GRUE + HORNSTRUP

Holstebro, Denmark
February 21, 2012

The Chair and Members of the CDM Executive Board
c/o the UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany

Job: Issues included in the annotated agenda of the sixty-sixth meeting of the CDM Executive Board and its annexes

Subject: Current pending revision (3.0) to the methodology AM0074

Dear Sir/Madam:

We are pleased to note the extensive efforts of the Meth Panel in addressing the latest revision request (AM_REV_0223) for the large-scale methodology AM0074 and the subsequent phone discussions to address the general consent based on a letter send to the UNFCCC on February 14th, 2012.

One of the major points in the request for revision was addressed, notably the inclusion of a barrier analysis under the additionality assessment.

We acknowledge that the additional changes as recommended by the Meth Panel have made the methodology "lighter", however we have the feeling that several of these changes will actually limit the scope and applicability of the methodology, rather than broaden it.

Our concerns relate to the following areas within AM0074 v3.0 (as recommended by the Meth Panel):

1) Restricting the amount of permeate gas utilized to historic levels;
2) Approach for the identification of Baseline Scenario for Power Generation
3) Applying a zero price of fuel in case (i), when the operator of the new power plant is independent of the operator of the gas processing facility; and
4) A text error under the parameter definition of $Q_{PG,BL}$.

1) We understand that the meaning of the paragraph under the Monitoring Methodology of the current pending revision (3.0) to the methodology AM0074 is to be understood as follows:

   If $_{QPG,y}$ (Quantity of permeate gas used for energy generation during year y) exceeds $Q_{PG,BL}$ (Average annual quantity of permeate gas flared/vented in the three years prior to the start of the project activity) in any year during the crediting period of the project activity, emission reductions should be capped at the $Q_{PG,BL}$ – level

   and not as a "knock out" criterion for the applicability of the methodology in context of a project activity.

Further we recognize that the new monitoring parameters introduced, $Q_{PG,y}$ and $Q_{PG,BL}$, are given in a mass unit "kg". Since mass flow measurements of gases are rather uncommon, especially in the power/petrochemical industry and in order to avoid any confusions, ***it is recommended*** to include a line within the respective monitoring tables saying that the data unit in "kg" shall be calculated based on gas density and volume flow measurements of the permeate gas.

2) It is noted in the current pending revision (3.0) to the methodology AM0074, that the list of potential Baseline Scenarios for Power Generation has been reduced to P1 (project activity without CDM) and P2 (power generated in existing and new grid-connected power plants).

   We recognize that this change will likely put more consistency into the methodology as well as aligns it more with the approach of other methodologies (e.g. ACM0002).

   As per current pending revision (3.0) to the methodology AM0074 the most plausible baseline scenario shall be the most attractive scenario identified using the Investment Comparison Analysis in accordance with the latest approved version of the "Tool for the demonstration and assessment of additionality".

   In this context it should be noted that it remains unclear as to how to compare the selected financial indicator of P1 (project specific) and that of P2 (power generated in existing and new grid-connected power plants) by means of an investment comparison analysis.

   It is recommended to allow for a Benchmark Analysis as an option to be chosen under the Investment Analysis, as it is the case with both ACM0002 and ACM0012.

   Furthermore, it is noted that both, the approved consolidated methodologies ACM002 and ACM0012 allow for the use of a barrier analysis prior to an investment analysis (ACM0002: Apply Step 2 of the "Combined tool to identify the baseline scenario and demonstrate additionality"; ACM0012: Apply Step and/or Step 3 of the latest approved version of the "Tool for the demonstration and assessment of additionality"

   In order to keep the consistency of the methodology, ***it is recommended*** to again re-introduce the barrier analysis for the identification of the Baseline Scenario for Power Generation (i) prior to an investment analysis (as it is the case in AM0074 V2 and ACM0012) or (ii) as a choice between or besides the investment analysis (as it is the case with ACM0012)

3) It is noted in the current pending revision (3.0) to the methodology AM0074 under the demonstration of additionally that it is said that the "...price of permeate gas will be taken as zero." It is further recognized that the EB has provided guidance, under EB15-Annex 59 for benchmark investment analysis of waste heat/waste gas for power projects, as well as EB60-§93 guidance on Internal Price.

   It is agreed with the rational of applying a zero value for the permeate gas price under case (ii), hence when both the operator of the new power plant and the operator of the gas processing plant are both project participants. This relationship stipulates an Internal Price as the operator of the new power plant and the operator of the gas processing plant are not independent of each other.

   Under case (ii) the operator of the gas processing plant, who has original legal custody of the permeate gas, will most likely gain financial benefits from the CDM project activity (sales of CERs) as they are a project participant and presumably have legal title to the CERs. Further to this without additional investments in recovery and transport of the permeate gas, the assumed value of the wasted permeate gas to the operator of the gas processing plant, is zero in the absence of an additional CDM project activity. Any investments for permeate gas use in the project activity would be included in the alternative scenarios of investment analysis.

   This approach does not seem to be rational or applicable under case (i) where the operator of the power plant is the only project participant and is independent of the gas processing facility (e.g. two independent companies). In this case there is no Internal Price. If the gas processing facility is not a project participant, then they cannot gain financial benefits from the CDM project activity directly, and thus must sale the permeate gas under a gas supply agreement. In this context it is noted that the gas processing facility must make own investments in equipment and O&M to recover the permeate gas from existing facilities and further investments to boost pressure and transfer the permeate gas in a pipeline to the operator of the power plant. In some cases the custody of the permeate gas may need to be transferred to an independent pipeline company, between the operator of the new power plant and the operator of the gas processing plant, further increasing costs.

The operator of the gas processing facility, and possibly a pipeline operator, are independent of the operator of the power plant under case (i), and not project participants. The operator of the gas processing facility, and possibly a pipeline operator, must recover their cost of investments through a gas supply agreement and a price on the permeate gas.

In this case (i) the operator of the power plant must pay a price of permeate gas to the gas processing facility, or pipeline operator, and this permeate gas price and supply are defined in the gas supply agreement. In this case there is no Internal Price as the investments and O&M made to recover and transfer the permeate gas are independent of the operator of the power plant, and its own investments. Thus, under case (i) the real price/cost of the permeate gas to the operator of the new power plant is not zero, and it is not rational that it be set to zero as this does not take into account the upstream investments made by the independent operator of the gas processing facility, and possibly a pipeline operator.

It is recommended under case (i) that the price of the permeate gas be that as defined in the gas supply agreement for the permeate gas delivered to the operator of the power plant.

4) It is noted that there is a text error in the parameter definition of $Q_{PG,BL}$. Under "source of data" it is indicated that the "source of data may be manufacture's specifications or an external expert…", later under "measurement procedures" it is stated "…and…".

It is recommended to use the confirmative …manufacture's specifications or an external expert… to allow for greater applicability of the methodology.

We do appreciate the attention of the Executive Board and the efforts of the Meth Panel.

In submitting the above recommendations we wish to ensure a large enough scope and application of the methodology and preserve its conservative approach.

We are available to discuss the above suggestions, and any other changes to the methodology, to ensure the scope and applicability to the newest versions of the methodology AM0074.

Sincerely

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