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Att: CDM Executive Board

Your ref.:	Our ref.:	Date:
CDM Ref 0311	MLEH/ETEL	24 April 2006

Response to request for review

Request for registration of the "Lazaro Energy Efficiency Project" (0311)

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 "Lazaro Energy Efficiency Project" (0311). DNV would like to herewith provide an initial response to the issue raised by the requests for review.

The requests for review suggest that a financial analysis of the project should have been presented in the PDD, including data on the capital costs of the energy efficiency measures and the savings in fuel costs, and that DNV should have assessed such a financial analysis as part of its validation of the project's additionality.

The project's additionality is demonstrated in accordance with the barrier test described in Attachment A to Appendix B of the simplified modalities and procedures for small-scale CDM project activities.

According to Attachment A to Appendix B, project participants shall provide an explanation to show that the project activity would not have occurred anyway due to <u>at least one barrier</u>. As stated in DNV's validation report, the following barriers have been identified:

(a) Investment barriers: The decrease in international prices for sugar, increasing production costs and declining sales volume due to stiff competition from imports of sugar from the US have severely affected cash flows of Mexican sugar mills. As a consequent, sugar mills, and the sugar mill of Ingenio Lázaro Cárdenas, S.A. de C.V. in particular, face barriers in raising the necessary investment for carrying out energy efficiency improvements.

(b) Prevailing practice: The prevailing practise in the Mexican sugar mills to use heavy fuel oil in addition to bagasse for energy generation.

(c) Institutional Barrier: Since the sugar industry in Mexico is essential to the economic growth of Mexico, Government takeover presents a big risk in the sugar industries. This was witnessed in 1978-88 and represents a significant barrier for significant modernisations and investments by private sugar mill owners in the improvement of the efficiency of energy generation at sugar mills.

The existence of these barriers was confirmed by DNV by among other assessing the common practise in the Mexican sugar mill industry. Hence, the project meets several barriers listed in Attachment A to Appendix B, and DNV can not see that the validation of the "Lazaro Energy

Efficiency Project" should in addition have assessed a financial analysis of the project considering the capital costs of the energy efficiency measures and the savings in fuel costs.

Finally, it must be noted that it is generally recognised that many energy efficiency projects, although financially attractive, are not implemented because they face barriers for implementation.

We hope that the Board accepts the above explanations and we look forward to a constructive dialogue on how the barrier analysis given in Attachment A to Appendix B of the simplified modalities and procedures shall be applied on small-scale CDM project activities.

Yours faithfully
for DNV CERTIFICATION

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