

RESPONSE TO REQUESTS FOR REVIEW

BUREAU VERITAS CERTIFICATION have performed the validation of the CDM Project "Ocaña Hydropower Project". The request for registration was completed on 28/12/2012. The reference number of the project activity is 9377 CDMP.

Subsequently, there have been 3 requests for review.

We find that the 3 requests listed in the UNFCCC website¹ are identical and have identical content. This request for review was divided in 2 topics. The second topic is divided in 4 sub items (a to d). Both topics refer to requirements derived from paragraph 37 of the CDM modalities and procedures, more specifically regarding to project additionality and barriers analysis.

The overall validation, from Contract Review to Validation Report & Opinion, was conducted using internal procedures (BMS, September 2003) which were audited by the CDM Accreditation Team in December 2004.

We give below our response to the requests for review.

1) The DOE is requested to further substantiate how it has validated that the financing of the project was assured only due to the benefit of the CDM as per para 9 of guidance of GUIDELINES FOR OBJECTIVE DEMONSTRATION AND ASSESSMENT OF BARRIERS and how the lender has assessed the CDM revenue before issuing the loan in 2008 March.

As explained in section 3.7.4 of the VR v.2, as well as v.2.1:

To proceed with the disbursement of the capital and credit funds from FIMFEISEH (at that date managed by the National Central Bank – BCE), ELECAUSTRO formed an Administration and Guarantee Business Trust /38/, which has the role of administering the funds for carrying out the Project Activity and paying the financial commitments made by ELECAUSTRO with the National Central Bank.

In this document (Administration and Guarantee Business Trust /38/) it is stated that futures revenues is part of the lender guarantee to fulfill ELECAUSTRO's financial obligations, as follow:

"Content right or set of contents rights which are tradable on the national and international stock exchanges, including among others; shares, bonds, warrants, investment funds, futures contracts, or term contracts..."

"...The Trust is comprised of public and private capital that may be contains tangible and no-tangible assets that the Constituent (Elecaustro) transfer, as well as other assets and rights that being integrated as a result of developing and complying of this Contract...".

Based on this, the PP justify that the term "bonds" ("bonos" in Spanish), mentioned in the Trust document /38/, encompass the carbon credits once this are economic rights that are negotiable in the international market, thus makes part of the lender's guarantee to fulfill ELECAUSTRO's financial obligations, proving that the carbon finance were a decisive factor to secure additional capital contribution, as well as the lending guarantee.

In order to meet the Guideline 6 of the EB 50 annex 13² and support that "the financing of the project was assured only due to the benefit of the CDM" and that "the loan approval (or other significant financing decision(s)) by the lender takes explicitly the CDM registration into account", the PP has provided the

¹ <https://cdm.unfccc.int/Projects/review.html>

² Guidelines for Objective Demonstration and Assessment of Barriers

document "ACTA DE LA JUNTA DE FIDEICOMISO No. 21" of 11th September, 2012 /39/, signed by the PP and the lender representatives, where it is stated in its "Resolucion JF021-4" that: term "bonds", mentioned in general terms in the Trust document /38/, has encompassed the carbon credits, that will be used to pay the financial commitments (please refer to reference 7). In this regarding, it's worth mentioning that the term "bonos" in Spanish is synonymous of "credits" in English, in this way the expression "bonos de carbon" is commonly used in this language to refers to CER's.

In addition, there are also two internal documents made available to DOE during validation process that corroborates to the above mentioned assumption, they are:

- "Elecaustro, Internal Memorandum GG-2008, no. 0071": issued on February 25, 2008 (ref- /14/), where Elecaustro's CEO in its letter to Elecasutro's Executive Board, page 1, paragraph 5: explains and considers the CDM's benefits in the co-finance to build Ocaña.
- "OFICIO ALCALDE DE CUENCA (MDL).pdf" issued on January 27, 2011 (ref-/68/), where the president of Elecaustro's Executive Board agrees to proceed with the decisions made by the executive board to designate the funds acquired for the CDM's to pay the debt.

2) The DOE/PP is requested to explain how the Project activity has been financed, in addition to that:

a) The DOE is requested to further explain what is the identified barrier for the PP and how it has prevent from occurring considering that the PP has successfully obtained capital of US\$ 14 million and a loan of US\$ 22.7 million from FEISEH after it was established in 2006 and that the lender, FEISEH is one of the stakeholders of the PP.

The FEISEH (acronym in Spanish for the Ecuadorian Investment Fund in the Energy and Hydrocarbon Sectors) was created by Organic Law No. 2006-57, published in Official Record No. 386 of the 27th of October of 2006, to contribute to the country's socio-economic development by using the resources from petroleum extraction, directing them toward financing investment projects in the energy and hydrocarbon sectors.

On this basis, by means of Communication Reference GG-2007 No. 0518 (*reference 5*) of the 29th of May of 2007, ELECAUSTRO made the financing request for the Ocaña hydroelectric project. In answer to this request, at the meetings held the 27th of August and the 19th of September (*reference 1, first section*), the Commission of the Ecuadorian Investment Fund in the Energy and Hydrocarbon Sectors decided to approve the ELECAUSTRO request and authorize the disbursement of US\$ 14.0 million dollars as a capital contribution and US\$ 22.7 million as a loan.

Following this approval and in accordance with Ecuadorian Law, during this same the order was given for US\$ 14.0 million to be transferred to an account in the Central Bank of Ecuador in the name of ELECAUSTRO, until the trust fund be created, and once this disbursement was made, FEISEH became a shareholder of ELECAUSTRO; with respect to the loan contract (*reference 1*), this was signed the 20th of December of 2007. As proof that FEISEH became a shareholder of ELECAUSTRO beginning in 2007, the Company management report of this year is attached (*reference 2: section I.1*).

In addition, even though ELECAUSTRO had the US\$ 14.0 million capital contribution to pay part of the investment in the project, one of the principal existing barriers was the amortization of the capital and interest of the loan in the amount of US\$ 22.7 million. For this reason in the Administration and Guarantee Business Trust /38/ the option was included for ELECAUSTRO to make the payments with bonds, which also include carbon credits.

b) The DOE is requested to further explain why the PP can not implement the proposed project by itself, considering that the total assets of PP to December 2007 were US\$ 100,759,406.39; total liabilities were US\$ 12,579,404.32 while the project cost indicated on page 22 of PDD is US\$ 50.4 million.

There is an inadequate interpretation of the amounts mentioned, which necessitates a description in greater detail, as is indicated below:

The Total Assets of ELECAUSTRO for the year 2007 (*reference 3*) as has been stated is US\$ 100,759,406.39. The following accounts comprise this amount: Current Assets with US\$ 44,292,350.54; Fixed Assets with US\$ 52,794,088.37 and Other Assets with US\$ 3,672,967.48.

TOTAL ASSETS (US\$)	100,759,406.39
Current Assets	44,292,350.54
Fixed Assets	52,794,088.37
Other Assets	
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- Current asset (US\$ 44,292,350.54) is comprised in the following manner: US\$ 23,390,966.84 corresponds to available assets (cash); US\$ 1,359,566.26 corresponds to inventories, prepayments, unliquidated accounts, insurance premium prepayments and other prepayments; and US\$ 19,541,817.44 corresponds to accounts receivable.

CURRENT ASSETS (US\$)	44,292,350.54
Available Assets (Cash)	23,390,966.84
Inventories, prepayments, unliquidated Accounts, insurance premium prepayments and other prepayments	1,359,566.26
Accounts receivable	19,541,817.44

- The total of available assets (cash) (US\$ 23,390,966.84) includes a capital contribution of US\$ 14,000,000.00 by FEISEH.
- Accounts receivable (US\$ 19,541,817.44) is comprised of US\$ 19,220,738.12 which corresponds to the accounts receivable from the electricity distributors (utilities) of Ecuador, and US\$ 321,079.32 corresponds to other accounts receivable.
- The fixed assets include the property and facilities of ELECAUSTRO.
- The other assets represent studies of different projects that ELECAUSTRO has developed, inventories it has in warehouses and long-term investments.

From these explanations it can be seen that ELECAUSTRO has only US\$ 9,390,966.84 (the difference between (US\$ 23,390,966.84 and the FEISEH contribution of 14,000,000.00), of which a part was assigned for the operation and maintenance of the ELECAUSTRO power plants and the remaining resources for reinvestment in the Ocaña hydroelectric project, which was done according to the payment requirements of the different contractors that participated in the construction process of the project.

It should be stressed that the investment cost of the project was greater than the indicated cost (50.4 million); for this reason FEISEH granted an increase in the capital contribution of US\$ 15.5 million (*reference 4*).

c) It is not clear whether the US\$ 14 million and US\$ 15.5 million capital are in relation to the project activity or ELECAUSTRO.

As indicated in the communication in response to the request for financing of the Ocaña Hydropower Project (*reference 6*), ELECAUSTRO was granted a capital contribution of US\$ 14.0 million for the implementation of the Ocaña hydroelectric project.

In addition, in the document approving the increase of capital (*reference 4*), it is indicated that the US\$ 15.5 million are given as a capital contribution to ELECAUSTRO and is intended to cover the funding gap of the Ocaña Hydropower Project.

- d) The status of the US\$ 22.7 million loan is not clear since the loan was granted in May 2007 and the book value of the company in December 2007 listed the liability of only US\$ 12,579,401.32. Please refer to VVM paragraph 117,118.

In fact the loan approved by FEISEH was not recorded in the books for the year 2007, since disbursements of the loan began from 2008, after the Agreement for the Construction, Equipment and Start Up /8/ was signed, as the Loan Agreement establishes (*reference 1*), signed the 20th of December of 2007, third clause: Availability of loan, which textually indicates “*the first disbursement will be made once the AGREEMENT FOR THE CONSTRUCTION, EQUIPMENT AND START UP of the PROJECT is signed...*”



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