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Att: CDM Executive Board

Your ref.:
CDM Ref 0916

Our ref.:
MLEH/ETEL

Date:
10 September 2007

Response to request for clarifications

Methane Recovery and Utilisation Project at TSH Kunak Palm Oil Mill (0916)

Dear Review Team Members,

We refer to the request for clarifications with regard to the review of DNV's request for registration of project activity 0916 titled "Methane Recovery and Utilisation Project at TSH Kunak Palm Oil Mill" and would like to provide the following clarifications.

Questions 1:

The Project Proponent ("PP") / Designated Operating Entities ("DOE") shall further demonstrate the additionality of the project.

DNV Response:

It is DNV's opinion that the additionality assessment for the project activity has been carried out in a satisfactory manner and in accordance with the methodology outlined in AM0013 version 4. The assessment results show the project activity is additional.

The Project Proponent in its response to question 2 below has reflected the latest actual project specific information in its revised IRR calculation. The PDD, section B.5 has also been revised to reflect the changes.

Questions 2:

The methodology requires that the data sources used in the financial analysis be identified and where project-specific data are used, these should not deviate from the range of accepted industry values. Further clarification and justification is sought with regard to the data sources used in the financial analysis to demonstrate additionality.

DNV Response:

In response to the clarification, the PP has revised the original IRR worksheet whereby the data sources used in the IRR computations have been further identified and included. The revised computations have also ensured that the project-specific data used do not deviate from the range of accepted industry values.

A copy of the revised IRR worksheet is attached as Attachment 2 in the response from the project participant. The project IRR without CDM registration obtained was 1.1%, with a slight variation

from project IRR of -0.8% shown in the original IRR worksheet. However, it is far below the benchmark IRR of 15% adopted by the company.

The variation was mainly due to the changes of earlier assumptions of project specific data. The IRR analysis now reflects the actual project specific figures. The inflation rate is the latest rate published by Bank Negara (Malaysian Central Bank), and the interest rate, amount of loan and tenure of the loan have been up-dated to reflect the actual figures. The rest of the assumptions remain unchanged.

The project IRR with CDM registration is now calculated to be 21.8% as opposed to the earlier IRR value of 20.7%. Hence, the IRR analysis clearly demonstrates that the project activity is additional. The project participant has further justified the adoption of the benchmark IRR of 15% by tabulating the average Return on Equity (ROE) based on the audited annual reports for the TSH Group of Companies for the last five years.

The selected benchmark is reasonable and conservative since DNV's investigation showed that the palm oil industry in Malaysia expects an IRR of around 20% for any investment. The source of this data from CIMB Investment Research Report is attached in the project participant's response.

The sources of information from the TSH Group of Companies are audited and published accounts, IRR rate of similar investment in the country from CIMD, inflation rate from the central bank (Bank Negara Malaysia). The assumptions made in incremental cost of salary and maintenance cost have been reviewed and deemed to be reliable and do not deviate from the range of accepted industry values.

It is thus demonstrated that the project is not financially attractive. Hence, given that the project in addition faces technological barriers, it is our opinion that the project can be considered additional.

We sincerely hope that the Board accepts our above explanations.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS



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