



CDM project activity registration review form (F-CDM-RR)
(By submitting this form, a Party involved (through the designated national authority) or an Executive Board member may request that a review is undertaken)

Designated national authority/Executive Board member submitting this form	
Title of the proposed CDM project activity submitted for registration	Garganta da Jararaca Small Hydroelectric Power Plant (SHP) - 0809

Please indicate, in accordance with paragraphs 37 and 40 of the CDM modalities and procedures, which validation requirement(s) may require review. A list of requirements is provided below. Please provide reasons in support of the request for review, including any supporting documentation.

- The following are requirements derived from paragraph 37 of the CDM modalities and procedures:*
- The participation requirements as set out in paragraphs 28 to 30 of the CDM modalities and procedures are satisfied;
 - Comments by local stakeholders have been invited, a summary of the comments received has been provided, and a report to the designated operational entity (DOE) on how due account was taken of any comments has been received;
 - Project participants have submitted to the DOE documentation on the analysis of the environmental impacts of the project activity, including transboundary impacts and, if those impacts are considered significant by the project participants or the host Party, have undertaken an environmental impact assessment in accordance with procedures as required by the host Party;
 - The project activity is expected to result in a reduction in anthropogenic emissions by sources of greenhouse gases that are additional to any that would occur in the absence of the proposed project activity, in accordance with paragraphs 43 to 52 of the CDM modalities and procedures;
 - The baseline and monitoring methodologies comply with requirements pertaining to methodologies previously approved by the Executive Board;
 - Provisions for monitoring, verification and reporting are in accordance with decision 17/CP.7, the CDM modalities and procedures and relevant decisions of the COP/MOP;
 - The project activity conforms to all other requirements for CDM project activities in decision 17/CP.7, the CDM modalities and procedures and relevant decisions by the COP/MOP and the Executive Board.
- The following are requirements derived from paragraph 40 of the CDM modalities and procedures:*
- The DOE shall, prior to the submission of the validation report to the Executive Board, have received from the project participants written approval of voluntary participation from the designated national authority of each Party involved, including confirmation by the host Party that the project activity assists it in achieving sustainable development;
 - In accordance with provisions on confidentiality contained in paragraph 27 (h) of the CDM modalities and procedures, the DOE shall make publicly available the project design document;
 - The DOE shall receive, within 30 days, comments on the validation requirements from Parties, stakeholders and UNFCCC accredited non-governmental organizations and make them publicly available;
 - After the deadline for receipt of comments, the DOE shall make a determination as to whether, on the basis of the information provided and taking into account the comments received, the project activity should be validated;
 - The DOE shall inform project participants of its determination on the validation of the project activity. Notification to the project participants will include confirmation of validation and the date of submission of the validation report to the Executive Board;
 - The DOE shall submit to the Executive Board, if it determines the proposed project activity to be valid, a request for registration in the form of a validation report including the project design document, the written approval of the host Party and an explanation of how it has taken due account of comments received.
- There are only minor issues which should be addressed by the DOE / project participants prior to the registration of the project.

Section below to be filled in by UNFCCC secretariat	
Date received at UNFCCC secretariat	13/02/2007

Reasons for Request:

- The project cannot convincingly prove the existence of an investment barrier. Its IRR of over 20% is clearly higher than the one-day floating bond rate prior to project (see figure 8 of PDD); that the bond rate rose above 20% for a short period in late 2005 is no proof that all long-term investments with IRRs below that rate were suddenly stopped. It is not appropriate to apply a one-day bond rate to an investment with a time horizon of several decades (and a crediting period of 21 years). Moreover, the developers managed to get a bank loan at 12% (9% + 3% risk premium) which shows that long-term financing is not determined by the one-day floating bond rate. This is confirmed by the validator (p. 10 of the validation report: "It was verified that the investment barrier is not the most important barrier, once the project received subsidised funds from BDNES (with interest rate lower than the rate of the market)").

- The IRR calculation uses a load factor of 75% while the PDD lists 82%, making the IRR calculation very conservative. Using a load factor of 82%, project IRR rises by 3.3% and reaches 23.4%, making the project a clearly attractive investment. Equity IRR is even higher, at 45% resp. 60%.
- The validator argues that lack of infrastructure in the region of the project activity, such as roads, reliable electricity supply, communication and transports, was a “significant” barrier. Significant does not mean “prohibitive” (which should have been checked). Moreover, in the PDD it is mentioned that another small hydro plant is operational 10 km from the project site, so the infrastructure barrier is certainly not prohibitive.
- The validator argues “that the project would not be the most attractive scenario. As an alternative for the group company is the investment in other opportunities, like the financial market or in other traditional industrial areas of the group” (p. 10 validation report). This is not a proof that there were prohibitive barriers to the project. The validator’s statement would only have been appropriate if the project developer had done an investment test for these alternatives and shown that investment in the financial market or other traditional industries would have yielded a higher IRR than the project. I think it is extremely unlikely to find alternatives with IRRs above 45%/60%