EcoSecurities Limited

Members of the CDM Executive Board
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12 February 2008

Dear Members of the CDM Executive Board,

Response to Request for Review – Incomex Hydroelectric Project (968)

Please find below our responses to the issues raised in the requests for review for this project. The reasons for the requests are shown in shaded boxes, followed by our response.

1. The monitoring report is not in accordance with the monitoring plan. The project participant is required to provide data on the gross electricity generated by the project and electricity consumed by the project in accordance with the monitoring plan.

Response:

The methodology states '*Monitoring shall consist of metering the electricity generated by the renewable technology*'. CDM methodologies have developed over time to reflect 'best-practice' and ensure real emission reductions. The parameter providing the most real emission reduction from the project is the net electricity supplied by the project to the grid. This is in accordance with ACM0002, which can be considered best practice for renewable energy projects and requires monitoring of the "*Electricity supplied by the project activity to the grid*".

During the verification site visit, the verifier confirmed that typically, electricity consumed by the power plants is generated locally. Most of the electricity consumed by the power plants is supplied to their systems before the main meters. Electricity is only required from the grid when the power plants are not operating. Thus, on these sites, the gross electricity supplied to the grid and the net electricity supplied to the grid would show a very small difference. However, the use of the measured net electricity provides the most accurate and conservative measurement of electricity supplied to the grid for this project.

The electricity meters used on this project have been installed by the electricity concessionaire and have valid calibrations. Calibration documentation was made available to the verifier during the verification process.

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2. The project participant stated that the intended capacity of the Monte Belo plant has been changed from 4 MW to 4.8MW due to the ANEEL (the Brazilian national electricity agency) resolution. The monitoring report added that in 2007 the new capacity of 4.8 MW for this plant was confirmed by ANEEL, while the ANEEL resolution indicated that the intended capacity of the Monte Belo plant is 4.0MW at the time of development of the PDD. Further clarification is required on which is the capacity specified by the valid ANEEL resolution and furthermore which was the original capacity when "the plant started operating on 01 January 2001".

3. Further clarification is required on how the DOE verified the change in the capacity of the project activity and how it was verified that "The capacity of 4.0 MW for Monte Belo indicated in the PDD is thus an error and the capacity of the hydropower plant at Monte Belo has always been 4.8 MW" as stated in the Verification Report. In addition, the DOE is requested to explain which is the nature of the "correction of the total installed electricity generation capacity for the Monte Belo plant", as stated in the Verification Report.

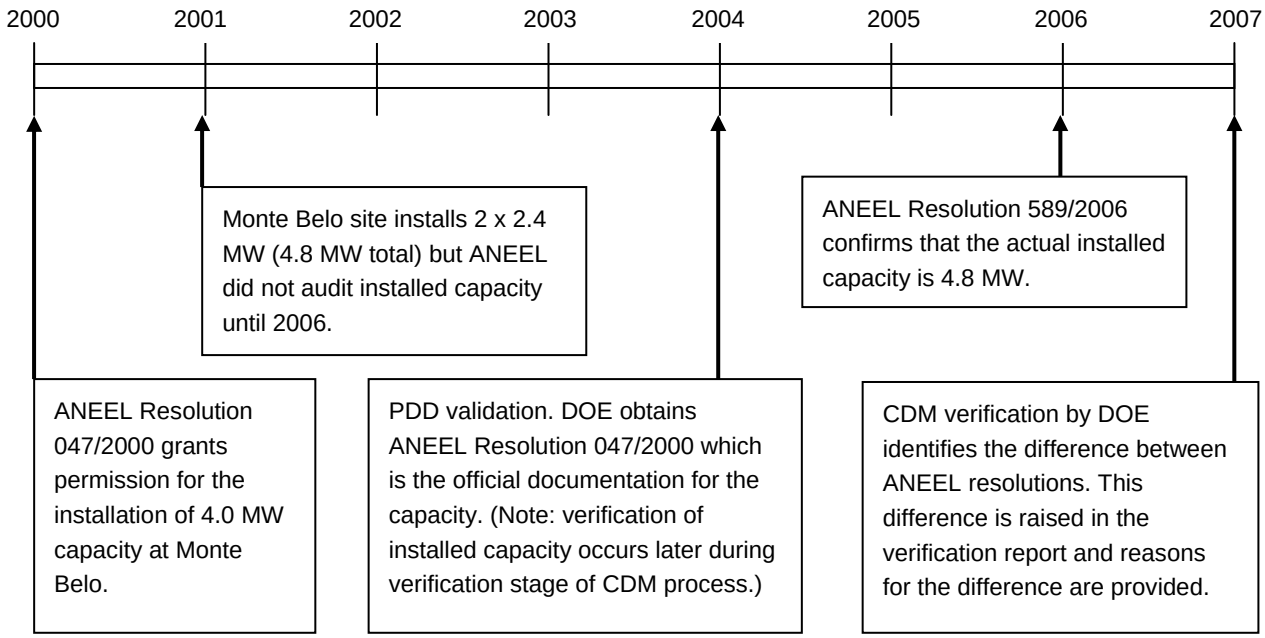
4. The DOE shall further clarify and substantiate the statement that "PDD states that the generation capacity of the Monte Belo small hydro power unit is 4.0 MW, while it was verified that at this plant each of the two turbine-generator set has electricity generation capacity of 2.4 MW as confirmed by ANEEL's Resolution 589/2006 and also by the letter 1090/07 /11/ issued by ANEEL on 28 June 2007". The increase in capacity is 20% and the statement only refers to the verification of the installed capacity when starting operation, but not to the discrepancy with the PDD, which is merely considered an error by the DOE. In the case of the Monte Belo plant the registered project activity as per the PDD has a capacity of 4.0 MW and the DOE shall further explain their acceptance of the validity of this increase when verification was performed..

Response:

We understand that the questions shown above are based on similar related issues and could be summarised as follows:

- Question 2: What was the capacity in the 2000 ANEEL resolution and what was the actual installed capacity on-site?
- Question 3: How did the DOE verify that the original capacity of 4.0 MW was actually 4.8 MW?
- Question 4: How did the DOE accept the increase in capacity at verification?

In order to outline the process in greater detail, the timeline shown below outlines the key stages of the project process for the Monte Belo site.



ANEEL is the national Brazilian electricity agency which oversees the following procedures with regards to new electricity projects. Firstly ANEEL grants permission to install capacity, typically based on a feasibility study. After the installation and test period, ANEEL audits the projects to confirm the installed capacity. ANEEL resolutions are commonly used in Brazil as the definitive reference for capacities of electricity projects.

In 2000, ANEEL granted permission for the installation of 4.0 MW at the Monte Belo site (resolution 047/2000)[1]. This was based on a feasibility study for the site.

The installed capacity included in the PDD was based on the feasibility study and the ANEEL permission provided in 2000. Both documents show a capacity of 4.0 MW. These were the most reliable documents available at that time, in particular, the permission from the official Brazilian electricity agency, ANEEL.

After an ANEEL audit in 2006, the agency confirmed that the actual capacity installed was 4.8 MW (2 x 2.4 MW). To address the discrepancy with the original ANEEL resolution, ANEEL issued resolution 589 in 2006[2]. The reason that the site installed initially 2 x 2.4 MW, rather than 4.0 MW, was due to the availability and cost considerations of generating equipment at the time. The discrepancy in the ANEEL documentation therefore existed up until the ANEEL audit in 2006. There has been no change in capacity on the site since it started operation. ANEEL was fully aware of this fact when it issued the new resolution in 2006, acknowledging the installed capacity of 4.8 MW.

[1] Please see Annex A for actual, and translated copies, of the resolution.
[2] Please see Annex B for actual and translated copies, of the resolution. Note that this resolution confirms that there are no unconformities, and the site is licensed to operate 4.8 MW of installed capacity at Monte Belo.

In 2007, EcoSecurities requested some clarifications from ANEEL. A reply, dated 28 June 2007[3] confirms the installed capacities for the three sites, including Monte Belo with a capacity of 4.8MW. Point 7 on the ANEEL letter states:

> *7. We emphasize that these plants are supervised by ANEEL and no unconformity has been so far detected regarding the installed potencies, being the licensed potency equal to the supervised potency.*

This letter clearly shows that the official Brazilian electricity authority is satisfied that the capacity of Monte Belo is 4.8 MW and that there has been no unconformity with the ANEEL requirements.

The DOE validated the project according to the requirements of CDM. During validation interviews, the DOE conducted an independent third party assessment of the project design. The DOE reviewed the project design document and supporting documentation and confirmed that the project design was suitable for registration as a CDM project. Part of this assessment included considering the design regarding the installed capacity. The most reliable supporting document for this parameter was the latest ANEEL resolution. As a document from the national electricity agency, this was the most official document available.

The DOE conducted the verification according to the requirements of CDM. The DOE conducted on-site assessments that included checking the installed capacity. It was at that time that the revised ANEEL resolution (589/2006) was reviewed by the DOE. The DOE verified at this time that the actual capacity, as confirmed by the ANEEL resolution, was 4.8 MW.

With regards to the detailed questions in the request for review around this issue:

- Question 2: What was the capacity in the 2000 ANEEL resolution and what was the actual installed capacity on-site?

  Answer: The capacity in the 2000 ANEEL resolution (as provided during validation) was 4.0 MW. The actual installed capacity at the site has always been 4.8 MW.

- Question 3: How did the DOE verify that the original capacity of 4.0 MW was actually 4.8 MW?

  Answer: The DOE conducted the verification according to CDM requirements and confirmed during the site visit that the installed capacity was in fact greater than the 4.0 MW that had been provided in the original ANEEL resolution. The DOE observed nameplate capacities and the revised ANEEL resolution whilst conducting the verification.

- Question 4: How did the DOE accept the increase in capacity at verification?

  Answer: The DOE accepted that during validation it had considered the project design and the most appropriate supporting documentation. At verification, the DOE accepted that the revised ANEEL resolution confirmed the installed capacity was 4.8 MW. At the time when the PDD was developed and validation occurred however, the official design documentation confirmed a capacity of 4.0 MW.

This CDM project has been validated and verified in accordance with the requirements of the CDM process. Some differences between the original ANEEL resolution and the 2006

[3] A copy of the letter (in Portuguese and English) is included as Annex 3.

ANEEL resolution led to a difference seen between the validation and verification stages of the CDM project. Since the ANEEL audit in 2006, the project has had consistent documentation for the installed capacity of 4.8 MW.

The DOE states in the Verification Report that “In first version of the monitoring report, the amount of electricity exported to the grid by Incomex/Cassol - Rio Branco wrongly included 7 443 MWh of electricity generated by the Saldanha small hydro power plant, which is another power plant operated by Grupo Cassol and it is located near Rio Branco power plant and along the Saldanha River. During its operational test phase (from August 2005 to March 2006), all electricity generated by the Saldanha small hydro power plant was temporarily injected to the Rondônia-Acre grid via the transmission lines of Rio Branco power plant. This procedure was authorized by ANEEL’s Resolution 727/2002 and letter CT/DT/200/2005 of CERON. As the Saldanha small hydro power unit is not part of the registered CDM project activity, the net electricity generation for the Rio Branco power plant was recalculated by deducting the amount of net electricity generated by the Saldanha small hydro power plant (which was temporarily injected in the transmission lines of Rio Branco power plant).” The DOE is required to clarify if there is no substantive change in the application of the methodology and monitoring plan by performing the said deduction and how the issue has been addressed in a systematic manner to avoid further recurrence.

Response:

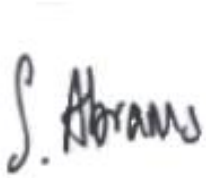
During the period August 2005 to March 2006 the Saldanha site exported to the grid via the Rio Branco transmission line. This was during the test phase of the Saldanha plant. As the output from the Saldanha plant was measured, the output from Rio Branco only could be calculated as the difference.

The Saldanha project is being developed as a CDM project. The Saldanha site will monitor its electricity to the grid in a similar way to the Rio Branco site. It is proposed that during future verifications, the data from both sites is checked to confirm that the electricity from the Saldanha site is not included in the Rio Branco meter readings. The information required to perform this cross-check will be made available to the verifier. Performing this cross-check does not represent any change in the application of the monitoring plan in the registered PDD.

As a prompt-start project activity, this project has made considerable efforts to comply with the requirements of CDM. The project has been open to both ANEEL and CDM audits and provided documentary evidence as and when required. More importantly, this project has generated very real emission reductions over an extended period of time, and the integrity of these emission reductions is unquestionable. The dual aims of the CDM are to generate measurable, verifiable emission reductions, and promote sustainable development. This project has fulfilled both of these requirements and we hope that it will be allowed to issue CERs very shortly.

We trust that the comments above address the issues that have been raised. However, if there is any further information required, or revisions that should be made to the project documentation, we will be very happy to provide these.

Yours sincerely



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Annexes:

- Annex A: Electrical Energy National Agency (ANEEL), resolution 047/2000, February 4 2000. Firstly in Portuguese followed by English translation.
- Annex B: Electrical Energy National Agency (ANEEL), resolution 589/2006, March 20 2000. Firstly in Portuguese followed by English translation.
- Annex C: Electrical Energy National Agency (ANEEL), letter 1090/2007 – SGH/ANEEL (dated 28 June 2007). Firstly in Portuguese followed by English translation.

Annex A

Electrical Energy National Agency (ANEEL) resolution 047/2000, February 4 2000.

Firstly in Portuguese followed by English translation.

AGÊNCIA NACIONAL DE ENERGIA ELÉTRICA - ANEEL

DESPACHO Nº 47 , DE 4 DE FEVEREIRO DE 2000.

A SUPERINTENDENTE DE CONCESSÕES E AUTORIZAÇÕES DE GERAÇÃO DA AGÊNCIA NACIONAL DE ENERGIA ELÉTRICA - ANEEL, no uso de suas atribuições delegadas através da Resolução ANEEL nº 21, de 3 de fevereiro de 1999, e considerando o que consta do Processo nº 48100.001415/97-69, resolve: I - Prorrogar por 12 meses, com término em 1 de novembro de 2000, o prazo anteriormente concedido pela Resolução ANEEL nº 306, de 30 de setembro de 1998, à ELETROSSOL Centrais Elétricas Cassol Ltda., para a implantação do empreendimento hidrelétrico denominado PCH Monte Belo, com 4.000 kW de potência instalada, localizado no rio Saldanha, no Município de Alta Floresta D'Oeste, Estado de Rondônia. II - O descumprimento do prazo implicará na aplicação das penalidades previstas na Resolução ANEEL nº 318, de 6 de outubro de 1998.

ROSÂNGELA LAGO

Publicado no D.O de 07.02.2000, seção 1, p. 34, v. 138, n. 26-E.

Electrical Energy National Agency (ANEEL)

Communique nº. 47 – February 4, 2000

The Production Licensing Superintendent of the Electrical Energy National Agency - ANEEL, by means of the duties established in the ANEEL Resolution nº. 21, of February 3, 1999, and having considered the contents of Proceeding nº. 48100.001415/97-69, decides: I – to grant a 12-month extension, until November 1, 2000, to the permission given through the ANEEL Resolution nº. 306, of September 30, 1998, to ELETROSSOL Centrais Elétricas Cassol Ltda for the establishment of the hydroelectric enterprise called PCH Monte Belo, with 4000 kW installed potency, located by Saldanha River, in the Municipality of Alta Floresta D'Oeste, Rondônia State. II – The failure to meet the deadline will constitute liability to the sanctions on the ANEEL Resolution nº. 318, of October 6, 1998.

ROSÂNGELA LAGO

Published on D.O on February 7, 2000, section 1, p. 34, v. 138. n. 26-E.

Annex B

Electrical Energy National Agency (ANEEL), resolution 589/2006,
March 20 2006.

Firstly in Portuguese followed by English translation.

AGÊNCIA NACIONAL DE ENERGIA ELÉTRICA - ANEEL

DESPACHO Nº 589, DE 20 DE MARÇO DE 2006.

A SUPERINTENDENTE DE CONCESSÕES E AUTORIZAÇÕES DE GERAÇÃO DA AGÊNCIA NACIONAL DE ENERGIA ELÉTRICA - ANEEL, no uso de suas atribuições regimentais, de acordo com a delegação de competências estabelecida pela Resolução Autorizativa nº 251, de 27 de junho de 2005, considerando os termos da Resolução nº 407, de 19 de outubro de 2000, e o que consta do Processo nº 48100.001415/97-69, resolve: I - Regularizar, junto à ANEEL, a alteração da capacidade instalada da PCH Monte Belo, localizada no rio Saldanha, Município de Alta Floresta D´Oeste, Estado de Rondônia, passando de 4.000 kW, com 2 (duas) unidades geradoras de 2.000 kW cada, para 4.800 kW, composta de 2 (duas) unidades de 2.400kW cada, de propriedade da empresa ELETROSSOL – Centrais Elétricas Cassol Ltda., cuja autorização para estabelecimento foi concedida pela Resolução nº 306, de 30 de setembro de 1998.

ROSÂNGELA LAGO

Publicado no D.O de 21.03.2006, seção 1, p. 48, v. 143, n. 55.

Electrical Energy National Agency (ANEEL)

Communique nº. 589 – March 20, 2006

The Production Licensing Superintendent of the Electrical Energy National Agency - ANEEL, by means of her regimental duties, and in compliance with the transfer of powers established by the Authorizative Resolution nº. 251, of June 27, 2005, having considered the terms of Resolution nº. 407 of October 19, 2000, and the contents of Proceeding nº. 48100.001415/97-69, decides: I – to regularize towards ANEEL the alteration of the installed capacity of PCH Monte Belo, located by Saldanha River, Municipality of Alta Floresta D'Oeste, State of Rondônia, from 4,000 kW, with two 2,000kW production units, to 4,800 kW, with two 2,400kW production units, property of ELETROSSOL – Centrais Elétricas Cassol Ltda, whose establishment license was granted by Resolution nº 306, on September 30, 1998.

ROSÂNGELA LAGO

Published on D.O on March 21, 2003, section 1, p. 48, v. 143. n. 55.

Annex C

Electrical Energy National Agency (ANEEL), letter 1090/2007 – SGH/ANEEL (dated 28 June 2007).

Firstly in Portuguese followed by English translation

ANEEL
AGÊNCIA NACIONAL DE ENERGIA ELÉTRICA

Ofício n.º 1090/2007–SGH/ANEEL

Brasília, 28 de junho de 2007.

A Sua Senhoria o Senhor
Marcelo Aguiar
Implementação e Monitoramento de Projetos
EcoSecurities
Rio de Janeiro – RJ

Assunto: Processos nº 48100.001415/97-69, nº 48500.003333/01-95 e nº48500.003176/99-12 – PCH Monte Belo, PCH Cabixi II e PCH Rio Branco respectivamente – Informação sobre potência instalada das referidas usinas.

Prezado Senhor,

Em atenção à correspondência s/n da EcoSecurities, protocolada na ANEEL em 21 de junho de 2007, na qual V. Sª solicita a confirmação das capacidades instaladas das PCHs Cabixi II, Monte Belo e Rio Branco, temos a informar o que se segue.

2. A elevação da potência instalada da PCH Cabixi II de 2.300 kW para 2.800 kW foi aprovada por meio do Despacho ANEEL nº 435, de 25 de dezembro de 2002, sendo que, para fins de regularização do ato de outorga, as alterações técnicas foram permitidas por meio da Resolução ANEEL nº 517, de 17 de setembro de 2002.

3. A capacidade instalada de 4.800 kW da PCH Monte Belo foi regularizada perante a ANEEL por meio do Despacho ANEEL nº 589, de 20 de março de 2006, após o projeto básico ter sido aprovado através da Resolução nº 306 de 30 de setembro de 1998.

4. O Projeto Básico da PCH Rio Branco, com 6,9 MW de potência instalada foi aprovado por meio do Despacho ANEEL nº 310, de 28 de maio de 2001 e a autorização à ELETROSSOL - Centrais Elétricas Cassol Ltda para construção por meio da Resolução ANEEL nº 546, de 14 de dezembro de 2000, a qual foi transferida para Hidroelétricas Cassol Ltda – HIDROSSOL, através da Resolução ANEEL nº 139, de 12 de abril de 2001.

5. Especificamente para a PCH Rio Branco, o projeto básico aprovado sinaliza que as turbinas restringem os geradores, limitando a potência a 6,9 MW.

6. Esclarecemos que os valores de potência instalada informados nos referidos atos são os oficiais considerados pela ANEEL para todos os efeitos.

MMN/z

SGAN - Quadra 603 / Módulos "I" e "J"
CEP 70830-030 - Brasília - DF - Brasil
Tel: 55 (61) 2192 8600
Ouvidoria: 144

48539.003411/07-00

7. Ressaltamos ainda que essas usinas são fiscalizadas pela ANEEL, e que até a presente data não foi detectada nenhuma irregularidade no tocante às potências instaladas, sendo a potência fiscalizada igual à outorgada.

Atenciosamente,

FABIANO MAFRA SIQUEIRA
Superintendente de Gestão e Estudos Hidroenergéticos – Em Exercício

AFSP/MMN/z

SGAN - Quadra 603 / Módulo "I" / 1
CEP 70830-030 - Brasília - DF - Brasil
Tel. 55 (61) 2192 8609
Diretoria 144

Letter nº. 1090/2007 – SGH/ANEEL

Brasília on June 28, 2007

To Mr.
Marcelo Aguiar
Project Implementation and Monitoring
EcoSecurities
Rio de Janeiro - RJ

Subject: Proceedings nº 48100.001415/97-69, nº 48500.003333/01-95 and nº 48.500.003176/99-12 – respectively PCH Monte Belo, PCH Cabixi II and PCH Rio Branco – Information on the installed potency of the aforementioned plants.

Dear Sir,

In response to the EcoSecurities letter sent to ANEEL on June 21, 2007, in which you request the confirmation of the installed capacities in the PCH's Cabixi II, Monte Belo and Rio Branco, we hereby inform as follows:

2. The installed potency upgrade to PCH Cabixi II from 2,300 kW to 2,800 kW was approved under the terms of ANEEL Communique nº. 435, on December 25, 2002, and the technical modifications were allowed under the terms of ANEEL Resolution nº. 517, on September 17, 2002 to regularize the concession.

3. The installed capacity of 4,800 kW of PCH Monte Belo was regularized by means of ANEEL Communique nº 589, on March 20, 2006, after the basic project approval through Resolution nº 306, on September 30, 1998.

4. The PCH Rio Branco Basic Project, with 6.9 MW installed potency, was approved by means of ANEEL Communique nº. 310, on May 28, 2001 and its construction license was granted to ELETROSSOL – Centrais Elétricas Cassol Ltda by means of ANEEL Resolution nº 546, on December 14, 2000, and transferred to Hidroelétricas Cassol Ltda – HIDROSSOL, by means of ANEEL Resolution nº 139, on April 12, 2001.

5. The approved Basic Project for PCH Rio Branco states that the turbines restrict the generators, thus limiting the potency to 6.9 MW.

6. We add that the installed potency values informed on the aforementioned Acts are the official considered by ANEEL for all legal effects.

7. We emphasize that these plants are supervised by ANEEL and no unconformity has been so far detected regarding installed potencies, being the licensed potency equal to the supervised potency.

Yours sincerely,

(SIGNED) FABIANO MAFRA SIQUEIRA
Hydro Energetic Management and Studies Superintendent - temporary