บริษัท แม่สอด ไบโอแก๊ส จำกัด
193 หมู่ 8 ถนนแม่สอด-แม่ระมาด ต.แม่กาษา อ.แม่สอด จ.ตาก 63110

Subject: Response to request for review in the context of request for registration of the proposed CDM project activity (5291) "Maesod Wastewater Treatment and Biogas Utilisation project"

Dear CDM team,

We would like to submit our responses on the issues raised as below:

1	**The validation report (page 21) states that the starting date of the project activity is 25/02/2009, the date of the first payment for the Biogas plant design and construction start up made to Papop Co Ltd (technology provider). However, the DOE validated a contract signed with Papop on 25/06/2008 which included the supply of UASB, flares and necessary services for CDM (Page 22 of VR). The DOE is requested to explain how the signed contract with the technology provider was not considered as a real action, and hence the starting date of the project activity. In the event that the PP/DOE considered a revised project start date, the DOE should validate accordingly the prior CDM consideration of the project activity. Please refer to VVM v 1.2 paragraph 99.**
Project proponent's response	The initial contract with the technology provider was signed on 25/06/2008. This contract included supply of UASB system, flare, piping system, H2S removal system and installation of gas engine but excluding gas engine purchase. The total value of the contract was 45.5 mTHB[1]. As per the contract, the technology provider could begin the work only upon payment of a security deposit of 10%. The project proponent didn't make this deposit, mainly because financial closure for the project was not foreseeable at that time, and therefore no concrete work or real action was undertaken. There was no penalty clause in the contract which would enforce penalties in case the project proponent didn't pay the security deposit. On 11/02/2009, the contract was amended where the scope of services and total value of the contract was revised to 42.5 mTHB. The installation of gas engine was excluded from the scope of services. The project proponent paid the security deposit on 25/02/2009. This payment enabled the technology provider to proceed with their work. Therefore, this first payment represented real action and financial commitment by the project proponent in line with the "Glossary of CDM terms". In the context of the project activity, the date of first payment was therefore considered appropriate as the start date of the project activity.

2	**The DOE is requested to further substantiate how it has assessed that the "access to finance barrier" is valid at the time of investment decision, considering that the loan from CIMB bank and the funds from the ERPA for the project activity were obtained after the reported starting date of the project activity. Please refer to VVM v1.2 paragraph 117.**
Project proponent's response	***<u>Validity of "access to finance barrier" at the time of investment decision:</u>*** The access to finance barrier was valid at the time of investment decision. The project proponent included CDM revenues since the early stages of the project which was highlighted in the decision to proceed with the project. In April 2008, the project proponent had approached equity investor for a potential investment in the project activity. The investor[2] could not consider the investment in the project activity due to the fact the project activity will depend on the starch factory for its operation which was

[1] mTHB – million Thai Baht
[2] Letter from Investor submitted to DOE

still not commissioned and the risk of investment in a new company would be very high. Further, due to the new nature of the company and the risky profile of the project activity the project proponent was aware of problems related to securing finance for the project. Hence, the project proponent also requested for upfront financing from CDM revenues as means to ensure financial feasibility and achieve financial closure of the project activity, which was reflected in the MoU[3] signed between the project proponent and the CDM consultant in May 2008.

Compliance of "access to finance barrier" with VVM v1.2, Paragraph 117:
VVM v1.2 paragraph 117 (a) requires to determine if the barriers are real. It is mentioned in the PDD section B.5 that several financial institution highlighted problems faced by the project developers in wastewater sector to raise the necessary finance. The financial institutions considered investment in these projects risky which results in higher cost of project development and debt financing. Further, owing to new technologies, lack of experience and risky profile of host companies resulted in complicated and time-consuming process of securing finance. The relevant evidences were provided to the DOE. These independent sources highlighted that accessing finance for such project activities faces real barriers. The same barrier is also applicable to the project activity.

Project specific information is presented in the PDD to demonstrate the "access to finance" barrier in an objective manner as per EB50, Annex 13. It is mentioned in guideline 1 that:

"While demonstrating barriers related to the lack of access to capital, information should include nature of company, organization and its ownership and, financial information".

The relevant financial information and ownership details were provided to the DOE during validation. It should be noted that all the shareholders in the company were individual investors. The company falls under the SME category which makes it inherently difficult to secure loans as discussed in the PDD. The company specific financial details, ownership structure and the negative perception of this project type by financial institutions were available at the time of decision making. The project proponent was therefore already aware of difficulties in securing the finance for the project activity. The early consideration of CDM and the fact that the project proponent aimed at CDM as means to secure financial closure also highlights that CDM played a very crucial role since the very beginning. This demonstrates that the barrier is real as per VVM v1.2 paragraph 117.

Further background information regarding the time period between investment decision and loan approval / ERPA signature:
The rejection letter from SCB bank in Dec 2008[4] shows that project proponent was in discussion with the banks well before the project's start date. The bank highlighted that loan was rejected due to financial situation of the company and more so since the starch factory was not commissioned. The audited balance sheet for 2008[5] shows a paid up capital of only 1.25m THB which clearly shows weak financial situation of the company to interest any investor. Moreover, the banks are unwilling to consider the loan unless they see some amount of cash injection in the form of equity and certain amount of progress in the project. Already during the loan negotiation process with

[3] Copy of MoU submitted to DOE.
[4] Submitted to DOE during validation.
[5] Submitted to DOE

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	SCB (throughout 2008) and from parallel discussions with other investors, it was clear to the project owner that CDM revenues would be critical in securing a loan from a commercial bank by eventually decreasing the loan amount through carbon finance and by improving the financial feasibility of the project through additional CER revenues and therefore reducing the risk exposure of the bank. In May 2009, TMB bank highlighted concerns in considering the loan for the project activity in an email communication[6]. The issues were mainly related to the un-acceptable shareholding structure in the project company and the fact that it was a new company with no back up by any parent company. The first ERPA and ENCOND fund contracts were signed on 8/6/2009 and 30/6/2009 respectively. The paid up capital (in the form of equity) into the project company was also raised from 1.25m to 30m THB in 2009 as per the audited balance sheet for 2009[7]. The contract with the technology provider was amended to its final form on 11/02/2009 and the security deposit to commence the work was only paid on 25/02/2009 (project start date). At that time, the shareholders of the project company felt confident enough that their efforts to secure CDM revenues and bridge the financing gap through alternative means of finance (i.e. carbon finance and ENCOND funds) would eventually succeed and decided to proceed with the initial installment of 10% to the technology provides. This represented the first significant expenditure for implementation of the project activity; no money was paid to technology provider in 2008. In 2009, only about 8mTHB[8] was spent on the project activity which represents only about 13% of the overall project cost. It should be noted that only when the project activity achieved these critical milestones in terms of ERPA, approval of subsidy and construction start, the banks took real interest in considering the project activity. Therefore, it is very clear that the project activity faced access to finance barrier throughout the project's progress. This also demonstrates the fact that like in any other investment, unless some amount of investment and or resources is pledged, no investor would be willing to invest in a new company. This also gave confidence to the project proponent that once some progress has been made in terms of project implementation and CDM application, it would be relatively easier to approach the banks and get the loan approved. Obviously this process takes time and the project proponent took a calculated risk to take a decision to invest in the project.

We hope the above clarifies the issues raised.

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Regards,

Mr. Praphon Sinsadok
Managing Director

[6] Submitted to DOE
[7] MBG audited account year 2008 to 2009.
[8] As per payment summary from technology supplier