UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany

Att: CDM Executive Board

DET NORSKE VERITAS
CERTIFICATION AS
Climate Change Services
Veritasveien 1
NO-1322 Høvik
Norway
Tel: +47-6757 9900
Fax: +47-6757 9911
http://www.dnv.com
NO 945 748 931 MVA

Your ref.:	Our ref.:	Date:
CDM Ref 1696	MLEH/SSY	15 July 2008

Response to request for review of the project "Power Generation by Waste Heat Recovery Project of Xinjiang Tianshan Cement Co., Ltd. in Urumqi City, Xinjiang Autonomous Region, P. R. China" (1696)

Dear Members of the CDM Executive Board,

We refer to the issue raised by the requests for review by three Board members regarding project activity 1696 "Power Generation by Waste Heat Recovery Project of Xinjiang Tianshan Cement Co., Ltd. in Urumqi City, Xinjiang Autonomous Region, P.R. China" and would like to provide following initial responses to the issue raised.

Comment:
Further clarification is required on how the DOE has validated the baseline determination, in particular that the continuation of grid electricity imports is more economically attractive than the project activity undertaken without the CDM.

DNV Response:

According to methodology ACM0004, the possible alternative scenarios in absence of the CDM project activity would be as follows:

(1) The proposed project activity not undertaken as a CDM project activity;

(2) Import of electricity from the grid;

(3) Existing or new captive power generation on-site, using other energy sources than waste heat and/or gas, such as coal, diesel, natural gas, hydro, wind, etc;

(4) A mix of options (2) and (3), in which case the mix of grid and captive power should be specified

(5) Other uses of the waste heat and waste gas.

As shown in our validation report, it has been discussed that alternative scenarios 3, 4 and 5 face various barriers and thus are all excluded. Hence, scenarios 1 and 2 are the remaining possible baseline alternatives. For comparison of these two alternative scenarios, an appropriate analysis method has been determined. As the project generates financial and economic benefits other than CDM income, a simple cost analysis (Option I) was not applicable. Investment comparison analysis (Option II) is applicable to projects where similar investment alternatives are available but that is not the case here. Hence, the benchmark analysis (Option III) was selected to confirm the project's additionality.

Since one of the alternatives to the project activity is continued import of electricity from the grid, the project developer's decision should be to invest in the project activity or not invest (i.e., the project developer does not require the project activity to provide its limited electricity demand as it can be sourced from the grid). The following elaboration in the aforementioned EB 39 Report Annex 35 is also found relevant:

"*The benchmark approach is therefore suited to circumstances where the baseline does not require investment or is outside the direct control of the project developer, i.e. cases where the choice of the developer is to invest or not to invest.*"

The project reduces the cement plants import of electricity, and the IRR analysis presented in the PDD for scenario 1 considers the investments for implementing the waste heat recovery units and generators and considers as revenue the savings due to having to import less electricity than in absence of the project activity. The IRR analysis presented in the PDD thus considers the incremental investment and the incremental revenue of scenario 1 compared to scenario 2.

As shown in our validation report, the project IRR without CDM revenue is 6.08%, which is lower than the benchmark rate of 8%. This shows that scenario1 is financially less attractive than alternative scenario 2, and thus alternative scenario 2 should be considered as the baseline scenario.

To further elaborate that import of electricity from the grid is more economically attractive than the proposed project activity not undertaken as a CDM project activity, a comparative NPV calculation has been conducted by the project proponent. It shows that the NPV of power generation for scenario 2 is minus 88.26 million Yuan RMB, the NPV for scenario 1 is minus 94.69 million Yuan RMB. Thus, it is demonstrated that scenario 1 (the proposed project activity not undertaken as a CDM project activity) is financially less attractive than scenario 2 (import of electricity from the grid). As per methodology ACM0004, scenario 2 should consequently be identified as the baseline scenario.

We sincerely hope that the Board find our elaboration on the above satisfactory

Yours faithfully
for DET NORSEK VERITAS CERTIFICATION AS

Michael Lehmann

Michael Lehmann
Technical Director
Climate Change Services