

RESPONSE TO REQUESTS FOR REVIEW

BUREAU VERITAS CERTIFICATION have performed the validation of the CDM Project “Jinggangshan 36 MW Hydropower Project”. The request for registration was completed in October 2007. The reference number of the project activity is UNFCCC000001400CDMP.

Subsequently, there have been 3 requests for review.

We find that, in summary, requests are made against one requirement of modalities and procedures, viz. additionality.

We further note that specific reasons for the review against the additionality requirement are available in two of the three requests.

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 and suitably revised subsequently.

We give below our response to the requests for review.

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.

Response by Bureau Veritas Certification :

The IRR worksheets submitted with the validation report reference the source of the information that Project Participant used for calculation of the IRR.

The validation team confirms that the Project Participant provided the PDR [Project Design Report] to the validation team. This report is approved by the local authority Jiangxi Provincial Development and Reform Committee who is authorized to approve such PDRs. The PDR provided the following parameters that were used in the IRR calculations.

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	3.70%	PDR338

rate		
------	--	--

Since there was considerable gap in the date the PDR was prepared and the date on which the decision was taken, the commercial parameters like project cost and tariff were not relevant. Project Participant therefore provided and used other verifiable, reliable and publicly available sources for these parameters. Since these parameters are from reliable sources and realistic, the validation team accepted these.

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
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

The local validator [Mr. X. X. Yan] had verified and confirmed all this information during validation. Since many of these sources give information in Chinese language, Project Participant has attached the translated information with its response.

The sensitivity was conducted over a range of +/- 10% for 3 critical parameters viz., project cost, annual O&M cost and annual output. In the opinion of the validation team, these are the key variables and therefore sensitivity using these variables is useful and acceptable. Since these values would not be expected to vary more than 10%, the sensitivity is considered to be reliable.

The complete IRR calculations including sensitivity were verified by a financial expert of the DOE, viz. Ms. Cindy Han. Brief resume of Ms. Han was provided in the validation report.

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.

Response by Bureau Veritas Certification :

Very authentic and reliable information about management decisions of a public limited company is a recorded board decision.

The validation team verified the record of minutes of the board meeting dated 02/01/2004. This record is signed by the director of the company and therefore is reliable. This meeting was conducted before first real action by the company [March 2004].

Refer the translation of this record attached with the response by Project Participant.

This record indicates that before any real action had commenced, the board of directors of the Project Participant realized that the project was financially not attractive. The IRR for the project activity [5.26%] was less than the national level benchmark of 8% as is known from the IRR calculation.

As per this record, the board therefore decided to avail CDM benefits for the project to make it more attractive.

Validation team has considered this record for confirmation of CDM consideration.

Further, the DOE contacted Mr. Chen Shuigen¹, Director of Planning Department of Jianggangshan Suichuanjiang Development Co. Ltd. over phone on 25/02/2008. His contact numbers are Telephone +86-791-8641225 and Cell phone - Mobile phone +86-13807087199. He confirmed that Project Participant was aware of CDM from public media by mid 2003. He further confirmed that the initial discussion for CDM application was held in the end of 2003 and decision made in early 2004 as described in the PDD. At the same time considering the rising prices and design improvement, the application for investment escalation was raised to Jiangxi Development and Reform Commission but the approval was delayed until 2006.

The validation team notes that the Project Participant used the revised project cost, as available publicly [see the reference above] in the IRR calculations. In the opinion of the validation team, this makes the IRR calculations more realistic and hence acceptable.

The validation team also opines that since 2004 – 2006 was an early phase for CDM registration, this DOE at that time was aware that many project participants world over were taking time to finalise the PDD and request validation. Considering the worldwide situation regarding the delayed requests for CDM validation and the fact that CDM EB itself allowed retroactive credits for many projects over a period of 5 years, the validation team is of the opinion that this delay of approximately 2.5 years is not abnormal.

The validation team therefore is of the opinion that CDM was seriously considered prior to implementation of the project.

For Bureau Veritas Certification Holding S.A.S

Sandeep Lele

Team leader

Ashok Mammen

Internal Technical Reviewer

¹ Refer Annex 1 to this response. Annex 1 is the list provided by Project Participant on 25/02/2008. This is the list of the persons who attended the board meeting dated 02/01/2004. It is noted that Mr. Chen Shuigen attended the meeting as the supervisor. Therefore his interview to confirm the CDM consideration is appropriate.