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Att: CDM Executive Board

Your ref.:
CDM Ref 1055, 1030, 1023, 1050, 1060, 1057, 0988, 1058

Our ref.:
MRSA/ETEL Date: 25 June 2007

Response to request for review

“Pão de Açúcar – Demand side electricity management – PDD 1 (1055), 2 (1030), 3 (1023), 4 (1050), 5 (1060), 6 (1057), 7 (0988) and 8 (1058)”

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 “Pão de Açúcar – Demand side electricity management – PDD 1 (1055), 2 (1030), 3 (1023), 4 (1050), 5 (1060), 6 (1057), 7 (0988) and 8 (1058)”. All requests for review of the eight projects have exactly the same content and, therefore, our below initial comments are valid to all requests for review.

Comment 1:

“Further evidence is required to substantiate the start date of the crediting period.”

DNV Response:

We refer to the resolution of the request for clarification concerning the project's starting date raised during the validation of the project (see CL 1 in Table 3 in the validation protocol in Appendix A to DNV's validation report).

Evidence was provided demonstrating that the energy efficiency measures started on 1 January 2001 through documentation that shows that the first input to the software tool used to monitor project performance was on 1 January 2001. DNV acknowledges that although the actual implementation date at each shop is difficult to define, using the starting date 1 January 2001 is appropriate since it is not likely that the electricity at one store was reduced due to other reasons than the program at the beginning of 2001 (there was a trend of increased electricity consumption prior to the implementation of the project).

Comment 2:

“The investment barrier is not substantiated as it does not demonstrate that “a financially more viable alternative to the project activity would have led to higher emissions”

DNV Response:

Attachment A to Appendix B to the simplified modalities and procedures for small-scale CDM project activities states that project participants shall through an investment barrier demonstrate a financially more viable alternative to the project activity would have led to higher emissions. However, when considering the EB’s further guidance on carrying out a barrier analysis included in the tool for the demonstration and assessment of additionality (version 03), a barrier analysis shall be used to determine whether the proposed project activity faces barriers that prevent the implementation of this type of proposed project activity and do not prevent the implementation of at least one of the alternatives. Taking this into account, it is DNV’s opinion that the PDD sufficiently demonstrates that the project activity faces barriers and the barriers do not prevent the baseline scenario.

Comment 3:

“The technological barrier is not substantiated as it does not demonstrate that “a less technologically advanced alternative to the project activity involves lower risks”, as it does not assess the operational risks associated with future electricity shortages.”

DNV Response:

We refer to the response to the request for review provided by the project participants. In DNV’s opinion, it is demonstrated that there were no operational risks associated with future electricity shortages at the time when the decision to proceed with the project activity was taken.

Comment 4:

“Other barriers presented in the PDD are generic to all energy efficiency projects and not to the implementation of the measures specified in Brazil.”

DNV Response:

While we agree that the barriers in the PDD are generic to many energy efficiency projects, this fact does in our opinion not question that the project activities in question face barriers.

Comment 5:

“Further evidence should be provided to support the use of electricity consumption in the year 2000 as the baseline, particularly given the mandatory reductions required in 2001.”

DNV Response:

During the validation of the project DNV assessed an analysis of the electricity consumption in the years prior to the project implementation in a selection of representative stores. There was a trend of increased electricity consumption prior to the implementation of the project. Hence, it is likely that the electricity consumption in absence of the project activity would have increased compared to the electricity consumption levels in 2000. The use of the electricity consumption in the year 2000 as the baseline is thus conservative.

In the years 2001 and 2002, Brazil faced a severe crisis in the electricity sector. Among other measures, a compulsory consumption reduction of 20% in relation to the average electricity consumption in the period of May to July 2000 was imposed to consumers from 4 June 2001 to 28 February 2002. This plan was

established in 18 May 2001. Taking into account the dates of the different measures implemented, it is evident that the project activity concept was designed before these energy consumption reduction measures were announced. In accordance with the Meth Panel's recommendation given at its 15th meeting (paragraph 20), the information available by the time of the decision to undertake the project activity shall be considered for assessing additionality of projects asking for retroactive credits. Hence, it is our opinion that the compulsory consumption reduction announced only after the project implemented does not have to be considered when assessing the additionality.

Based on the above argument, DNV also accepted that the selection of 2000 as the baseline year is adequate since no compulsory consumption reductions could be foreseen at the time the decision to implement the project was taken. However, DNV acknowledges that the Board at its 20th meeting (paragraph 24) agreed that the most recent information, corresponding to the vintage of data appropriate to the project, which is available at the validation stage, shall be used for the calculation of baseline emissions. Hence, it is proposed that the baseline is reduced by 20% for the period 1 June 2001 to 28 February 2002. This would better reflect the compulsory consumption reductions that were in effect in this period.

The possible measures implemented to comply with the compulsory consumption reductions in the absence of the project activity would have only been temporary measures not equivalent to the extensive program of activities as the one proposed in the CDM project. It is considered likely that electricity consumption would again increase to previous levels shortly after the compulsory consumption reductions are again phased out. Hence, it is in our opinion appropriate to discount the baseline only for the period 1 June 2001 to 28 February 2002.

Comment 6:

“Paragraph 3 of the approved methodology requires the baseline to be calculated on the basis of “energy use of the existing equipment that is replaced”. The project activity has set the baseline on the basis of total electricity consumption including equipment which has not been affected by the project activity.”

DNV Response:

It must be noted that the paragraph 1 of the approved methodology states that the energy efficiency measures included in this type of project activities include technical energy efficiency measures, such as efficient appliances, better insulation and optimal arrangement of equipment. As such, by limiting itself to energy efficiency measures that replace equipment, paragraph 3 of the methodology does not cover all types of energy efficiency measures listed as examples in paragraph 1. DNV is thus grateful for any further guidance the Board may provide on this.

The project activities comprise several different measures to reduce the electricity consumption of the stores in questions, and those measures are in line with the examples of measures mentioned in paragraph 1 of the approved methodology. During the validation of the project, it became apparent that determining the electricity consumption of the equipment affected by the project activity is not feasible. Hence, DNV accepted that the baseline is the electricity consumption of the stores in the year 2000. As stated above, this baseline is considered conservative as there was a trend of increased electricity consumption prior to the implementation of the project and it is likely that the electricity consumption in absence of the project activity would have increased compared to the electricity consumption levels in 2000.

Comment 7:

“Further substantiation of how paragraph 6(b) of AMS-II-E has been applied should be provided. The measurement of total electrical consumption can be influenced by operating conditions separate to the project activity, including changes in the floor space, opening hours and product ranges of the stores.”

DNV Response:

DNV acknowledges that the total electricity consumption of the stores as well as the electricity consumption of individual appliances can be influenced by operating conditions other than the ones affected by the project activity. However, identifying the effect on these individual factors and determining the electricity consumption savings resulting from each factor is not possible. During validation, DNV verified for a selection of representative stores that the stores’ floor space and opening hours have not been changed in way that would cause less electricity consumption. As already pointed out, this baseline is considered conservative as there was a trend of increased electricity consumption prior to the implementation of the project and it is likely that the electricity consumption in absence of the project activity would have increased compared to the electricity consumption levels in 2000.

To further ensure that reductions in the electricity consumption of the stores are not the result of other operating conditions other than the ones affected by the project activity, DNV suggests that the monitoring plan of the project is amended to include annual monitoring of the floor space, opening hours and product ranges in order to demonstrate that these factors would have not resulted in an decrease of the stores’ electricity consumption.

We sincerely hope that the Board accepts our above explanations.

Yours faithfully.

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