

**Final Ruling Regarding the Request for Registration of
“LHSF RE Project” (4397)**

The CDM-Executive Board decided to reject the above proposed project activity on 17th November 2011, in accordance with the “*Procedures for review of requests for registration*”, version 1.2, EB 55, Annex 40, paragraphs 20 and 28 (the procedures). In accordance with paragraph 27 of the procedures, the ruling shall contain an explanation of the reasons and rationale for the final decision which are as follows:

- The DOE (TUV-SUD) failed to substantiate the additionality and baseline calculations of the project activity as per their respective requirements under VVM, version 1.2, paragraphs 111(a) & (b), 120(c) and 90 & 91.
- VVM, version 1.2, paragraphs 111(a) and (b) require the DOE to “*conduct a thorough assessment of all parameters and assumptions used in calculating the relevant financial indicator, and determine the accuracy and suitability of these parameters using the available evidence and expertise in relevant accounting practices*” and to “*cross-check the parameters against third-party or publicly available sources, such as invoices or price indices*”.
- VVM, version 1.2, paragraph 120(c) requires that “*if similar and operational projects, other than CDM project activities, are already “widely observed and commonly carried out” in the defined region, assess whether there are essential distinctions between the proposed CDM project activity and the other similar activities.*”
- VVM, version 1.2, paragraphs 90 and 91 require the DOE to “*determine whether the equations and parameters in the PDD have been correctly applied by comparing them to those in the selected approved methodology*” and “*verify the justification given in the PDD for the choice of data and parameters used in the equations.*”
- The DOE failed to demonstrate the suitability of key input values (bagasse costs, O&M and administrative costs) used in the investment analysis calculation, in particular:
 - The bagasse costs were cross-checked against an agreement between the sugar mill and the project participant. However, the sugar mill, LH Sugar Factories Ltd., India, is an authorized participant to the project activity and further, the bagasse was sold to the local industry before the implementation of the CDM project activity. The suitability of the assumed bagasse costs is not substantiated as these costs were not further cross-checked against its opportunity cost such as the market price in accordance with VVM, version 1.2, paragraphs 111(a) and (b).
 - The cross-check of the O&M and administrative costs is only based on a certificate from sugar industry experts. However, there is no further information presented to justify the accuracy of the O&M and administrative costs considering that they account for 4.1% of the total investment and 10% of the revenues respectively. The justification provided by the DOE with the reference from the sugar industry experts does not provide details of how the O&M and administrative costs are as such in accordance with VVM, version 1.2, paragraph 111(a).



- The DOE failed to demonstrate that the project activity is not a common practice as out of the 42 sugar mills in the province, 37 have biomass cogeneration plants registered as CDM project activities while the remaining five (5) have non-CDM biomass cogeneration plants that operate under a different tariff policy from the proposed project activity. However, the DOE did not explain the details of the tariff policy to demonstrate the essential distinction between the five (5) non-CDM biomass plants and the project activity in accordance with VVM, version 1.2, paragraph 120(c).
- The DOE failed to validate the suitability of the baseline calculations as it did not validate the parameters (such as amount of bagasse used, 80% plant load factor and 50% discount factor) used for such calculation. Hence, it is not clear whether the equations and parameters used in the PDD have been sufficiently validated by the DOE to calculate the baseline emissions in accordance with VVM version 1.2 paragraphs 90 and 91.

Please note, however, that, with appropriate revisions, this project activity may be resubmitted for validation and registration provided it meets the requirements for validation and registration, in accordance with paragraph 42 of the CDM Modalities and Procedures (Decision 3/CMP.1).

History of the document

Project 4397	Related to EB 55 Annex 40 Paragraphs 20, 27, 28 17 November 2011	Decision Class: Ruling Document Type: Information Note Business Function: Registration
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