AENOR Asociación Española de Normalización y Certificación

24th August 2007

CDM Executive Board
UNFCCC
Bonn, Germany

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by three Board members concerning AENOR´s request for registration of the "Montecristo Hydroelectric Project" (Ref 1077) and would like to provide a response to these requests for review.

The whole information regarding the four request for review can be consulted in the attached inform ("Answer to Clarifications Montecristo Hydroelectric Project") elaborated by the project participant, Generadora Montecristo S.A. – subsidiary of ENEL Latin America-, as an extent of the information provided in the PDD and compiling data and information reviewed by AENOR during the validation process.

Nevertheless, hereby summaries of the extended answers to the request are shown:

Reason for Request 1:
Clarification is required how 13.6% has been justified as the hurdle rate as the PDD only states, "the hurdle rate reflects a creation of value in excess of the cost of equity of 2%". The benchmark analysis uses a spot market electricity tariff, which fluctuates over time. Further information should be included how the fixed electricity price has been used in the IRR calculations. Additional explanation should be provided on how the sensitivity analysis has been conducted.

Summary of answer regarding Request 1:
The inform shows additional information to explain 13.6% value choice. This value includes a plus risk value due to directives coming from ENEL Italy for Guatemala , which is required in the IRR analysis to accomplish with the requirements coming from the document of the Board ENEL Italy.

As well, there is spread information regarding expected prices and the sensitivity analysis done for Montecristo project, with eight different scenarios.

Reason for Request 2:
It is unclear how technological barriers described in the PDD (varying hydrologic cycles as a result of "el niño" or "la niña" and local deforestation) would prevent this project activity from being implemented, considering other hydro plants have been built on the same river.

Summary of answer regarding Request 2:
The existence of climate agents and a deforestation process are considered in the IRR analysis a a variation of -2% on energy production; as well, the increase of O&M costs due to sediments coming from lost of soils and the domestic solid waste in Samalá River are considered barriers and modeled in the sensitivity analysis too.

Reason for Request 3:
The PDD presents the short-term PPA and spot market tariff as market barriers, and argues that the CDM revenue could stabilize the income flow. However, the variations of these parameters are not clearly presented in the current IRR calculations. Further, an analysis of the project IRR without CDM revenues has not been presented to justify the effect of these barriers would be overcome by CDM revenues.

Summary of answer regarding Request 3:
When the IRR analysis was made, it was considered that the IRR analysis without CERs was developed applying the same calculation procedure, the same variation parameters and the same sensitivity analysis. As a result, it was obtained a 12.01% value, lower than 13.6% (hurdle rate)

Spread information is provided regarding IRR with and without CERs, and linked with the eight scenarios evaluated in the sensitivity analysis. As well, in the inform there is the consideration of the CDM revenues during the crediting period, that shows that these revenues represent 7-9% of the total income flow of the project (according to the information provided in the PDD, the value of CERs is 8 US$ per unit).

Reason for Request 4:
Since Montecristo plant is supplying the electricity to the grid via a 2.8 km transmission line in 69 kV to El Canada substation (registered CDM project 0606), the PDD needs to clearly describe the boundary and state how the energy exported by both project activities would be monitored and accounted separately.

Summary of answer regarding Request 4:
The Type I Renewable energy projects, Category I.D. renewable electricity generation for a grid states that can be considered different projects those separated at least 1 km from each other.

As it is stated in the PDD (p.7), El Canadá Hydroelectric plant is located 2 km upstream from Montecristo powerhouse. The distance was checked during the on site validation visit, making possible the consideration of Montecristo and El Canadá as two different projects.

In relation with the monitoring of El Canadá Hydro plant and Montecristo Hydroelectric project, further information regarding the metering equipment of each plant is provided (date of commercial fitting as shows Electricity Wholesale Market Administrator, and verification issue from an independent body).

We hope that considering the clarifications described in this and in the attached document, the Project can be registered as a small scale CDM project activity.

Luis Robles Olmos will be the contact person for the review process and is available to address questions from the Board during the consideration of the review if required by the Executive Board.

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Best Regards

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