

Bogota D.C., December 8th, 2011

CDM Executive Board

UNFCCC

Bonn

Germany

Ref: Response to request for review for: request for registration of Chamelecón 280 Hydroelectric project (5069)

Dear CDM Executive Board:

As response to your communication received on last November 3rd, 2011, we are sending the response to request for review for: request for registration of "Chamelecón 280 Hydroelectric project ", in the framework of its validation process:

Request .

The DOE shall further justify the existence of investment and institutional barriers to the project activity, in particular: (i) how the DOE has validated that these barriers are project-specific; (ii) how the CDM alleviates each of the identified barriers to a level that the project is not prevented anymore from occurring by any of the barriers; (iii) how the delay in the signature of the PPA can be considered as investment barrier. In doing so, the DOE shall provide transparent and documented evidence, and offer conservative interpretations of this documented evidence. Please refer to paragraph 115 (a) VVM. version 01.2 and paragraphs 4,5 and 9 of EB 50, annex 13..

Responses:

(i) How the DOE has validated that these barriers are project-specific;

a) Project specific institutional barriers

In the VR, it has been explained how the DOE validated the existence of a general institutional environment in Honduran energy sector, characterized by: unclear processes, political reluctance to modernize the regulatory framework in such a way to incentivize renewable energy, and prolonged and unreliable timeframes to complete permits and licenses, that prevents the execution of energy projects type as Chamelecon Hydroelectric Project (CHP) is.

How specific issues of this institutional environment have prevented the execution of the CHP follows:

1. Prolonged and unreliable timeframes to complete permits and licenses and unclear processes:

The Chamelecón hydroelectric project had to face the delay of the Interconnection authorization to the National Grid from ENEE. This key document in the development of an energy project did not materialize until April 2009, almost fourteen months after it was requested in February 2008.

After this process, and in order to get the PPA, the Chamelecón hydroelectric project had to face the hurdle of unclear processes, because on April 29 2009, ENEE informs GERSA that PPA negotiations will be suspended pending the resolution of issues with another private developer who requested interconnection on March 2009. On July 3rd 2009 ENEE informs GERSA of two possible solutions to an interconnection problem that was delaying the PPA. One solution was a short term approach that would be adopted by GERSA and the other was a longer term connection setup. On December 1st 2009 ENEE informs GERSA that it can continue to adopt the short term solution but that once ENEE has made the conditions for the long term connection setup possible, this long term solution would take precedence.

On the other hand, the Chamelecón hydroelectric project had to also face the delay in finalizing the Environmental Permit. This process began on June 2007 and was finally concluded when SERNA issued the permit on November 2009. These delays with Interconnection authorization to the National Grid and Environmental Permit generated delays and significant costs for the project developer. It is important to mention that if the Environmental License is not granted the project cannot be executed, causing further losses for the developer.

The final approval by the president of Honduras, and the publication in La Gaceta took finally place on 30/07/2010, which is the basis document to describe conclusion of the approval process.

2. Regulatory framework:

After a delay of almost two years, the PPA was approved and the Interconnection authorization to the National Grid was granted. However, now uncertainty emerged regarding issues dealing with a Special Renewable Law modification, which had not been approved by Honduras Government even up to the date of onsite visit by the DOE, as explained in the VR. Even so, GERSA decided to proceed with PPA negotiations regardless of the outcome of this law, thus taking on further financial hardships and risks. The ELCOSA group started already with the investment on equity capital for the construction of roads and purchase of lands¹ during the third quarter of 2008, doing so at own risk since the project could not be developed without the PPA approval and subsequent project finance. Once the PPA was

¹ See annexed file “CHP Statement for Loan Agreement0001.pdf”

approved, GERSA was in a position to secure project finance and was able to fulfill contractual obligations with suppliers and the civil work company.

b) Project specific investment barriers

Project financing has been one of the obstacles faced by the PP to go ahead with the project due to reluctance of financial entities to support this type of project. Local banks foresee high risks in hydro plants like Chamelecón hydroelectric project, as stated by Banpaís (local financing bank), in a letter verified by ICONTEC². It should also be noted that one of the risks then claimed by this bank, was the uncertainty of the PPA contract with ENEE, thus interlacing investment and institutional barriers. In conclusion, CDM development was necessary in order to carry out this project. GERSA, the company developing the project belongs to ELCOSA group. The financial balance for 2010 for the company shows a patrimony of \$57,000,000 USD³. The investment in the project (around \$34,500,000 USD) represents a high investment risk compared to the patrimony of the group. Up to date, the group has one other investment on a fossil fuel fossil plant, for which financing can be obtained with low difficulty using international funds, mainly because in case of bankruptcy, the electromechanical equipment can be easily sold in the market.

(ii) How the CDM alleviates the identified barriers

a) How the CDM alleviates the institutional barriers

Despite of the delays described above, ENEE⁴ and SERNA⁵ issued letters highlighting the importance of CDM development for the Chamelecón hydroelectric project in order to surpass the hurdles faced with securing the Interconnection authorization to the National Grid and the Environmental Permit.

b) How the CDM alleviates the investment barrier

CDM helps overcome the investment barrier by ensuring that the project will be developed under international standards, therefore helping the decision makers of the banks approve this financing due to the lower perceived risks, this sentiment was stated by Banpais in its letter issued on August 16th 2010², which was mentioned earlier. The translation into English language of this letter is attached to this response. Furthermore, the importance in the development of the CDM can be found in the records of ELCOSA board meetings and resolutions (16/06/2008)¹, which states that

² See annexed files: “CHP Constancia MDL Banpais_CHA_16.Ago.2010.pdf” and its translation into English Language “CHP Translation letter Banco Pais.doc” already validated by ICONTEC.

³ See annexed file: “Balance Income ELCOSA 2010-2009 English.xls”.

⁴ See annexed files: “CHP Nota ENEE Chamelecón 14.Nov.2010.pdf” and its translation into English Language “CHP Nota ENEE Chamelecon.pdf” already validated by ICONTEC.

⁵ See annexed files: “CHP Constancia MDL_ SERNA_ GERSA 10.Sept.2010.pdf” and its translation into English Language “CHP Constancia MDL_ SERNA_ GERSA 10.Sept.2010.doc” already validated by ICONTEC.

the development of the project as CDM is crucial for ELCOSA to provide equity for the development of the project. This resolution was also submitted to GERSA's general manager via a letter. ELCOSA began to provide significant equity to cover expenses such as the purchasing of lands, building of roads and completion of studies. This investment was executed in parallel with the start of negotiations with Anaconda Carbon for the development of the CDM component in August 2008.

ii) How the delay in the signature of the PPA can be considered as investment barrier

GERSA has experienced difficulties in attaining a power purchasing agreement (PPA) with ENEE. ENEE did not grant GERSA the right to sell the power output from the project activity to the Honduran National Utility until April 24, 2010 after sizable delays and additional costs. Once the PPA was approved, GERSA was able to secure financing and able to fulfill contractual obligations with suppliers and the civil work company.

This letter should be read with the annexes listed in the footnotes of pages and attached to this letter in the uploading to UNFCCC Website.

Please review our commentaries and do not hesitate to contact us to clarify any point.

Best Regards,



Diego Caballero.

Conformity Assessment Director

ICONTEC