

Carbon Market Watch response to Gold Standard methodology

Consultation on a methodology for a just transition through the early phase out of coal-fired power plants

05/01/2024

Executive summary

We appreciate the opportunity to provide comments on this methodology, and would like to flag [the submission](#) we made on this topic during the first commenting period. Several of the issues we highlighted remain unaddressed in the proposed methodology.

We have identified significant concerns with the methodology. Our critique revolves around the challenges associated with assessing the future viability of coal power plants, insufficient specificity in the eligibility criteria for renewable energy plants, and inadequacies in financial reporting and emissions accounting.

We urge Gold Standard **to abandon** the proposed methodology.

Challenges in assessing future viability (introduction)

While CMW strongly supports a rapid just transition away from fossil fuels to 100% renewable energy at global level by 2050, we are skeptical about the role of the proposed methodology to deliver on this objective.

An overarching problem lies in the difficulty of establishing the future viability of coal power plants, given the dynamic nature of economic and political conditions. For example, electricity prices and coal prices could change (sometimes dramatically) and political

acceptability of coal power can be significantly influenced by events such as natural catastrophes. We urge Gold Standard to recognise the unpredictable nature of such conditions, making the additionality, and ongoing vulnerability, of 'early retirement' projects hard to prove. Factors other than conscious climate policies may lead to plant closures, rendering some 'early closure' projects non-additional/non-vulnerable.

Eligibility criteria for renewable energy plants (Item 1.1.1)

We recommend a more specific list of eligible clean and sustainable renewable energy types in Item 1.1.1, with all alternative, i.e. non-listed, technologies being subject to specific approval on an ad-hoc basis. We support the current exclusion of biomass energy from the definition of renewable energy due to environmental and accounting concerns.

Regulatory surplus rules (Item 2.2.2)

The regulatory surplus rules in Item 2.2.2(b) lack robustness. The vague criteria surrounding the "expectation" of closure mandates being implemented before 2031 raise concerns about how this is to be interpreted. Political shifts and economic factors could significantly alter the likelihood of mandate enforcement, impacting the project's/plant's viability. Predicting such shifts is likely to be very difficult.

Operational criteria for coal power plants (Item 2.2.2(d))

Requiring "uninterrupted commercial operation" for three years is insufficient. Some plants can run at very low capacity, and essentially stay on "standby" for a long period of time, which suggests that they are not fully needed. A plant's load factor over a given period of time is a better indicator to assess whether the plant is being used or not.

Timelines for transition (Item 2.2.3)

The proposed timelines in Item 2.2.3 lack stringency. At a minimum, there should be a 2030 deadline for developed economies. Having no deadline before 2035 is unlikely to be compatible with IPCC recommendations. In the median 1.5°C pathway of the IPCC, coal power must drop globally by 87% by 2030 and by 96% by 2035. Similarly, the Powering Past

Coal Alliance states that a coal phase out is needed no later than 2030 in OECD and EU countries.¹

Clarity in demonstrating replacement of coal (Item 2.2.4(e))

Item 2.2.4(e) should be clearer in its specifications on demonstrating the replacement of coal power plants with renewable energy plants to avoid, for example, that an old renewable energy plant is passed as “replacing” a newly closed coal power plant. Specific requirements, including age restrictions on renewable energy plants and assessment of the power company’s existing renewable energy targets, are necessary to avoid manipulation of the criteria.

Financial reporting and additionality (Item 2.2.4)

The methodology should mandate project developers to provide regular financial reports demonstrating the use of carbon credit revenues for new renewable energy plants. This would contribute to ensuring that the credit revenues are used to expand RE generation, as opposed to feeding coal plant owners’ profits.

Emissions associated with construction (Item 3.2.1)

Consideration of the emissions associated with the construction of renewable energy plants should be included, spreading them over the expected lifetime of the plant to provide a comprehensive assessment of the overall carbon footprint.

Strengthening LCOE criteria (Item 3.3.2(b)(ii))

Item 3.3.2(b)(ii) should be more specific and clearly state that the Levelised Cost Of Electricity (LCOE) should be credibly expected to remain below the average power procurement price in the region for the entire duration of the crediting period, limited by the lifetime of the coal power plant.

Strengthening financial performance criteria (Item 3.3.2(b)(iii))

¹ Muttitt et al. (2023): [“How quickly does the world need to phase out all fossil fuels?”](#), Carbon Brief

Item 3.3.2(b)(iii) should be more stringent because demonstrating that the coal plant is profitable is not enough. The plant should have a financial performance over a certain threshold/benchmark, and should be expected to remain at a comparable level for the remainder of its crediting period (limited to its lifetime).

Strengthening financial performance criteria (Item 3.3.2)

Items 3.3.2(b)(ii) and 3.3.2(b)(iii) are both likely to result in a rather theoretical spreadsheet exercise, as the results from such financial analyses will be highly dependent on external factors. For example, various predictions for electricity prices and carbon credit prices will have a significant impact on the outcomes of this assessment. Extensive sensitivity analysis should be performed to demonstrate the robustness of the calculations, by showing that the results remain true for a wide range of possible scenarios.

Qualitative analysis of political and social context (Item 3.3.2)

Item 3.3.2 should include a requirement for project developers to provide a qualitative analysis of the political and social contexts affecting coal plants' viability, and how these might shift over the remaining lifetime of the plant. The robustness of this assessment should be evaluated by the VVB.

Regular reassessment of economic and political conditions (Item 3.10)

Item 3.10 should require the reassessment of economic and political conditions at each renewal of the crediting period (or more frequently). If conditions have changed, and the plant is no longer viable, then it should not receive credits anymore. This is particularly important because the lifetime of the plant, used to set the duration of the crediting period(s), is defined only as its technical viability. Political and economic factors are currently only assessed ex-ante, when assessing additionality, and it is important that these continue to be assessed as the project is implemented. Importantly, this does not create any added uncertainty for coal plant owners. It merely reflects the existing uncertainty around the profitability of such plants. It is a minimum guardrail that would be needed to limit the risks around the upfront additionality assessment of such a project.

Strengthening crediting volume calculation (Item 3.12.2)

Item 3.12.2 is too weak as it does not specify which years need to be used. It does not specify either that the years have to be three consecutive years. This opens the door to cherry picking specific years, and thereby inflating crediting volumes.

Conclusion

In conclusion, while we recognize the importance of a just transition from coal (and all other fossil fuels) to renewable energy, we question whether carbon credits are the right tool to incentivise this transition at a meaningful scale, and stress that the proposed methodology is not sufficiently robust to ensure the issuance of high quality credits.

Contact

Isa Mulder - Policy Expert, Global Carbon Markets
isa.mulder@carbonmarketwatch.org

Gilles Dufrasne - Policy Lead, Global Carbon Markets
gilles.dufrasne@carbonmarketwatch.org