

CDM-PA9493-RULE01

Ruling note

Request for registration for “San Carlos 18 MW Biopower Power Plant”

Version 01.0



United Nations
Framework Convention on
Climate Change

1. The CDM-Executive Board decided to reject the above proposed project activity on 8 November 2013, in accordance with the "*Clean development mechanism project cycle procedure*", version 5.0 (CDM-EB65-A32-PROC), paragraphs 93 and 99 (the procedures). According to paragraph 100 of the procedure, the ruling shall contain an explanation of the reasons and rationale for the final decision, which are as follows:
 - (a) The DOE (BVCH) failed to substantiate: (i) the benchmark applied in the investment analysis as required by "*Clean development mechanism validation and verification standard*" (VVS) version 02.0 (CDM-EB65-A04-STAN), paragraph 121(b) and the "*Guidelines on the assessment of investment analysis*" version 05.0, EB 62 Annex 5, paragraph 13 and 15; (ii) the identified barriers as required by the applied methodology ACM0018 version 02.0.0, page 13-14; and VVS version 02.0, paragraph 124-127; and (iii) the applicability condition 1 of the applied methodology ACM0018 version 02.0.0.
 - (b) The relevant requirements in full are:
 - (i) VVS version 02.0.0, paragraph 121(b) states that "To confirm the suitability of any benchmark applied in the investment analysis, the DOE shall ensure that any risk premiums applied in determining the benchmark reflect the risks associated with the project type or activity."
 - (ii) EB 62 Annex 5, paragraph 13 states that "In the cases of projects which could be developed by an entity other than the project participant the benchmark should be based on parameters that are standard in the market. The DOE's validation of the benchmark shall also include its opinion on whether a company-specific benchmark or a benchmark based on parameters that are standard in the market is suitable in the context of the underlying project activity."
 - (iii) EB 62 Annex 5, paragraph 15 states that "If the benchmark is based on parameters that are standard in the market, the cost of equity should be determined either by: (a) selecting the values provided in Appendix A; or by (b) calculating the cost of equity using best financial practices, based on data sources which can be clearly validated by the DOE, while properly justifying all underlying factors."
 - (iv) In ACM0018 version 02.0.0, page 13-14, it is stated that "Explain-using qualitative or quantitative arguments-how the registration of the CDM project activity will alleviate the barriers that prevent the proposed project activity from occurring in the absence of the CDM."
 - (v) VVS version 02.0.0, paragraph 124 states that "If barrier analysis was used to demonstrate the additionality of the proposed project activity, the DOE shall determine whether the proposed project activity faces barriers that prevent the implementation of this type of proposed project activity."
 - (vi) VVS version 02.0, paragraph 125 states that "The DOE shall determine whether issues that have a direct impact on the financial returns of the project activity are not considered barriers and shall be assessed by investment analysis."

- (vii) VVS version 02.0, paragraph 126 states that "The DOE shall apply a two-step process to assessing the barrier analysis performed, as follows- Determine whether the barriers are real and Determine whether the barriers prevent the implementation of the project activity but not the implementation of at least one of the possible alternatives."
 - (viii) ACM0018 version 02.0.0, applicability condition 1 states that "No other biomass types than biomass residues, as defined above, are used in the project plant."
- (c) The reasons and rationale for the final decisions are:
- (i) The PP applied a risk premium of 3% on top of cost of equity (17%) for biomass projects as published by the Electricity Regulatory Commission (ERC) to come up with benchmark of 20% for the project activity. However, the DOE failed to justify that the use and the level of such risk premium is a common/accepted practice in the Philippines based on parameters that are standard in the market or by an independent (financial) expert or by official publicly available financial data as required by EB 62 Annex 5.
 - (ii) The PP claimed that the investment and technology barriers prevent the implementation of the proposed project activity. However, the DOE failed to justify that the identified barriers are credible and real and how the CDM will help to alleviate the identified barriers so that the project activity is not prevented by the occurring of the barriers as per the requirements of the methodology and the VVS paragraphs 124-126. In addition, the supplementary information provided for the barriers analysis could not be accepted since the investment analysis is not conclusive.
 - (iii) As per the PDD (page 2 and 8), the project activity aims to use grassy and woody energy crops harvested from the dedicated plantations areas established for the project activity whereas the applicability condition 1 of the methodology only allows to use biomass residues that are by-products, residues or waste streams from agriculture, forestry and related industries.
2. 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).

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Document information

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