

From: Gianguido Piani [gianguido.piani@poste.it]
Sent: 16 November 2006 07:13
To: OSL, Climate Change
Subject: Attn Michael Lehmann - comment on JI project 0003 (Brjansk)
Ref. Project 0003 : Methane Emissions Avoidance in Bryansk Gas Distribution Network

Dear Mr Lehmann,

with reference to the JI Project 0003 (Methane Emissions Avoidance in Bryansk Gas Distribution Network) I would like to formally submit the following comment to the AIE.

The PDD does not contain any financial statements, e.g. price for gas detection equipment, GoreTex packings, maintenance works, training, organisation etc. It is therefore very difficult to understand the right extent to which the sale of emission reduction allowances would make the project financially viable.

According to the Gazprom webpage (<http://www.gazprom.ru/articles/article20152.shtml>), the lowest price ever for natural gas for domestic users within Russia in 2006 is 677 RUR/ 1000 m3, i.e. approx 20 EUR/ 1000 m3.

Natural gas losses in the range of 59,000 1000m3/year have therefore at the very least a value of 1,180,000 EUR/ year.

If instead is considered an international sales price of e.g. 120 EUR/ 1000m3, the value of lost gas in Brjansk is six times higher, i.e. 7,080,000 EUR/ year.

It is hardly credible that such losses are allowed to take place without any interventions. Russia is a difficult place to work, but it is quickly reforming itself toward market-based structures. Gazprom has an increasing interest in not losing gas, but selling it for financial revenue.

In other situations known to me in Russia, local gas distributors must pay Gazprom for the gas they receive. Part of the cost is covered by users' charges, and part by state subsidies. But in no case Gazprom just supplies gas and does not care about the rest. Contrary to what is stated in the PDD, Gazprom also does not act as revenue collector from final customers, this is done either by the local gas distributor, or by other municipal structures.

It is, however, correct that current mechanisms still do not support sound economic management of resources. In the PDD this should be stated in a more credible and realistic way.

The sale of 880,000 t CO2e/ year (equivalent to 59,000 1000m3 CH4/ year) would bring in at a typical frontup price of 5 EUR/ tCO2e 4,400,000 EUR/year. This is in range with the yearly revenue for the natural gas at an average sales value, as indicated above.

In brief, it seems that this project would make full sense just by working on the value of the saved gas quantities, without necessarily resorting to JI allowance sales.

To correctly evaluate the financial additionality of this project, the PDD should therefore explicitly indicate estimated project costs and put them in relation to the gas that is saved and not leaked. In addition, it should indicate at what stage economic additionality ceases to hold. This would likely be the case if the company Brjanskobl gas turns into full economic management with revenue and expense budgeting, as foreseen by current trends in Russian legislation and administrative practice.

If Brjanskobl gas before 2012 begins operating with normal commercial control over the gas it distributes, will the project continue to generate ERUs, or will they be stopped because the technical measures would be carried out anyway, irrespectively of JI?

best regards,
 Gianguido Piani

