

Response of the Project Participants to the request for review for: "Chumbagua cogeneration project" (1043)

Questions 1, 2 and 3 are common to all requests for review. Therefore, the comments of the project participants to these questions are valid to all requests. In the following text, the reasons for request are *italicized*.

Requests 1, 2 and 3

1. Justification should be provided as to why a project IRR has been calculated for the benchmark analysis when the additionality tool requires where there is only one potential project developer (e.g. when the project activity upgrades an existing process), the IRR shall be calculated as an equity IRR.

Equity IRR was calculated, resulting in an IRR of 7.3% (see annexed a copy of the IRR spreadsheet). It can be seen that the process of funding Chumbagua's project was a challenging task. Honduras suffers from weak local economy and local banks charged high interest rates at the time the investment decision was made, even when average records are considered (see table in question 2 below).

2. Justification should be provided regarding why an annual maximum active interest rate has been used as a benchmark.

We acknowledge that the use of the weighted average rates would be more conservative than the use of maximum observed rates. See below the information on annual weighted average rates for Honduras in 2004. It shows that the IRR of the project, 7.3%, is lower also than the average bank active rates.

2004	Active rates for loans
Ene	20.24
Feb	20.12
Mar	20.00
Abr	20.17
May	19.98
Jun	19.94
Jul	19.82
Ago	19.68
Sep	19.72
Oct	19.72
Nov	19.67
Dic	19.45

Source: <http://www.bch.hn/esteco/monetaria/tasapondmn.xls>

3. The thermal firing capacity before and after the project activity should be clearly stated and it should be justified how the requirement of scenario 14 of ACM0006 v4 that the project should

“increase the power generation capacity, while the thermal firing capacity is maintained” has been met.

In the Response form for request for clarification on Approved Methodologies F-CDM-AM-Clar_Resp_ver 01.1 - AM_CLA_0035 / 0036, issued during the Meth Panel meeting of 15-19 January 2007, it was recognized that scenarios 11 and 14 of methodology ACM0006 have a certain overlap: some project types may effectively be applicable to both scenarios. It was also agreed that the difference between power capacity expansion projects and energy efficiency improvement projects may not be fully clear as currently stated in the methodology.

It was also stated that, for scenarios 11, 12, 13 and 14, no additional quantity of biomass residues is used as a result of the project activity. Any increases in the bagasse production in this project are due to Chumbagua’s business expansion and can not be attributed to the implementation of the cogeneration project. The project itself does not have an impact in total thermal energy generation either, as project owners did not increase sugar production because of the project.

The project developers had long discussions with the DOE in order to define the scenario, 11 or 14, that better suits this kind of project activity. Scenario 14 was chosen because the equation to determine the additional electricity generation (EGy) for scenario 14 is more appropriate for this project than the equation for scenario 11. The equation for scenario 11 simply subtracts the historic electricity generation, while the equation for scenario 14 compares the efficiencies prior and after project implementation. In Chumbagua sugar mill, the production of sugar is increasing and the combustion of bagasse as well. Hence, the electricity generation capacity would increase also in the baseline, just not to the same extent as in the project. The equation of scenario 14 captures this, while the equation for scenario 11 does not.

In version 5 of methodology ACM0006 (May/2007, not available at the time the project was validated), a new scenario, similar to scenario 14, was created: number 18, that does not require thermal firing capacity to be maintained after the Project, because the worldwide scenario for sugar mills is a strong expansion of sugar and ethanol production, while scenario 14 does not take that recent situation into account. As stated in the PDD, the *Asociación de Productores de Azúcar de Honduras* (APAH- Honduras’ Sugar Producers Association) estimates an increase of approx. 13% in sugar production in Honduras from 2007 to 2011. Since, in scenario 18, the CERs calculation is done in the same way as in scenario 14, and the results would be the same, the project developers consider that the choice of scenario 14 was done appropriately. It must be stressed again that any increases in the bagasse production in this project are due to Chumbagua’s business expansion and can not be attributed to the implementation of the CDM project.

4. Justification is required as to why the project participant used the environmental impact assessment and environmental license consultation process in the PDD instead of conducting a CDM project activity specific local stakeholder consultation process.

Both environmental license consultation process and a CDM specific local stakeholder consultation process were conducted. Evidences of the local stakeholder consultation process were submitted to the DOE.