

 <p>CDM: FORM FOR SUBMISSION OF A “LETTER TO THE BOARD” (Version 01.2)</p> <p>This form should be used only by project participants and other stakeholders for submitting a “Letter to the Board” in accordance with the latest version of the <i>Modalities and procedures for direct communication with stakeholders</i></p>	
Name of the stakeholder ¹ submitting this form (individual/organization):	Martin Stilkenbäumer Dr. Marten von Velsen-Zerweck N.serve Environmental Services GmbH
Address and contact details of the individual submitting this form:	Address: Gr. Theaterstr. 14, 20354 Hamburg, Germany Telephone number: +49 40 30997860 E-mail address: Stilkenbaeumer@nserve.net ; velsen@nserve.net ;
Title/Subject (give a short title or specify the subject of your submission)	Letter with respect to next EB Meeting 66: Strong recommendation to <u>NOT</u> accept the final response of the MP to request AM_REV_0227 concerning the approved methodology ACM0019 N2O abatement from nitric acid production and NOT to approve the proposed revision to the approved methodology ACM0019
Please mention whether the submitter of the form is:	<input type="checkbox"/> Project participant <input checked="" type="checkbox"/> Other stakeholder, please specify Author of ACM0019
Specify whether you want the letter to be treated as confidential ² :	<input type="checkbox"/> To be treated as confidential <input checked="" type="checkbox"/> To be publicly available (UNFCCC CDM web site)
Please choose any of the type(s) below ³ to describe the purpose of this submission.	
<input type="checkbox"/> Type I: <input type="checkbox"/> Request for clarification <input checked="" type="checkbox"/> Revision of existing rules <input type="checkbox"/> Standards. Please specify reference <input type="checkbox"/> Procedures. Please specify reference <input type="checkbox"/> Guidance. Please specify reference <input type="checkbox"/> Forms. Please specify reference <input type="checkbox"/> Others. Please specify reference <input type="checkbox"/> Type II: Request for Introduction of new rules <input type="checkbox"/> Type III: Provision of information and suggestions on policy issues	
Please describe in detail the issue on which you request a response from the Board, including the exact reference source and version (if applicable).	

¹ DNAs and DOEs shall use the respective DNA/DOE forms for communication with the Board.

² As per the applicable modalities and procedures, the Board may make its response publicly available.

³ Latest CDM regulatory documents and information are available at: <http://cdm.unfccc.int/Reference/index.html> .

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Meth panel Meeting 23 - 27 January 2012**Revision of project emissions calculation AM_REV_0227****Revised methodology as annexed to the fifty-fourth Meth Panel report (ACM00019 / Version 02.0.0Draft).**

Meth Panel answer to authors of the request for revision by the Meth Panel

1. Emission reductions could be considered zero when there is no abatement system working or when it underperforms. The panel considers that each of those events that lead to *negative emission reductions* could have a maximum length of 2 consecutive days and they can occur in a total of 7 days over a year period.

Please provide any specific suggestions or further information which would address the issue raised in the previous section, including the exact reference source and version (if applicable).

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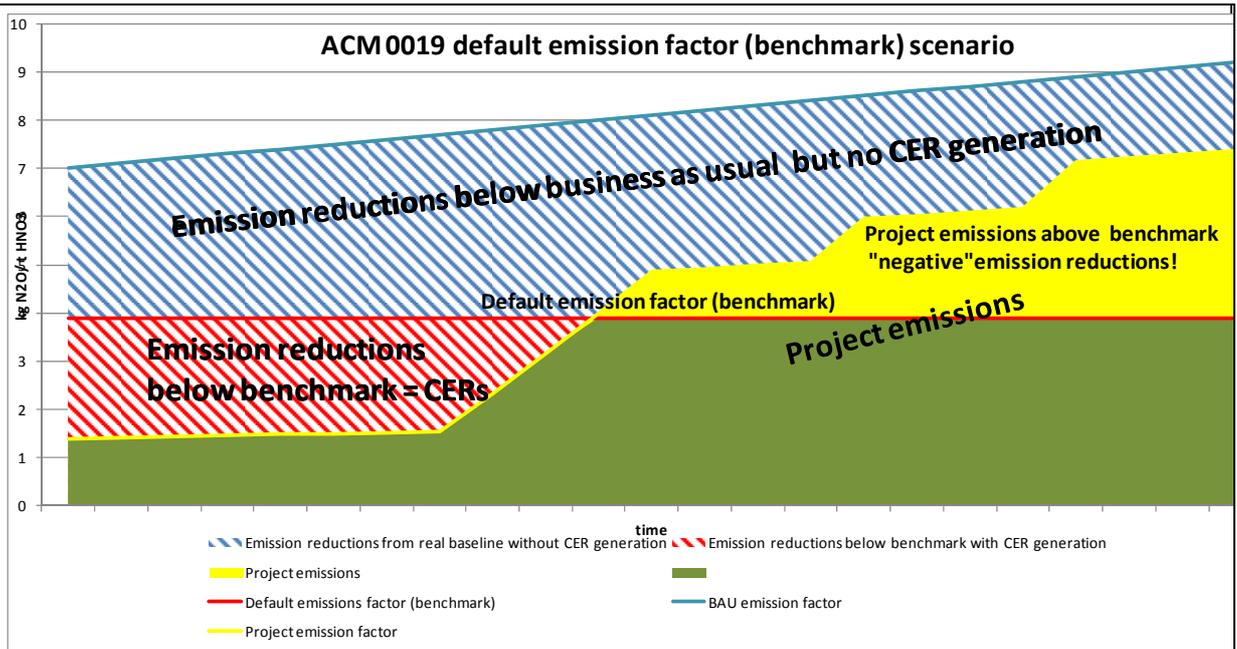
ACM0019 is the first CDM Methodology that uses a 'default baseline-' resp. 'benchmark' approach for an industrial emissions source.

It is of importance for the future of the CDM to clarify the misconception of "negative emission reductions" in the context of methodologies using a default baseline resp. benchmark approach in order to make ACM0019 a workable CDM methodology and a guidance for future CDM methodologies applying benchmarks based on best available technology levels.

1. Negative emission reductions as mentioned in the answer by the Meth Panel are defined as per the CDM EB 21 Report Paragraph 18 as follows: "The Board noted that, in some cases and for some methodologies, project activities may temporarily result in "negative emission reductions" in a particular year, for example due to poor performance or due to leakage effects outweighing emission reductions. In these cases, proposed new methodologies should stipulate that if a project activity temporarily results in "negative emission reductions", i.e. baseline emissions minus project emissions minus leakage effects are negative, any further CERs will only be issued when the emissions increase has been compensated by subsequent emission reductions by the project activity" (Extract of the report of the twenty-first meeting of the Executive Board, paragraph 18).

Under the project activity of the approved methodology ACM0019 no GHG emissions are caused by implementation of secondary catalyst systems as project activity. Therefore the project emissions do not exceed the baseline emissions or business as usual emissions (s. graph 1 below): although the project emissions exceed the default N₂O emission factor ("Benchmark") (red line) no "negative emissions" occur, because the project activity emissions are nevertheless below or - in the worst case - at the same as the real baseline (blue line). In difference to other project types the project activity itself does not produce any emissions that could exceed the baseline (blue line). It needs to be clearly distinguished between the "benchmark (default baseline)" and the original baseline (historic emission level). Therefore no negative emission reductions as suggested in the answer by the Meth Panel occur in this project type and it is not justified to limit the periods where the emission reductions could be considered zero as suggested in the answer by the Meth Panel.

Graph 1:



Source: N.serve Environmental Services

- ACM00019 / Version 02.0.0 Draft revision to the approved consolidated baseline and monitoring methodology ACM0019 “N₂O abatement from nitric acid production” p. 7 ff. “Determination of h₂”: Misunderstanding with respect to how the baseline default emission factor has been derived: The default emission factor has been derived based on data from baseline campaigns from CDM projects (as per §48c CDM M&P). However, in this scenario no N₂O abatement technology is installed. This baseline emission factor is based on the average performance of individual plants over time. However, please note that no N₂O abatement technology is installed in the baseline scenario and therefore it does not make sense to reflect also effects such as temporal underperformance of a secondary or tertiary catalyst technology which simply does not exist in this situation and hence cannot have any effect on the baseline. Any subsequent consideration of an underperformance or technical failures of N₂O abatement technology in ACM0019 is wrong and based on a misunderstanding of the baseline scenario. To temporarily account for a higher baseline emission factor based on a baseline scenario that includes an installed N₂O abatement technology is simply a wrong understanding of how the baseline is derived and hence invalid.

Following further arguments speak for dropping this case of “negative emission reductions” and netting them against the project emissions below the Benchmark:

- Situations where project emissions exceed the benchmark will have technical reasons that cannot be resolved in a few hours. Those are often due to other fundamental problems related to plant operation or problems with the secondary or tertiary catalyst that cannot be resolved within a few hours or days, but take weeks or month to be solved. For example, cracks in the basket containment system of the secondary catalyst pellets can occur, in most cases a new basket will have to be designed, ordered, manufactured, shipped and installed. The lead-time for such repairs is often 4 months or longer.
- Given that nitric acid plants are not driven by CER production but by downstream fertilizer or explosives production, most plant operators cannot afford to shut down a plant as soon as a problem in the N₂O abatement system occurs.
- For the reasons described above, if secondary catalyst systems develop technical problems it is likely that such problems persist for weeks or months and project emissions will exceed the benchmark for sometimes extended periods of time during the lifetime of a project. If such periods can result in already generated emission reductions being nullified, project owners will likely decide against a CDM project if this additional significant risk has to be considered as investment in technology and project cycle are significant. This is especially true during times of historically low CER prices (please note

that these projects have to be registered before the end of 2012 in order to be eligible for the EU ETS as all of them are outside LDCs);

- With reference to the table provided in the request for revision of an approved methodology AM_REV_0227 (see below): a project owner would immediately stop the project activity with the first occurrence of “negative emissions”, because thereafter he would have to make significant investments for the catalyst technology and CDM fix costs (verifications), however would not be able to generate any further income with the project.

Table 1:

Calculated Emission Reductions (tCO ₂)			
Year	As per existing ACM0019, under normal operational conditions	As per existing ACM0019, if the catalyst is not functional or underperforming in 2017	As per revised ACM0019, if the catalyst is not functional or underperforming in 2017
2013	153,481	153,481	153,481
2014	142,321	142,321	142,321
2015	136,741	136,741	136,741
2016	125,581	125,581	125,581
2017	114,421	-362,390	0
2018	103,261	103,261	103,261
2019	97,681	97,681	97,681
Total	873,487	396,677	759,066

Source: request for revision AM_REV_02227

The procedure currently being proposed for ACM0019 is perverse in that it destroys a significant motivation for such projects in the first place by penalizing operators for something that causes no additional harm or wrong rewards.

In case ACM0019 will apply the changes suggested by the Meth Panel’s recommendations in the answer to authors of the request for revision request AM_REV_0227 it will in our view prove to be a strong disincentive to implementing these projects and in fact prevent such projects in the first place meaning that the associated emissions will occur – not only up to the benchmark but up to the – much higher – actual baseline emissions.

Therefore the following change of the revised methodology is suggested:

For any hours during which the measured N₂O emissions are higher than the given default baseline emissions factor, the project emissions should be set equal to the applicable benchmark/ baseline emissions factor. This will result in no CERs generated during such times.

In conclusion, we appreciate that the board needs to safeguard the integrity of the CDM and ensure that a project is not rewarded for emissions reductions even if the overall project generates more emissions than the baseline scenario.

However, this threat simply does not exist in nitric acid projects as the benchmark is in almost all cases significantly above the benchmark up to which CERs can be earned.

<i>If necessary, list attached files containing relevant information (if any)</i>	CDM EB 21 Report (extract) Paragraph 18 NEGATIVE EMISSIONS REDUCTIONS (Extract of the report of the twenty-first meeting of the Executive Board, paragraph 18)
Section below to be filled in by UNFCCC secretariat	
Date when the form was received at UNFCCC secretariat	21 February 2012
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History of document

Version	Date	Nature of revision
01.2	08 February 2012	Editorial revision.
01.1	09 August 2011	Editorial revision.
01	04 August 2011	Initial publication date.
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