JQA

27 August 2008

CDM Executive Board
UNFCCC Secretariat
Martine Luther King Strasse 8
P.O. Box 260124, D-53153 Bonn Germany
Attention: Mr. Kai-Uwe Barani SCHMIDT

Comments on Request for Review
"PAA Biogas Extraction Project for Heat Generation" (Ref. No. 1735)

Dear Mr. Kai-Uwe Barani SCHMIDT,

To result in the faster registration of the proposed project activity by the decision of the next EB meeting, we wish our comments on "PAA Biogas Extraction Project for Heat Generation" could be supportive enough for the discussion.

Yours sincerely,

Matsuno

Tsutomu MATSUNO, Senior Executive,
Japan Quality Assurance Organization

Initial comments by JQA for the request for review of
"PAA Biogas Extraction Project for Heat Generation (Ref. No. 1735)"

(The following comments are for all three reviewers. The requests for review raised by the three Board Members are based on the same reasons.)

1. *The DOE is requested to describe how it has validated that the: (a) benchmark applicable for this project is appropriate, particularly the assumption of 3% risk premium; and (b) the input values to the investment analysis are appropriate in context to the underlying project activity.*

Comment by JQA:

(a) We believe that the premium of 3% over the cost of borrowing in relation to the "risk" of this project, "PAA Biogas Extraction Project for Heat Generation (Ref. No.1735)", is reasonable on the grounds as follows.

1) The project employs a new technology which provides the introduction into an operating system of not only the anaerobic digester but also the dual fuel boiler equipped with a sophisticated control system to deal with fluctuations in biogas quantity and quality.
   - The risk of disturbance in a steady system operation due to the new technology
   - The risk that the new technology might adversely affect the existing operating system
   - In case the system is not properly operating with the anaerobic digester and the dual fuel boiler, it's very difficult to convert it for some other purpose.

2) The project is not essential for carrying out the project owner's primary business. Prior to the project, the plant already had a well-functioning lagoon system in place to lower the organic content of the effluent to a level required by environmental regulations. In developing countries, where companies are subject to chronic shortage of funds, this type of non-essential projects are not undertaken unless their profitability is very attractive.

   Therefore, as stated above, Mr. Nobuyoshi Kawamura who is a financial expert and Management Representative, Global Environment Department of JQA considers, based on his expertise and own experiences in the department of a Japanese bank (Appendix 1) to control all the lending in Japan and overseas (screening, fund allocation, loan scheme compilation etc.), that the 3% premium over the cost borrowing in relation to the risk of this project is reasonable under the basic interest rate 15%.

(b) The input values to the investment analysis are used in the Financial Analysis, which is attached to the PDD.
The validation team validated the consistency and appropriateness of the input values through the confirmation of the documents listed in REFERENCE of the validation report already submitted. The details are as follows:

1) Contract date for key equipment and engineering (15/10/2006 – 17/10/2007)
   - POME Reactor: 15/10/2006
   - Electrical Installations & Instrumentations: 08/06/2007
   - Foundations Material for Biogas tanks: 15/03/2007
   - Material costs of biogas tanks: 30/04/2007
   - Civil works: 01/12/2006
   - Technical consultant: 17/02/2007
   - Mechanical construction costs of biogas tanks: 30/03/2007
   - Modification of high pressure boiler: 17/10/2007
2) Price of diesel oil in October 2006 as published by PERTAMINA
3) Exchange rate in end of 2006: USD = IDR 9,100

2. *The DOE is requested to describe how the prior consideration of the CDM for this project activity 46 [paragraph 5 (a) and (b)] of EB 41. In doing so the DOE should provide evidence of the PP's decision to proceed with the project activity with the CDM benefits and a detailed timeline of activities and status for the project activity since the project start date.*

Comment by JQA:

(a) Paragraph 5(a)

The paragraph requires the project participant to indicate awareness of the CDM prior to the project activity start date, and that the benefits of the CDM were a decisive factor in the decision to proceed with the project.

These facts are well demonstrated by the contract between the project owner and the technology provider. This document, which was included in the PDD, is attached hereto as Appendix 2 for quick reference.

It is noted that the first page of Appendix 2, representing the proposal from the technology provider, clearly mentions in paragraph 1 additional revenue from CERs as a benefit of the project. This was double-checked with a CDM consultant with whom a contract was signed about a month later. It was on this basis that the project participant decided to proceed with the project.

The next two pages of Appendix 2 reproduce the most relevant parts of the contract. The first of these pages shows that the contract pertains to the same equipment as mentioned in the proposal, while the following page establishes that the contract was duly executed by the representatives of both the seller and buyer of the equipment on 15 October 2006.

(b) Paragraph 5(b)

This paragraph requires the project participant to indicate that continuing and real actions were taken to secure CDM status, and to submit reliable evidence that includes, among others, a consulting contract for CDM services. The

evidence document JQA obtained and confirmed in connection with this requirement is the CDM consulting agreement the project owner entered into on 13 November, 2006, less than one month after the conclusion of the agreement with the technology provider.
We will add this document to the list of REFERENCE in a revised Validation Report to be submitted.

(c) Timeline

The timeline for the project is summarized in the following table.

PAA Biogas Extraction Project

December, 2005	An anaerobic lagoon system was constructed to treat waste water at the plant.
October, 2006	Completion of the financial feasibility study.
October, 2006	Contract signed with the technology provider.
November, 2006	Contract executed with a CDM consultant.
December, 2006	Construction started.
September, 2007	Contract between PP and JQA.
September, 2007	PDD published on the UNFCCC website.
January, 2008	Issuance of Japanese LoA.
March, 2008	Issuance of Indonesian LoA.
June, 2008	Commissioning.
July, 2008	Validation report on the UNFCCC website.

Appendix 1

Brief information on competence for Management Representative of JQA

Mr. Nobuyoshi Kawamura, Director of Global Department

- 26 years of working experience in the Long-Term Credit Bank of Japan.
  The Long-Term Credit Bank of Japan is the specialized bank for a long-term financing (lending period is more than 10 years) to key industries both in Japan and overseas.
- Major experiences in a field of financing is as follows.
  1. large companies in Japan
     • three years of experience in financing to credit companies, non-banks, retailers
  2. small-and-medium-sized companies in Japan
     • three years of experience in financing to manufacturers mainly
  3. assigned in a department of controlling for domestic and foreign lending
     • seven years of experience in the department to control all the lending in Japan and overseas (screening, fund allocation, loan scheme compilation etc.). Also engaged in many tasks of screening for overseas real estate, P/J items (including M&A)

Appendix 2

PROPOSAL FOR

DESIGN, SUPPLY, FABRICATION, INSTALLATION, TESTING AND COMMISSIONING OF AN 800 m^3/d POME BIOGAS-CAPTURE ANAEROBIC DIGESTER PLANT

For

PT. PERMATA HIJAU GROUP
Jl. Sultan Iskandar Muda, No. 107, Medan - 20154, INDONESIA

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QUOTATION
(Ref: NVT-PHG/06/Q135 (Rev.4A))

1.0 INTRODUCTION

This proposal is for the design, supply, fabrication, installation, testing and commissioning of a POME (palm oil mill effluent) Anaerobic Digester (AD) Plant with a capacity of 800 m^3/day for a 60-t FFB/hr palm oil mill of **Pt. Permata Hijau based in Medan, North Sumatera, Indonesia.** This proposal is prepared jointly by **Novaviro Technology Sdn Bhd** and **Watermech Engineering Sdn Bhd.** The project implementation will be undertaken fully by **Aquarius Systems (Malaysia) Sdn Bhd**, a joint venture company of Novaviro and Watermech.

The following benefits can be realized through the introduction of the POME AD plant:

1. Methane generated in the anaerobic digestion process as biogas will be recovered by means of the closed-tank complete-mixed anaerobic digester system. Methane recovery will contribute to greenhouse gas emission reductions and thus the project developer will be eligible for the Certified Emission Reductions (CER) credits under the Clean Development Mechanism (CDM) of the Kyoto Protocol. The sale of CER credits will generate substantial revenue for the project.

2. The biogas captured is of significant quantity and this can be utilised as a fuel for power generation, using for example a gas engine; or in boilers for the

CONTRACT

This contract is concluded on 15th October 2006 in Medan, Indonesia

between:

PT. PELITA AGUNG AGRINDUSTRI
Jalan Iskandar Muda No. 107
Medan - 20154
North Sumatera
INDONESIA

(hereinafter called "the Buyer")

and

AQUARIUS SYSTEMS (MALAYSIA) SDN BHD
No. 11, Jalan TSB 8, Taman Industri Sg. Buloh
47000 Sg.Buloh, Selangor Darul Ehsan
MALAYSIA

(hereinafter called "the Seller")

Above parties hereto agree as follows:

1. SCOPE OF SUPPLY

The Seller hereby agrees to sell and supply to the Buyer and the Buyer hereby agrees to purchase and receive from the Seller

PLANT FOR THE POME Biogas-Capture Anaerobic Digester System of 800 m^3/day

AS PER OFFER NO. NVT-PHG/06/Q135 (Rev. 4A) inclusive of commissioning.

12. OTHER CONDITIONS

The Seller will provide to the Buyer all operation manuals, service and maintenance manuals, spare part manuals and related drawings, electrical drawings and all other documents, necessary for proper utilization and operation of the plant and also for further references.

The parties hereto represent and warrant that all corporate formalities relating to undertaking the performance of the obligations as herein envisaged and for the execution and delivery of this Contract have been duly performed and complied with.

For the Buyer
PT. Pelita Agung Agrindustri

Name: ROBERT
Designation: MD.
Date: 15/11 '06

For the Seller
Aquarius Systems (Malaysia) Sdn Bhd

Name: Dr. Tong Soo Loong
Designation: Executive Director
Date: 15 October 2006

AQUARIUS SYSTEMS (MALAYSIA) SDN BHD
NO. 11, JALAN TSB 8,
TAMAN INDUSTRI SG. BULOH,
47000 SG. BULOH,
SELANGOR DARUL EHSAN MALAYSIA
TEL: 603-61571688
FAX: 603-61571633

In the presence of:

Name: JHONNY JIAN
Organisation: PHG
Designation: Director
Date: 15/11 '06

Name: Mr. Goh Eng Huat
Organisation: Watermech Engineering S/B
Designation: Managing Director
Date: 15 October 2006