



CDM: Response form for request for clarification on Approved Methodologies (version 01.1)

<i>Date of Meth Panel meeting:</i>	21 - 25 June 2010
<i>Title and number of request for clarification</i>	Query regarding the Baseline selection in methodology AM0087, version 01. AM_CLA_0179

Summary of the query:

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

The approved methodology AM0087, "Construction of a new natural gas power plant supplying electricity to the grid or a single consumer", is applicable to project activities that construct and operate a new natural gas fired power plant, which supplies electricity: (i) to the electric power grid and/or (ii) to an existing electricity consuming facility that is also connected to the electric power grid.

In the present request, the project proponents seek clarification on the financial analysis that should be conducted as part of the procedure for the identification of the baseline scenario. The methodology requests, in the procedure to identify the baseline scenario, that: *"The economically most attractive baseline scenario alternative is identified using an investment comparison analysis, by applying Step 2 (Option II) of the latest version of the "Tool for the demonstration and assessment of additionality" approved by the Board."* In the case of the project proponents, it is claimed that they will export electricity only to the grid and the only two baseline alternatives available to them are: (P5) the project activity not implemented as a CDM project, and (P6) no construction of a new power plant by the project participants but generation of power in the grid in existing and new power plants.

From the information presented above, the two baseline alternatives available to the project proponents can be interpreted as Option 1-investing in the project activity, or Option 2-not investing in the project activity. Consequently, under these circumstances, the use of an investment comparison analysis appears not to be appropriated for the identification of the baseline scenario.

For further details on the submission, please refer to:

<http://cdm.unfccc.int/UserManagement/FileStorage/FL9XVZ3OEBSTU4N75QA8PGRH260ID>

Questions from project proponents

1. In cases where only alternatives P5 (project implemented without CDM) and P6 (power generation from existing and new grid-connected power plants) are viable to the project participant, can a Benchmark Analysis be performed?
2. If in fact the EB believes that the investment comparison analysis should be performed for P6:
 - (a) What should the project participant use as the appropriate comparative economic parameters for P6: No construction of a new power plant by the project participants but generation of power in the grid in existing and new power plants?
 - (b) How are new power plants to be taken into consideration in this parameter?

Recommendation by the Meth Panel:

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

Required changes to the methodology are presented in the revised version of AM0087 included as an annex of the MP44 report.

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

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

Reply from the Meth Panel

The Meth Panel agrees that the language in the new methodology is not fully clear with regard to how the investment comparison analysis should be implemented in this case. The Meth Panel clarifies that an investment comparison analysis can also be conducted with the two alternatives of which one is that the project participants do not undertake any investment, but that the service is provided by third parties (i.e. power generation in the grid). In this case, the alternative of power generation in the grid should be reflected through an appropriate financial benchmark (e.g. a NPV of zero or a hurdle rate for the IRR). In the analysis, the project attractiveness should be compared against this financial benchmark.

The Meth Panel recommends the Board to revise the methodology in order to clarify this issue.

Signed by the Chair, Mr. Lex de Jonge

Date: 25/06/2010

Signed by the Vice-Chair, Mr. Philip Gwage

Date: 25/06/2010

Information to be completed by the secretariat

F-CDM-AM	AM_CLA_0179
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