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Att: CDM Executive Board

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CDM Ref 1041	LFAT/MLEH	27 June 2007

Response to request for review
"Eliane Natural Gas fuel switch project" (1041)

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by three Board members concerning DNV's request for registration of the "Eliane Natural Gas fuel switch project" (1041), and we would like to provide the following response to the issues raised by the requests for review.

"The DOE has assessed the additionality of the project activity using the additionality tool rather than in strict accordance with ACM0009 v3. It is not clear whether the DOE has followed each step of the methodology to assess whether the project participant has selected the correct baseline scenario and to determine whether the project activity is additional."

DNV Response:

We would like to confirm that the project was assessed against the requirements for selecting the baseline scenario and to determine project addionality contained in ACM0009 (version 03).

In the validation report, we have structured the discussion of the assessment of the additionality in line with the steps of the "Tool for demonstration assessment and of additionality". This was due to the additionality tool including complementary steps, such as step 0 which applies to projects like the project in question claiming retroactive credits and due ACM0009 referring to the tool for further guidance regarding the application of the steps included in ACM0009. We acknowledge that this has created some confusion, but hope that the below table leaves no doubt that all steps for selecting the baseline scenario and to determine project addionality required by ACM0009 were validated.

Tool	***ACM0009***	***Comments***
Step 0*		It was demonstrated that the CDM was seriously considered in the decision to proceed with the project activity
Step 1	Step 1 of the identification of the baseline scenario	***Identification of alternatives to the project activity consistent with current laws and regulations*** **Four scenarios were identified** 1 - The proposed project activity not undertaken as a CDM project activity; 2 - Continuation of the current practice of using oil as energy source; 3 - Switching from oil to biomass; 4 - Switching from oil to natural gas at a future point in time during the

		crediting period
Sub Step 1a		***Define alternatives to the project activity*** A barrier analysis demonstrates that only the continuation of the current situation is not prevented by barriers
Sub Step 1b	Step 2 of the identification of the baseline scenario	***Consistency with mandatory laws and regulations*** There are no mandatory policies, regulations or public policies requiring fuel switching
Step 2	Step 4 of the identification of the baseline scenario	***Investment analysis*** Only one scenario was identified as a likely baseline scenario: the continuation of the current situation of fuel oil and coal use. As only one alternative remains as the most plausible baseline scenario, step 4 of the identification of the baseline scenario included in ACM0009 is not required.
Step 3	Step 3 of the identification of the baseline scenario	***Barrier analysis*** See below
Sub-step 3a		***Identify barriers that would prevent the implementation of the proposed CDM project activity*** Four barriers were selected 1 - Investment barrier 2 - Technological barriers 3 - Barriers due to prevailing practice 4 - Other barriers
Sub-step 3 b	Step 1 of the additionality determination	***Show that the identified barriers would not prevent the implementation of at least one of the alternatives (except the proposed project activity)*** The barrier analysis demonstrates that only the continuation of the current situation is not prevented. The NPV analysis, including the sensitivity analysis, to demonstrate that the project activity undertaken without the CDM is economically less attractive than the most plausible baseline scenario, was validated under the heading "Economic and financial barriers"
Step 4.	Step 2 of the additionality determination	***Common practice analysis*** DNV was able to confirm that the use of natural gas by porcelain producers is not common practice in Brazil.
Sub-step 4b		***Discuss any similar options that are occurring*** See above
Step 5*.	Step 3 of the additionality determination	***The project participants were able to demonstrate that the sale of CERs will provide the necessary incentives for the project to alleviate the above presented barriers.***

(*) These steps are no longer included in version 3 of "Tool for the demonstration and assessment of additionality" and hence version 02 of the tool was considered for these steps.

"It is not clear whether the baseline methodology is applicable to the project activity and whether a request for deviation may be required, i.e. can fuel burning for each of the processes be considered as "for heat generation that are located at and directly linked to an industrial process with a main output other than heat…" or if the fuel is rather combusted as feedstock energy."

DNV Response:

We would like to repeat the information included section 3.3 of the validation report stating that "During the site visit DNV could verify that the dryers consist of air heaters supplying air at around 700ºC to a spray of ceramic sludge. This process is limited by the velocity of water evaporation in order to form perfect micro spheres. In the same way, the oven is used to fire tiles

and the process is limited by quality restrictions." DNV was thus able to confirm that that the processes affected by the project can be considered as "processes for heat generation that are located at and directly linked to an industrial process with a main output other than heat".

"It is not clear from the PDD and validation report whether the monitoring methodology has been applied correctly. For example, the parameters in the monitoring plan appear to refer to AM0008, and the frequency of measuring the fuel efficiency of natural gas is not stated. In addition, the DOE has validated that "The fuel efficiency of natural gas will have to be determined at an early stage of the project in accordance ACM0009". However, the project's first crediting period started 1 January 2001"

DNV Response:

The first two versions of the PDD that were assessed as part of the validation were based on AM0008 (please refer to section 2.1 of the validation report) However, the final PDD assessed by DNV and submitted for registration was, as stated in the validation opinion, validated against ACM0009. The references to AM0008 in the validation protocol in Appendix A to the validation report document the history of the validation process and refer to the assessment of the initial PDDs based on AM0008.

The statement that "the fuel efficiency of natural gas will have to be determined at an early stage of the project in accordance ACM0009" included in the validation opinion of the validation report is an unfortunate error which refers to a requirement of AM0008 which is no longer included in ACM0009.

In accordance with ACM0009 the project participants chose not to measure the fuel efficiencies for the baseline scenario and applied default efficiencies provided by the supplier.

The project started operation and began its crediting period in 2001. At that time no approved monitoring methodology for fuel switching projects was available, and the project participants did not measure energy efficiency separately for each piece of equipment (although all equipment consists of spray driers, so they can be considered as the same element process). As a result, the fuel efficiency of natural gas was not accurately measured at an early stage of the project. Instead, the fuel efficiency for natural gas provided by the supplier was applied.

We considered that it is important to use the same sources and assumptions for determining the fuel efficiencies in the project and the baseline scenario. Hence, we accepted the use of the default efficiency estimate for the project as this was consistent with the fuel efficiencies chosen for the baseline scenario.

We sincerely hope that the Board accepts our above explanations.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS

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