



São Paulo, 2007-11-30

SUBJECT: Request for review

Dear Sirs,

Please find attached the response to the request for review formulated for the CDM project with the registration number 1279 Fundação-Santa Clara Energetic Complex Project (FSCECP). In case you have any further inquiries please let us know as we kindly assist you.

Yours sincerely,

Sergio Carvalho
Local Product Manager



Request for review for: "Fundão-Santa Clara Energetic Complex Project (FSCECP) (1279)"

Request for review 1 from 11/11/2007

1. "Further information is required to show how the benchmark and investment analysis have been validated".

Bureau Veritas Certification response

- Benchmark analysis

The benchmark analysis has been validated because PP presented a plausible references demonstrating the suggested IRR to be considered for the electric power sector in Brazil, considering generation, transmission and distribution phases of the project.

DOE has had access to this reference and recognize that its suggestion represents a standard return in the Brazilian electrical market.

The cash flow for the project activity presented by PP resulted in an IRR of 11,237%, which is lower than the minimum value suggested by the mentioned reference (minimum value 12%)

References:

1. CATAPAN, Edílson; HEDEMANN, Francisco. "Variáveis essenciais a uma metodologia de cálculo do custo de capital"(Essential variables for a capital cost calculation methodology) . PUC-PR. March, 2002.
2. COOPERS&LYBRAND Relatório consolidado etapa VII: projeto de reestruturação do setor elétrico brasileiro – RESEB (relatório principal) - *Consolidated report phase VII: restructuring project of the Brazilian electric sector – RE-SEB (main report)*. Brasília, v. II, December, 1997

- Investment analysis

The proposed project generates financial and economic benefits through the sales of electricity other than CDM's related income. Therefore it was PP's option to use benchmark analysis.



In Brazil, an IRR of 12 % is regarded as a benchmark for investing in electric energy projects.

The project's IRR without CER revenue is 11.237%.

A sensitivity analysis has been assessed with regard to the fluctuation of the total investment, operation cost, and the Brazilian inflation. The sensitivity analysis shows that the project would require a significant reduction in investment cost or would require a significant increase in yield to be just over the benchmark index for IRR of 12%.

Both assumptions are highly unlikely. If the total investment decreases by 10%, the IRR will reach the benchmark.

The investment analysis and associated sensitivity analysis have shown that the project activity is unlikely to be the most financially attractive option.

2. The common practice analysis should be conducted in accordance with step 4 of the additionality tool by detailing similar projects in the region and explaining the differences between this activity and those similar projects. In this context, further substantiation of the barriers should also be provided.

DOE comment to PP response

Bureau Veritas Certification opinion is that the comment presented by PP demonstrates the fulfillment of step 4 of the additionality tool. All the information concerning installed capacity of the hydro power plants operating in Brazil as well as their possessors were verified in ANEEL (Brazilian Electricity Regulatory Agency) website (aneel.gov.br).

3. The starting date of the project activity should be reported as 'the earliest date at which either the implementation or construction or real action of a project activity begins'. If this date is before validation evidence should be provided to demonstrate prior consideration of the CDM, as required by the guidelines for completing section B5 of the PDD.

DOE comment to PP response

PP provided copy of ELEJOR official documents demonstrating prior consideration of the CDM before the starting date of the project activity.

Documents provided:

1. Installation Licences for both UHE Fundão (119 MW) and UHE Santa Clara (119 MW).
2. COPEL - Companhia Paranaense de Energia (Energy Company of Parana State), issued an internal memorandum (Circular – 056/2000),
3. (Circular – 056/2000 and General Shareholders Meeting about the Constitution of a Corporation)



4. The monitoring plan should clearly outline the monitoring of the net electricity generated by each of the six hydro plants, the number and location of meters, the reservoir area and the electricity losses.

DOE comment to PP response

We consider that the information required is clearly presented.

Request for review 2 from 15/11/2007

1. The PDD states that “The Cash flow for FSCECP was presented to the Designated Operational Entity with detailed financial calculations. It resulted in an IRR (36 years) of 11,237%” and “According to the Elejor’s investment IRR threshold of 12%, this would not be an acceptable project. Based on this criteria, the project cannot be considered as financially attractive”. Further information and substantiation is required regarding the referred threshold and the IRR calculation.

DOE comment to PP response

The information regarding the referred threshold was verified and considered reliable.

The FSCECP cash flow was uploaded in the UNFCCC website as PDD Appendix 2, IRR Fundão Sta Clara.

2. Further information is required to show how the benchmark and investment analysis have been validated.

Bureau Veritas Certification response

Please refer to response given to question # 1 of the request for review from 11/11/2007



3. The DOE shall further clarify how they have assessed and validated the sensitivity analysis.

Bureau Veritas Certification response

The sensitivity analysis has been assessed with regard to the fluctuation of the total investment, operation cost, and the Brazilian inflation. The sensitivity analysis shows that the project would require a significant reduction in investment cost or would require a significant increase in yield to be just over the benchmark index for IRR of 12%.

Both assumptions are highly unlikely. If the total investment decreases by 10%, the IRR will reach the benchmark.

4. The common practice analysis should be conducted in accordance with step 4 of the additionality tool by detailing similar projects in the region and explaining the differences between this activity and those similar projects. In this context, further substantiation of the barriers should also be provided.

Bureau Veritas Certification response

Please refer to response given to question # 2 of the request for review from 11/11/2007

5. The starting date of the project activity should be reported as 'the earliest date at which either the implementation or construction or real action of a project activity begins'. If this date is before validation evidence should be provided to demonstrate prior consideration of the CDM, as required by the guidelines for completing section B5 of the PDD.

Bureau Veritas Certification response

Please refer to response given to question # 3 of the request for review from 11/11/2007

6. The monitoring plan should clearly outline the monitoring of the net electricity generated by each of the six hydro plants, the number and location of meters, the reservoir area and the electricity losses.

Bureau Veritas Certification response

Please refer to response given to question # 4 of the request for review from 11/11/2007



Request for review 3 from 16/11/2007

1. Further information is required to show how the benchmark and investment analysis have been validated.

Bureau Veritas Certification response

Please refer to response given to question # 1 of the request for review from 11/11/2007

2. The common practice analysis should be conducted in accordance with step 4 of the additionality tool by detailing similar projects in the region and explaining the differences between this activity and those similar projects. In this context, further substantiation of the barriers should also be provided.

Bureau Veritas Certification response

Please refer to response given to question # 2 of the request for review from 11/11/2007

3. The starting date of the project activity should be reported as 'the earliest date at which either the implementation or construction or real action of a project activity begins'. If this date is before validation evidence should be provided to demonstrate prior consideration of the CDM, as required by the guidelines for completing section B5 of the PDD.

Bureau Veritas Certification response

Please refer to response given to question # 3 of the request for review from 11/11/2007

4. The monitoring plan should clearly outline the monitoring of the net electricity generated by each of the six hydro plants, the number and location of meters, the reservoir area and the electricity losses.



Bureau Veritas Certification response

Please refer to response given to question # 4 of the request for review from 11/11/2007

Request for review 4 from 16/11/2007

1. Further information is required to show how the benchmark and investment analysis have been validated.

Bureau Veritas Certification response

Please refer to response given to question # 1 of the request for review from 11/11/2007

2. The common practice analysis should be conducted in accordance with step 4 of the additionality tool by detailing similar projects in the region and explaining the differences between this activity and those similar projects. In this context, further substantiation of the barriers should also be provided.

Bureau Veritas Certification response

Please refer to response given to question # 2 of the request for review from 11/11/2007

3. The starting date of the project activity should be reported as *'the earliest date at which either the implementation or construction or real action of a project activity begins'*. If this date is before validation evidence should be provided to demonstrate prior consideration of the CDM, as required by the guidelines for completing section B5 of the PDD.

Bureau Veritas Certification response

Please refer to response given to question # 3 of the request for review from 11/11/2007



4. The monitoring plan should clearly outline the monitoring of the net electricity generated by each of the six hydro plants, the number and location of meters, the reservoir area and the electricity losses.

Bureau Veritas Certification response

Please refer to response given to question # 4 of the request for review from 11/11/2007