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Att: CDM Executive Board

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Your ref.:	Our ref.:	Date:
CDM Ref 0844	ETEL/MLEH	2 July 2007

Response to request for review
"Partial substitution of fossil fuels with biomass in cement manufacture" (0844)

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by three Board members concerning DNV's request for registration of the project activity entitled "Partial substitution of fossil fuels with biomass in cement manufacture" (0844), and we would like to provide the following response to the issues raised by the requests for review.

"The investment analysis presented should clearly indicate all variables used. It is not acceptable to "blackout" variables which relate to the baseline or additionality."

DNV Response:

The project participants have agreed to make publicly available the whole spreadsheet of which extracts were included in the PDD (please refer to the initial response by the project participants). This spreadsheet was available to DNV during our validation of the project and was assessed as part of the validation of the investment barrier presented in the PDD.

"Further justification is required regarding how it has been validated that the project activity would not take place without the CDM. In particular it should be confirmed that the price and availability of fossil fuels was not the decisive factor in the decision to proceed with the project, as these issues are quoted in the PDD."

DNV Response:

It must be noted that the additionality of the project was demonstrated and assessed in accordance with the tool for the demonstration and assessment of additionality (version 02). In particular, the additionality of the project was demonstrated through an analysis of the investment and technology barriers (step 3), and these barriers were assessed by DNV. An investment analysis (step 2) was not selected to demonstrate the additionality of the project.

Although no investment analysis was carried out in accordance with step 2 of the tool, an IRR analysis of the project (with and without CDM benefits) was presented to further substantiate the presented investment barriers and the claim that CDM benefits were considered prior to decision to proceed with the project activity.

The investment barriers presented and validated by DNV are the weak economic situation in Uruguay and the cement plant in question, demonstrating that there are barriers to raise the necessary investment capital. Moreover, a financial analysis for the project activity indicates that the IRR of the project would be negative without CDM benefits. This financial analysis, which was validated by DNV, considers any savings due to the reduced consumption of petcoke and fuel oil in the project scenario. The main fossil fuel that is consumed at the cement plant is petcoke.

While it is correct that there has been a trend of increasing petcoke prices, the increase of petcoke prices is in our opinion not a sufficient incentive for the project to be implemented also in absence of CDM benefits. As demonstrated by the project participants in their initial response to the requests for review, even if the petcoke price is assumed to increase by 10%, the project's IRR only improves to 4.8 %. Moreover, we could not identify any information that suggests that there is limited availability of petcoke.

The consumption of fuel oil is rather small and any changes to the price of fuel oil have only marginal impacts on the project's IRR.

We sincerely hope that the Board accepts our above explanations.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS

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