Mr. Rajesh Kumar Sethi
Chair, CDM Executive Board
UNFCCC Secretariat
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June 30th, 2008

Re Request for review for request for registration of "USJ Açúcar e Álcool S/A . Usina São Francisco Cogeneration Project" (UNFCCC Ref. no. 1479).

Dear Mr. Sethi,

SGS has been informed that the request for registration of the CDM project activity "USJ Açúcar e Álcool S/A. Usina São Francisco Cogeneration Project" (UNFCCC Ref. no. 1479) is under consideration for review because five requests for review have been received from members of the Board.

The requests for review are based on the reasons outlined below. SGS would like to provide an initial response to the issues raised by the request for review:

Request for review 1:
The DOE should explain how it has determined that the parameters used in the sensitivity analysis are the most critical and that the ranges of variations are appropriate, thereby taking into account annex 35 to the EB39 report.

Response SGS:
The reply to how sensitivity analysis parameters were determined, has been explained in "request for review 5" below.
Regarding Annex 35 to EB39, the project requested registration on 20/12/2007. The PDD and validation report submitted were assessed according to the applicable and at that time valid "Tool" and methodology. Annex 35 of EB39 was not taken into account because it was published several months after the request for registration of above mentioned project.

Request for review 2:
The DOE should explain how it has validated the common practice analysis.

Response SGS:
The common practice analysis was validated by assessing all information provided in the PDD and references.
Official and public references and source data used in the common practice analysis confirmed that less than 20% of the sugar mills have developed expansion in order to export electricity to the grid (excluding CDM projects). Generation of electricity by sugar mills for the grid cannot be considered common practice in Brazil, where more than 76% of the electricity generation is generated by hydro power plants (http://www.aneel.gov.br/aplicacoes/capacidadebrasil/capacidadebrasil.asp).

Request for review 3:

The DOE should clarify if the project start date complies with the definition in the CDM glossary of terms and how it has validated the evidence of the prior consideration of the CDM.

Response SGS:
According to the CDM glossary, the starting date of a CDM project activity is the earliest date at which either the implementation or construction or real action of a project activity begins.
This project complies with above mentioned definition. The starting date of the project activity informed in the PDD is 27/06/2005, the date of the first authorization issued by ANEEL for the plant (energy generator to the grid).
The CDM consideration is dated of 17/05/2005, before the project starting date. The detailed information about the starting date and CDM consideration is provided in the PDD, validation report and in the Addendum of the validation report.
Considering the information provided and documents verified it was concluded the CDM considered in the decision to proceed with the project activity before the starting date, also verified and confirm through documented evidence.

We have observed that there is a typo in the Addendum sent with the Validation Report. CDM consideration is dated 17/05/2005 and not 17/05/2007 as mentioned. We sincerely apologise for this error. The revised documents is attached to this response.

Request for review 4:
The DOE should be requested to clarify the different components of the baseline scenario and how it has determined that the other baseline alternatives should be excluded.

Response SGS:
The different components of the baseline scenario were assessed and are described in the Validation Report. The project falls under Scenario 4 of ACM0006.
The primary fuel in the project plant is sugar cane bagasse. The bagasse to be used in the Usina São Francisco Cogeneration Project is a residue of the production of sugar carried in the same facility where the project is located. In this case, the project complies with the criterion that requires that no other biomass types than biomass residues being used in the project plant and these biomass residues is the predominant fuel used in the project plant.
The implementation of the project shall not result in an increase of the processing capacity of raw input or other substantial changes in the process. The expected increase in bagasse production will be due to Usina São Francisco natural expanding business and cannot be attributed to the implementation of the cogeneration project.
The methodology requires that the biomass used by the project facility should not be stored for more than one year. In case of the project, a small amount of bagasse will be stored from the end of the harvest season, November, until the beginning of the following harvesting season, April. The volume of bagasse stored between seasons is foreseen to be less than 5% of the total amount of bagasse generated during one year or during the harvest period.
The biomass used in this project is not transformed or prepared in any way before being used as a fuel. So, no significant energy quantities are required to prepare the biomass residues for fuel consumption.

The other baseline alternatives presented in the PDD are:
- The plant would operate with low energy efficiency and could not export electricity to the grid;
- The plant would operate with high energy efficiency and could export electricity to the grid without CDM registration.

The project activity clearly demonstrated through investment analysis that without CER revenue the project is not attractive.

Request for review 5:
The DOE should be requested to explain how it has determined that the parameters used in the sensitivity analysis are the most critical and that the ranges of variations are appropriate.

Response SGS:
The parameters used in the sensitivity analysis are:

- Increase project revenue;
- Reduction in running costs.

These parameters were considered the most critical because the electricity sales is the only revenue of the project activity, and increasing the revenue consequently increase the internal rate of return. The running costs represent the main expenses of the project activity (operation, insurance, maintenance, general and administrative), reducing the running costs consequently increase the internal rate of return.
Regarding the range of variations, it is appropriate to the project. The sensitivity analysis was done as a obligatory step and as a conservative analysis because the electricity price is determined based in the energy auction, and variations are not real.
It was verified that the project IRR remained lower than the benchmark even in the case where these parameters change in favor of the project.

With the explanation provided above, we hope that all concerns of the EB have been addressed. We do however apologize if this was not sufficiently clear from the validation report.

Fabian Goncalves (+55 11 5504-8887) 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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Annexes to the response:
- Addendum