DET NORSKE VERITAS

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Att: CDM Executive Board

DET NORSKE VERITAS
DNV CERTIFICATION AS

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Your ref.:	Our ref.:	Date:
CDM Ref 0156	MRSA/ETEL	19 July 2007

Response to request for review
"La Grecia cogeneration project" (1056)

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 "La Grecia cogeneration project" (1056), and we would like to provide the following response to the issues raised by the requests for review.

Comment 1:

"Further justification should be provided regarding why a series of the highest observed active rates has been used as a benchmark, rather than the weighted average rates, for example."

DNV Response:

According to the argumentation presented by the project developer during the project validation stage, the previously adopted *series of the highest observed active rates better represented the investment capital cost for* Azucarera La Grecia by the time the investment decision was made. However, the project participants acknowledge that the use of a weighted average rate will represent a better alignment with investment decision analysis practices. Thus, as a response to the comment above, the project IRR has been recalculated adopting a weighted average active of loan rates as a benchmark as a conservative measure. The PDD and validation report will be amended accordingly. As the re-calculated project IRR is still lower than the new benchmark rate and also considering that the additionality argumentation was also based on barrier analysis, it is still deemed demonstrated that the project is not a likely baseline scenario.

Comment 2:

"The thermal firing capacity before and after the project activity should be clearly stated and it should be transparently 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. It should be noted that it is stated in the methodology that "Where a combination of project activity and baseline scenario is not covered by this methodology, project participants are encouraged to submit proposals for revision or further amendment of this consolidated methodology."

DNV Response:

DNV has verified that, as sugar-cane bagasse is a by-product of sugar production, all incremental biomass residue consumption and associated thermal energy generation during the project activity (in comparison with the baseline scenario) will be due to the company's natural expanding sugar production business as a response to the projected demand increase in sugar market. Thus, such increments can not be attributed to the implementation of the project activity as they would have also occurred in the absence of the project (baseline plant configuration).

It should be noted that the recently implemented baseline scenarios 18 and 19 of ACM0006 (scenarios implemented in version 5 of ACM0006 not available by the time project was submitted for validation) indeed make a provision to increase in thermal firing capacity in projects resulting in improvement of energy efficiency by considering that " (…) *in the absence of the project activity, the existing plant would also be retrofitted, but resulting in a lower efficiency of electricity generation than in the project case (e.g. by using a low-pressure boiler instead of a high-pressure boiler). The retrofitted plant in the baseline is referred to as "reference plant"*." However, given that while scenarios 14, 18 and 19 adopt the same formula for estimation of the annual additional quantity of electricity generated as a result of the project implementation, the estimated GHG emission reductions would not change if scenario 18 or 19 were adopted as an alternative.

Finally, it should also be noted that, while registered as a CDM project activity, the project will generate certified emission reductions which are to verified based on the amount of excess electricity that the plant exports to the grid (monitoring parameter) and not based on the estimated additional electricity.

We sincerely hope that the Board accepts our above explanations.

Yours faithfully.

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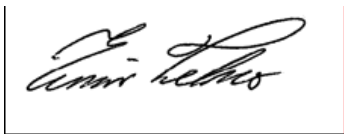

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