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Att: CDM Executive Board

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Response to request for review
Request for registration of the "Trupan Biomass Power Plant in Chile" project (0259)

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by five Board members concerning DNV's request for registration of the "Trupan Biomass Power Plant in Chile" project (0259).

In summary, the requests for review:

1) question the additionality because the financial analysis provided in the PDD shows that the project's IRR is 4.2% higher than the project participant Arauco's normal discount rate,
2) suggest that the presented barrier analysis is not convincing by suggesting that a company like Arauco could overcome these barriers also without CDM benefits, and
3) suggest that the origin of the biomass that is purchased from third parties should be monitored and possible leakage should be evaluated.

DNV would like to provide an initial response to these three issues raised by the requests for review:

1) The *Tool for the demonstration and assessment of additionality* clearly establishes that additionality may be demonstrated through either a financial analysis (step 2) or a barrier analysis (step 2). As stated in DNV's validation report, the economical attractiveness of the project identified in the investment analysis does not question the overall additionality of the project. Hence, we do not agree with the statement of the requests for review that the additionality of the project is questionable because the financial analysis provided in the PDD shows that the project's IRR is 4.2% higher than the project participant Arauco's normal discount rate.

   Moreover, it must be noted that the PDD clearly indicates in a footnote that Arauco's discount rate of 12% used as reference is the discount rate at which Arauco normally uses to evaluate its investment opportunities. For riskier or non-core business projects, such as the "Trupan Biomass Power Plant in Chile" project, a risk adjusted discount rate would be 15% or even 20%.

2) DNV has assessed whether a company like Arauco could overcome the barriers presented in the PDD also without CDM benefits. Step 4 of the additionality tool, the common

practice analysis, provides a "reality check" of the barriers presented in the PDD. As stated in the validation report, DNV has been able to confirm that the project is first of its kind as an integrated cogeneration plant using biomass residues installed at a MDF panel board mill. DNV also investigated whether a comparison (common practise analysis) with the wood panel board industry is sufficient or whether a broader comparison with the pulp industry, sawmill industry and wood products industry as a whole would be more appropriate. Cogeneration is for example widely applied in the pulp industry. However, the complimentary information provided by the project participants demonstrated that the operational characteristics of the MDF panel board industry differ and that a broader comparison with the common practise in the pulp industry, sawmill industry and wood products industry is not appropriate. Hence, given that the project is not common practise – even for companies such as Arauco - it is in our opinion sufficiently demonstrated "Trupan Biomass Power Plant in Chile" project faces the barriers presented in the PDD.

3) The project participant has selected option L_2 given in ACM0006 to demonstrate that the biomass used in the plant does not increase fossil fuel consumption elsewhere (leakage effects). L_2 requires that it is demonstrated that there is an abundant surplus of the biomass in the region of the project activity which is not utilized by demonstrating that the quantity of available biomass in the region is at least 25% larger than the quantity of biomass that is utilized (e.g. for energy generation or as feedstock), including the project plant. In accordance with the requirements of ACM0006, a "biomass surplus index" indicator will be annually calculated through monitoring the amount of biomass fired in all grid-connected power plants in the region / country and the quantity of biomass that is available in surplus in the region. If the indicator shows that there is a sufficient surplus of biomass in the area where the project is located, then leakage will be considered zero. In 2005, the ratio total biomass supply/total biomass demand was 1.73, confirming that the project is not expected to cause any leakage effects. Therefore, the project is not likely to result in biomass scarcity which could cause other biomass users to switch to other fuels.

   Hence, possible leakage effects are sufficiently evaluated in accordance with the requirements of ACM0006 and DNV can not see that ACM0006 requires the monitoring of the origin of the biomass that is purchased from third parties.

We hope that the Board accepts the above explanations and we look forward to a constructive dialogue on how ACM0006 and the *Tool for the demonstration and assessment of additionality* should be applied on the "Trupan Biomass Power Plant in Chile" project.

Yours faithfully
for DNV CERTIFICATION

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