



Mr. Hans Jürgen Stehr  
Chair, CDM Executive Board  
UNFCCC Secretariat  
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May 29<sup>th</sup> 2007

Re Request for review of the request for registration of the CDM project activity "Khon Kaen Sugar Power Plant "(Ref. no. 1036)

Dear Mr. Stehr,

SGS has been informed that the request for registration of the CDM project activity "Khon Kaen Sugar Power Plant " (Ref. no. 1036) is under consideration for review because three requests for review have been received from members of the Board.

The request for review is based on the reasons outlined below. SGS would like to provide a response to the issues raised:

Request for clarification to the DOE/PP:

1. Further information is required on effects of the project activity on the cost of self consumed electricity and the incorporation of this in the calculation of the IRR.

**SGS Reply:**

The incorporation of cost of self consumed electricity in IRR is not required as in the baseline same type and quantity of biomass is used to generate electricity for self consumption. In the project activity the electricity exported to the grid only is considered for ER calculations. The revenue from the electricity supplied to the grid is the only benefit that the project participant gets by running the project activity and hence included in IRR calculation sheet.

2. Evidence should be supplied to support the equity benchmark rate of 15% employed by the project participant in the calculation of the WACC.

**SGS Reply:**

The evidence required for the equity benchmark for 15% is provided in the form of excel sheet attached with this reply as Annex 1. This is used in calculating the WACC. This has been calculated through the use of the Capital Asset Pricing Model (CAPM) using returns from the SET (Thai stock exchange), government bonds and the correlation of the KSL stock with that of the SET ( $\beta$ ). The CAPM model derives the return on equity. The excel sheet (Annex 1) provided is showing the calculations in detail. The references of data are Stock Exchange of Thailand ([www.set.or.th](http://www.set.or.th)) and the Bank of Thailand ([www.bot.or.th](http://www.bot.or.th)) and beta has been taken from Bloomberg and a copy of the price screen has been incorporated in the excel sheet (Annex 1).



Therefore, with the above explanation and evidence enclosed, we feel that the clarifications requested by the EB have been answered. We do however apologize if this was not sufficiently clear from the validation report.

Sanjeev Kumar (0091 9871794628) will be the contact person for the review process and is available to address questions from the Board during the consideration of the review in case the Executive Board wishes.

Yours sincerely,

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Annex 1 Excel sheet for return on Equity calculation.