São Paulo, 19th December 2008.

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

Subject: Request for review for "Ceran´s 14 de Julho Hydro Power Plant CDM project activity" (Ref. CDM nº. 1829)

Dear Mr. R. K. Sethi,

In order to answer the review requirements of the CDM Project, "Ceran´s 14 de Julho Hydro Power Plant CDM Project Activity" (Ref. no. 1829), the Project Participants are presenting a complementary report on the questions made by the Executive Board.

Request for Review, Issue 1:

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

Response to Issue 1:

The parameters used in the sensitivity analysis were:

- Energy Tariff Increase
- Operational Cost Reduction
- Administrative Costs Reduction

These were considered the most critical parameters because the electricity sale is the only revenue of the project activity, and increasing the revenue consequently increases the Internal Rate of Return. The operational and administrative costs represent the main expenses of the project activity, reducing these costs consequently increases the Internal Rate of Return.

Regarding the range of variations, it was considered, by the DOE, appropriated to the project. The sensitivity analysis was done following the steps in a conservative analysis. The investment cost was determined based on the EPC Contracts and the analysis of its variation was not considered real.

It was validated that the project IRR remained lower than the benchmark even in the case where these parameters changed increased the project IRR.

Even with the assumptions above, it is being presented below the analysis including the Investment Variation.

The sensitivity of the investment cost shows that the IRR is still lower than benchmark value:

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%

The maximum IRR is 13.47% when reducing 10% the investment costs. The most expected scenario is that the investment cost increase and not decrease, and in this case the IRR is lower than expected for this project activity and also lower than the benchmark of 20.87%.

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

<u>Request for Review, Issue 2:</u>

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

<u>Response to Issue 2:</u>

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 14 de Julho reservoir is small, with reservoir area of 6 km^2, and its power density is 17W/m^2.

Similar hydro power plants considered in the common practice analysis:

- HPP Passo Fundo and HPP Passo Real (158 MW) were built with reservoirs, 151.50 km^2 and 248.82 km^2 respectively. The power density is lower than 4W/m^2, 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 (180 MW) 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^2. The power density is lower than 4W/m^2, not applicable as a CDM project.

- HPP Dona Francisca (125 MW) 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^2. Its power density is lower than HPP Castro Alves, 6.58 W/m^2. 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 (130 MW) and HPP Castro Alves (130 MW), all from the same company (CERAN), were built as a CDM project activity. HPP Monte Claro is a registered project and

HPP Castro Alves 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.

The source of data used for the common practice analysis was ANEEL, http://www.aneel.gov.br/area.cfm?idArea=15 (Brazilian Electricity Regulatory Agency) and it was checked by the DOE.

There were similar Hydro Power Plants in the moment of the evaluation. However, the distinction between them and the Project Activity was confirmed.

The project activity is not a common practice according to the reasons above.

Request for Review, Issue 3:

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, following the guidelines from paragraph 5, EB41, Annex 46. The response should provide a detailed timeline of the project implementation.**

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 to SGS during the validation process. The additional information provided and verified also attends the paragraph 5, EB41, Annex 46 approved after submission of the request of registration.

The start date of the project activity is 01/10/2004.

The evidences of compliance with the item (a) of Paragraph 5, before the start date, are the following:

Year 2001

18/July - Communication between CPFL and Carbonetwork: A technical proposal was requested by CPFL to Carbonetwork to develop the feasibility study. CFPL has had the intention to looking for opportunities of GHG reduction in its activities. (Checked by SGS)

31/July - CDM Consideration evidence: “CPFL Board Resolution no 2001022/CPFL; Report no 0/T – 31/07/01”. This document considers to contract a Consulting Company (Carbonetwork) 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. (Annex I)

Year 2002

April - Report from Carbonetwork (Checked by SGS):

The report was brought to CPFL on April, with the issues:

- 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. In this Chapter is being considered the projects HPP 14 de Julho, HPP Monte Claro and HPP Castro Alves;

- Volume IV - Preliminary estimative of the carbon credit in CPFL through CDM.

November - Update of the information about the opportunities to obtain carbon credits by CPFL, issued by Sinerconsult, considered the opportunity to obtain carbon credits in the CPFL activities including the potential HPP 14 de Julho, HPP Castro Alves and HPP Monte Claro, among others (Annex II).

Year 2003

08/December - The BNDES Board of Directors approved the financing contract for Hydroelectric Power Complex – CERAN. In this contract the construction schedule of the whole Complex was foreseen to start on 1st February 2004 and to be completed on 31th August 2008. The construction of HPP 14 de Julho was foreseen to start on 1st October 2004. (Checked by SGS)

December - The Annual Report of 2003 showed that CPFL was looking for the carbon credit sales of its projects and for the affiliated companies. 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 III)
(http://www.mzweb.com.br/cpfl/web/arquivos/CPFL_RelatorioAnual2003_eng.pdf)

Year 2004

01/October - Starting date of the project activity. The EPC Contractor started the construction activities effectively. (Checked by SGS)

The documents evidencing the item (b) of paragraph 5, from the start date on, are the following:

Year 2005

22/March - Ecoinvest, in the intention for being a consultant and a buyer of the forward CERs, made a proposal to develop the CDM projects for CERAN. The three projects were considered as a single program of investment (HPP 14 de Julho, HPP Monte Claro and HPP Castro Alves. (Checked by SGS)

26/June - Ceran received a Draft of ERPA from Ecosecurities, called "EDGE – Enterprise Dimension of GHG - Developmente the Oportunity of Carbon Mitigation by Hydropower Complex CERAN". This draft includes proposal for CERs of the HPP 14 de Julho and of the others two CERAN HPPs. (Annex IV)

July - Exceptional circumstances and unforeseen geological conditions including rock burst phenomena occurred and the construction was stopped by EPC Contractor for total contract price renegotiation. The ANEEL (National Energy Electric Agency) notified CERAN that the construction was stopped by notification TN n° 215/2005. (Checked by SGS)

11/July - ERPA negotiation between Ecosecurities and Ceran, called "EDGE – Enterprise Dimension of GHG - Developmente the Oportunity of Carbon Mitigation by Hydropower Complex CERAN". This draft includes the HPP 14 de Julho and the others two CERAN HPPs. (Annex V)

14/July – Ecosecurities, in the intention for being a consultant and a buyer of the forward CERs, made a proposal to develop the CDM projects for CERAN. The options were the development of just one project alone, 2 or 3 projects together. In this last option the projects were considered as a single program of investment. (Annex VI)

25/July - CERAN requested C-TRADE to present a proposal for HPPs projects. C-TRADE presented its proposal as a Draft Contract with conditions to develop the 3 HPPs together as a single program of investment. (Checked by SGS)

28/July - 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. (Checked by SGS)

12/September - The Ecoinvest and the CAF (Corporacion Andina de Fomento) invited CERAN for a conference call about ERPA of CERAN HPPs.

01/October - After many negotiations with CERAN, the EPC Contractor agreed to restart the construction works. In this same date a new schedule for construction was made for it.

01/November - The contract amendment was signed by Ceran and EPC Contractor: the cost overruns were absorbed by Ceran and the new schedule established in 01/10/2005 was confirmed by EPC Contractor. (Checked by SGS)

21/December - CERAN asked C-TRADE to renewal its proposal, only for HPP Castro Alves and HPP 14 de Julho projects. C-TRADE gave its proposal as a Draft Contract with conditions to develop the 2 HPPs together in the same moment. (Checked by SGS)

27/December - CERAN was in negotiation with C-TRADE to develop the HPP Castro Alves and HPP 14 de Julho together. (Checked by SGS)

December/2005 - CERAN started the validation of HPP Monte Claro (CDM project Ref no.0773), the first one project in its category that asked Brazilian DNA authorization.

Year 2006

31/January - CERAN received the Ecosecurities proposal to develop only HPP Castro Alves. (Annex VII)

22/February - C-TRADE consultants visited the HPP 14 de Julho and HPP Castro Alves construction sites. (Checked by SGS)

26/May - CERAN was still in negotiation with C-TRADE to develop the HPP 14 de Julho and HPP Castro Alves. (Checked by SGS)

07/August - CERAN changed its strategy and started negotiating with C-TRADE for developing only the HPP Castro Alves project activity. (Checked by SGS)

25/October - Brazilian DNA issued the LOA for HPP Monte Claro. CERAN have just finished the first process of Brazilian approval for one project with these characteristics.

26/October - Jornal do Comércio: Newspaper article about CERAN and the uses of the CERs as a complementary financial source for its projects. (Annex VIII)

December - The Annual Report of 2006 confirmed that CERAN had the intention to develop the CDM Projects of HPP 14 de Julho and HPP Castro Alves. (Annex IX)
(http://www.mzweb.com.br/cpfl/web/arquivos/CPFL_RA_2006_Eng.pdf)

Year 2007

February - C-TRADE was contracted in February 2007 to develop the project HPP Castro Alves.

08/April - The HPP Monte Claro CDM project Activity was registered by EB-CDM (ref. 0773).

23/April - CERAN invited companies to develop the project HPP 14 de Julho for registration at EB-CDM.

13/May - Gazeta Mercantil: Newspaper notes about CERAN and the uses of the CERs as an important revenue source for its projects. (Annex X)

15/May - Ceran was in CERs price negotiation with ICF International. This proposal received from ICF International covers CERs of the HPP 14 de Julho and of the others two CERAN HPPs.

30/May - Forbes Brasil: Magazine article about CERAN and the uses of the CERs as an important revenue source for its projects. (Annex XI)

27/June - Ceran received a proposal of ERPA from Fortis Bank. These proposals include CERs of the HPP 14 de Julho and of the others two CERAN HPPs. (Annex XII)

28/June - Lumina Engenharia and Consultoria Ltda. was contracted to develop the project HPP 14 de Julho.

September - HPP 14 de Julho started the validation process – global stakeholder consultation.

Year 2008

March - The CDM project HPP 14 de Julho was approved by the Brazilian DNA.

26/April - HPP 14 de Julho CDM Project requested for registration at EB-CDM.

The timeline of "Ceran's 14 de Julho Hydro Power Plant CDM Project Activity" is in accordance with applicable procedures and requirements of paragraph 5, EB41, Annex 46.

Request for Review, Issue 4:

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

Response to Issue 4:

The start date of the project activity is according the CDM glossary of terms.

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 project started on 1st October 2004, with the beginning of its construction.

This date was checked and confirmed during the Validation by a letter stating the immediate start of the construction of Hydro Power Plant 14 de Julho.

We kindly thank you the opportunity to present this complementary report.

Kind Regards,

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