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

Date of Meth Panel meeting:	23 - 27 January 2012
Title and number of request for clarification	Query regarding baseline scenario determination and additionality demonstration of the methodology ACM0006 AM_CLA_0221

Summary of the query:

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

ACM0006 ver. 11.1.0 "Consolidated methodology for electricity and heat generation from biomass residues" is applicable to project activities that operate biomass-residue (co-)fired power-and-heat plants.

The DOE seeks two clarifications about the use of the methodology, concerning the Step 3 (investment analysis) of the selection of the baseline scenario and demonstration of additionality.

1. The first clarification is about the appropriate analysis method for financial attractiveness of alternatives. First paragraph of the Step 3 states that:

   "The objective of Step 3 is to compare the economic or financial attractiveness of the alternative scenarios by conducting an investment analysis. The analysis should include all alternative scenarios (or in case that Step 2 is conducted, the remaining alternative scenarios after Step 2), including scenarios where the project participants do not undertake an investment (e.g. a combination of B1: and P7)."

The project activity is a Greenfield biomass-fired cogeneration facility. The power is supplied to grid and heat is supplied to a residential area around the project facility.

While following the selection of the baseline scenario and demonstration of additionality, after Step 2 (Barrier analysis), the DOE identified that there were the following remaining two combined scenarios:

(a) Power is imported from the grid (corresponding to P7 in the methodology), heat is supplied by the existing small coal-fired boilers in the region (corresponding to H6), and biomass residues are dumped or left to delay (corresponding to B1).

(b) The project is not undertaken as a CDM project activity.

The DOE was able to analyze the financial attractiveness of scenario (b) by calculating NPV of the project activity without CER revenue. However, for scenario (a), power is generated by grid-connected fossil fuel plants and heat is supplied by surrounding existing coal-fired plants, project participants do not undertake an investment. Because project participants do not own/operate the grid company and existing coal-fired plants, relevant operational/financial data are difficult to obtain.

The DOE seeks clarification, in such a case, as to whether it is still necessary to conduct a quantitative analysis of scenario (a). Alternatively, the DOE seeks clarification on whether assuming NPV of zero for scenario (a) is acceptable and reasonable.

2. The second clarification is about the identification of baseline scenario based on the outcome of the financial analysis. The outcome of the Step 3 states that:

"Outcome of Step 3: Ranking of the short list of alternative scenarios according to the most suitable financial indicator, taking into account the results of the sensitivity analysis. If the investment analysis is conclusive, then the most economically or financially attractive alternative scenario is considered as baseline scenario".

Through calculation, it was found that NPV of scenario (b) is below zero. But after taking CER revenue into account, NPV rises above zero. Therefore, scenario (b) is not economically or financially attractive. As the only remaining scenario, scenario (a) is the continuation of current practice and existed for years. The DOE wants to know whether it is acceptable to consider scenario (a) as the baseline scenario, or whether the financial indicator (e.g. NPV) of scenario (a) should be calculated and compared with that of scenario (b) to determine the baseline scenario.

Recommendation by the Meth Panel:

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

Not applicable.

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

The Meth Panel would like to clarify as follows:

1. Step 3 (investment analysis) of ACM0006 version 11.1.0 refers to Step 2 of the latest version of the "Tool for the demonstration and assessment of additionality". Sub-step-2b of the tool allows the project participants to choose the appropriate analysis method for investment analysis.

   Project participants can apply either "Option II: Investment comparison analysis" or "Option III: Benchmark analysis". In both these options, project participants can identify the financial/economic indicator most suitable for the project type and decision context. NPV can be used as a financial indicator.

   For alternative scenarios that correspond to the situation where: (i) no investment is undertaken by the project participants but third party(ies) undertake(s) investments or actions which provide comparable outputs or services to users of the project activity;[1] or (ii) the continuation of the current situation, not requiring any investment or expenses to maintain the current situation and that do not involve any investment costs, operational costs or revenues[2], the project participants shall use the following values for the financial indicator to reflect such a situation:

   - If the financial indicator is the NPV: Assume a value of NPV equal to zero;
   - If the financial indicator is the IRR: Use as the IRR the financial benchmark in accordance with the guidance in the tool.

   The discount rate (in the case of the NPV) or the financial benchmark (in the case of the IRR) shall be derived in accordance with the guidance in the tool.

[1] In the case of a greenfield power project, an alternative scenario may be that the project participants would not invest in another power plant but that power would be generated in existing and/or new power plants in the electricity grid.

[2] For example: the continued venting of methane from a landfill; the continued release of N_2O from adipic or nitric acid production.

2. In case, there are only two scenarios remaining for investment analysis and one has NPV below zero and another has NPV equal to zero, then, as stated in the outcome of Step 3 of ACM0006 version 11.1.0, it is acceptable to consider that the scenario which has NPV equal to zero as the most economically or financially attractive alternative scenario and thus as the baseline scenario. In the case of the particular example presented in the request for clarification, where scenario (a) is the continuation of current practice (and project participants do not undertake any investment) with NPV as zero and scenario (b) is the project activity without CDM with NPV below zero considering the sensitive analysis, it is acceptable to consider scenario (a) as the baseline scenario.

Signed by the Chair, Mr. Philip Gwage
Date: 27/01/2012

Signed by the Vice-Chair, Mr. Lex de Jonge
Date: 27/01/2012

Information to be completed by the secretariat	
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