



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

<i>Date of Meth Panel meeting:</i>	3 - 7 October 2011
<i>Title and number of request for clarification</i>	Questions on the application of the 'Clarification on the approved consolidated methodology ACM0012 version 03.2 regarding CDM project activities that recover waste energy in Greenfield facilities' (EB 61, Annex 5) AM_CLA_0219
<p>Summary of the query:</p> <p>Please use the space below to summarize the request for clarification on the related approved methodologies.</p> <p>The request mainly refers to a clarification provided by the CDM Executive Board (the Board) 'Clarification on the approved consolidated methodology ACM0012 version 03.2 regarding CDM project activities that recover waste energy in greenfield facilities' issued at EB 61 (Annex 5). There are several issues raised in this request as described below:</p> <ol style="list-style-type: none"> (1) The request seeks clarification on the definition of Greenfield facilities, and whether the Greenfield facilities are the same as "new facilities" referred in the methodology. (2) The above referred clarification by EB 61 that states that for Greenfield facilities, the project participants (PPs) may determine, through investment analysis, which design would be the baseline scenario for the Greenfield facility by comparing alternative designs including the usage of waste energy that is recovered under the project. The clarification seeks to know what method of investment analysis should be used in the determination of baseline scenario. In particular PPs highlight the issues related to benchmark analysis and investment comparison analysis, if used for this determination. As per the request, it remains unclear how the baseline scenario for the Greenfield facility could be determined in the case that both options (facility with and without WHR) are profitable. It is further stated that even if one may have a higher IRR than the other, the same result may not necessarily be reflected in NPV since the size of the investment is larger in the 'with WHR' case, and therefore the resultant NPV may be larger, even if the IRR is lower. (3) In view of above issues, request proposes a solution to make an assumption that in such a case (where a clear determination of the baseline scenario for the Greenfield facility cannot be made), investment analysis of the WHR investment as a separate investment would be carried out to determine whether the IRR component is in itself profitable or not. (4) Request seeks a guidance on what approach should be adopted and how this issue should be validated. (5) The request further states that, in the "Guidelines on the Assessment of Investment Analysis" the Board has stated in the rationale to point 6 that investment decisions "be based on the relevant information available at the time of the investment decision and not information available at an earlier or later point." If joint analysis of the type suggested in the clarification was not performed at the time of the project participant's actual investment decision-making, is it appropriate for this analysis to be done retroactively? For example, if investment analysis was done separately for the cement facility and the WHR equipment, but no analysis was done on the cement plant and WHR activity together, should validation be based on additional investment analysis done over the course of the validation, or based solely on investment analysis available at the time of the investment decision? 	

Recommendation by the Meth Panel:

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

Please refer to the next section.

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 thanks the PPs and DOE for raising these important questions on recent clarifications issued by the Board on ACM0012 ver. 3.2, in its 61st meeting. The Meth Panel clarifies the following points in this regard:

1. The “new facilities” referred in ACM0012 ver. 03.2 can be interpreted as “Greenfield” facilities. The Greenfield facilities are defined as the facilities where the commercial production began at the same time as the project activity. The same applies for the capacity expansion projects, which have to be treated as “Greenfield” or “new” facilities. This definition will be inserted in the next revision of ACM0012.
2. The general implicit understanding on the use of investment comparison analysis and benchmark analysis is as follows.
 - (a) If the baseline scenario is that the PPs would make an investment but in another technology/fuel in the absence of CDM then additionality should be demonstrated using comparative financial analysis;
 - (b) If the baseline scenario is that the PPs would not invest in the absence of CDM then additionality should be demonstrated using the financial benchmark.

This applies to baseline scenario determination under ACM0012 version 03.2, as investment analysis is required to be conducted for determination of the baseline scenario as per the above referred to clarification by the Board. On the specific issue of the EB 61 clarification, the PPs are clearly in the category (a) above as they will invest in the Greenfield project with or without the waste recovery (WHR) component or with a different WHR component, and therefore they should demonstrate the baseline scenario by applying investment comparison analysis to the various design options for the Greenfield facility. If the alternative design identified is the Greenfield facility without the WHR component and if the financial indicator of the Greenfield facility with the WHR component is lower than the financial indicator of the Greenfield facility without the WHR component, the Greenfield facility without the WHR is the baseline scenario.

3. To establish the baseline scenario for the project activity the investment in the entire Greenfield facility should be compared against investment in real alternative Greenfield facilities. The standalone WHR component cannot be compared against the financial benchmark for establishing the baseline scenario, as proposed by the PP/DOE. If the alternative design is exactly the same as the project facility, but without or with different WHR components, then the investment comparison of WHR components can be done to identify the baseline scenario.
4. The Meth Panel recommends that the DOE should seek the evidence and cross check from experts on the authenticity of facility design and the assumptions made in the investment comparison analysis. It should also be checked whether apart from two alternatives (with or without recovery) other alternatives such as partial recovery or different recovery of waste energy are available in the Greenfield facility design and whether it is considered in the investment comparison analysis for determination of the baseline scenario. However, it is important to note that in cases where the design with partial recovery is determined as the baseline scenario, the version 03.2 has very limited applicability as defined under type-2 project activities covered under this methodology. Version 04.0.0 is much more broadly applicable for the projects that improve the recovery of waste energy as compared to partial recovery in absence of project activity.

5. The PPs should demonstrate the baseline scenario based on investment comparison analysis of alternative designs. The Meth Panel understands that the information for the alternative designs that were considered prior to the time of the investment decision may not be available today to the PPs. In this particular case, the PPs should conduct the investment comparison analysis based on the current time (so the financial parameters for the various options can be considered in today's terms for the data that was not publicly available), if the project was not already submitted for request for registration before the issuance of the clarification by EB 61. If the alternative design is exactly the same as the project facility, but without or with different WHR components, then the investment comparison of the WHR component can be done based on information in today's terms to identify the baseline scenario.

Signed by the Chair, Mr. Philip Gwage
Date: 7/10/2011

Signed by the Vice-Chair, Mr. Lex de Jonge
Date: 7/10/2011

Information to be completed by the secretariat

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