VEOLIA PROPRETÉ

Technical, Scientific and Sustainable Development Department

MÉMORANDUM

TO : MR CLIFFORD MAHLUNG AND THE MEMBERS OF THE CDM EXECUTIVE BOARD

FROM : VEOLIA PROPRETÉ, TECHNICAL, SCIENTIFIC AND SUSTAINABLE DEVELOPMENT DEPARTMENT

SUBJECT : CALL FOR INPUT ON THE DRAFT "TOOL TO CALCULATE THE WEIGHTED AVERAGE COST OF CAPITAL (WACC)"

DATE : 22/04/2010

Cc :

Dear Mr Clifford Mahlung, Honourable Members of the CDM Executive Board,

First of all we would like to thank the CDM Executive Board for the opportunity to respond to this call for public input. Veolia Propreté is a project participant involved in numerous projects in the waste management sector in South America, Africa and Asia and therefore appreciates to be able to provide its comments on methodologies, guidelines and tools that will apply to future projects.

With regard to the draft "Tool to calculate the weighted average cost of capital (WACC)", we have identified six main comments / suggestions:

1) Confidentiality of required data
2) Identification / Definition of the entity undertaking the project activity
3) Availability of government bonds
4) Value of the general/global equity risk premium PE_g
5) Denomination of GB in Step 4, Option 4B
6) Access to financial information on bonds and CDS (country default spreads)

1) Confidentiality of the required data.

The tool demands publication of sensible financial data concerning the legal entity that will host the project activity and possibly of parent or sister companies:

- Weighted average cost of debt financing (see step 3A of the draft tool)

- Contracts of lending between financial institutions or the parent company and the legal entity (see step 3A of the draft tool)
- Transfer of capital from the headquarters to the legal entity (see step 3A of the draft tool)

This kind of information, which is requested to justify the WACC, is generally not published by most private entities, as it is highly sensitive data from a commercial and competition point of view. Some of this data may also be under a confidentiality agreement which further complicates its publication.

Consequently, we request that the details to calculate the WACC are not presented within the PDD but provided to the DOE and to the EB as confidential data that is not accessible to the general public.

2) Identification / Definition of the entity undertaking the project activity

Step 1 of the draft tool mentions:

"Document and justify in the CDM-PDD which of the following two situations applies to the project activity:

(I) The project activity can only be implemented by the project participants and not by an entity other than project participant, or

(II) The project activity could also be implemented by entities other than the project participants."

Veolia Propreté thinks that the distinction between case I) and II) is not always clear. Concession contracts do not necessarily determine who is "responsible for" or "allowed to" implement a CDM project activity. Especially longer running and older concession contracts may also not foresee the possibility of a CDM project at all.

A CDM project activity can be separated from the main concession activity via either a specific tender process or an arrangement where project partners can be imposed to the initial concession holder.

A CDM project can incorporate several components, and the investment in the project can be done in different ways. For example, separate entities can invest in the project components, or one entity can make the full investment.

Also the situation may evolve over time and concession periods may not match with CDM project crediting periods.

Finally, in cases where the development and management of the project activity is subcontracted to a third party, it is unclear whether the financial situation of the legal entity or the subcontractor is used as reference.

Further clarification how to determine whether a project activity is in case I or II would therefore be appreciated.

3) Availability of government bonds (Step 4)

In step 4 (page 6), the tool mentions *"Equation 3 should be used if the government of the host country has issued a bond with a maturity of at least one year. Otherwise, equation 4 should be used."*

$$K_e = RF + CDS + PE_g \quad (4)$$

In order to calculate the parameter RF, the tool then recommends:

"RF is determined as the yield of a ten year USD bond, as observed on average in the past 3 years prior to the preparation of the CDM-PDD;"

To Veolia Propreté it is unclear what bond exactly is to be used in this case (RF) and who is the expected emitter of that USD bond.

4) General/global equity risk premium PEg

In Step 4, Option 4.A and B, PE_g is both the 'Global equity risk premium' and the 'General equity risk premium', the former at 4.7%, the latter at 4.1%. The source used for both values, indicates a 'Historical equity premium value' of 4.7%, and seems to be the value for PE_g.

If values are meant to be different, please provide the reasoning and the source for a PE_g of 4,1%.

5) Denomination of GB in Step 4, Option 4B

Equation 3 on page 5 contains the parameter GB while the explanation on page 6 uses GB_i. To our understanding there should not be any index i, as for this option the Government Bond is issued by the host country in local currency and there is no option for a bond in USD.

6) Access to financial information on bonds and CDS (country default spreads)

Generally, financial information on bonds and CDS (country default spreads) may not be readily available or may be costly to obtain for the project developers. This is especially the case for smaller project activities with restricted means (just beyond the small scale threshold).