




F-CDM-RtB

|  <b>CDM: FORM FOR SUBMISSION OF “LETTER TO THE BOARD”</b><br>(Version 01.1)<br><i>(To be used only by the Project Participants and other Stakeholders for submitting Letter to the Board as per Modalities and Procedures for Direct Communication with Stakeholders)</i>  |   |
|---|---|
| Name of the stakeholder <sup>1</sup> submitting this form (individual/organisation):  | Eva Filzmoser / CDM Watch<br>Steve Herz / Sierra Club   |
| Address and Contact details of the individual submitting this Letter:   | Address: Rue d’Edimbourg 26<br>Telephone number: +32499212081<br>E-mail Address: <a href="mailto:eva.filzmoser@cdm-watch.org">eva.filzmoser@cdm-watch.org</a> |
| Title/Subject (give a short title or specify the subject of your submission)  | <b>Review of the Additionality of the CDM Project 4785: Guangdong Pinghai Power Plant, China</b>  |
| Please mention whether the Submitter of the Form is:  | <input type="checkbox"/> Project participant<br><input checked="" type="checkbox"/> Other Stakeholder, please specify <b>NGOs</b>                             |
| Specify whether you want the Letter to be treated as confidential <sup>2</sup> :  | <input type="checkbox"/> To be treated as confidential<br><input checked="" type="checkbox"/> To be publicly available (UNFCCC CDM web site)                  |
| <b>Purpose of the Letter to the Board:</b>  |   |
| Please use the space below to describe the purpose for submitting Letter to the Board.<br>(Please tick only one of the four types in each submission )  |   |
| <b>x Type I:</b><br><input type="checkbox"/> <b>Request Clarification</b> <input type="checkbox"/> <b>Revision of Existing Rules</b><br><input type="checkbox"/> Standards. Please specify reference<br><input type="checkbox"/> Procedures. Please specify reference<br><input type="checkbox"/> Guidance. Please specify reference<br><input type="checkbox"/> Forms. Please specify reference<br><input type="checkbox"/> Others. Please specify reference Concerns about implementation of CDM Rules<br><input type="checkbox"/> <b>Type II: Request for Introduction of New Rules</b><br><input type="checkbox"/> <b>Type III: Provision of Information and Suggestions on Policy Issues</b> |   |

<sup>1</sup> Note that DNAs and DOEs shall not use this form to submit letter to the Board.

<sup>2</sup> Note that the Board may decide to make this Letter and the Response publicly available



Please use the space below to describe in detail the issue that needs to be clarified/revised or on which the response is requested from the Board as highlighted above. In doing this please describe the exact reference source including the version (if any).



More text than visible in this form is provided below.. please copy-paste into a new word doc.

Dear Mr. Hession,

We welcome the decision by the Executive Board to review the request for registration of Project 4785: Guangdong Pinghai Power Plant, China, to determine whether it complies with the CDM's requirements regarding additionality and the establishment of an appropriate baseline. We respectfully request the transmission of the present letter to the members of the Secretariat and Registration and Issuance Team (RIT) Team members who will be conducting the review.

We have serious concerns about this project, and believe that it is so plainly undeserving of support under CDM rules that its registration would seriously undermine the credibility of the CDM process. If registered, this Project could receive over 6 million CERs that do not represent additional emissions reductions. At the same time, it will emit over 81 million tons of CO<sub>2</sub>.

In light of the Executive Board's instructions to review the additionality of this project in accordance with paragraphs 43 to 52 of the CDM modalities and procedures and the relevant baseline methodologies, we respectfully request that the Secretariat and the RIT Team explicitly consider the following issues:

1. The project is not additional as it is already completed and operational.
2. The use of ultra-supercritical coal technology is already "common practice" in China.
3. The project sponsor failed to evaluate alternative tariff structures that would enable the project to achieve a better rate of return without CDM support.
4. The sensitivity analysis shows that ultra-supercritical technology is the low-cost option within a reasonable range of coal price fluctuations.
5. Noise-to-signal ration makes additionality claims very tenuous.
6. The Validation Report fails to adequately assess other "realistic and credible" baseline scenarios.

We are confident that after a rigorous examination of the *Validation Report* and other project documents, you will agree that the proposed Project does not comply with the CDM's additionality requirements, and will recommend that the Executive Board reject the request for registration.

### **Discussion**

**1. The project is not additional as it is already completed and operational.** Unit 1 of the project has been operational since October 2010,<sup>3</sup> and Unit 2 was brought online in July 2011.<sup>4</sup> The fact that the project sponsors fully financed and completed the project in advance of validation or registration is conclusive proof that they did not need CDM support to move forward using ultra-supercritical technology.<sup>5</sup>

**2. The use of ultra-supercritical coal technology is already "common practice" in China.** Ultra-supercritical coal technology is already "common practice" in China, and its deployment is expanding rapidly. China's state-owned power companies are already building more ultra-supercritical coal-fired power plants than the rest of the world combined.<sup>6</sup> According to the International Energy Agency (IEA), as early as 2007 China had 10 GW of ultra-supercritical coal generation in operation.<sup>7</sup> By early 2010, 21 sets of 1000 MW ultra-supercritical were operational, and twelve additional sets were under construction.<sup>8</sup> The IEA expects that by 2020 China will have 80-90 GW of ultra-supercritical generation online.<sup>9</sup> The existence of these similar activities in the host country strongly suggests that they are already "common practice" and thus not additional under CDM rules. To refute this conclusion, the project sponsor must show "essential distinctions between the project activity and similar activities" such that "the existence of these activities does not contradict the claim that the proposed project activity is financially/economically unattractive or



|  |   |
|--|---|
| Please use the space below to any mention any suggestions or information that you want to provide to the Board. In doing this please describe the exact reference source including the version (if any). |   |
| >>   |   |
| [replace this bracket with text, the field will expand automatically with size of text]  |   |
| If necessary, list attached files containing relevant information (if any)   | <ul style="list-style-type: none"> <li>[replace this bracket with text, the field will expand automatically with size of text]</li> </ul> |
| <b>Section below to be filled in by UNFCCC secretariat</b>   |   |
| Date when the form was received at UNFCCC secretariat  | 2 November 2011   |
|  |   |

-----

**History of document**

| Version | Date           | Nature of revision        |
|---------|----------------|---------------------------|
| 01.1    | 09 August 2011 | Editorial revision.       |
| 01      | 04 August 2011 | Initial publication date. |

<sup>3</sup> Yudean Group Annual Report 2010, available at <http://www.gdyd.com/en/Media/Company/2010/a/A634425361008281250.pdf>.

<sup>4</sup> Validation Report, at 11.

<sup>5</sup> See, *Review of Project Activity: Hot air generation using renewable biomass fuel for spray drying application at H. & R. Johnson (India) Ltd, Kunigal (1545)*, available at <http://cdm.unfccc.int/Projects/DB/TUEV-SUED1200568517.44/Rejection/DYSTHYWLL9HIB9ELS1BBWMTPUZEPE> (project proponent must show that the benefits of the CDM were a “necessary element” of the decision to invest in order to prove additionality).

<sup>6</sup> David Victor, 2011. *Global Warming Gridlock: Creating More Effective Strategies for Protecting the Planet*, at 106.

<sup>7</sup> International Energy Agency, 2009. *Cleaner Coal in China*, at 101.

<sup>8</sup> China’s power structure further optimized in 2009, *Xinhua New Agency*, Jan, 25, 2010, available at <http://www.istockanalyst.com/article/viewiStockNews/articleid/3806305>.

<sup>9</sup> International Energy Agency, 2009. *Cleaner Coal in China*, at 101.

<sup>10</sup> *Id.*

<sup>11</sup> *Tool for the demonstration and assessment of additionality, Ver. 5.2, Annex: Guidance on the Assessment of Investment Analysis*, at 5.

<sup>12</sup> <http://cdm.unfccc.int/Projects/DB/DNV-CUK1254830678.73/Rejection/IWNNWJIB1G6WAG6F9RW59N3AOLQEXP>, See also, *Final Ruling Regarding the Request for Registration of Rincon Verde LFGTE Project (3432)* (“The DOE has failed to substantiate additionality of the project activity, in particular, the suitability of ... the electricity tariff assumed in the PDD... The (insufficiently justified) tariff is a significant component in determining the additionality of the project activity, and with a 10% increase in the electricity tariff, the IRR for the project activity crosses the benchmark ....”)

<sup>13</sup> Validation report at 16.

<sup>14</sup> See, e.g., *Coal Rise Set To Hit China Power Producers’ Profits, MarketWatch*, Jan. 18, 2010, available at <http://www.marketwatch.com/story/coal-rise-set-to-hit-china-power-producers-profit-2010-01-18>.

<sup>15</sup> China’s power plants forecast profit plunge on higher coal prices, *Business Daily Update (China)*, June 25, 2009, available at [http://www.chinadaily.com.cn/bizchina/2009-01/19/content\\_7410446.htm](http://www.chinadaily.com.cn/bizchina/2009-01/19/content_7410446.htm) (coal prices at the Qinhuangdao Port of Hebei province rose and fell by over 60% between May and November 2008).

<sup>16</sup> ACM0013, Ver. 4.0, at 4; *Tool for the demonstration and assessment of additionality, Ver. 5.2*, at 7.



**Decision Class:** Regulatory  
**Document Type:** Form  
**Business Function:** Governance



CDM Executive Board  
UNFCCC Secretariat  
Martin Luther King Strasse 8  
P.O. Box 260124  
D-5315  
Germany

30 September 2011

**Subject: Review of the Additionality of the CDM Project 4785: *Guangdong Pinghai Power Plant, China***

Dear Mr. Hession,

We welcome the decision by the Executive Board to review the request for registration of Project 4785: Guangdong Pinghai Power Plant, China, to determine whether it complies with the CDM's requirements regarding additionality and the establishment of an appropriate baseline. We respectfully request the transmission of the present letter to the members of the Secretariat and Registration and Issuance Team (RIT) members who will be conducting the review.

We have serious concerns about the application of essential CDM requirements, notably the additionality and choice of baseline of this project. If registered, this Project could receive over 6 million CERs that do not represent additional emissions reductions. At the same time, it will emit over 81 million tons of CO<sub>2</sub>. In light of the Executive Board's instructions to review the additionality of this project in accordance with paragraphs 43 to 52 of the CDM modalities and procedures and the relevant baseline methodologies, we respectfully request that the Secretariat and the RIT Team explicitly consider the following reasons we have identified, which indicate that the project is non-additional (detailed information about each point can be found below):

1. The project is not additional as it is already completed and operational.
2. The use of ultra-supercritical coal technology is already "common practice" in China.
3. The project sponsor failed to evaluate alternative tariff structures that would enable the project to achieve a better rate of return without CDM support.
4. Noise-to-signal ratio makes additionality claims very tenuous.
5. The sensitivity analysis shows that ultra-supercritical technology is the low-cost option within a reasonable range of coal price fluctuations.
6. The Validation Report fails to adequately assess other "realistic and credible" baseline scenarios.

We are confident that after a rigorous examination of the *Validation Report* and other project documents, you will agree that the proposed Project does not comply with the CDM's additionality requirements, and will recommend that the Executive Board reject the request for registration.

## Discussion

1. **The project is not additional as it is already completed and operational.** Unit 1 of the project has been operational since October 2010,<sup>1</sup> and Unit 2 was brought online in July 2011.<sup>2</sup> The fact that the project sponsors fully financed and completed the project in advance of CDM validation or registration proves that the project developers did not need CDM support to move forward using ultra-supercritical technology.<sup>3</sup>
2. **The use of ultra-supercritical coal technology is already “common practice” in China.** China’s state-owned power companies are already building more ultra-supercritical coal-fired power plants than the rest of the world combined. According to the International Energy Agency (IEA), as early as 2007 China had 10 GW of ultra-supercritical coal generation in operation.<sup>4</sup> By early 2010, 21 sets of 1000 MW ultra-supercritical were operational, and twelve additional sets were under construction.<sup>5</sup> The IEA expects that by 2020 China will have 80-90 GW of ultra-supercritical generation online.<sup>6</sup> A project activity cannot be additional unless the project sponsor can show “essential distinctions between the project activity and similar activities” such that “the existence of these activities does not contradict the claim that the proposed project activity is financially/economically unattractive or subject to barriers.”<sup>7</sup> The project proponent did not explain how the proposed project differs from the numerous other ultra-supercritical projects that have been brought online in China. The existence of these similar activities in the host country strongly suggests that they are already “common practice” and thus not additional under CDM rules.
3. **The project sponsor failed to evaluate alternative tariff structures that would enable the project to achieve a better rate of return without CDM support.** By failing to consider alternative tariff structures that would improve the project’s returns without the use of CDM revenue, the project sponsor failed to meet its obligation to fully consider the “project without CDM support” alternative as required by the *Additionality Tool*. The Executive Board has previously held that to prove additionality, the project proponent must consider alternative tariffs that “would enable it to achieve its ROE benchmark and implement the project activity without considering CDM revenues....”<sup>8</sup> The fact that the project is already

---

<sup>1</sup> Yudean Group Annual Report 2010, available at <http://www.gdyd.com/en/Media/Company/2010/a/A634425361008281250.pdf>.

<sup>2</sup> Validation Report, at 11.

<sup>3</sup> See, *Review of Project Activity: Hot air generation using renewable biomass fuel for spray drying application at H. & R. Johnson (India) Ltd, Kunigal (1545)*, available at <http://cdm.unfccc.int/Projects/DB/TUEV-SUED1200568517.44/Rejection/DYSTHYWLL9HIB9ELS1BBWMTPUZIEPE> (project proponent must show that the benefits of the CDM were a “necessary element” of the decision to invest in order to prove additionality).

<sup>4</sup> International Energy Agency, 2009. *Cleaner Coal in China*, at 101.

<sup>5</sup> China’s power structure further optimized in 2009, *Xinhua New Agency*, Jan, 25, 2010, available at <http://www.istockanalyst.com/article/viewiStockNews/articleid/3806305>.

<sup>6</sup> International Energy Agency, 2009. *Cleaner Coal in China*, at 101.

<sup>7</sup> *Id.*

<sup>8</sup> <http://cdm.unfccc.int/Projects/DB/DNV-CUK1254830678.73/Rejection/IWNNWJIB1G6WAG6F9RW59N3AOLQEXP>, See also, *Final Ruling*



operational proves that it can sell power to the grid without CDM support. Even if this is not the case, only very minor changes in the tariff structures would be required because the difference in LCOE between the ultra-supercritical project activity and the proposed supercritical baseline is a mere 0.00037 Euro/kWh (0.3144 RMB/kWh v. 0.3111 RMB/kWh). Yet, the PDD contains no discussion of alternative tariff structures that would enable the project to meet its ROE benchmark and proceed without CDM support.

4. **Noise-to-signal ratio makes additionality claims very tenuous.** A rigorous sensitivity analysis is particularly important for this project, because the difference in the levelized cost of energy (LCOE) between the ultra-supercritical project activity and the proposed supercritical baseline is so small—only 0.00037 Euro/kWh (0.3144 RMB/kWh v. 0.3111 RMB/kWh). Accordingly, the investment analysis is particularly sensitive to initial assumptions, and quite minor variations in key inputs could significantly alter the analysis.
5. **The sensitivity analysis shows that ultra-supercritical technology is the low-cost option within a reasonable range of coal price fluctuations.** The Validation Report does not account for reasonable variations in the price of coal. It limits its analysis to the minimum range of analysis of +/- 10 percent, and claims that it would take a 47 percent rise in coal prices for to make ultra-supercritical technology the low cost option.<sup>9</sup> In fact, coal prices have recently spiked in China,<sup>10</sup> and observed fluctuations in price have reached at least 60 percent during the last few years.<sup>11</sup> If high coal prices of recent years are taken into account ultra-supercritical technology surpasses supercritical as the most economically attractive alternative within a “realistic range of assumptions.”<sup>12</sup>
6. **The Validation Report fails to adequately assess other “realistic and credible” baseline scenarios.** The Validation Report fails to adequately consider all realistic and credible alternatives to the proposed baseline, or to fully assess all options that are currently being implemented. It also fails to explore ways that plausible alternatives can be realistically combined to produce an alternative baseline scenario. Alternatives that do not receive the kind of analysis required under ACM0013, alone or in combination, include low- or zero-carbon alternatives such as energy efficiency and demand side management; natural gas; wind, solar\PV, solar thermal, hydro and biomass; and strengthened grid connections: Each

---

*Regarding the Request for Registration of Rincon Verde LFGTE Project (3432)* (“The DOE has failed to substantiate additionality of the project activity, in particular, the suitability of ... the electricity tariff assumed in the PDD... The (insufficiently justified) tariff is a significant component in determining the additionality of the project activity, and with a 10% increase in the electricity tariff, the IRR for the project activity crosses the benchmark ....”)

<sup>9</sup> Validation report at 16.

<sup>10</sup> See, e.g., Coal Rise Set To Hit China Power Producers’ Profits, *MarketWatch*, Jan. 18, 2010, available at <http://www.marketwatch.com/story/coal-rise-set-to-hit-china-power-producers-profit-2010-01-18>.

<sup>11</sup> China’s power plants forecast profit plunge on higher coal prices, *Business Daily Update (China)*, June 25, 2009, available at [http://www.chinadaily.com.cn/bizchina/2009-01/19/content\\_7410446.htm](http://www.chinadaily.com.cn/bizchina/2009-01/19/content_7410446.htm) (coal prices at the Qinhuangdao Port of Hebei province rose and fell by over 60% between May and November 2008).

<sup>12</sup> ACM0013, Ver. 4.0, at 4; *Tool for the demonstration and assessment of additionality*, Ver. 5.2, at 7.





of these potential alternatives is already being implemented in China, and some, such as end use efficiency, are a matter of national priority. Yet contrary to the requirements of *ACM0013*, the PDD makes no effort to explain the discrepancy between such actions and the baseline scenario.

**Conclusion**

Based on these concerns, we respectfully request that you recommend that the Executive Board reject this request for registration.

Respectfully submitted,

Steven Herz  
Sierra Club  
[steve.herz@sierraclub.org](mailto:steve.herz@sierraclub.org)

Eva Filzmoser  
CDM Watch  
[eva.filzmoser@cdm-watch.org](mailto:eva.filzmoser@cdm-watch.org)