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DET NORSKE VERITAS  
DNV CERTIFICATION AS

Att: CDM Executive Board

Your ref.:  
CDM Ref 1022

Our ref.:  
MRSA/E TEL

Date:  
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**Response to request for review  
“Fuel switch at BSM sugar mills” (1022)**

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 “Fuel Switch at BSM sugar mills” (1022), and we would like to provide the following response to the issues raised by the requests for review.

**Comment 1:**

*“Further evidence regarding how the DOE has validated both the suitability of the investment analysis (Option III) and the input values used should be provided.”*

**DNV Response:**

The “Tool for the Demonstration and Assessment of Additionality” states that it must be determined “...whether to apply simple cost analysis, investment comparison analysis or benchmark analysis (sub-step 2b). If the CDM project activity generates no financial or economic benefits other than CDM related income, then apply the simple cost analysis (Option I). Otherwise, use the investment comparison analysis (Option II) or the benchmark analysis (Option III).” Considering that the project activity generates an economic benefit other than CDM related income (due to the revenues of fuel switch), Option II or Option III could be selected. The PP decided to choose Option III.

The benchmark provided (15% in 2000 and 6% in 2003) was confirmed by the reference from the Center of Studies of Public Finance, <http://www.cefp.gob.mx/intr/e-stadisticas/esta28.xls>.

The values for the calculation of the Project's IRR are the values related to annual fuel oil consumption savings compared to the baseline consumption. In the original PDD there was a mistake in IRR calculations: instead of considering the amount of oil saved, the project proponent considering the amount of oil consumed each year. Furthermore, the incremental operations and maintenance costs were not considered. The project proponent has now corrected this calculation, resulting in an IRR still below the benchmark: 12.3% for ISRP and -9.61% for ICSA. Some evidence to support the investment costs and operations and maintenance costs of the IRR analysis have been provided to DNV, but not in sufficient amount to enable us to verify all the detailed numbers for the operations and maintenance costs in the IRR calculations.

**Comment 2:**

*“The barriers in the PDD appear to be barriers to market entry rather than to the implementation of this specific project activity type.”*

**DNV Response:**

The commercial, institutional and prevailing practice barriers presented are deemed valid for the entire sugar industry in Mexico and demonstrate the lack of a good investment environment. Besides these barriers, the technological barrier presented also demonstrates that BSM had to require the services of a Brazilian technical consultancy to develop the project. This is deemed justifiable as a barrier to the implementation of the project activity.

**Comment 3:**

*“The methodology may not be applicable because the power generated with heat from the boilers, may have increased as a result of the project activity. Therefore, it should be substantiated that:*

- a) The power generation capacity installed remains unchanged due to the implementation of the project activity and that this is maintained at the pre-project level throughout the crediting period*
- b) The annual power generation during the crediting period is not more than 10% larger than the highest annual power generation in the most recent three years prior to the implementation of the project activity.”*

**DNV Response:**

According to the PDD, any power increase beyond the limit of 10% (of the highest baseline year) is due to a corresponding increase in the production of sugar cane and bagasse, and can not be attributed to the project. The table below shows that there is no any such significant increase in the specific generation after implementation of the project activity:

ISRP – Harvest	ISRP -Bagasse (dry tones)	ISRP - Energy generated (KWh)	Specific generation (KWh/dry tones)
Baseline: 98/99	149,063	16,136,761	108.25
99/00	159,249	18,382,580	115.43
00/01	169,617	<b>19,164,194</b>	<b>112.99</b>
Project: 01/02	188,595	19,348,012	102.59
02/03	179,110	17,918,328	100.04
03/04	177,060	16,445,468	92.88
04/05	198,442	20,863,598	105.13
05/06	225,567	25,590,220	113.45

ICSA – Harvest	ICSA Bagasse (dry tones)	ICSA Energy generated (KWh)	Specific generation (KWh/dry tones)
Baseline: 01/02	88,140	<b>11,791,138</b>	<b>133.78</b>
02/03	81,353	10,558,237	129.78
03/04	93,144	9,907,235	106.36
Project: 04/05	118,059	14,243,362	120.65
05/06	107,411	15,081,172	140.4

In our view, the presented figures substantiate that the methodology requirement is fulfilled.

**Comment 4:**

*“The methodology requires that where more than one credible and plausible alternative remains, project participants shall, as a conservative assumption, use the alternative baseline scenario that results in the lowest baseline emissions as the most likely baseline scenario, or conduct an investment analysis. However, two alternative baseline scenarios have been selected for the biomass: burnt in an uncontrolled manner without utilizing them for energy purposes (B3) and used as fertiliser (B6).”*

**DNV Response:**

The combination of part B3 and B6 as one baseline scenario is because only B6 is not deemed as a plausible baseline scenario, as it is not deemed realistic that all biomass would have been used as fertilizer. Consequently, there are three baseline scenarios, of which only two are deemed realistic:


- B3 (energy purposes)
- B6 (fertilizer)
- A combination of B3 with B6

As B6 is not deemed plausible and among the other two alternatives the combination of B3 with B6 is confirmed to result in a more conservative baseline than B3 only, this is deemed an appropriate choice. However, as the methodology AM0036 is ambiguous with regard to whether scenarios can be combined like this, DNV would be grateful for any further guidance the Board may provide on this.

We sincerely hope that the Board accepts our above explanations.

Yours faithfully.

for DET NORSKE VERITAS CERTIFICATION AS



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