



Mr. Rajesh Kumar Sethi  
Chair, CDM Executive Board  
UNFCCC Secretariat  
[CDMinfo@unfccc.int](mailto:CDMinfo@unfccc.int)

5<sup>th</sup> November 2008

Dear Mr. R. K. Sethi,

**Re: Request for review for request for registration of “Ceran’s Castro Alves Hydro Power Plant CDM Project Activity” (UNFCCC Ref. no. 1819)**

SGS has been informed that the request for registration of the CDM project activity “Ceran’s Castro Alves Hydro Power Plant CDM Project Activity” (UNFCCC Ref. no. 1819) is under consideration for review because three 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 1-3, Issue 1:**

*The DOE is requested to provide reliable evidence that the CDM was considered prior to the project start date and that continuing and real actions were taken to secure the CDM status for the project activity in parallel with its implementation, following the guidelines from paragraph 5, EB 41, Annex 46. The response should provide a detailed timeline of project implementation.*

**SGS’ Response to Issue 1:**

Regarding the guidelines from EB41, Annex 46, paragraph 5 this was not taken into account because the annex was published after request for registration on 21<sup>st</sup> April 2008.

Year 2000: according to the PDD: “Evidence that the project was seriously considered in the decision of continuing with the project activity. The project sponsor began to evaluate the carbon market potential before the acquisition contract process for the Castro Alves hydropower employment. During the year 2000 the principal shareholder of Ceran, CPFL, contacted consulting companies and specialists to evaluate potential from CDM revenues”.

Year 2001: the reliable evidence that the CDM was considered prior to the project start date was provided during validation assessment. The internal document “CPFL Board Resolution N°2001022/CPFL; Report N° 0/T – 31/07/01” was verified (Annex 1). This document considers to contract a Consulting Company to structure a financing derivative (CERs) qualified to be internationally transacted from Greenhouse Gases (GHG) avoided emissions in the activities of CPFL. This means that the business activities create opportunities of Greenhouse Gases (GHG) Reduction Projects development. Additionally, these projects can also improve the company financial results.

Years 2001–2007: CPFL took actions looking for the development of some CDM projects, including: “Repowering Small Hydro Plants (SHP) in the State of São Paulo, Brazil” (Ref. 0489), “Ceran's Monte Claro Run of River Hydropower Plant CDM Project Activity” (Ref. 0773), “Ceran’s Castro Alves Hydro Power Plant CDM Project Activity” (Ref. 1819) and “Ceran's 14 de Julho Hydro Power Plant CDM Project Activity” (Ref. 1829).

February 2007: C-TRADE was contracted in February 2007 to develop the project HPP Castro Alves (Ref. 1819). The global stakeholder consultation started on 31/07/2007.

Through the document and information provided the conclusion is that the CDM was considered prior to the project start date.

- June 2007: DOE was contracted to validate the project activity.
- July 2007: PDD published for global stakeholder consultation, 31 July 2007 to 29 August 2007.

**Request for Review 1-3, Issue 2:**

*Further justification is required on the suitability of the benchmark, in particular, suitability of the time frame taken to calculate the benchmark since SELIC rates are in decreasing trend from 2003 to 2004.*

**SGS' Response to Issue 2:**

The benchmark used "SELIC" was verified during validation assessment and considered suitable. SELIC rate is defined by the Central Bank of Brazil. The Committee of National Monetary Politics stipulates the SELIC as the target that can be defined as the average rate of the daily financing, with ballast in federal titles. The SELIC rate is the rate that remunerates the investors in the purchase business and sale of public titles.

The SELIC rate has been oscillating since 1999. The average value for the years 1999-2003 is 20.87%.

The annual average of the SELIC rate decreased in 2004, but increased again in 2005, this means that it continues to oscillate.

The investment decision and corresponding investment analysis was made in November 2003 using the data available in this period. At this moment there is no information available which indicate that SELIC will decrease in 2004. It was considered the SELIC only in the year 2003 the average value would be 23.37% less conservative than the average from 1999-2003 of 20.87% used in the PDD submitted during the request for registration.

**Request for Review 1-3, Issue 3:**

The DOE should justify why the sensitivity of the investment cost to the IRR, which is a key input value to the investment analysis, has not been carried out in the sensitivity analysis.

**SGS' Response to Issue 3:**

The parameters used in the sensitivity analysis are:

- Increase energy tariff;
- Reduction in operational costs;
- Reduction in administrative costs.

These parameters were considered the most critical because the electricity sale is the only revenue of the project activity, and increasing the revenue consequently increase the internal rate of return. The operational and administrative costs represents the main expenses of the project activity, reducing these 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 an obligatory step and as a conservative analysis because the investment cost is determined based in a contract and variations are not real.

It was validated that the project IRR remained lower than the benchmark even in the case where these parameters change in favor of the project.



**Request for Review 1-3, Issue 4:**

*Further details regarding the common practice should be provided in accordance with the additionality tool, i.e. similar projects should be described and the essential distinction between them and the project activity should be clearly indicated.*

**SGS' Response to Issue 4:**

Regarding the common practice the PDD presents similar projects that are occurring and it was confirmed that these projects are different from the project activity. Following paragraph describes how the present project activity is different from the other projects in the region.

In the South Region System where the project is located there are 6 hydro power plants located in the same system, near to the project plant and with almost the same installed capacity that can be considered similar

Usually the hydro power plants are building with new reservoirs, having a considered environmental impact. The HPP Castro Alves' reservoir is small, with reservoir area of 5 km<sup>2</sup>, and its power density is 26W/m<sup>2</sup>.

Similar hydro power plants considered in the common practice analysis:

- HPP Passo Fundo and HPP Passo Real were built with reservoirs, 151.50 km<sup>2</sup> and 248.82 km<sup>2</sup> respectively. The power density is lower than 4W/m<sup>2</sup>, can not use the current methodologies (EB23 Annex 5). These power plants cannot be considered similar to the project activity. They also started operation before the beginning of the Kyoto Protocol, both in 1973.
  - HPP Jacui started operation in 1962. It is a run-of-river Power Plant with a 1.2 km of adduction tunnels. But its reservoir is 10 times larger than HPP Castro Alves, 54 km<sup>2</sup>. The power density is lower than 4W/m<sup>2</sup>, not applicable as a CDM project.
  - HPP Dona Francisca started operation in 2001, but the construction is before the beginning of the Kyoto Protocol. It is a run-of-river power plant, but it has a reservoir of 19 km<sup>2</sup>. Its power density is lower than HPP Castro Alves, 6.58 W/m<sup>2</sup>. The differences are that HPP Dona Francisca start date is before the Kyoto Protocol and the power density is lower than that of the project activity.
  - HPP Monte Claro and HPP 14 de Julho, all from the same company (CERAN), were built as a CDM project activity. HPP Monte Claro is a registered project and HPP 14 de Julho is in registration period. Both plants are excluded from the common practice analysis. According to the "Tool" CDM projects should not be considered in the analysis.

Similar projects were presented in the PDD and validated during the validation process. The distinction between them was confirmed and the project activity is not common practice.

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,

Sanjeev Kumar  
Technical Reviewer  
Sanjeev.kumar@sgs.com  
T: +91 124 23 99990 - 98  
M: +91 98717 94628

Fabian Goncalves  
Lead Assessor  
[Fabian.Goncalves@sgs.com](mailto:Fabian.Goncalves@sgs.com)  
T: +55 11 5504 8887

**Encl:**

Annex 1 – CPFL Board Resolution N 2001022