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Att: CDM Executive Board

Your ref.:  
CDM Ref 1107

Our ref.:  
MLEH/ETEL

Date:  
10 September 2007

## **Response to request for review Golden Hope Composting Project - Kerdau (1107)**

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 project activity 1107 entitled "Golden Hope Composting Project - Kerdau", and we would like to provide the following response to the issues raised by these requests for review.

*1. The PP/DOE shall further demonstrate the additionality of the project activity, as the benchmark used for the investment analysis has not been selected from a documented source and the rates of POME production per year that are used are higher than those values actually measured at the plant.*

### **DNV Response:**

We refer to the response to the requests for review submitted by the project participants which now demonstrates that the benchmark is selected based on the expected return on investment by the Golden Hope Plantations Berhad. The average return on asset (ROA) that was calculated for the financial year of 2003-2005 further justifies the appropriateness of the 10% benchmark applied.

The earlier source for the 10% benchmark was selected from a documented source, i.e. the base lending rates (BLR) released by Bank Negara Malaysia (BNM), which is the Central Bank of Malaysia (see <http://www.bnm.gov.my>). This base lending rate was deemed appropriate and reliable by DNV as a benchmark.

The difference in the estimated rate of POME production per year against the actual measured values at the plant was thoroughly discussed in CL 9, page 48 in the validation report. Furthermore, referring to the response by the project participants, DNV has closed the CL based on the understanding that there will be fluctuations due to varying windrows composting operational patterns. Moreover, DNV was able to confirm that the actual measured values for the year 2006 is not representative and can thus not be used in the investment analysis.

*2. Because the project has already started (start-date 02 May 2006), the DOE understands that it has verified that the CDM was seriously considered in the decision to initiate the project, through the documentation that demonstrates that Hope Composting began talking to the Danish government in September 2002 during their mission to Malaysia to identify potential CDM*

*projects. An LOI between the two parties was signed in April 2003 to jointly develop CDM composting projects. Further clarification is required in regard to this LOI and further demonstration is needed in relation to the additionality of this specific project and whether the LOI refers to it, to a set of prospective projects or to the plans of the company at large.*

**DNV Response:**

We refer to the response to the request for review submitted by the project participants where the relevant documents presented to DNV to demonstrate that the CDM was considered before project implementation are described. This project (Kerdau) was clearly included on page 8 of the document titled “Final CDM Project Pipeline”. The project is included in the pipeline of projects in the final Emission Reduction Purchase Agreement (ERPA) signed on 12 December 2006, which refers to the Letter of Intent signed on 8<sup>th</sup> April 2003. As the ERPA and Letter of Intent contained other confidential information, it was presented to DNV only.

— *3. Further clarification is required of the benchmark analysis that has been carried out using the project IRR as the financial indicator. The benchmark was selected to be 10% based on the claim that this is higher than Malaysia’s lending rates (these have ranged from 5.98 to 6.78 since the year 2000) and lower than the rate of 15% that is apparently used by other palm oil industries in Malaysia. This rate of 15% is not documented in the PDD and there is no clear evidence that it was verified by the DOE. The validation report simply states that “Justification for selecting a 10% benchmark IRR was provided in the PDD and is deemed acceptable”. Further demonstration shall be provided and evidence of the validation work carried through.*

**DNV Response:**

..... We refer to the response to the requests for review submitted by the project participants which now demonstrates that the benchmark is selected based on the expected return on investment by the Golden Hope Plantations Berhad. The average return on asset (ROA) that was calculated for the financial year of 2003-2005 further justifies the appropriateness of the 10% benchmark applied.

The earlier source for the 10% benchmark was selected from a documented source, i.e. the base lending rates (BLR) released by Bank Negara Malaysia (BNM), which is the Central Bank of Malaysia (see <http://www.bnm.gov.my>). This base lending rate was deemed appropriate and reliable by DNV as a benchmark.

The statement on ‘the rate of 15% apparently used by other palm oil industries in Malaysia’ is removed as the project participants have now decided not to refer to it. However, as stated in DNV’s validation report, this benchmark rate of 15% is deemed appropriate since DNV’s investigation showed that the palm oil industry in Malaysia expects an IRR of around 20% for any investment.

*4. The methodology requires the volume of the run off water to be monitored.*

**DNV Response:**

We refer to the response by the project participants that Section D.3 has been amended to include the monitoring of the volume of runoff water ( $Q_{\text{ww,run-off}}$ ) and  $\text{COD}_{\text{run-off}}$ .

We sincerely hope that the Board accepts our above explanations.

Yours faithfully  
for DET NORSKE VERITAS CERTIFICATION AS

A handwritten signature in blue ink that reads "Michael Lehmann". The signature is written in a cursive style.

Michael Lehmann  
*Technical Director*  
International Climate Change Service