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Subject: Response to Request for Review –Aços Villares Natural gas fuel switch project (1037)

Dear Members of the CDM Executive Board,

Please find below our responses to the issues raised in the requests for review for this project. The reasons for the requests are shown in shaded boxes, followed by our response.

QUESTION

In the project scenario, to achieve equivalent steel output requires much less (around half) energy as compared to baseline scenario. Further clarification is required on how the DOE verified that fuel switching in the project activity does not focus primarily on energy efficiency, as required by this applied methodology AMS-III.B. v10

PP answer

The methodology used is focused on fuel switch process. As described in the PDD and validation report, this project activity focus mainly on a fuel switch process, and changes on the efficiency were not expected. The project is registered using AMS.III.B, version 10. Based on our understanding of the rules of CDM, the project is fully applicable to the used meth.

Requirements of the methodology used for this registered project

The version of the methodology used in this registered project clearly states:

- 1) *"This category comprises fossil fuel switching in existing industrial, residential, commercial, institutional or electricity generation applications."*

And;

- 2) *"Fuel switching may change efficiency as well."*

And;

- 3) *"The project activity primarily aims at reducing emissions through fuel switching, it falls into this category. If fuel switching is part of a project activity focussed primarily on energy efficiency, the project activity falls in category II.D or II.E."*

Project compliance with Methodology

The project fully complies with all the methodology requirements given that:

- 1) It is a fossil fuel switch process in an industrial facility. It is changing the use of fuel oil and LPG to natural gas¹, both in baseline and project scenarios are fossil fuels.

And;

¹ There is only one group of equipment that was using electricity in the baseline and it was included given the change to natural gas would include in an increase of emissions (for conservativeness, the emission factor in baseline was considered as zero).

- 2) In average, the fossil fuel change does not expect to change the efficiency of project activity. The baseline energy consumption was calculated based on an average of values (and not in a single value). The industrial process always presents a random variation² thus some months will be more efficient than the average, and others less efficient. Moreover, the units are actually a couple of equipment doing the same process, what can increase the instantaneous variation, but do not affect significantly the average operation of this process. Please see an example in the graph below of an equipment of this project.³

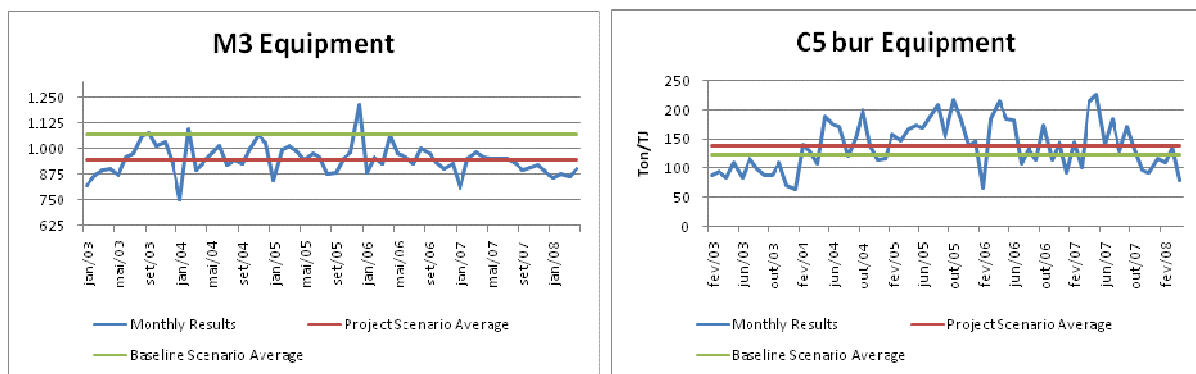


Figure 1: Monthly efficiency for group of equipment C5bur and M3 along the complete crediting period (including data from the two verifications).

As conclusion, sometimes, the energy efficiency of a unit may appear higher or lower than the baseline number, but it is result from random variation, and gains in energy efficiency were not expected, even if allowed by the methodology. If there is a gain, the example above shows that is small, and thus not the main driving force of the project.

And;

- 3) As described in the PDD and checked during validation, the project is aiming the emission reduction mainly by a fuel switch process. Eventual gains in energy

² SHEWHART, W. *Statistical method: from the viewpoint of quality control*. Washington: Dover, 1986.

³ Average efficiency in tons of product per TJ of energy, for the period of January 2003 to April 2008.

efficiency happen (and sometimes loses), but it was not the focus neither the goal of the project. It can be clearly realized when the graph below is interpreted.

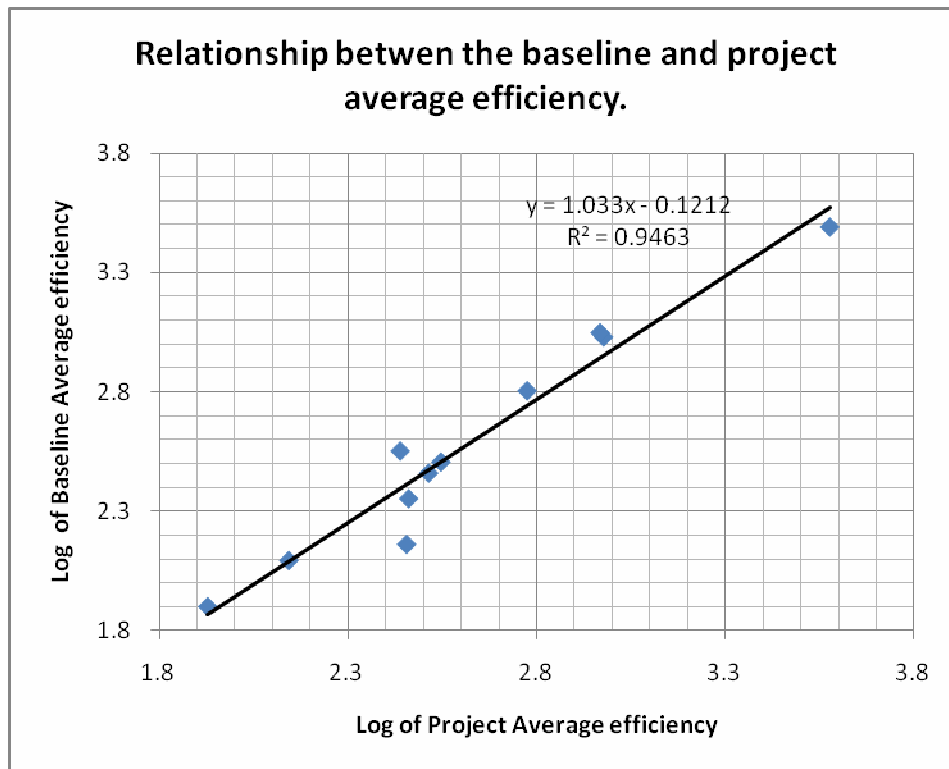


Figure 2: Relationship between baseline and project average efficiencies.⁴

As observed, the baseline and project efficiencies are strongly correlated. The trend line has a strong statistical significance ($R^2=0.946$), and the angle of it is 46° . A line with angle of 45° means that the efficiencies are the same in both scenarios, if smaller, then the project scenario is more efficient than baseline, and if higher, the baseline is more efficient than project. As conclusion, the project and baseline scenarios have, in average, the same energy efficiency, with small

⁴ For project efficiency it was considered the data of each group of equipment for the entire crediting period (the operation starting date of equipment or January 2003, the earliest one) up to the end of April 2008. From the thirteen group of equipment, two equipments were excluded from this analysis: M5 and M6. M5 is a switch from electricity to natural gas, thus the type of energy is not the same, and M6 had problems on monitoring, thus the data from this equipment was not considered. The values were presented logarithmic scale given the range between the averages (E.G. In project scenario M2 average is 3778 ton/TJ while C4 is 84 ton/TJ). All the data used for this analysis are available in the PDD calculator and in the workbooks.

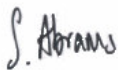
trend to the baseline be more efficient, thus the emission reduction of this project is achieved mainly by fossil fuel switching and not energy efficiency process.

The Validation Report confirms that the PDD applied the methodology correctly. Validation Checklist, attachment of Validation Report transparently says all the steps and procedures to define the baseline according to the methodology requirements, and ask for some improvements in the PDD that go beyond the Methodology requests. The verification report correctly states that all the indicators [parameters] stated in the applicable methodology and PDD are monitored and reported.

Thus, it appears that what is required by this Request for Review is not applicable to the project during the current crediting period. When the project renews the crediting period the baseline will be assessed, and the most updated methodology version will be used. Until then, the Project Participants must only follow the requirements in the methodology version used and the procedures stated in the registered PDD. This has been done and verified for this monitoring period.

We trust that the comments above address the issues that have been raised. However, if there is any further information required, or revisions that should be made to the project documentation, we will be very happy to provide these.

Yours sincerely



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