

Mr. Clifford Mahlung
Chair, CDM Executive Board
UNFCCC Secretariat

April, the 23rd 2010

Subject: Response to the Call for inputs on the draft “Tool to calculate the weighted average cost of capital (WACC)”

Dear Mr. Mahlung,

Econergy took note of the draft *“Tool to calculate the weighted average cost of capital”* prepared and approved by the Meth Panel at its 43rd meeting and the Executive Board decision to launch the call for inputs from stakeholders at the EB 53rd meeting, open for comments between the period starting on 26 March 2010 and closing on 23 April 2010.

Please find below our comments on this draft:

1. Definition of “Equity” and calculation of “ W_e ” and “ W_d ”:
 - Generally accepted financial theory states that market value of equity should be used, instead of accounting values.
2. Option 3A:
 - The restriction mentioned is that the legal entity should have a debt financing with a maturity of more than one year. However, sometimes this should not be used as a reference for calculating “ K_d ”. For instance, in the case where the legal entity has a bridge loan in place with a maturity of 18 months, this should not be used as a reference.
3. Option 3B:
 - It is suggested that external references for calculation of cost of debt (capital markets, commercial lending rates, etc) should take into account the potential tenor for the financing of similar projects. The idea is not to use short term rates as references.
4. Option 3C:

- Usually, small projects and projects in development companies are not able to raise funds in the debt market with the same conditions as the Government of these countries. It means some companies cannot simply use the cost of government bond rates as the cost of debt – if this option is really maintained the Meth Panel should consider including some measure of risk premium to reflect the cost of these projects to raise funds in the market.

5. Option 4A:

- The proposed “PE_g” (Global Equity Risk Premium) does not foresee, for example, a liquidity premium, which should be applicable in some cases.
- Regarding the note saying that the project risk should be reflected in the cashflow, this should be discussed a little more. For example, how should we reflect in the cash flows the difference between a project without a PPA and another project with a 20-year PPA? How should we reflect in the cashflow if a project needs to run hydrological or wind risks? In some cases, companies try to capture these risks through the beta calculation.

6. Option 4B:

- There is a difference between “PE_g” in option 4 B and option 4 A? If so, please clarify; if not, we strongly advice to use the same definition to avoid misunderstandings.

7. Option 5A:

- If the sentence “the values of the long term debt and equity should be taken as documented in the accounting books” is true, what should be the “W_e” in countries where there are no thin cap rules? (i.e. Costa Rica). Meaning the countries where we can have companies with almost 100% debt.

We truly hope that our comments above provide some helpful inputs.

Yours sincerely,
Econergy Team