

**Response to the request for review on the CDM project activity
“Jinggangshan 36 MW Hydropower Project” with the registration number 1400**

Attention: Mr. Rajesh Kumar Sethi, Chairman
CDM Executive Board to Kyoto Protocol

February 14, 2008

Dear Mr. Rajesh Kumar Sethi,

We were informed that our project “Jinggangshan 36 MW Hydropower Project (Ref. no. 1400)” was requested for review by CDM Executive Board on 07/02/2008. As required by the Board, we would like to answer the questions, clarify the issues and provide additional information, as follows.

Issue 1:

Further details are required regarding how the DOE has undertaken an independent assessment to confirm that the input values used in the investment and sensitivity analyses are applicable in the context of the project activity.

Our clarifications:

All the input values used in the investment and sensitivity analyses in the PDD are obtained from official data sources. Relevant references/documents have been provided to and validated by the DOE.

The input values used in the investment and sensitivity analyses in the PDD are principally based on “Chapter 15-Economic Analysis” of the Preliminary Design Report (hereafter referred to as the PDR), which is prepared by the Hydropower and Water Resources Planning and Design Institute of Ji'an City. The Hydropower and Water Resources Planning and Design Institute of Ji'an City is an officially approved design institute established in 1963 with a level II qualification in hydropower engineering (<http://www.jxsl.gov.cn/article.jsp?articleid=6471>, Annex 1). The PDR was duly subjected to review and approved by Jiangxi Provincial Development and Reform Committee. Since the PDR is compiled in accordance with appropriate guidelines and local economic environment, and confirmed by local authorities, the data obtained from the PDR is deemed credible. The input values obtained from the PDR have been carefully checked and are listed in Table 2 of the PDD as:

Item	Value	Validated sources
installed capacity	36 MW	PDR333
feed-in electricity	81.6401 GWh	PDR334
construction period	2 years	PDR336
operation period	25 years	PDR334
rate for maintenance fee	1.0%	PDR333
Staff	50 persons	PDR333
Salary	720,000 RMB/year	PDR333
rate of employee welfare	14%	PDR333
Other fees	12 RMB/kW	PDR333
integrated depreciation rate	3.70%	PDR338

Besides parameters provided by the PDR, sources for the following items are also listed in Table 2 of the PDD as:

Item	Value	Validated sources
bus-bar tariff (exclusive of VAT)	0.28 RMB/kWh	Parallel Operation Agreement http://info.electric.hc360.com/HTML/001/008/024/27784.htm (Annex 2)
total investment	249.04 million RMB	Governmentally issued document GanFaGaiSheShenZi [2006] No. 604
VAT	6.00%	Document Caishuizi[1994]No.004 issued by Ministry of Finance and State Administration of Tax
income tax	33%	Income Tax Interim Regulations of the People's Republic of China
Urban maintenance and construction tax	5%	Document Guofa[1985]No.19 issued by the State Council
surtax for education	3%	Decision on Revising the "Interim Regulations of Surtax for Education" by the State Council
legal surplus reserves	10%	Company Law of the People's Republic of China

For the bus-bar tariff: The value provided by the Parallel Operation Agreement signed with the grid company under the supervision of Jiangxi Provincial Development and Reform Committee is specially determined for the Project thus applicable to the Project.

For the total investment: The value approved by Jiangxi Provincial Development and Reform Committee is specially determined for the Project thus applicable to the Project.

For the rate of VAT, income tax, urban maintenance and construction tax, surtax for education and legal surplus reserves: Since these data are not provided in the PDR, the values that are provided by relevant national regulations and laws and widely used in investment analysis in China are adopted for the Project.

In conclusion, all the data used in the investment and sensitivity analysis in the PDD are obtained from official data sources, thus applicable in the context of the Project.

Issue 2:

As the project construction started 3 years prior to the validation, further clarification is required on how the DOE has validated that the CDM was seriously considered prior to the implementation.

Our clarifications:

Relevant references/documents on how CDM was seriously considered before the project activity was implemented have been provided to the DOE.

China has ratified the *Kyoto Protocol* in 2002 and implemented many capacity building projects in both national level and provincial level regarding CDM since 2001. Prior to the implementation of the Jinggangshan 36 MW Hydropower Project, the project owner had a clear understanding of the poor financial viability of the project activity. From 2002 to 2003, CDM information had been widely spread throughout China. In end 2002, Science & Technology Ministry held a CDM forum together with the Asian Development Bank. The forum received wide attention from country-level authorities, international financial institutes, developed countries and many renowned Medias home and abroad

(<http://www.stcsm.gov.cn/Detail/Detail.aspx?tbno=202&id=34581>, Annex 3). In early 2003, hydropower projects have been selected as a major type of CDM projects in series of national capacity building activities as follows: “Opportunities for the CDM in the Energy Sector of China” (<http://cdm.ccchina.gov.cn/web/NewsInfo.asp?NewsId=46>, Annex 4), “China-Canada Co-operation Project on Climate Change” (<http://cdm.ccchina.gov.cn/web/NewsInfo.asp?NewsId=49>, Annex 5). Therefore, when the members of the board discussed how to solve the problem, they came up with the idea to bring in the CDM support. Considering the similarities between the renewable energy CDM projects in above-mentioned national capacity building activities and the Project, the project owner held a board meeting on 02/01/2004 and decided to implement the Project with the help of CDM as follows (Annex 6):

“Realizing that the investment of the Jinggangshan 36 MW Hydropower Project is high and will cause investment barriers, the board of directors decides to develop the project activity as a CDM project. Wherein, the CDM revenues can guarantee the successful construction and operation of the project activity.”

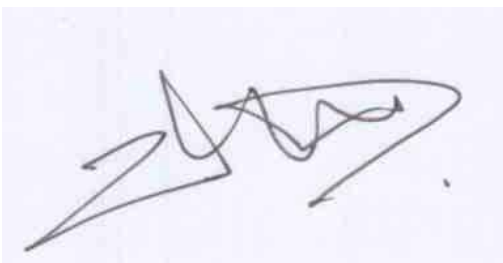
With the confidence that the Project could start CDM development, the project owner signed the EPC (engineering procurement and construction) contract on 09/02/2004 and started construction of the Project on 01/03/2004 (Annex 7).

In conclusion, CDM was seriously considered prior to the implementation of the project activity. To be conservative, the earlier date (09/02/2004) is provided in Section C.1.1 of the PDD as the “starting date of the project activity”.

The meeting minutes of the board of directors and the EPC contract are translated and provided as PDF documents attached to this response.

With the above clarification, explanation and additional information, we hope that the CDM Executive Board would be satisfactory and will approve the registration of our project activity in a sooner manner.

Yours sincerely



Yimeng Zhang
Director of R&D Division
Energy Systems International B.V.
E-mail: yzhang@energysystemsintl.com