

CERT

Certified Emissions Reduction Technologies Foundation

ADDITIONALITY ASSESSMENT (INVESTMENT ANALYSIS)

CERT Methodological Tool · Version 1.0

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1. Summary Description

This tool provides the procedures for demonstrating and assessing the additionality of project activities under the CERT Standard. Consistent with Rulebook 5.1, CERT accepts a single form of additionality demonstration: financial (investment) analysis. This tool therefore contains two steps: identification of alternatives (required only for investment comparison analysis) and investment analysis. Barrier analysis and common practice analysis are not part of the CERT additionality framework, are not contained in this tool, and shall not be used or referenced in project documents. Regulatory surplus is an eligibility condition assessed under Rulebook 5.2A, not an additionality step.

2. Sources

This tool draws on internationally recognised investment-analysis practice for mitigation activities, including concepts from UNFCCC Clean Development Mechanism methodological tools for the demonstration and assessment of additionality, restructured to implement the financial-only additionality requirement of the CERT Registry Rulebook (CERT-REG-001).

3. Definitions

Term	Definition
Financial indicator	A quantitative measure of investment attractiveness: internal rate of return (project or equity IRR), net present value (NPV), levelised cost of output, cost–benefit ratio, or payback period.
Benchmark	The minimum acceptable value of the financial indicator for the investment context, derived per Section 5.3.2 and Appendix A.
Analysis vintage	The date as of which the financial analysis is prepared, as specified by the applied methodology; all inputs must reflect information available at that date.
Applicable geographic area	The country in which the project is located, unless the applied methodology defines a narrower or wider area with justification.

4. Applicability Conditions

4.1 This tool applies where the applied CERT methodology requires additionality demonstration by investment analysis. Methodologies may specify the analysis option, financial indicator, and benchmark source; such specifications prevail over the defaults in this tool.

4.2 For project activities spanning multiple countries, the investment analysis must be conducted separately for each country.

5. Procedures

5.1 Step 1: Identify Alternatives (Investment Comparison Analysis Only)

5.1.1 Define realistic and credible alternative scenarios to the project activity that deliver comparable outputs or services, are available to the project proponent, and are technically feasible in the applicable geographic area. The alternatives must include the project activity undertaken without CRU revenue.

5.1.2 Eliminate alternatives that do not comply with mandatory applicable laws and regulations, unless it is demonstrated with documented evidence that non-compliance is widespread in the applicable geographic area (in which case non-enforced requirements do not eliminate an alternative). Alternatives eliminated here shall not be reintroduced.

5.1.3 Where benchmark analysis (Option 2) is applied, Step 1 is not required.

5.2 Step 2: Investment Analysis

Select and justify one option:

5.2.1 Option 1 — Investment comparison analysis. Suitable where alternative scenarios providing the same output are available to the proponent. Procedure: (a) identify a financial indicator appropriate to the project type and decision context (IRR, NPV, cost–benefit ratio, or levelised cost); (b) calculate the indicator for the project activity (excluding CRU revenue) and for all remaining alternatives, using consistent assumptions and periods; (c) present a transparent ranking; (d) demonstrate that the project activity is not the most economically attractive scenario without CRU revenue; and (e) conduct the sensitivity analysis of Section 5.4.

5.2.2 Option 2 — Benchmark analysis. Suitable where the activity could be delivered by entities other than the proponent or forms part of a portfolio decision (for example, grid-connected renewable generation). The financial indicator must be the IRR (project or equity, applied consistently with the benchmark). Procedure: (a) calculate the IRR of the project activity excluding CRU revenue; (b) demonstrate each of the following, recording the result of each element in the project documents: (i) the project activity does not meet the benchmark without CRU revenue; (ii) the economic performance of the activity increases decisively with CRU revenue; and (iii) CRU revenue raises the indicator to or above the benchmark; and (c) conduct the sensitivity analysis of Section 5.4.

5.2.3 Where the project activity and its alternatives generate no financial or economic benefits other than CRU revenue, Option 1 may be applied as a cost analysis (comparison of costs only, without revenue streams).

5.3 Input and Benchmark Requirements

5.3.1 Inputs. All material inputs (capital cost, operating cost, output, tariffs/prices, taxes, subsidies) must be valid and applicable at the analysis vintage, and must be evidenced by audited financial statements, binding offers, executed contracts, regulatory filings, published statistics, or other third-party-verifiable sources. The complete financial model, with formulas intact, is attached per CERT-TMP-001 Appendix 3. Knowingly misstated inputs are sanctionable (Rulebook 12–13).

5.3.2 Benchmarks must reflect standard returns in the market for the country and sector, and must not be tailored to the proponent's subjective expectations. Acceptable derivations, in order of preference: (a) the benchmark specified in the applied CERT methodology; (b) government or

central-bank published rates plus a documented country and sector risk premium; (c) documented weighted average cost of capital of the sector; or (d) for equity IRR, documented cost of equity from recognised sources. The derivation must be fully documented and reproducible.

5.3.3 Expected CRU revenue must use a documented, source-referenced price assumption; the same assumption must be used consistently throughout the analysis.

5.4 Sensitivity Analysis

5.4.1 Subject the conclusion to variations of at least $\pm 10\%$ in each critical assumption (at minimum: capital cost, operating cost, output/capacity factor, output price/tariff, and CRU price), plus any methodology-specified variables. Larger ranges must be used where historical variability in the applicable geographic area exceeds 10%.

5.4.2 The additionality conclusion holds only if it is robust across reasonable variations. Where a variation overturns the conclusion, the proponent must demonstrate with evidence that the parameter value concerned is not plausible at the analysis vintage; otherwise the activity is not additional.

5.5 Outcome

5.5.1 The project activity is additional where the applicable demonstrations of Section 5.2 are met and robust under Section 5.4. Otherwise the project activity is not additional, and no further route to demonstration exists under the CERT Standard.

5.6 Validation

5.6.1 The VVB shall reproduce the financial model, verify all material inputs against the underlying evidence, assess the benchmark derivation, and independently re-run the sensitivity analysis (CERT-TMP-005 §3.4; CERT-LGL-003 Clause 3.3).

Appendix A – Investment Analysis Requirements

- Analysis period: the shorter of the technical lifetime and 20 years, unless the methodology specifies otherwise; residual values must be justified.
- Constant or nominal terms may be used, but discount/benchmark rates and cash flows must be expressed consistently.
- Depreciation and other non-cash items are excluded from cash flow; taxes are included where the indicator is post-tax and the benchmark is post-tax.
- Subsidies and public support available at the analysis vintage are included; support that is legally mandated to the activity is addressed under regulatory surplus (Rulebook 5.2A).
- All spreadsheet inputs must trace to cited evidence; hard-coded untraceable values are grounds for a corrective action request.

References

- CERT Registry Rulebook (CERT-REG-001), Sections 5 and 12–13; CERT-TMP-001 §3.5 and Appendix 3; CERT-TMP-005 §3.4.
- UNFCCC CDM methodological tools on additionality (conceptual antecedents; investment-analysis elements only).