

CDM Watch & Sierra Club  
Rue d'Albanie 117  
1060 Brussels  
Belgium

Head and Members of the CDM Executive Board  
Mr. Maosheng Duan  
Chairman  
UNFCCC Secretariat  
Martin-Luther-King-Strasse 8  
D 53153 Bonn  
Germany

8 July 2012

**Subject: Call for public input on "Issues included in the annotated agenda of the sixty-eighth meeting of the CDM Executive Board and its annexes" (2-8 July 2012, 24:00 GMT)**

Honorable Members of the CDM Executive Board,  
Dear Mr. Duan,

CDM Watch and Sierra Club offer the following comments on agenda item 74 (h) of the annotated agenda of the 68<sup>th</sup> meeting of the CDM Executive Board, which suggests approving the revised methodology ACM13 "consolidated baseline and monitoring methodology for new grid connected fossil fuel fired power plants using a less GHG intensive technology".

While the revised methodology has been considerably improved, it does not yet fully address the concerns that initially led the Board to suspend it. Particularly, the revised methodology still fails to:

- Address the low signal-to-noise ratio of efficiency improvements in coal fired power plant;
- Limit the unintended outcomes that are contrary to the objectives of the CDM, notably by putting advanced pollution control devices at a disadvantage;
- Overcome the challenge of obtaining required and verifiable data;
- Avoid perverse incentives that may be caused by the new standardized baseline scenario;
- Avoid an underestimation of baseline emission rate;
- Uphold the environmental integrity of the additionality assessment;
- Address the shortcomings of the common practice test in the context of coal fired power plants;
- Require adequate consideration of baseline alternatives.

These issues are addressed in further detail below.

These technical shortcomings are particularly problematic, insofar as they will amplify weaknesses inherent in the ACM13 methodology. Coal plants are the highest-emitting electricity resource, and the International Energy Agency has repeatedly warned that the continued development of coal power will make it impossible to hold global warming to safe levels. The use of much needed CDM finance for new, large and long-lived coal plants, (even if it leads to slight increases in the efficiency of some coal plants) therefore threatens to undermine the 2°C objective. Moreover, coal fired power plants inflict severe toxic burdens on local populations and ecosystems. CDM Watch and Sierra Club urge the CDM Executive Board not to approve a revision of ACM0013, unless it can be proven beyond doubt that the new revisions are able to address all issues of this project type that currently undermine the goals of mitigation and sustainable development.

Thank you for taking these concerns into consideration during this upcoming Board meeting.

Sincerely yours,

Steve Herz, Sierra Club  
Eva Filzmoser, CDM Watch

***Prevailing concerns in the revised ACM13 “consolidated baseline and monitoring methodology for new grid connected fossil fuel fired power plants using a less GHG intensive technology”:***

- **Low signal-to-noise ratio:** The proposed revision does not require (1) a quantification of the uncertainty of the measurements and/or calculations underlying either the baseline or project efficiency: or (2) require that the project demonstrate that the claimed efficiency improvement is greater than this uncertainty. Rather, under the proposed methodology, the project can qualify if it demonstrates any amount of improvement. The site-specific factors (noise) can have as great an impact on unit efficiency as the choice of boiler technology (signal), but are not fully accounted for. The feasibility study approach, suggested in the new methodology, only addresses the signal-to-noise issues related to differences in site conditions, and only with respect to approach 1. Furthermore, poor quality and availability of historical power plant performance data creates potential bias and added uncertainty, and further decreases the signal-to-noise ratio. Given that in some cases, where the difference in baseline vs. project emission rates could lie within the margin of error of emissions estimation uncertainties, an uncertainty discounting or other remedy may still be called for.
- **Unintended outcomes contrary to the objectives of the CDM:** Suggested approach 2 continues to disadvantage units that have advanced pollution control devices. A project should not be able to claim that a unit is “more efficient” than its peers because it does not have flue gas desulfurization, selective catalytic reduction, or other modern pollution control devices. Even under the second revision, the Approach/Option 2 baselines may still have the effect of penalizing plants with emissions controls where such controls are not present in the peer group used to determine the baseline.

- **The challenge of obtaining required, verifiable data:** The detailed design work, operating characteristics, and contract terms are ordinarily considered confidential business information that would not be provided to third parties, especially for “baseline” projects that have not sought CDM support. Since different engineers make different underlying assumptions in developing design figures, merely comparing published efficiency claims (which may reflect contract guarantees rather than actual anticipated performance) is not likely to be sufficient. Detailed cost breakdowns for existing and recently constructed plants are not available in the public literature and may not be available even to a proposed project sponsor. The draft methodology attempts to address this issue by requiring the submission and use of the investment analysis that was actually used by a project sponsor.<sup>1</sup> This effort is directionally correct, but is virtually impossible to enforce, especially as it relates to a baseline project that the project proponent (or the vendor) may have little or no real interest in.<sup>2</sup> The challenge to obtain data holds especially for the new, conservative baseline representing an 80<sup>th</sup> percentile “planned” unit test.
- **New standardized baseline scenario may cause perverse incentives by rewarding late adopters with more CERs:** The new, standardized baseline scenario procedure aims to establish a minimum baseline efficiency at the 80% percentile of plants under construction. However, this may create a perverse incentive whereby the same plant built later might accrue more CERs, as the result of the excluding registered projects from the determination of the 80th percentile. The following example shows this: If a new higher-efficiency technology is proposed by a number of new project proponents that all apply for registration, they could cumulatively constitute 25% of the generation capacity under construction, as used to determine the 80th percentile baseline technology. This new technology would then constitute the baseline, even though none of the projects were yet built. None would be credited, even though all might be counting on CDM support. Imagine, instead, that they constitute 15% of the generation capacity. Then, the first registered projects would receive CERs/MWh representing roughly the top 5th percentile efficiency of other plant technologies under construction. Assuming all of the plants are registered, then the last of these new plants would receive credits/MWh representing roughly the top 20th percentile efficiency of other technologies, likely to be a far more generous baseline than the first plants. Thus the late adopters would receive more CERs than the early movers.
- **Use of outdated historical data in the Approach 2 baseline leads to underestimation of baseline emission rate:** The revision provides two options (A and B) for estimating efficiency improvements, along with recalculation of Approach 2 at the first renewal of crediting period. This approach appears to be a carefully constructed and reasonably conservative remedy to the problem of data

---

<sup>1</sup> Draft revision, line 161

<sup>2</sup> Under generally-accepted principles of contract law, a purchaser would be liable for the costs of developing a bid for a project that it was not seriously considering.

vintage. However, the ability for proponents to opt for a lower 0.2% increase if no significant time trend can be found with respect to efficiency (option A), leaves the method open to potential gaming in situations where data quality is poor.

- **Limitations in the investment and sensitivity analyses compromise additionality assessment:** While the draft revision provides increased specificity on the factors to include in the analysis, and points to feasibility studies as a key data source, it is difficult to see a) how this resolves the potential for bias in assumptions, or b) how DOE's will be equipped to provide appropriate levels of technical scrutiny of specific assumptions.
- **Common practice test is not effective in coal plant context:** This revision will improve the accounting for common practice, in particular by including projects that are applying for registration. However, the exclusion of registered projects raises a possible perversity (see above), and may not be appropriate in this situation.
- **No adequate consideration of baseline alternatives:** Without discussion or explanation, the proposed revision eliminates the threshold requirement that a proponent of a new fossil-fuel fired power plant first consider whether other, less carbon intensive forms of electricity production are feasible alternatives. In addition, the proposal only requires consideration of fuels that are used to generate the majority of electricity in the host country. The effect of these provisions is to authorize CDM credits, not for environmentally superior projects, but for coal-fired power plants that are second-worst of all available choices, even though the cost of new SCPC plants is essentially the same as the cost of a new subcritical plant.

\*\*\*\* \*\* \*