Reference: Initial comments of the Project Participants to the registration requests for review of the Project Activities Pão de Açúcar - Demand Side Electricity Management - PDD 1 (1055), PDD 2 (1030), PDD 3 (1023), PDD 4 (1050), PDD 5 (1060), PDD 6 (1057), PDD 7 (0988), and PDD 8 (1058)

All requests for review of the eight projects have exactly the same content and, therefore, the present initial comments of the project participants are valid to all requests.

In the following text the reasons for request are *italicized* and the comments of the Project Participants (PPs) in blue.

Reasons for request:

1. *Further evidence is required to substantiate the start date of the crediting period*

In the Project Activity actions towards a more rational use of electricity (training, capacity building, information spreading, and, immediately after, the use of more efficient appliances, optimal arrangement of equipment, etc) started to be implemented at end of 2000. As explained in the PDD, the first documented official actions towards implementing energy efficiency measures was the operation start of the software tool SIGESCON (first data entry dated January 1st 2001, see Figure 1 in the PDD) and the contract signed with Eletropaulo in January 2001 (mentioned in the PDD, item B.3, and supplied to the DOE). A letter from the CBD management confirming January 1st 2001 as the official project start date is presented in Annex 1.

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"*

In the opinion of the PPs, it is not the aim of an investment barrier analysis to show that "a financially more viable alternative to the project activity would have led to higher emissions". From the "Tool from the demonstration and assessment of additionality (version 03)" one reads that the objective of the barrier analysis is to determine if the project activity faces barriers and to:

> *Establish that there are realistic and credible barriers that would prevent the implementation of the proposed project activity from being carried out if the project activity was not registered as a CDM activity.*

Due to disperse nature of energy efficiency measures, it is not trivial to carry out rigorous and detailed investment analysis of such projects. More difficult and even subjective would be to suitably compare the results with a business as usual (take-no-action) scenario. This is one of the reasons why the PPs decided to substantiate the additionality through a barrier analysis. Furthermore, regarding investment in energy efficiency projects and financially more viable alternatives, Arquit-Niederberger (2007) [1] states that:

> *… planned replacement and new installations efficiency markets pose other issues for additionality assessment, since these generally involve new investment decisions. The fact that investment in high-efficiency industrial equipment, consumer appliances or lighting is cost-effective by some measure (such as least lifecycle cost) should not be taken to mean that end-use efficiency projects are non-additional. On the contrary, the fact that such investments are*

[1] A. Arquit-Niederberger (2007). *Energy Efficiency Projects in CDM and JI.* UNIDO/CTI/UK Trade & Investment Seminar, 19-20 March 2007, Vienna, Austria.

not being made, despite their cost-effectiveness and often short payback periods, is evidence of significant barriers in the marketplace.

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.*

In the opinion of the PPs, it is unquestionable that the baseline scenario (business as usual), a less technologically advanced alternative, involves significantly less risks.

Regarding assessment of risks associated with future electricity shortages, it is not reasonable to include it in baseline scenarios, as they are based in "business as usual" and not in unusual and unforeseeable situations (see footnote 2 in the PDD).

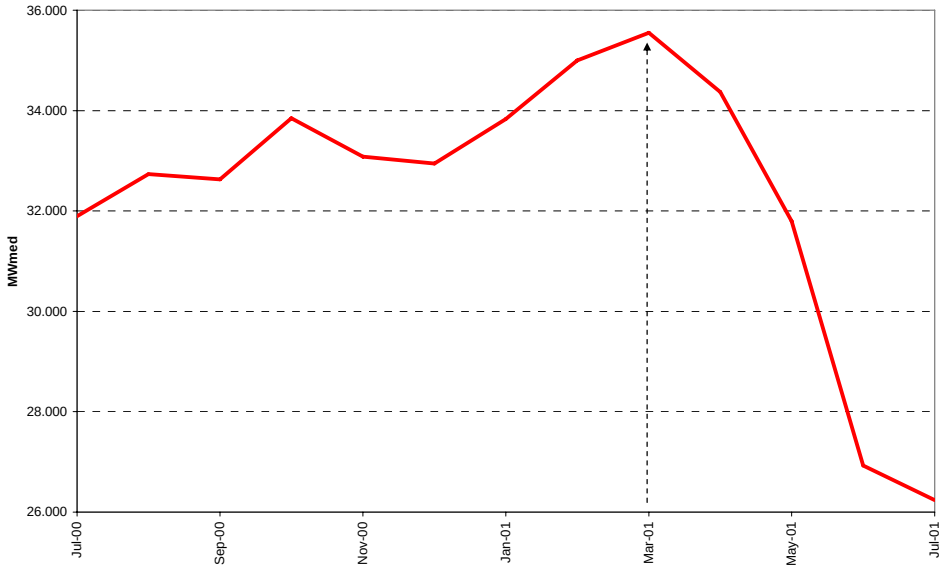

Figure 1 – Monthly average load, S-SE-CO subsystem (Source: ONS).

The PPs would like to call the attention to the fact that the Project Activity was planned in the second semester of 2000 and started in January 2001, over four months before any rationing measure was officially announced[2]. It is important to mention that as late as 24 March 2000 the Brazilian Ministry of Mines and Energy stated his belief that no electricity shortage would be necessary[3]. It shall be noted also that, at the time, more than 90% of Brazil's electricity came from hydroelectricity. One o the major causes of the electricity shortage announced in May 2001 was the under average rain falls in the 2000-2001 season (72% of the long-term average). As the rainy season in the southern half or the country goes more or less from mid November to mid April it would be impossible to precisely forecast any shortage in January 2001. Evidence that the Project Activity did not react to the risks associated with future electricity shortages, but implemented the project independently of it, is that the CBD stores' electricity consumption decreased in the first three months of 2001 while the average load in the Brazilian S-SE-CO grid increased (figure 1). Although the PPs believe that the project would lead to the same electricity consumption reduction in spite of the rationing measures released around five months after the project start date, one

[2] Câmara de Gestão da Crise de Energia Elétrica, Resolução nº 1, de 16 de maio de 2001.
[3] Folha de São Paulo, 24 March 2001, p. B6.

possible conservative action would be discounting the reduction goal of the measures (20%) in the nine-months period.

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.*

The PPs agree that the barriers presented might be generic to almost all energy efficiency projects. Nevertheless, even if generic, the presented barriers are indeed applicable to the implementation of the measures specified in Brazil. To substantiate the relevance and applicability of the barriers to a project in a developing country context such as Brazil, follows an independent expert opinion (Arquit-Niederberger, 2007) presented in a recent seminar:

> *… significant, well-documented barriers to investment in high-efficiency equipment and practices are widespread, even in the most advanced economies, and these can be particularly pronounced in the developing country context: knowledge of energy-saving potential in industry and other sectors is lacking; access to capital can be a challenge in cases where capital markets are not well developed to support the efficiency market; the motivations and decision criteria of those who make investment / procurement decisions (i.e., up-front capital cost of equipment) and those who pay energy bills are often conflicting; retrofits may incur additional planning expense, can require factories to be shut down and may not function flawlessly from the outset…*

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.*

At the time the decision to proceed with the project activity was made, as well as at the time its implementation was initiated, no mandatory reductions could be forecasted. Quite the contrary, three months after the start date of the project activity, not only the average electricity consumption in the country increased as well as the Brazilian Ministry of Mines and Energy considered unlikely that any measure to reduce electricity consumption would be necessary (see comments to reason for request 3 above).

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.*

Any equipment not replaced, i.e. not affected by the project activity, is part of the baseline scenario and will contribute to the baseline energy use. Therefore, any reduction in the total electricity consumption can be directly and reasonably attributed to energy efficiency measures implemented as part of the project activity.

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.*

The project participants confirm that no operating conditions other than energy efficiency measures were implemented in the stores as part of the project activity. In other words, energy efficiency measures implemented in the stores listed in the PDD do not include changes in the floor space, opening hours, product ranges, etc. (see Annex 1).

ANNEX 1 – Grupo Pão de Açúcar statement on the project start date and energy efficiency measures implemented

GRUPO PÃO DE AÇÚCAR

Ref.: Project activities "Pão de Açúcar – Demand Side Electricity Management 1 to 8"

I would like to inform the CDM Executive Board that the implementation of the electricity efficiency measures at the stores of CBD considered in the proposed CDM Project Activities mentioned above have been discussed by the company in late 2000 and the program was officially initiated on 1st January 2001.

I would also like to confirm that energy efficiency measures implemented in the stores listed in the PDDs included only actions related to the use of more efficient appliances, optimal arrangement of equipment, among others leading to the offer of the same service and products with more efficient use of electricity. In other words, the measures do not include changes in the floor space, opening hours, product ranges, etc.

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