

Transition Credits Coalition (TRACTION) at New York Climate Week 2024

OBSERVATIONS OF PROJECT-BASED AND SECTORAL CREDITING APPROACHES FOR TRANSITION CREDITS

TRACTION seeks to develop transition credits as a credible solution to accelerate the early retirement of coal fired power plants (CFPPs)

- **Transition credits** under TRACTION's context, refer to carbon credits generated from the emissions reduced through the early retirement of CFPPs and their replacement with cleaner energy.
- Transition credits can act as a **complementary financing instrument** to address the viability gaps and accelerate the retirement of Asia's young, dominant and expanding coal fleet.
- TRACTION is adopting a **whole-of-ecosystem approach** to explore tools and solutions to:



**Support high-integrity
transition credit generation**



**Enable transition credit
transaction scalability**



**Bolster buyers' confidence
and trust in transition credits**

- As part of the efforts to improve the understanding of transition crediting approaches, this document captures TRACTION's early observations of the project-based and sectoral methodologies that are under development.
- This will be followed by a TRACTION Interim Report planned for COP29 in Baku.

Key observations of project-based and sectoral transition crediting approaches

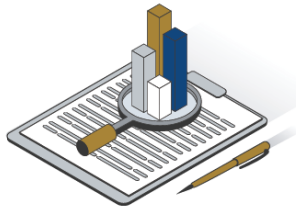
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Transition credit methodologies are adopting project-based and sectoral approaches, with different guardrails to meet high integrity standards and ensure a just transition. Methodology design needs to consider implementation practicalities.



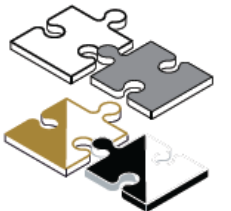
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Host jurisdictions and CFPP owners should choose a transition crediting methodology that suits their local context such as site-appropriate options for cleaner energy.



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Given the nascent stage of the market and the diversity of circumstances faced by stakeholders, multiple approaches can complement each other in accelerating a just coal transition globally.



Transition credit methodologies are adopting project-based and sectoral approaches



	Project-based Approach (Individual approach, Project)	Sectoral Approach (Jurisdictional approach, Program)
Initiatives	Methodology developers include 1. Coal to Clean Credit Initiative (Verra) 2. Gold Standard 3. Asian Development Bank 4. Sustainability Economics (Asia Carbon Institute)	Winrock International's methodology under the Energy Transition Accelerator (ETA) Program.
Scope	Individual CFPP's early retirement and its replacement with cleaner energy.	National or sub-national level activities including early CFPPs retirement, accelerated renewables, infrastructure investments, grid operation improvements and regulatory measures.
Credit issuance	Issued directly to individual projects for monetization in the carbon market.	Issued to host jurisdictions who can use the credits to fulfil Nationally Determined Contributions (NDC) or transfer to eligible private and sovereign buyers.
Baseline emissions	Individual CFPP emission using historical and forward-looking adjustment factors such as emission factor/efficiency and capacity factor.	Sectoral (national or subnational scale) emission from all generation units within the jurisdiction based on absolute emission or a standard emission factor.

Examples of how project-based activities can be integrated with sectoral approach:

- **ETA program:** Jurisdictions can potentially allocate the performance standard or a certain percentage of the sectoral performance to project activities.
- **Gold Standard's Policy Requirements and Procedures:** Allows credits to be generated when new policies/regulations directly result in mitigation outcomes.

Transition credit methodologies utilise a variety of guardrails to meet integrity principles and ensure a just transition



Examples of guardrails, not exhaustive

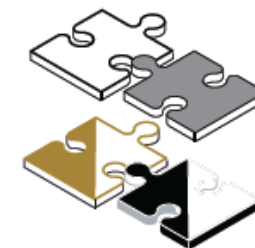
	Project-based Approach	Sectoral Approach
Additionality	Methodologies require analysis to determine the earliest CFPP retirement date without transition credits (such as government mandate or a financially viable turning point) as the baseline retirement date.	The ETA uses a performance-based approach where the emissions baseline is required to align with the Paris Agreement climate goal (below business-as-usual levels).
Permanence	Methodologies require proof of full retirement and decommissioning of CFPP for credit issuance. Standby status or restarting are not permitted.	The ETA uses a performance reserve with contributions from the verified emission reductions to cover for the risks of non-performance.
Just Transition	Methodologies require development of a just transition plan with clearly identified stakeholders, impact and mitigation measures alongside a solid financing plan. Methodologies can stipulate a certain contribution percentage of credit proceeds to just transition.	The ETA requires submission of a just transition plan to decarbonise the electricity sector (including all on-grid and off-grid sources as well as imports and exports) accompanied by policy and regulatory actions. Similar to the project-based approach, the ETA stipulates a certain contribution percentage of credit proceeds to just transition.

Host jurisdictions and CFPP owners should choose a transition crediting methodology that suits their local context



Examples of local context considerations, not exhaustive		
	Project-based Approach	Sectoral Approach
Cleaner Energy Requirements	Methodologies stipulate permitted replacement technologies, require varying levels of generation capacity matching and different forms of cleaner energy pairing with the early retirement of CFPP.	Deployment of cleaner energy is part of the national or sub-national just energy transition plan required by the ETA at validation and during the crediting period.
No New Coal Requirements	Methodologies might require a no new coal commitment at the entity or country-level (when the entity is state-owned). The crediting period stops when this commitment is renegeed on.	The ETA is considering adjustment measures to the issued credits when a new CFPP is constructed after a defined effective date.

Multiple approaches can complement each other in accelerating coal transition action globally



The global transition from coal will not be homogenous, given the varying local circumstances and energy needs.



Being able to use either project-based or sectoral approaches can empower host jurisdictions and CFPP owners to transition away from coal, by adopting methodologies that best meet their needs.



The possibility of local adaptation allows transition credits to become an impactful tool to accelerate coal transition action globally.

For more information on methodologies:

1. [“Methodology for Early Retirement of Coal-Fired Power Plants Using a Just Transition”](#), CCCI, 2023.
2. [“Methodology concept for the early Phase-out of coal fired thermal power plants and their replacement with green-field and renewable energy generation plants,”](#) Gold Standard, 2023.
3. “Methodology for Early Retirement of Grid-Connected Coal-Fired Power Plants”, ADB, 2023.
4. [”Methodology for Early Phaseout of CFPP with Just Transition by Replacing with Clean Energy Sources,”](#) Sustainable Economics, 2024.
5. [“ETA Framework”](#), US Energy Transition Accelerator, 2024.