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CDM Executive Board
UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany
cdmregistration@unfccc.int

Subject: **Comments to request for review**

Dear members,

With reference to the requests for review to the request for registration of the "Sichuan Carbide Calcium Residues Based Cement Plant Project in Leshan City" (Ref. 2134), we wish to provide the following clarification. 3 requests contained the same comment and our clarification is to all the 3 requests together.

Comment
The PP/DOE shall explain why the calculation of financial costs (e.g. capital and variable costs) and account cost savings due to net energy gains, if any, from the project activity is not included for the selection of the baseline scenario as stated in AM0033 methodology (page 2).

Clarification
The PDD Version 11 provided an additional cost comparison between the baseline scenario and the project scenario in the section B.4. for selection of the baseline scenario in addition to the NPV analysis of the project investment detailed in the section B.5. In consideration of the comment of the request for review above and to make clearer the compliance to the step-wise approach of the approved methodology AM0033 Version 02, the PP has revised the sections B.4 and B.5 of the PDD as presented in the PDD Version 12.1 dated 17/02/2009. The methodology requests selection of the baseline scenario using a financial analysis and LRQA validated the revisions and confirmed the appropriateness in the revised PDD as detailed below.

1) **Calculation of the financial costs (e.g. capital and variable costs) and account cost savings due to net energy gains, if any, from project activity.**

The capital costs are requested to be calculated as the investment requirements for raw material switching in the approved methodology that are the difference between the investment costs of the baseline scenario and the project scenario. The incremental investment cost is presented as RMB 12.21 million. The cost is estimated by the same design institute who prepared the FSR of the project activity and considered as consistent with the investment costs for the project activity. The main items covered are the delivery and storage system for the CCR mixed raw material, special design applied to the vertical mill system in consideration of the required raw material drying performance, special hazardous contents resistant design applied to the pre-decomposition system, control systems to address additional functions in using the CCR mixed raw material and the special design applied to the kiln also applied with

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the special hazardous contents resistant design. LRQA assessed the detailed break-up of the additional equipments, compared with the process requirements and with the similar project cases proposed in the same country and confirmed the relevance.

The variable costs include the consumption of various raw materials including limestone, sandstone, shale, etc., CCR cost for the project scenario and energy consumption that are presented in the FSR for both baseline scenario and the project scenario addressing the substituted raw materials (limestone and clay) and the cost savings accounting fuel reduction as requested in the approved methodology. The FSR was completed in the year 2006 and the Government's approval was issued on 23 January 2007. The project activity was started on 16 April 2007 and there was no event happened to materially change the costs during such short period of time.

The discount rate is chosen from the commonly applied sector benchmark as publicly available in the Methods and Parameters for Economic Assessment of Construction Project (version 03) that was confirmed valid and appropriate at the time of the decision making of the project investment in the year 2007.

The price of CCR is estimated based on the required capital investment and operational costs of the pre-treatment process that take place in the raw material supply source PVC plant. The price is RMB 36.6 /tonne of CCR to be supplied to the project activity containing about 15% moisture. The price is consistently applied in the FSR, the Price Certification Report issued by the local Government and the contractual agreement with the CCR supplier. LRQA assessed the documentary evidences, equipment costs and operational costs break-ups, the system requirements that mainly consist of the pressure filtration systems that are not included in the incremental investment costs of the project entity, compared with the similar project activities proposed in the country and confirmed the relevance.

2) **A sensitivity analysis should be performed to assess the robustness of the selection of the most likely future scenario to reasonable variations in critical assumptions and to establish that the project is not the baseline. The financial indicator is calculated conservatively if assumptions tend to make the CDM project's indicators more attractive and the alternatives' indicators less attractive.**

In accordance with the requirements of the sensitivity analysis to assess the robustness of the baseline selection, the key parameters – (i) additional investment cost (ii) CCR price (iii) limestone price (iv) coal price (v) power price and gain of energy saving are subjected to a +/- 20% variation. The NPV continued to show a negative figure that consistently supports the result of the investment analysis. Given the input values have been taken from the reliable data source as above and the main contracts have been already signed for the project, a significant change of the values is unlikely to happen, and the analysis follows the requirements of the approved methodology as well as the guidance for investment analysis for CDM project activity and confirmed as relevant.

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3) **The baseline scenario should take into account relevant national/local and sectoral policies and circumstances, and the proponent should demonstrate that the key factors, assumptions and parameters of the baseline scenario are conservative.**

The baseline scenario selected is cement production using limestone and clay as the main raw material that are pre-dominant in the host country and applying a new dry process technology cement plant that is the good practice following the sectoral development policy of the host country and satisfies all the national and sectoral policies and circumstances of the host country and more conservative than the ordinary dry or wet cement production technology that are still the majority practice in the host country.

The revised PDD with appendices and the validation report are submitted with this letter that respond to the requests for clarification of the comment above. Please note that we have also incorporated the minor changes in the revised documentation that are;

a) The project activity will meet the required control of high chlorides content in CCR by recycled water use in the upstream PVC plant. If a by-pass system is employed as a known alternative mean, the energy balance of the clinker process will change and the resultant emission reductions will be affected. LRQA follows the CDM-VVM and added a FAR to this point so that it can be confirmed ex-post at the later verification stage.
b) The description for the serious consideration of the CDM prior to the starting date of the project activity is clarified to meet the requirements of the Guidance on the demonstration and assessment of prior consideration of the CDM.
c) Being reflected the current timeline of the registration of the project activity, the starting date of the crediting period is changed to 01/03/2009 in the revised documents. Actual starting date of the crediting period is the registration date of the project activity.

We sincerely hope the above clarification will be accepted by the Executive Board.

Michiaki Chiba is the contact person for the review process and will address question from the Executive Board if any. His telephone number is +818013799355 and e-mail address is michiaki.chiba@lrqa.com.

Very truly yours,

For Lloyd's Register Quality Assurance Ltd.

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