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Attn: CDM Executive Board

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Your ref.:
CDM Ref 1598

Our ref.:
LAICK/MLEH

Date:
18 June 2008

Response to request for review

Emission Reductions through partial substitution of fossil fuel with alternative fuels in the 2 cement plants of PT Holcim Indonesia Tbk (1598))

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by five Board members concerning DNV's request for registration of the project activity 1598 "Emission Reductions through partial substitution of fossil fuel with alternative fuels in the 2 cement plants of PT Holcim Indonesia Tbk in Indonesia", and we would like to provide the following response to the issues raised by these requests for review.

1. The DOE should further explain and give a positive validation opinion on the key assumptions in the sensitivity analysis, in particular the coal and biomass price forecasts.

DNV Response:

We refer to the response to the requests for review submitted by the project participants on the evaluation of the forecasts of the coal and biomass price:

Coal forecast:

The coal forecast is based on an index that is used internationally, namely the Barlow Jonker Index and the ACR Asian Index. The price of coal is fixed up to 2010, after which a price projection is done based on both Indexes for the two different types of coals used.

The projection of coal price is appropriately presented using data from the Energy Information Administration (EIA) published in 2005. Later released data in March 2008 further confirms the trend in declining coal price. DNV has assessed all documentation provided in supporting the market trend in the decline of coal price. For conservativeness, the project proponent has assumed that the coal price will remain unchanged for the period 2011 up to 2017.

In the sensitivity analysis, the coal price was assumed to increase by 2% yearly during the project operational years, even though market projection shows price declining by average of 0.1% up to 2026.

Biomass forecast:

As there are no long-term forecasts on the biomass price, the project participant has decided to adjust the price during the project operational years to taking into consideration the inflation rate of Indonesia. The price increases up to the year 2011 as in the Focus Economics Consensus Forecast Asia. The biomass price projected from 2012 onwards has considered an inflation rate of 3% until 2017.

The sensitivity analysis determines the project's IRR if the biomass price would increase yearly by 0.5% only.

Conclusion:

The coal and biomass forecast are deemed reasonable and sufficiently supported. The IRR was calculated to improve with CER revenues from -6.3% to 19.63%. As part of the sensitivity analysis the coal and biomass price forecast were varied. Even with the assumed slightly higher increase in coal price compared to biomass, the IRR calculated remains to be low, i.e. 2.3% only compared to WACC of 14.5%.

The project proponent has also reviewed the IRR calculation, following EB39's guidance on considering the operational lifetime of the project which is expected to be 20 years. Re-evaluation of the IRR of the project activity gives an IRR of -6.45% without CER.

2. The DOE should confirm the prevailing practice barrier, i.e. whether the project activity is the first-of-its kind, and that the technological barriers associated with the partial substitution of coal with biomass would have prevented the implementation of the project activity without CDM.

Taking into consideration that Holcim is an international operating company with broad experience on process optimization, the DOE should confirm the prevailing practice barriers, i.e. whether the project is the first of its kind for Holcim and that the technological barriers associated with the partial substitution of coal with biomass would have prevented the implementation of the project activity without CDM.

DNV Response:

We refer to the response to the requests for review submitted by the project participants on the claims on prevailing practice barrier. We also refer to the validation report where DNV has stated that confirmation was provided by the Indonesian DNA that currently, there is no other similar activity commonly carried out in Indonesia. The only similar project is the one from Indocement which is a registered CDM project activity.

Within Holcim Group, as each country uses different fuel mix, the technology developed for Holcim Indonesia is deemed first-of-its kind within the Holcim Group itself. The drop in the production output was sighted during the initial stages of starting up of the project.

Internal corporate news and forums submitted confirms that the project is indeed first-of-its kind within Holcim Group. Sharing of Holcim Indonesia's risks and opportunities in the use of biomass was held in a forum in September 2007 which shows that Holcim Indonesia indeed are pioneers in the use of biomass in cement industry within Holcim Group.

3. The DOE should confirm that the CER revenues were necessary to proceed with the project activity given the delay in its submission for validation and provide a detailed timeline of actions taken towards CDM registration and if possible, a third-party evidence prior consideration of the CDM.

Given the international experience of Holcim in optimization of cement production, the DOE should confirm that the CER revenues were necessary to proceed with the project activity given the delay in its submission for validation and provide a detailed timeline of actions towards CDM registration and if possible, a third-party evidence of prior consideration of the CDM.

DNV Response:

We refer to the response to the requests for review submitted by the project participants with regard to the timeline of actions towards CDM registration.

Evidence of the communications with the World Bank in 2004 with regard to the sales of CERs from the project were provided to DNV during the validation, including the letter of intention by the World Bank. This letter represents third party evidence of prior consideration of the CDM:

It must also be emphasized that although the project activity started in January 2005, only tests and trials of using alternative fuels were carried out. The main investments carried out for the project only occurred in 2008. Hence, as the main investments were only made after the project had almost completed validation, it is reasonable to assume that CER revenues were necessary to proceed with the project activity.

We would like to note that a DOE can not give assurance that CER revenues were necessary to proceed with the project activity as no assurance can be given to counterfactual information. Nonetheless, in the context of the project activity in questions, it is DNV's opinion that there is clear evidence that the CDM was seriously considered and major investments into the project were only undertaken when the validation was almost completed.

We sincerely hope that the Board accepts our above explanations.

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Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS



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Technical Director
Climate Change Service



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