



UNFCCC Secretariat  
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Germany

DET NORSKE VERITAS  
DNV CERTIFICATION AS

Att: CDM Executive Board

Your ref.:  
CDM Ref 1265

Our ref.:  
MLEH

Date:  
19 March 2008

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<http://www.dnv.com>

**Response to request for review  
“Chile: Quilleco Hydroelectric Project” (1265)**

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 “Chile: Quilleco Hydroelectric Project” (1265), and we would like to provide the following response to the issues raised by the requests for review.

**Comment 1:**

*“Further clarification is required on how the DOE has validated that the input values used in the investment analysis reflect the actual economic situation of the underlying project activity”*

**DNV Response:**

The input values used in the investment analysis were validated using two main sources:

- All the project costs were confirmed in the budget presented in the Feasibility Study from Colbun S.A. dated April 1998. This cost was used without any correction for inflation up to April 2004, which is conservative considering that the costs likely have increased during these six years, reducing the financial viability of the project. The April 2004 cost was corrected to 2007/2008 by the discount rate of 10% used in the investment analysis. The investment costs and operating and maintenance costs (both relative to investment and MW) are considered realistic compared to other hydropower projects validated by DNV;
- The alternative approach of step 2 of the additionality tool for AM0026 was used: Comparison of net present cost of the energy supply with and without the project. The optimization model used by the electricity regulatory authority of Chile to identify the capacity expansion plan was used. The costs of generation and unserved energy from the grid was confirmed by checking the calculus from the expansion plan from the CNE (National Energy Commission) and the correspondent original data of generation and unserved energy costs (<http://www.cne.cl/>). The costs calculation model and the input data used are used for approvals for additions to generation capacity in Chile. The model and the input data are thus from an official and recognized source and form the basis for decision making. DNV has thus not further validated the model and the input data used.
- The discount rate of 10% is the official discount rate by CNE.

**Comment 2:**

*“DOE should provide an opinion on how the natural gas restriction from Argentina has affected the investment decision in the project activity as claimed in the PDD.”*

**DNV Response:**

The gas restriction from Argentina did not affect the investment decision, since the consequences of this restriction occurred after the decision to proceed with the project activity. The information on the gas supply for Argentina is presented in the PDD simply to show that the introduction of natural gas from Argentina in 1996 caused a reduction in the energy price that result in the project not being financially viable. DNV could confirm from the CNE price report of October 2004 that the price was still approximately USD 42/MWh, and the natural

gas restrictions from Argentina did not affect the project decision taken on 26 October 2004. The prices increased in late 2005 only.

Today, after the construction period and nearly one year of operation in the system, the actual system scenario has changed, where natural gas restrictions have been intensified along with other system conditions such as higher project development costs, longer development time, higher fuel prices etc. However, all these changes did not affect the investment decision at the time the project was considered by the board in October 2004.

We sincerely hope that the Board accepts our above explanations.

Yours faithfully.

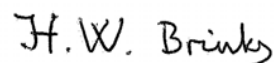
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