Mr. Rajesh Kumar Sethi
Chair, CDM Executive Board
UNFCCC Secretariat
CDMinfo@unfccc.int

16th December 2008

Dear Mr. R. K. Sethi,

Re: Request for review for request for registration of "Ceran's 14 de Julho Hydro Power Plant CDM Project Activity" (UNFCCC Ref. no. 1829)

SGS has been informed that the request for registration of the CDM project activity "Ceran's 14 de Julho Hydro Power Plant CDM Project Activity" (UNFCCC Ref. no. 1829) 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 clarification to the DOE/PP:

Request for Review 1-3, Issue 1:

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

SGS' Response to Issue 1:

As requested a sensitivity of the investment cost was made showing that the IRR is still lower than the benchmark value (Ref 4):

Investment Variation

Variations		Thousand R$ in August 2003	IRR
Projected Situation		203,306.56	11.59%
	-5%	193,141.23	12.49%
	-10%	182,975.90	13.47%
	5%	213,471.89	10.77%
	10%	223,637.22	10.01%

After sensitivity analysis the maximum IRR is 13.47% if the investment costs are reduced by 10% . However, the most likely scenario is that the investment costs increase instead of decrease, and in this case the IRR will then be lower than expected for this project activity and also lower than the benchmark of 20.87%.

The parameters used in the sensitivity analysis are considered correct because they represent the investment costs, the revenue of the project and related costs that can directly affect the internal rate of return. Through the sensitivity analysis the maximum internal rate of return obtained is 13.47%, still lower than the benchmark of 20.87%. The assumptions and the spreadsheet calculation were provided, recalculated by the assessment team and were considered correct (/Annex 1/).

The conclusion is that after sensitivity analysis including the investment cost, the project activity is not financially attractive.

Request for Review 1-3, Issue 2:

Further clarification is required on how the DOE has validated the common practice analysis, in particular, the selection of similar project activities.

SGS' Response to Issue 2:

Similar projects were presented in the PDD and validated during the validation process. The hydro plants described in the PDD were considered similar to the project activity and 6 plants were analyzed. Considering the proposed range for similar projects, there are 6 hydro plants in the region:

- Hydro plant Castro Alves with 130MW– excluded because this is a CDM project activity requesting registration;
- Hydro plant Jacuí with 180MW – cannot be compared with project due to the size of the reservoir and power density is lower than 4W/m2;
- Hydro plant Passo Real with 158MW – cannot be compared with project because this is not a run-of-river plant as Castro Alves and due to the size of the reservoir and power density is lower than 4W/m2;
- Hydro plant Dona Francisca with 125MW – cannot be compared with project due to the start date before the Kyoto Protocol and the size of reservoir with a power density lower than the project;
- Hydro plant Monte Claro with 130MW – excluded because this is a registered CDM project activity;
- Hydro plant 14 de Julho with 100MW – excluded because this is the project activity;

Data source used for the common practice analysis: ANEEL, http://www.aneel.gov.br/area.cfm?idArea=15 (Brazilian Electricity Regulatory Agency).

The common practice analysis is based on the Brazilian electricity sector. The source of data presented was checked. There are similar hydropower plants but with different characteristics.

The distinction between the project activity and similar projects identified was proven. The project activity cannot be considered as common practice.

Request for Review 1-3, Issue 3:

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 (EB 41, Annex 46, paragraph 5). The response should provide a detailed timeline of project implementation.

SGS' Response to Issue 3:

The reliable evidence that the CDM was considered prior to the project start date and that continuing and real actions were taken was provided. The additional information provided and verified also attends the paragraph 5, EB 41, Annex 46 approved after submission of the request for registration.

Chronological History for the Project activity

1.	Communication between CPFL and CarboNetwork – technical proposal as requested by CPFL to develop the feasibility study for the several opportunities of GHG reduction in the activities of CPFL.	18/07/2001
2.	CDM Consideration evidence - "CPFL Board Resolution Nº2001022/CPFL; Report Nº 0/T – 31/07/01". 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	31/07/2001

	company financial results (Annex 2).	
3.	Report from Carbo Network: Volume I, CPFL in the context of Climate Change; Volume II, Project eligibility criteria; Volume III, Brazilian scenario to characterize the baseline scenario in CPFL; Volume IV, Preliminary estimative of the carbon credit in CPFL through CDM.	April 2002
4.	Actualization of the information about the opportunities to obtain carbon credits by CPFL, issued by SinerConsult – consider the opportunity to obtain carbon credits in the CPFL activities including the potential hydro plants projects Castro Alves, Monte Claro, 14 de Julho among others (Annex 7).	November 2002
5.	The BNDES Board of Directors approved the financing contract for CERAN: construction of Project HPP 14 de Julho, HPP Monte Claro and HPP Castro Alves.	08/12/2003
6.	The 2003 CPFL Annual Report shows that CPFL was looking for the carbon credit sales of its projects. CPFL was in the process of signing a cooperation agreement with IUEP - International Utility Efficiency Partnerships to find opportunities for carbon sales for its projects, including HPP 14 de Julho, HPP Monte Claro and HPP Castro Alves (Annex 3).	2003
7.	Start date of the project activity – construction beginning.	01/10/2004
8.	Proposal for the commercialization and development of the Carbon Credit Projects of CERAN, including hydro plants Monte Claro, 14 de Julho and Castro Alves (proposal issued by consultant company Ecoinvest).	March 2005
9.	Proposal from EcoSecurities with the intention to be the CER buyer (CDM Emission Reduction Agreement proposal from EcoSecurities (Draft ERPA). (Annex 4)	24/06/2005
10.	Exceptional circumstances and unforeseen geological conditions including rock burst phenomena occurred, stopped the construction. The ANEEL (Brazilian Electricity Regulatory Agency) notified CERAN that the construction was stopped by notification TN n^{o} 215/2005	July 2005
11.	Proposal from EcoSecurities with the intention to be a consultant and CER buyer. The proposal considers the development of CERAN's CDM projects (Annex 8).	14/07/2005
12.	Proposal from EcoSecurities with the intention to be a consultant. The proposal considers the development of CERAN's CDM projects (Annex 5).	24/07/2005
13.	CERAN requested IUEP to present a proposal for HPPs projects. IUEP presented its proposal and a draft Contract with conditions to develop the 3 HPPs together as a single program of investment.	25/07/2005
14.	In spite of the Executive Managers of CERAN had suggested to contract the three projects at the same moment, not necessary with the same Consultant, the CERAN board of Directors in its 49th meeting approved to contract a Consultant for develop initially only the Carbon Credit Project Activity for Hydro Power Plant Monte Claro.	28/07/2005
15.	After negotiation the EPC contractor agreed to restart the construction.	01/10/2005
16.	The amendment contract was signed between CERAN and EPC Contractor. New schedule established in 01/10/2005 was confirmed by EPC Contractor.	01/11/2005
17.	CERAN asked IUEP to revise its proposal, only for projects HPP Castro Alves and HPP 14 de Julho. IUEP presented its proposal and a draft Contract with conditions to develop the 2 HPPs together.	21/12/2005
18.	Negotiation between CERAN and IUEP to develop the projects HPP Castro Alves and 14 de Julho.	27/12/2005

19.	C-Trade consultants visited the HPP 14 de Julho and HPP Castro Alves.	22/02/2006
20.	C-Trade and CERAN was still in negotiation to develop the projects 14 de Julho and Castro Alves.	16/05/2006
21.	The 2006 CPFL annual report confirmed that CERAN intention to develop the CDM projects 14 de Julho and Castro Alves. The project HPP Monte Claro was developing in parallel by another consultant company. This project is already registered by the CDM EB (Annex 6).	2006
22.	C-TRADE was contracted in February 2007 to develop the project HPP Castro Alves.	February 2007
23.	Lumina Engenharia was contracted to develop the project HPP 14 de Julho.	28/06/2007
24.	Validation proposal signed with SGS.	12/09/2007
25.	Start of the validation – global stakeholder consultation.	11/10/2007
26.	Submission of request for registration.	25/04/2008

HPP plants 14 de Julho, Castro Alves and Monte Claro are mentioned together several times in the timeline above because CERAN is complex with 3 Hydro Power Plants but every project was developed in a separate PDD (individual CDM project).

SGS opinion is that the timeline of "Ceran´s 14 de Julho Hydro Power Plant CDM Project Activity" is in accordance with applicable procedures and requirements and reflects the real data and steps of the implementation of the project.

Request for Review 1-3, Issue 4:

The start date of the project activity should be as per the CDM glossary of terms.

SGS' Response to Issue 4:

Start date of the project activity presented in the PDD and confirmed during validation assessment (Ref.11 of the validation report): 01/10/2004, start date of the construction.

CDM glossary of terms: "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".

The start date of the project activity is in according to CDM glossary of terms because represents the start of project implementation/construction. Ref.11 of the validation report is a letter stating the immediate start of the construction of hydropower plant 14 de Julho.

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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Encl:

- Annex 1 - Sensitivity analysis
- Annex 2 - CDM consideration - CPFL Board Resolution N 2001022
- Annex 3 - Annual Report 2003
- Annex 4 - CERAN 3 hydro plants ERPA (PF)
- Annex 5 - CERAN 3 hydro plants EDGE proposal (PF)
- Annex 6 - Annual Report 2006
- Annex 7 - CERAN 3 hydro plants EDGE proposal - 2 PDDs (PF)
- Annex 8 - Information update of the opportunities of CERs acquisition by CPFL