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Martin-Luther-King-Strasse 8  
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Att: CDM Executive Board

Your ref.:  
CDM Ref 0474

Our ref.:  
MLEH/SUHA

Date:  
11 September 2006

## **Response to requests for review Aços Villares Natural gas fuel switch project (0474)**

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by the Board members and the DNA of Brazil concerning DNV's request for registration of the "Aços Villares Natural gas fuel switch project" (0474).

Please find below DNV's initial response to the issues raised by the requests for review:

*1) Precise information on the age of the replaced equipment is missing in the PDD. If the emission reductions are deemed to be additional depends on expected equipment lifetimes. If one assumes that only older equipment was replaced which was at the end of their expected lifetimes, an investment by Aços Villares S.A. may have been needed anyway in order to remain operational. AM0008 takes this into account by capping the crediting period by the remaining lifetime of the existing equipment. In the validation report it is confirmed that the remaining lifetime of the equipment is more than 20 years. However, the only proof that has been given by the project participants seems to have been a reference to the maintenance regime of Aços Villares S.A. Since Aços Villares S.A. start of operation at the Pindamonhangaba plant was in 1979, the equipment is expected to be in operation for more than 46 years (assuming that no replacement has been and will be made since the beginning of operation). Please clarify.*

DNV has been on-site and verified the maintenance log of the equipment that has been replaced. The equipment was in good conditions and well maintained. A good maintenance regime is important to ensure a long lifetime of equipment and DNV observed that Aços Villares has such a regime in place. The steel making process needs large amounts of heat and the equipment used is very robust and requires little maintenance. The use of equipment that is over 50 years old is not an exception but common practice in this industry. This fact is difficult to prove with documentary evidence but is based on DNV's professional judgement and consultations with industry experts.

*2) The Project Design Document and the Validation Report submitted to the Executive Board of the CDM for registration do not correspond to the documents identified in paragraph 1 – (iii) of the Letter of Approval of the Brazilian Designated National Authority, dated 9 May, 2006, forwarded to the Executive Board by the DOE.*

*The Letter of Approval of the Brazilian DNA refers to Revision 1 of the Validation Report, dated 27 October 2005, while the Validation Report submitted for registration is Revision 2,*



*dated 15 May 2006. The Revision 2 states that: “The only changes made to this version of the validation report compared to the validation report rev. 01 dated 27 October 2005 referred to in the letter of approval of the DNA of Brazil are linked to the status of issuance of the letter of approval by the DNAs of Brazil and the United Kingdom”. However, this statement is incorrect, since other changes have been identified, as listed below:*

- 1. On page 7, section 3.4, paragraph 3, of the Validation Report the average prices of LPG and natural gas have been changed. The same changes appear in page A-10 of the Validation Protocol. However, these changes in prices have not been reflected in the difference in NPV that remained unchanged between the two versions of the document.*
- 2. Furthermore, both versions of the Validation Report refer to Version 2 of the PDD, while the PDD submitted for registration is Version 3. There are several differences between Version 3 and the version that is referred to in the DNA Letter of Approval and made available at the DNA web site. For example, the table in section A.4.4.1 of PDD version 2 was changed in response to a request from the DNA (so it would present the estimated amount of emission reductions over the first crediting period, i.e., 7 years instead of all 21 years). But version 3 submitted for registration reflects the original PDD, not the one approved by the DNA. Also, Version 3 submitted for registration contains changes in pages 31 and 32 (equipment data and financial analysis data). However, the fuel prices in all versions of the PDD are not the prices introduced in the new version of the Validation Report.*

First we would like to note that for all Brazilian projects submitted for registration by DNV, a revised version of the validation report is submitted for registration compared to the version submitted to the DNA of Brazil. This is due to DNV not being able to finalise a validation report prior to having received the LoA(s) of the participating Parties. Only after the receipt of the LoA(s) DNV can conclude on whether the project meets the two CDM modalities and procedures requirements: approval of voluntary participation of the Parties involved and the confirmation by the host Party that the project assists in achieving sustainable development. Hence, DNV submits one version of the validation report to the DNA of Brazil (both in English and Portuguese), in which we state that we will recommend a project for registration given that we receive the LoAs of the participating Parties. Once the LoA(s) are received, we revise the validation report and submit it for registration. This approach was discussed and agreed with the DNA of Brazil in June 2005.

The inconsistencies within the fuel prices stated in the English and Portuguese Project Design Documents (PDD) and validation reports submitted to the DNA of Brazil and the English PDD and validation report submitted for registration are due to an unfortunate inattention. Also, small errors corrected in the Portuguese PDD were not consistently communicated and reflected in the corresponding parts of the Portuguese validation report submitted to the Brazilian DNA and the English PDD and validation report submitted for registration. Finally, the English PDD, even though called Version 3, was an old version and mistakenly submitted for registration.

The following two tables provide an overview of the correct values and the ones stated in the different documents submitted both to the DNA of Brazil and the CDM EB. We would like to emphasize here that the project’s additionality is not questioned despite the incorrect fuel prices stated in the validation report submitted for registration. The project is additional based



on the correct values of fuel prices. The correct fuel prices and investment costs have a marginal impact on the net present value (NPV). Likewise, the correct energy consumption for some of the equipment has a marginal impact on the project design.

Further, DNV would like to stress the fact that the Portuguese version of the PDD submitted to the DNA of Brazil is the correct one. Hence, the DNA of Brazil has assessed and approved the project based on the correct PDD and we hope that you agree that there is no need for the Brazilian DNA to again assess the project.

**Table 1: Differences in fuel prices**

	Correct values (Average prices 2000 – 2001)	PDD Version 3, to the CDM EB	PDD, Version 2, to the Brazilian DNA (Portuguese version)	Validation, report, Revision 2, to CDM EB	Validation report, Revision 1, to the Brazilian DNA (Portuguese version)
Fuel oil	R\$ 0.00759/kj	R\$ 0.00759/kj	R\$ 0.00759/kj	R\$ 0.0079/kj	R\$ 0.0079/kj
LPG	R\$ 0.01127/kj	R\$ 0.01127/kj	R\$ 0.01127/kj	R\$ 0.0116/kj	R\$ 0.01127/kj
Natural gas	R\$ 0.00856/kj	R\$ 0.00856/kj	R\$ 0.00856/kj	R\$ 0.089/kj	R\$ 0.0856/kj

**Table 2: Differences regarding the table in A.4.4.1 as well as the equipment data and the financial analysis data tables in Annex 3**

	Correct table/numbers	PDD, Version 3, to the CDM EB	PDD, Version 2, to the Brazilian DNA
<b>Table A.4.4.1</b>	7 years	21 years	7 years
<b>Changes to the tables on page 31 and 32: Annual energy consumption (in TJ)</b>			
	Correct table/numbers	PDD, Version 3, to the CDM EB	PDD, Version 2, to the Brazilian DNA
UP-710-1 Aquecedor de Panelas	5.69	6.83	5.69
UP-710-2 Aquecedor de Panelas	5.69	6.83	5.69
UP-710-3 Aquecedor de Panelas	5.69	6.83	5.69
UP-710-4 Aquecedor de Panelas	5.69	6.83	5.69
UP-530-2 Forno de ToTo	5.78	5.06	5.78
UP-530-3 Forno de ToTo	5.78	5.06	5.78
UP-530-4 Forno de ToTo	5.78	5.06	5.78
UP-530-5 Forno de Toto	5.78	5.06	5.78
UP-720-1 Forno de ToTo	6.77	7.99	6.77
UP-720-2 Forno de ToTo	6.44	7.99	6.44



UP-720-3 Forno de ToTo	6.44	7.99	6.44
UP-720-4 Forno de ToTo	6.32	7.99	6.32
UP-720-5 Forno de ToTo	6.32	7.99	6.32
UP-720-6 Forno de ToTo	6.14	7.99	6.14
UP-720-7 Forno de ToTo	6.14	7.99	6.14
UP-630-1 Forno de Recozimento	27.54	10.05	27.54
UP-630-2 Forno de Recozimento	-	10.05	-

<b>Changes to the table “Financial Analysis”, values in R\$</b>		
<b>Correct table/numbers</b>	<b>PDD, Version 3, to the CDM EB</b>	<b>PDD, Version 2, to the Brazilian DNA</b>
Total Investment: 4 882 711	Pipeline Install: R\$ 1 300 000 Equipments: R\$ 1 787 422 Others: R\$ 308 742  During the site visit additional expenses for a total of R\$ 1 486 547 related to the removal of pipelines. These costs were only included in the version sent to the DNA of Brazil.	Total Investment : 4 882 711

In order to assist in the efficient process to register this project (Please note that the project requests early credits from 1 January 2003), DNV would like to propose the following corrective action:

- The corrected PDD and validation report in English are submitted as an annex to this letter.
- The corrected validation report in Portuguese is submitted to the Brazilian DNA in parallel. The PDD in Portuguese earlier submitted to the Brazilian DNA is the correct one and therefore not again submitted.

In order to avoid similar errors in the future, the following preventive actions have been taken by DNV to avoid similar mishaps in the future:

- DNV has established a new document recording procedure earlier this summer, which is aimed at avoiding mistakes related to the version number and date of the document.
- DNV has so far not sufficiently reviewed the Portuguese version of the PDD and validation report before their submission to the DNA of Brazil. From now on, DNV will also carefully review the Portuguese version of the PDD and validation report.



We sincerely hope that the Board accepts our aforementioned explanations.

Yours faithfully  
for DET NORSKE VERITAS CERTIFICATION LTD

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**Annexes**

- PDD Aços Villares Natural gas fuel switch project, correct version in English with highlighted changes.
- Validation report, correct version in English.