



Mr. R. K. Sethi  
Chair, CDM Executive Board  
UNFCCC Secretariat  
[CDMinfo@unfccc.int](mailto:CDMinfo@unfccc.int)

September 8<sup>th</sup> 2008

Dear Mr. Sethi,

**RE: Initial response to the request for review of the request for registration for CDM project activity "Methane capture from POME for electricity generation in Batu Pahat" (1783).**

SGS has been informed that the request for registration for the CDM project activity "Methane capture from POME for electricity generation in Batu Pahat" (1783) is under consideration for review because three requests for review have been received from members of the Board.

The requests for review are based on the same reason outlined below. SGS would like to provide an initial response to the issues raised by the requests for review:

**Request for Review 1-3. Issue 1:**

*The DOE is requested to describe how IRR calculation was validated, including the: (a) benchmark; (b) IRR period of analysis; (c) input values, in particular the investment cost, electricity tariffs and raw material cost; and (d) lack of sensitivity analysis on the key parameters, to be appropriate in the context of the project activity taking note of the guidance provided by EB 41, Annex 45.*

**SGS' Response to Issue 1:**

The project was submitted with a request for registration on 8<sup>th</sup> April 2008 well before EB41 which report was published on 2<sup>nd</sup> August 2008. In line with the, at that moment applicable, Annex 34 of EB35, the project activity uses investment analysis for demonstration of additionality. The project activity has been financed by Bell Palm Industries, a parent company of Bell Eco Power Sdn. Bhd. (project proponent) through stakeholders loan. The investment analysis sheet was prepared by the Finance Manager of Bell Palm Industries. The important assumptions like interest rate, period of financing, loan term and moratorium period was considered from the Bell Palm Industries records. The letter from Bell Palm Industries which mentions the assumptions used in the financial analysis are attached as Annex herewith. Referring to this letter the DOE cross/checked the internal records of the company and found that the assumptions mentioned in the letter were correct.

The benchmark considered for this project activity was 8% interest rate which was chargeable to loan amount. The interest rate which was considered by the project proponent was checked with the Bankers of the project company i.e. Alliance Bank. The bank provided credit facility to company at 8.25% (6.75% BPLR + 1.50% base lending rate) in August 2006. Letter (Ref. SBDC/BSJ/01/06/LO dated 3<sup>rd</sup> August 2006) (Annex 2). Thus PP's consideration of 8.0% rate of interest on internal finance is accepted by DOE.

Period of investment analysis considered for the project activity was 21 years, which is the lifetime of the project and also the contract period as per PPA for the project activity. The selection of project lifetime for IRR analysis is in line with the guidance on investment analysis version 02. The project's lifetime of 21 years was validated against the technology description and feasibility study report while tenure for the contract period with the electricity board was validated from a draft version of the contract during the validation site visit and same was executed and finalized on 3<sup>rd</sup> June 2008.

The investment cost was referred from the letter (dated 13<sup>th</sup> December 2007) from project consultant Eco-bio diversity Sdn. Bhd. to the project proponent. This letter was provided to DOE during validation process and same was found accepted after discussion with project consultant (Annex 3).

Project proponent considered the electricity tariff offered by Tenaga National Berhad for the grid connected projects as 0.21 RM per kWh. This cost was validated by SGS during site visit through the letter (dated 19<sup>th</sup> September 2007) from Tenaga National Berhad which was provided on request by project proponent (Annex 4).

Project proponent has revised the PDD (version 03 dated 5<sup>th</sup> September 2008) which includes detailed information regarding the sensitivity analysis (Annex 5) for the project activity. The sensitivity analysis was checked for the sensitivity range of the parameters considered for sensitivity analysis. The results of sensitivity analysis are as follows

Factor	IRR for project activity				
	-20%	-10%	Base case	+10%	+20%
Fluctuation in investment cost	5.65%	3.52%	1.65%	0.00%	-1.47%
Fluctuation in operating cash outflows	7.46%	4.61%	1.65%	-1.46%	-4.77%

This indicates that the IRR for the project activity is not crossing the benchmark of 8% which was considered for the project activity even though the investment cost and operating cash outflows decrease by 20%. . The PDD (Annex 6) and validation report (Annex 7) are revised accordingly to incorporate this information.

**Request for Review 1-3, Issue 2:**

*The DOE is requested to provide further clarifications on how it has validated that the project activity faces a barrier due to prevailing practice.*

**SGS' Response to Issue 2:**

The project proponent indicated that the project is not a prevailing practice in the host country Malaysia. A report by Economics and Industry Development Division, Malaysian Palm Oil Board (MPOB), August 2007 available on [http://econ.mpob.gov.my/economy/EID\\_web.htm](http://econ.mpob.gov.my/economy/EID_web.htm) and research paper by Prof. Abdul Latif Ahmad available at <http://www.psipw.org/abdulahmadabstracts.html> was checked as evidence to support this claim. From the above mentioned documents it can be concluded that the project is not common practice in the host country. As discussed in the validation report it has been validated that neither project proponent nor the industry have any obligation to upgrade the present wastewater treatment system, as the present open lagoon system fulfils the conditions set by the host country's Ministry of Environment. This was validated after reviewing the wastewater analysis results of the palm oil mill where the project activity will be installed. The analysis was conducted by the industry and a governmentally approved third party. By implementing the project activity the project proponent is taking an initiative go beyond the legal requirements and thus trying to set new dimensions in the region.

**Request for Review 1-3, Issue 3:**

*The DOE is requested to describe how the start date of the project activity complies with the requirements of 'Glossary of CDM Terms' and consequently whether the prior consideration of the CDM has been adequately described and validated.*

**SGS's Response to Issue 3:**

The start date of the project activity was considered as 13/06/2007 the date when the PDD was prepared for international stakeholder consultation. As the project is a future project and project proponent clearly mentioned in the PDD that they will not invest in the project without additional revenues from CDM which indicates that financial closure will only be achieved after realisation of CDM registration. Hence DOE accepted PDD version 01 date as the start date of the project activity as this was the earliest date when



action/initiative regarding CDM was considered by the project proponent. The revised PDD version 03 attached as Annex 6 includes this information.

**Request for Review 1-3, Issue 4:**

*The DOE is requested to provide further clarifications on how it has validated that the ex-ante combined margin emission factor of the grid has been calculated using the correct data vintages as required by paragraph 9 of AMS-I.D (version 11).*

**SGS' Response to Issue 4:**

As mentioned in the validation report and PDD, project proponent calculated the grid emission factor as ex-ante combined margin, average of operating margin and build margin. The PDD and validation report were revised to incorporate the correct calculation for grid emission factor as per the requirement of monitoring methodology AMS I D version 11 para 9. The calculation for grid emission factor was referred from the database page 4 available at

[http://cdm.eib.org.my/upload/articles1016\\_article\\_1151393608\\_CDM%20Baseline%20Malaysia.pdf](http://cdm.eib.org.my/upload/articles1016_article_1151393608_CDM%20Baseline%20Malaysia.pdf). The emission reduction sheet was updated accordingly (Annex 8).

We feel that the clarification sought by the board members has been taken into account. We do however apologize if this was not sufficiently clear from the earlier validation report.

Vikrant Badve (+91 9860365556) will be the contact person for the review process and is available to address questions from the Board during the consideration of the review in case the Executive Board wishes.

Yours sincerely

Sanjeev Kumar

Lead Auditor

[Sanjeev.kumar@sgs.com](mailto:Sanjeev.kumar@sgs.com)

T: +91 124 4313600

M: +91 9871794628

Irma Lubrecht

Technical Reviewer

[irma.lubrecht@ir-on.nl](mailto:irma.lubrecht@ir-on.nl)

M: +31(0)651851777

**Encl.:**

- Annex 1 – Assumptions used in Financial Analysis
- Annex 2 – Evidence for Interest Rate Alliance Bank
- Annex 3 – Evidence for Investment Cost
- Annex 4 – Evidence for Electricity Rate
- Annex 5 – Sensitivity Analysis
- Annex 6 – Revised PDD version 03
- Annex 7 – Revised Validation Report
- Annex 8 – Revised ER Calculation Sheet