



**CDM: Response form for Request for revision of approved methodologies
(version 01.1)**

<i>Date of Meth Panel meeting:</i>	14 – 18 September 2009
<i>Title and number of Request for revision</i>	Revision of AM0028 to include the relocated chemical complex regardless of the CDM project activity AM_REV_0158

Summary of the query:

Please use the space below to summarize the request for revision on the related approved methodologies.

Previous request (Request for revision AM_REV_0115)

The proposed project is to install deN₂O equipment to the relocated Nitric Acid plants being part of chemical fertilizer complex. The fertilizer complex consists of some relocated and some new plants.

It is emphasized that the installation of the chemical fertilizer complex including the relocated nitric acid plant was decided to meet the ever growing domestic demand of fertilizer and was regardless of the CDM project activity (installation of deN₂O equipment).

The original AM0028 is to be applied to the existing nitric acid plants – commercially operating before 31 December 2005. The proposed revision is to broaden the applicability to include the case in which the exiting Nitric Acid plant was relocated without changing the underlying concept of the methodology and the decision to relocate the plant was made before 31 December 2005.

The project proponents emphasize that the planning for installation of the chemical fertilizer complex was independent of “installation of the deN₂O equipment”. Therefore, concerns specified in the “Note on expansion of methodologies for project activities on recovery and destruction of industrial gases to include new facilities” (Meth 34, annex 11) are not relevant to this case.

However, the Meth Panel’s comment on the previous submission relied on the concern of this independence. Namely, the Meth Panel considered that the establishment of the chemical complex may have been influenced by the attractiveness of installing the deN₂O equipment as shown below in the previous response:

“The Meth Panel cannot accept the request for revision for the following reasons.

- (1) There is no mention in methodology on how the demand for Nitric Acid is going to be satisfied in the previous location (or country) for the plant. A detailed analysis regarding Nitric Acid production and GHG emissions in the previous location as well as in the new location is necessary.
- (2) There is no mention about whether the country from where plant is imported is an Annex I or non Annex I country. This is particularly significant from the point of view that, if an Annex I country transfers its plant from their country to non Annex I country and still imports nitric acid from the plant; it’s a clear case of displacement of nitric acid production in Annex I country.

- (3) Determination of the baseline scenario (and consequently the Specific N₂O emissions per unit of output of nitric acid) would require an additional consideration. It should be noted that one of the alternatives available for the project proponent would be to install a new plant with a much lower level ratio of N₂O emissions per unit of output of nitric acid. The baseline scenario determination procedure included in the methodology can only be used for existing capacity. The baseline alternatives evaluated differ only in the level of destruction of produced N₂O, but all of them assume the same specific N₂O ratio.
- (4) There has to be a proper definition of baseline scenario for the case of relocated second hand plants. The baseline scenarios should be defined for both the locations (seller and buyer of the plant).
- (5) There has to be an applicability condition stating that the second hand plant cannot be less energy intensive and more N₂O emitting than the common practice plant (without N₂O abatement unit) in the country of relocation.”

Project proponent sustains that the establishment of the chemical complex and the proposed project activity (deN₂O equipment installation) are completely independent of each other. In view of this, some of the items above are no more applicable for this case. The emissions associated with the activity (except the N₂O emissions) do not depend of the CDM project and are common for the baseline and the project scenario and can be cancelled in the calculation of emission reductions. It is not appropriate to consider the baseline scenario options for the seller-side (according to the project proponent), as well as the option where the buyer of the chemical fertilizer complex would not by the complex. However, nothing is said about exporting the production to an Annex I country.

For the item 5, it is worth to clarify that the preferred method to calculate emission reductions in AM0028, is to monitor the decomposed amount of N₂O in the tail gas.

The rationale proposes that the main issue to allow relocated plants to use AM0028 is on how to demonstrate the independence between the installation of the complex and the project activity.

The additional applicability conditions

The company has made a huge investment of USD900 million only for the installation of the chemical fertilizer complex whereas the installation cost on CDM is only 6 million Euro which is quite small in comparison with the cost of the fertilizer complex. In addition, selling CERs is not the core business of the host fertilizer company. Rather, the real business is to sell nitric acid related final products like Nitro phosphate, calcium ammonium nitrate and NPK in the domestic market. Therefore, it is not correct to assume that the installation of the chemical fertilizer complex is driven in any way by the return of the DeN₂O equipment installation.

Response of the Meth Panel to AM_REV_155

As the guidance to be added to the applicability condition, it is suggested the inclusion of procedures to verify or demonstrate such condition.

- (1) The proposed project (installation of the DeN₂O equipment) is not the essential driver economically to relocate the chemical fertilizer complex. In addition, it is a well-established fact that relocation of such plants is much easier and cost effective than construction of a new chemical fertilizer complex.

For this demonstration, the procedures (b) and (c) are added:

- (b) The cost of the relocation of the chemical fertilizer complex/nitric acid plant is much larger than the cost of the DeN₂O equipment and associated CER revenues, and
 - (c) The cost of new chemical fertilizer complex/nitric acid plant is much larger than the cost of relocation.
- (2) Not only economical aspects above, it is needed to check the legal aspects as follows:
- The installation of the proposed project is not required by law of the host country where chemical fertilizer complex/nitric acid plant is relocated.
- (3) In addition to the above conditions, the evidences of the decision making strongly supports the logics concerning the economical rationally and legal rationality provided above:
- The evidences that the decision-making of relocation of the chemical fertilizer complex/nitric acid plant, which was taken no later than 31 December 2005, was done independent of the DeN₂O equipment installation shall be provided with chronological explanation. The evidences shall be based on (preferably official, legal and/or other corporate) documentation that was available at, or prior to, the start of the project activity;
 - The nitric acid plant was on sale in the market;
 - There is no capital relationship between the owners of the original and new plant sites; If the Meth Panel considers the above condition insufficient, the following conditions may be added:
 - The potential demand of the final product (NP, CAN and NPK) is much larger in the host country in order to avoid the gaming, which is to produce excess of the products to obtain more CERs than them market demand. This can be demonstrated that the import is much larger than export of the product; or
 - The originated country of the nitric acid plant does not re-import the nitric acid from the targeted country (host country of the project).

Request of revision AM_REV_158

Project proponents consider unclear how the Meth Panel considers each applicability condition added to the original methodology.

Detail of the questions raised by the Math Panel

Concern 3

The following applicability conditions are presented to clarify “how the relocation was done”

- (b) The cost of new chemical fertilizer complex/nitric acid plant is much larger than the cost of relocation;
- (c) The cost of relocation of the chemical fertilizer complex/nitric acid plant is much larger than the cost of the DeN₂O equipment and associated CER revenue;
- (e) The evidences that the decision-making of relocation of the chemical fertilizer complex/nitric acid plant, which was taken no later than 31 December 2005, was done independent of the DeN₂O equipment installation shall be provided with chronological explanation. The evidences shall be based on (preferably official, legal and/or other corporate) documentation including ones related to the selection of the equipments with their information on manufacturers, type, etc;
- (f) The nitric acid plant was on sale in the market;

- (g) There is no capital relationship between the owners of the original and new plant sites;
- (h) The designed capacity is not changed by the relocation. And the operating manual applied at the original plant site can be used at the relocated project site;
- (i) The historical composition of the ammonia oxidization catalysts used at the original plant site is specified.

“The project proponents emphasize that the planning for installation of the chemical fertilizer complex was independent of “installation of the deN₂O equipment”. Therefore, concerns specified in the “Note on expansion of methodologies for project activities on recovery and destruction of industrial gases to include new facilities” (Meth 34, annex 11) are not relevant to this case”.

Project proponents consider that the above applicability conditions well describe how the relocation was done.

Concern 4

Concern 4 is not relevant if it is demonstrated that the relocation was done as explained in concern 3

Concern 5

It is unclear what concern 5 means. The DeN₂O technology applied is to decompose the emitted N₂O in the tail gas. In addition, the efficiency of the plant imported may be worse than new plant with the same technology but may not be worse than the common practice plant.

EB 46 clearly states that the relocated plant is different from the new plant and considers the issues when specific case is submitted.

Recommendation by the Meth Panel:

(a) Please use the space below to provide amendments /changes (in your expert view, if necessary).

Concerns 1 and 2 are not relevant for the approval or rejection of the request for revision. This is because in the “Guidance on expansion of industrial gas recovery methodologies to new facilities” these issues are deemed not relevant for the CDM by the EB according to the guidance.

To address the concerns 3, 4 and 5 of the request for revision, the project proponent has to take into account that the consideration of relocated plants cannot be treated in the same way as existing plants, defined as per the methodology AM0028. The project proponent has to take into consideration that the **project activity is not the installation of an abatement unit, but the installation of a new nitric acid plant, with or without abatement unit**. This means the project proponent has to propose scenarios that are different to those proposed in AM0028 and also use different procedures to demonstrate the additionality of the proposed project activity. Further, baseline emissions are to be determined according to new procedures. It is neither acceptable nor realistic that historical operational data from the original plant is used in order to determine operational conditions related to N₂O emissions at the new site. In that sense, the Meth Panel suggest that a similar approach to the one proposed in NM 0319 could be adopted, with improvements.

Another general comment related to the applicability conditions is that for every A.C. the methodology must provide a verification procedure and the point or period in time when the condition must be met. For example, the effect of new regulations should be verified yearly.

The Meth Panel considers that relocated plants should be treated like a new plant. This is because the project proponent has the opportunity to implement certain improvements that could allow having lower emission factor. Thus, project proponent needs to provide a more conservative emission factor than the IPCC.

(b) Please use the space below for providing guidance, as per Para 93 of EB25 Report, on what type of projects need to revise the PDD as a consequence of the suggested revision, if the recommendation is to revise the methodology.

Answer to authors of the request for revision by the Meth Panel :

Please use the space below to provide an answer to the authors of the above query

The Meth Panel considers not to revise the methodology.



Signature of Meth Panel Chair

Date: 18/09/2009

(Philip Gwage)



Signature of Meth Panel Vice-Chair

Date: 18/09/2009

(Pedro Martins Barata)

Information to be completed by the secretariat

F-CDM-AM	AM_REV_0158
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