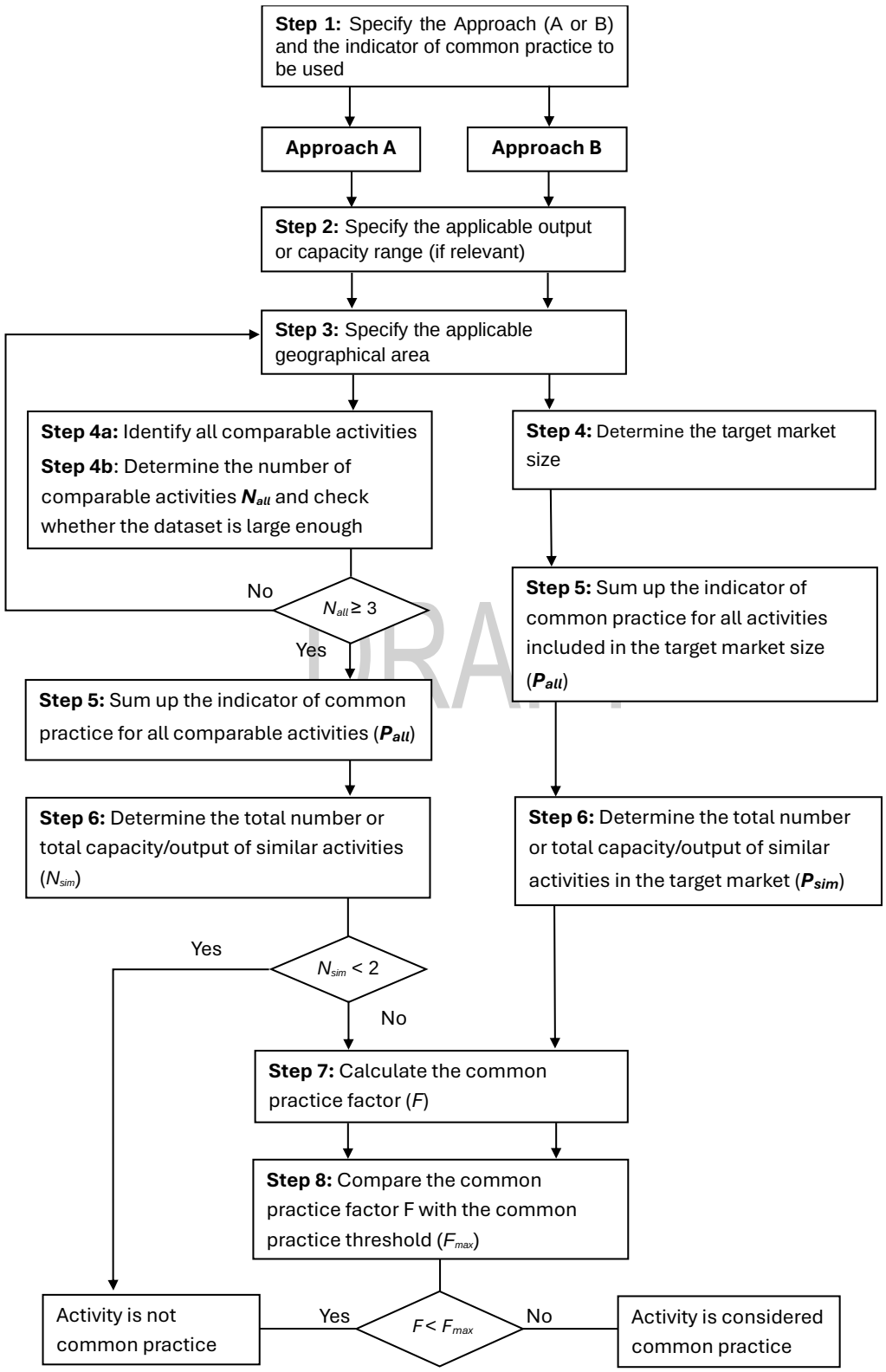
17. Activity participants shall follow the stepwise procedure set out hereunder to assess common practice, using the approach (A or B), the indicator of common practice (count-based or capacity/output-based), the common practice threshold, and other specifications prescribed in the applicable mechanism methodology.

18. The tool defines two overarching approaches for assessing common practice. Each approach may use either a count-based indicator (e.g., the number of units) or a capacity/output-based indicator (e.g., installed capacity or production volume):

    (a) **Approach A**: This approach relies on identifying existing '*comparable activities'* and distinguishing between '*similar'* and '*different'* activities. It involves analysing whether activities similar to the proposed Article 6.4 activity are widely implemented under similar conditions; or

    (b) **Approach B:** This approach involves determining the size of the target market and quantifying the market penetration of the proposed technology, measure, or practice. The analysis assesses whether the uptake within the relevant market exceeds the threshold for being considered common practice.

Figure 1. Flowchart of the common practice analysis steps



6.1. Step 1: Specify the Approach (A or B) and the indicator of common practice to be used

19. Specify the approach to be used (either Approach A or B) and the indicator to be used to assess common practice, as prescribed by the applicable mechanism methodology in accordance with the provisions in section 7.1 and 7.2 below.

6.2. Step 2: If relevant, specify the applicable output or capacity range

20. Where output or capacity scale is considered a relevant parameter in the analysis, as determined in the applicable mechanism methodology, specify the applicable output or capacity range, as prescribed by the applicable mechanism methodology.

6.3. Step 3: Specify the applicable geographical area

21. Specify the applicable geographical area in accordance with the provisions of the applicable methodology, providing the rationale and justification for the selection.

6.4. Step 4: Identify all comparable activities (for Approach A) or the target market size (for Approach B)

6.4.1. Approach A - Identify all comparable activities and determine the total number of comparable activities and check whether the dataset is large enough

6.4.1.1. Step 4a - Identify all comparable activities

22. In accordance with the provisions in the applicable mechanism methodology on identification of 'comparable activities', identify all comparable activities that:

    (a) Are located within the applicable geographical area;

    (b) Fit the specified output or capacity range, where applicable;

    (c) Deliver the same output as the proposed Article 6.4 activity; and

    (d) Employ the same or comparable technology principle (e.g. same feedstock or conversion process);

    (e) Began commercial operation before the earlier of:

        (i) The publication date of the Article 6.4 project design document (A6.4-PDD) for global stakeholder consultation; or

        (ii) The documented start date of the proposed activity, defined as the date when implementation or construction begins in accordance with the Article 6.4 Activity Standard for projects; and

    (f) Meet any additional comparability conditions as defined by the mechanism methodology.

23. Furthermore, activity participants may exclude comparable activities that have been registered as an Article 6.4 activity as follows:

    (a) Activities that are associated with costs and do not generate any cost savings or revenues other than from A6.4ERs may always be excluded, without any time-bound restrictions;

(b) Activities other than those referred to in sub-paragraph (a) above may only be excluded if the date of registration was within [5][X] years before the earlier of:

(i) The publication date of the Article 6.4 project design document (A6.4-PDD) for global stakeholder consultation; or

(ii) The documented start date of the proposed activity, defined as the date when implementation or construction begins in accordance with the Article 6.4 Activity Standard for projects.

6.4.1.2. Step 4b - Determine the total number of comparable activities and check whether the dataset is large enough

24. To proceed with the common practice analysis, the total number of comparable activities (N_{all}) shall be at least 3 (i.e., $N_{all} \geq 3$), regardless of whether the number of units or an capacity/output-based indicator of common practice is used.

25. If fewer than three comparable activities are identified, the dataset is insufficient to conduct a robust common practice analysis and the applicable geographical area of the assessment shall be widened with appropriate justification and steps 3 to 5 be repeated until at least 3 comparable activities can be identified (i.e., $N_{all} \geq 3$).

6.4.2. Approach B - Determine the target market size

26. In accordance with the provisions in the applicable mechanism methodology on determining the target market size, compile data on what constitutes the target market size within the applicable geographical area.

6.5. Step 5: Sum up the indicator of common practice for all comparable activities (for Approach A) or for all activities included in the target market size (for Approach B)

6.5.1. Approach A - Sum up the indicator of common practice for all comparable activities

27. Calculate the value of the indicator of common practice for the sum of all comparable activities (P_{all}), depending on the selected indicator, as follows:

(a) For a count-based indicator*:*

$$P_{all} = N_{all} \quad \text{Equation (1)}$$

(b) For a capacity/output-based indicator:

$$P_{all} = \sum P_i \quad \text{Equation (2)}$$

Where:

P_{all}	=	Number or capacity/output for the total number of activities included in the common practice analysis
N_{all}	=	Total number of activities included in the common practice analysis
P_i	=	Capacity/output of activity *i* included in the common practice analysis

i = Comparable activities under the common practice analysis

6.5.2. Approach B - Sum up the indicator of common practice for all activities included in the target market size

28. Calculate the value of the indicator of common practice for all activities included in the target market size P_{all}, in accordance with the requirements set out in the applicable mechanism methodology. The value P_{all} shall be determined for either the total stock of activities or the activities within the defined reference period, as per the specifications of the applied mechanism methodology. Depending on the indicator, this may reflect:

    (a) The total number of units in the target market; or

    (b) The total installed capacity/output of the units in the target market.

29. Clearly document the data sources, calculations, and assumptions used to derive P_{all}.

6.6. Step 6: Determine the total number or total capacity/output of similar activities (applicable to both Approaches A and B)

6.6.1. Approach A – Determine the total number or total capacity/output of similar activities

30. Within the set of comparable activities *i* identified in step 4, identify those that are similar, following the specifications of the applied mechanism methodology.

31. Depending on the applicable indicator for common practice analysis, calculate the value of the indicator of common practice for the sum of similar activities P_{sim} as follows:

    (a) For a count-based indicator:

    (b) Determine the total number of similar activities N_{sim}

    (c) Determine:

$$P_{sim} = N_{sim} \quad \text{Equation (3)}$$

    (d) For a capacity/output-based indicator:

$$P_{sim} = \sum P_{sim.i} \quad \text{Equation (4)}$$

    Where:

    P_{sim} = Total number (equation 3) or total capacity/output (equation 4) of all similar activities

    N_{sim} = Total number of similar activities

    $P_{sim,i}$ = Capacity/output of a similar activity *i*

    i = Similar activity *i* identified in the analysis

32. If $N_{sim} < 2$, then the Article 6.4 activity is not common practice.

6.6.2. Approach B – Determine the total number or total capacity/output of similar activities in the target market

33. Calculate the total number or total capacity/output of similar activities in the target market (P_{sim}) in accordance with the applicable mechanism methodology. Depending on the selected indicator, it may reflect the total sales, stock, the installed capacity/output, or number of units using a similar technology, measure or practice as implemented under the proposed Article 6.4 activity.

6.7. Step 7: Calculate the common practice factor (*F*)

34. Calculate the common practice factor (*F*), which represents the extent of prevalence of the proposed Article 6.4 activity technology, measure or practice within the applicable geographical area.

6.7.1. Approach A - Calculate the common practice factor (*F*)

35. Calculate F as the ratio of the total indicator value of similar activities (P_{sim}) to the total indicator value of all comparable activities (P_{all}):

$$F = \frac{P_{sim}}{P_{all}}$$ Equation (5)

6.7.2. Approach B - Calculate the common practice factor (*F*)

36. Calculate F as the market share of the proposed technology, measure, or practice within the target market, as follows:

$$F = \frac{P_{sim}}{P_{all}}$$ Equation (6)

6.8. Step 8: Compare the common practice factor *F* with the common practice threshold (applicable to both approaches A and B)

37. Compare the value of the common practice factor *F* to the common practice threshold (F_{max}) specified in the applicable mechanism methodology.

38. If $F \geq Fmax$, then the proposed activity shall be considered common practice and is therefore not additional. If $F < F_{max}$, then the proposed activity is “not common practice”.

7. Requirements for mechanism methodologies on defining parameters and guiding activity participants on the application of the common practice analysis

39. This section is primarily intended to guide methodology proponents in specifying clear, consistent, and transparent provisions that activity participants shall follow when applying this tool, addressing the matters set out in paragraph 10 above Activity participants may also refer to this section if they find any of the provisions useful in supporting the application of the steps contained in this tool.

7.1. Selection between Approach A and Approach B

40. Mechanism methodology proponents shall specify whether Approach A (comparable activities) or Approach B (market penetration) is to be applied by activity participants when conducting the common practice analysis.

41. Where, for a given applicable mechanism methodology, either Approach A or Approach B could reasonably be applied depending on the specific circumstances, then the mechanism methodology shall provide clear guidance to activity participants on i) the criteria for choosing between the two approaches; and ii) the justification that activity participants must provide for the chosen approach.

42. The choice of the approach may be based on the following considerations.

7.1.1. Data availability and quality

43. Approach A is preferable when reliable data on individual comparable activities (including their start dates, scale, and technical attributes) are available in the applicable geographical area.

44. Approach B is preferable when aggregated market data (e.g., annual sales, cumulative stock, total capacity installed) are readily available and reliable, but detailed information on individual activities is limited or inconsistent.

7.1.2. Nature of the technology, measure or practice

45. Approach A is well-suited for discrete, large-scale activities (e.g., power plants, industrial facilities) where the number of installations is relatively limited and detailed project-level information can be obtained.

46. Approach B is well-suited for highly distributed or small-scale technologies and practices (e.g., household devices, cookstoves, solar home systems), where the market is more appropriately assessed in terms of penetration rates within the total potential market.

7.1.3. Sectoral and contextual characteristics

47. Approach A is more appropriate in sectors with heterogeneous technologies, where distinguishing between similar and different activities is critical to ensure robust analysis (e.g., multiple feedstocks or technology types in renewable energy generation).

48. Approach B is more appropriate in sectors where a clearly defined target market exists, and the diffusion of a technology can be reliably measured against that potential market (e.g., appliances, vehicles, distributed energy systems).

7.2. Defining the indicator of common practice

49. Mechanism methodology proponents shall specify the indicator of common practice to be applied in the analysis. The methodology shall clearly indicate whether a count-based indicator (e.g., the number of installations, projects, or units implemented) or a capacity/output-based indicator (e.g., installed capacity, production level, or service volume) shall be used. Where a capacity/output-based indicator is used, the mechanism methodology shall either specify the metric (e.g. MW of installed capacity) or include a procedure for the selection of the metric by the activity participants.

50. Where the mechanism methodology provides flexibility to activity participants in selecting the indicator type, it shall provide clear criteria and the rationale to be applied by activity participants when choosing between a count-based and a capacity/output-based indicator. Such criteria may be based on the nature of the technology, measure, or practice; the availability and quality of data; and the degree to which the indicator reliably reflects the prevalence of the activity within the defined geographical area.

51. Where the mechanism methodology provides flexibility to activity participants in selecting the metric of a capacity/output-based indicator, it shall provide clear criteria and the rationale to be applied by activity participants when choosing the metric and require activity participants to justify that the metric is appropriate and consistent with the methodological requirements and objectives of the common practice analysis.

52. Where relevant, the mechanism methodology may further define additional parameters or specifications related to the indicator of common practice, including eligible data sources or any specific assumptions to be applied.

7.3. Determining the applicable capacity/output range

53. Mechanism methodology proponents shall indicate if the output/capacity is relevant for the common practice analysis and, if so, specify the applicable output or capacity range. Where the mechanism methodology provides flexibility to activity participants in selecting the capacity or output range, the mechanism methodology shall include provisions on how activity participants shall determine and justify the capacity or output range.

7.4. Identification of the applicable geographical area

54. Mechanism methodology proponents shall define how activity participants are to identify the applicable geographical area for the analysis. The mechanism methodology shall specify the most appropriate level for the applicable geographical area (e.g. global, host country, sub-national jurisdiction) based on relevant factors, such as trade patterns in the relevant geographical area and differences in policy frameworks, infrastructure, socio-economic conditions, or other contextual parameters, and justify the choice. If the applicable geographical area is different than the geographical reference area used to determine the baseline geographical reference area, this should be justified.

7.5. Identifying comparable activities and distinguishing between similar and different activities (Approach A)

55. Mechanism methodologies using Approach A shall specify clear criteria to identify comparable activities and to distinguish between similar and different activities.

56. To define comparable activities, the mechanism methodology may specify further conditions than those specified in section 6.4 above. This may also include different criteria for least developed countries (LDCs) and small island developing states (SIDS), where appropriate.

57. To distinguish between similar and different activities within the group of comparable activities, the mechanism methodology shall define factors and attributes that differ between similar and different activities. These factors and attributes may not only include technical considerations but also the broader circumstances under which the activities are implemented. These factors and attributes may include but are not limited to:

    (a) Energy source or fuel (e.g., primary energy source or comparable fuels);

(b) Feedstock characteristics (e.g., type of feedstocks used to produce a biofuel);

(c) Market and policy conditions at the time of the investment decision (e.g., subsidies, promotional policies, regulatory frameworks, technology access); and/or

(d) Level of investment costs per unit or capacity/output;

(e) Any additional similarity conditions as defined by the mechanism methodology.

7.6. Determining the target market size and which activities are considered similar (Approach B)

58. Mechanism methodologies that use Approach B shall include provisions for how activity participants shall determine the target market size. The target market size shall reflect a realistic potential of the technology, measure or practice implemented under the Article 6.4 activity.

59. The target market size may be determined considering factors such as:

(a) Technical and financial feasibility;

(b) Product and technology constraints (e.g. the technology, measure or practice may work only under certain technological conditions such as stable grid connectivity);

(c) Socioeconomic characteristics (e.g. the technology, measure or practice may be targeted only to certain income levels);

(d) Geographical, topographical and climate conditions (e.g. the technology, measure or practice may be workable or suitable only under certain climate conditions);

(e) Cultural, demographic, behavioural and psychographic conditions (e.g. the technology, measure or practice may be accepted only by certain groups of people).

60. Mechanism methodologies shall also include provisions for determining which specific technology, measure, or practice shall be considered as a similar activity. Similar activities may be defined, for example, with regard to:

(a) Energy source or fuel (e.g., primary energy source or comparable fuels);

(b) Feedstock characteristics (e.g., type of feedstocks used to produce a biofuel);

(c) Market and policy conditions at the time of the investment decision (e.g., subsidies, promotional policies, regulatory frameworks, technology access); and/or

(d) Level of investment costs per unit or capacity/output.

7.7. Determining the common practice threshold F_{max}

61. Mechanism methodology proponents shall specify the value for the common practice threshold F_{max}.

(a) The threshold shall be determined based on the following considerations:

(b) The scope of similar activities in relation to comparable activities: The value of the threshold shall consider the proportion of similar activities relative to comparable activities. A relatively higher threshold value may be selected where similar

activities are defined more broadly (e.g. biomass power generation being considered as similar and all power generation in the electricity system being considered as comparable) than where similar activities are defined narrowly (e.g. power generation from rice husks being considered as similar and all power generation in the electricity system being considered as comparable);

(c) Whether a stock-based approach or a time-bound approach is used: A relatively higher threshold value may be selected where a time-bound approach is used (e.g. the share of solar power capacity additions to an electricity system in the most recent three calendar years) than where a stock-based approach is used (e.g. the total share of solar power capacity installed in an electricity system at the end of the most recent year);

(d) Technology cost curves: In cases where technology costs are rapidly declining and thus rapidly enhancing the uptake, a relatively lower threshold may be selected.

62. As an indication, mechanism methodologies may consider a common practice threshold in the order of 3% where a stock-based approach is used and 10% where a time-bound approach is used.

63. The proposed common practice threshold value shall not be larger than:

(a) Option 1: No differentiation between countries

(b) 16% where a stock-based approach is used; and

(c) 20% where a time-bound approach is used.

(d) Option 2: Differentiation between LDCs / SIDS and other countries

(e) 16% for countries other than LDCs and SIDS and 20% for LDCs and SIDS, where a stock-based approach is used; and

(f) 20% for countries other than LDCs and SIDS and 25% for LDCs and SIDS, where a time-bound approach is used.

64. The proponent of the mechanism methodology shall provide clear and credible justification for the specified common practice threshold (F_{max}), including quantitative evidence and context-specific analysis. Such justification shall demonstrate that the threshold supports a very high likelihood of additionality of registered Article 6.4 activities.

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Document information

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01.0	14 July 2025	MEP 007, Annex 1. A call for input on this document will be issued following the conclusion of MEP 007 meeting. The input received will be considered by the MEP for the further development of this document at MEP 008. If no input is received, this document will be considered by the Supervisory Body at its next meeting.

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