

Final Ruling Regarding the Request for Registration of

“Waste Heat Recovery and Utilization for Power Generation at Lucky Cement Limited Pezu Plant” (5516)

The CDM-Executive Board decided to reject the above proposed project activity on 27 June 2012, in accordance with “*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 the reasons and rationale for the final decision, which are as follows:

- The DOE (TÜV SÜD) failed to substantiate the additionality of the project activity and to meet the requirements for validation of the suitability of input values to the investment analysis, in particular the assumed escalation rate of annual O&M costs and major overhaul cost, and the assumed escalation rates of baseline fuels in accordance with version 1.2 of the validation and verification manual (VVM), paragraph 111 (a) & (b).
- Paragraph 111 (a) & (b) of the VVM states that “*To verify the accuracy of financial calculations carried out for any investment analysis, the DOE shall: (a) 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; (b) cross-check the parameters against third-party or publicly available sources, such as invoices or price indices*”.
- The DOE failed to substantiate the suitability of the assumed escalation rate of annual O&M costs and major overhaul cost (10%) in the investment analysis, as it is not clear: how the forecasted Consumer Price Index (CPIs) (13%) was derived from the references in which the CPI during year 2006 and 2007 were reported as 7.9% and 7.8% (*Annual Report 2006-2007 of State Bank of Pakistan*); how the DOE has validated that the escalation of the O&M costs of a whole cement company is representative for the project activity; and whether the maintenance contract with the equipment supplier (Wartsila) is related or applicable to the project activity.
- The DOE also failed to substantiate the suitability of the assumed escalation rates for baseline fuels (0.21% , 0.93% and 1.92%) in the investment analysis, as it is not clear how those escalation rates were derived from the *Pakistan Energy Year Book 2006* and *Annual Energy Outlook 2006* considering that the *Annual Report 2006-2007 of State Bank of Pakistan* indicates a higher CPI for fuels during 2006 and 2007.

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 5516	Related to EB 55 Annex 40 Paragraphs 20, 27 & 28 27 June 2012	Decision Class: Ruling Document Type: Ruling Note Business Function: Registration
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