

COMPAÑÍA BOLIVIANA DE ENERGÍA ELÉCTRICA S.A.

Bolivian Power Company Limited

Sucursal en Bolivia

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Casilla 353

La Paz – Bolivia

NIT: 1020579023

La Paz, March 18th, 2009

F-006/09

**Executive Board
CDM**

REF: **Santa Rosa Hydropower Plant Project (2101) – Request for Review**

Dear EB members,

We have received the notification from the Secretariat that our project the "Santa Rosa Hydropower Plant Project" (2101) has received 3 requests for review from EB members. These requests have raised the following issues:

1. Further clarification is required on how the DOE has validated the suitability of the input values to the NPV calculation, both for the project activity and alternatives, and how the insurance proceeds for reconstruction has been dealt with in the NPV calculation and why it is not considered as an income.
2. The PP/DOE should further clarify how the similar projects have been identified and how the project activity has been differentiated from the similar project in the common practice analysis.

Please find the corresponding clarifications in the paragraphs below.

Issue No. 1

See issue as addressed by DOE through accompanying letter.

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Issue No. 2

Clarify how similar projects have been identified

As an adequate representation of similar projects developed in the Bolivian National Interconnected System (SIN), it was adopted a time frame that began five years prior to the initiation of the project activity planning stage, i.e. project activity planning was initiated in 2003, hence similar projects were identified starting in 1998.

During the last 40 years¹ it is possible to identify three stages of hydropower development in the Bolivian System: 1966-1974 (10 generating units), 1980-1983 (4 generating units) and 1997-onwards (14 generating units). Therefore, the adopted time frame for identification of similar projects is basically coincident with the last stage of hydropower development that has taken place in the SIN.

Similar projects identified in the PDD, grouped, numbered and indicating year of commercial operation for the purpose of the present clarification are:

- I. Cuticucho (1 unit - 1998), Botijlaca (1 unit - 1998), Huaji (2 units - 1999)
- II. Killpani (1 unit - 2001), Landara (1 unit - 2001)
- III. Kanata (1 unit - 1999), Chojlla (3 units - 1998/2002), Yanacachi (1 unit - 2002)
- IV. Santa Isabel (1 unit - 2004)

Characteristics common to the project activity and similar projects identified are:

- Hydropower projects
- Capacity in the range of 3.5 MW to 50 MW
- Medium and high head technologies (Francis and Pelton turbines)
- Part of the Bolivian SIN (considering that there are power stations outside the SIN)
- New Electricity Law in place (since 1994)

How the project activity has been differentiated from the similar projects in the common practice analysis

Four market factors were identified as barriers that the project activity had to face, while the similar projects reached the investment decision stage without at least one of the said barriers, clearly differentiating from the project activity. Table 1 illustrates the barrier impact on the project activity and the similar projects:

¹ Superintendence of Electricity 2004 Annual report, page 37. At www.superele.gov.bo

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Table 1. Barrier Impact (Yes/No)

Barrier	Project Activity	Similar Projects			
		I	II	III	IV
<u>Barrier 1:</u> 1.30 \$/TCF natural gas price cap established by the Bolivian Government for the electricity industry starting on January 2001, the new price cap significantly limited the energy price in the spot market	Yes	No	No	No	Yes
<u>Barrier 2:</u> A short (less than three years) cost-plus basis period guaranteeing capacity and energy prices that waved the variation risk in the spot market	Yes	No	Yes	Yes	Yes
<u>Barrier 3:</u> Unstable growth in the electricity demand combined with a low average growth that discourages the investment scenario, compared to the period prior to 1999 when a sustainable 7% growth in the electricity demand was registered	Yes	No	No	No	Yes
<u>Barrier 4:</u> Lack of investment stimulus based on compromise with government. As part of the investment compromise during the privatization/capitalization process of the electricity industry that started in 1994, new owners (private investors) had to comply with a minimum level of investment within a certain period, regardless of the investment financial feasibility hurdle	Yes	No	Yes	Yes	No

Barrier 1. Supporting documentation is Supreme Decree No. 26037, dated December 22nd, 2000 ², where it is established the referred natural gas price cap for the electricity industry.

² At www.presidencia.gov.bo/gaceta

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Supreme Decree No. 26037 was already in force at the time of investment decision for the project activity and similar project IV³, consequently Barrier 1 applied. Similar projects I, II and III were either in commercial operation or under construction at the time of promulgation of the said Supreme Decree, hence Barrier 1 did not apply⁴.

Barrier 2. Supporting documentation is comprised of Supreme Resolution No. 215064, article sixth⁵, modifying COBEE Concession terms and where it is stated that during the first 14 years following the promulgation of the Electricity Law No. 1604⁶, wholesale electricity prices shall be established according to Title V of the Electricity Code⁷, and that after the said period wholesale electricity prices shall be established according to Title V of the Electricity Law.

The Electricity Law No. 1604 was promulgated on December 21st, 1994; hence the 14-year period covered until December 21st, 2008 in order to apply the terms of the Electricity Code for wholesale electricity prices under COBEE Concession. At the time of investment decision it was foreseen that the Santa Rosa Hydropower Project would initiate commercial operation during year 2006. This forecast was later confirmed by the effective initiation of commercial operation in June/July 2006⁸; therefore less than three years cost-plus basis capacity and energy prices were applicable to the project activity as specified under the Electricity Code. Consequently, Barrier 2 applies to the project activity.

Similar project I completed by 1999 benefited from more than nine years of cost plus basis, hence barrier 2 does not apply. Similar projects II, III and IV operated under the Electricity Law at all times, i.e. without any benefit from cost plus basis for capacity and energy prices, hence Barrier 2 applies.

Barrier 3. Supporting documentation of market growth is shown in SIN Operational Results for 2003 by the CNDC⁹.

³ Superintendence Resolution No. 169/2001 granting generation license for similar project IV. At www.superele.gov.bo

⁴ Superintendence Resolution No. 094/1998 granting generation license for Chojlla and Yanacachi, part of similar project III. At www.superele.gov.bo

⁵ At www.presidencia.gov.bo/gaceta

⁶ Idem.

⁷ Supreme Decree No. 08438, dated July 31, 1968, promulgating Electricity Code. At www.presidencia.gov.bo/gaceta

⁸ CNDC Resolutions No. 198-2006-4 and 199-2006-1 authorizing commercial operation of Santa Rosa Units 1 and 2, respectively. At www.cndc.bo

⁹ At www.cndc.bo

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The unstable growth in the market electricity demand was known at the time of investment decision in the case of the project activity and similar project IV, therefore Barrier 3 applies. On the contrary, the unstable market growth scenario occurred when similar projects I, II and III were already operational or under construction, hence Barrier 3 does not apply.

Barrier 4. As part of the investment compromise acquired during the privatization/capitalization process of the electricity industry that started in 1994, new owners (private investors) had to comply with a minimum level of investment within a certain period. This compromise turned into a direct investment stimulus for sector related projects.

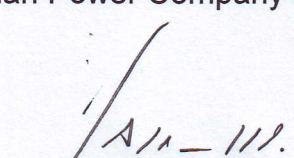
The project activity and similar projects II and III were not part of the 1994 privatization/capitalization process; consequently the lack of investment stimulus, Barrier 4, applies. Similar project I responded to an investment compromise resulting from COBEE concession¹⁰, therefore it is consistent to consider that Barrier 4, lack of investment stimulus, does not apply. Similar project IV is the direct result of the compromises acquired during the privatization process initiated in 1994¹¹; hence lack of investment stimulus, Barrier 4, does not apply.

The Project Proponent is convinced that the above clarifications provide adequate support for the "Santa Rosa Hydropower Project" compliance with CDM requirements and properly substantiate the request for registration as a CDM project activity.

Sincerely,

COMPAÑÍA BOLIVIANA DE ENERGÍA ELÉCTRICA S.A.

Bolivian Power Company Limited


Mr. Hector Baldivieso
Projects Superintendent

¹⁰ Supreme Resolution No. 207640, Article Fifth. At www.presidencia.gov.bo/gaceta

¹¹ Empresa Electrica Corani S.A. Financial Statements 2004, Note 11.1. At www.corani.com