



UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany

DET NORSKE VERITAS
DNV Certification Ltd
International Climate Change Services
Palace House, 3 Cathedral Street
London SE1 9DE
United Kingdom

Att: CDM Executive Board

Your ref.:
0695

Our ref.:
MLEH/ETEL

Date:
18 December 2006

Response to requests for review Yanling Shendu Hydropower Project (0695)

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by Board members concerning DNV's request for registration of the "Yanling Shendu Hydropower Project" (0695).

The requests for review raised several issues. Please find below DNV's initial response to the issues raised by the requests for review.

(a) According to the RIT analysis it seems that the CDM was taken into account only when the increase of the capacity of the initial project was decided ... so may be only a part of this project activity should be considered as additional. This point should be clarified before registration.

- The project has been approved by the local government on 26 January 2003 with an installed capacity 5MW (2x2.5MW) /1/. In response to the approval of the project, an opening ceremony was held on 15 March 2003. (In the validation report, " ...After its construction started on 15 March 2003 ..." The word "construction" was incorrectly used.) None of the major civil works of the construction started until March 2004. Evidences have confirmed that the construction of the tunnel and dam started in March 2004 /2/ and October 2004 /3/, and that the purchase contract for the engines was signed in January 2005 /4/. Hence, all the major works started after the consideration of the CDM and final decision to pursue registration.
- The project was approved by the local government on 26 January 2003 with an installed capacity 5MW (2x2.5MW). Shortly after this, the Yanling Hydropower Bureau reviewed its approval and re-assessed the hydro resource for the project. Subsequently it was on 15 May 2003 /5/ proposed that the project should expand its capacity to 6.4MW (2x3.2MW) to better utilise the local hydro resource available and

thus reduce the investment per installed kW. The consideration of this project expansion was made before the consideration of CDM and hence all the installed capacity of the project (6.4MW) can be deemed additional.

- The project proved to be not financially feasible before expansion, and while the expansion improved the returns it still did not reach the benchmark return as shown in the additionality analysis provided in the PDD. Consequently the CDM registration was not pursued for the expansion only, but for the whole project. It is therefore correct to state that the additionality analysis provided was carried out for the project as a whole.

(b) The application of the baseline methodology, in particular, the estimation of the build margin (BM) emission factor is not in accordance with the CDM Executive Board (EB) approved methodology, AMS I D Version 9 which refers to use of ACM0002 for combined margin approach), but rather on the substitute method as accepted by the EB for China in response to the request for deviations by DNV. It should be noted that neither the PDD nor the validation report failed to provide the reference for this deviations, which goes against the requirement for transparency. Apart from this omission, the Meth expert has pointed out a number of issues pertaining to the use of the substitute method:

The BM has been estimated using a single Carbon Emission Factor (CEF), applicable for coal (24.74 tC/TJ) which is the highest of other fuels' CEFs, comprising the grid, the lowest being 13 tC/TJ. This may lead to overestimation of the BM based baseline emissions with the validation report simply saying that "the installed capacity addition for oil and gas power plant being regarded as zero is deemed reasonable". This is a gross assumption that the installed capacity is predominantly coal and not oil or gas. It is suggested that BM should be re-estimated by either using the respective CEF based on the fuel type or using a weighted average CEF.

Firstly, we regret the omission of the reference to the deviation confirmed by CDM EB. This is mainly because almost all the contents of the deviation had been put into the validation report.

Secondly, it is correct that the Central China Power Grid (CCPG) includes power plants firing varied types of fossil fuels. However, according to China Energy Statistical Yearbook (2005 edition, data for the year 2004), it can be found that the emissions from burning coal to generate electricity accounts for majority of the total emissions from fossil fuelled power plants. In 2004, 99.51% of the total emissions were from coal fired power plants. Oil and gas were only used for start-up of the coal fired power plants. Therefore, to neglect the impact of other types of fossil fuelled power plants on BM calculation is in our view deemed acceptable.

It must also be noted that the standard coal consumption of 320g/kWh applied to determine the BM emission factor is very conservative (China Electricity Year Book, 2005 edition, gives lowest standard coal consumption of power generation of 358g/kWh in CCPG). According to the most recent statistics published by Chinese DNA, the best technology commercially available (BTCA) for coal is 336.66 g SCE/kWh. Therefore, the value of 320g/kWh both reflects the best available technology (with the lowest carbon emission level) in China and is also conservative, thus compensating for not all fossil fuelled consumed for power generation being coal. Further more, the CEF for coal used in the PDD is 24.7tC/TJ, which is derived from the Climate Change National Study of China (please see

cdm.ccchina.gov.cn). According to the China Energy Statistics Yearbook (2005), the CEF for coal in China is 25.8tC/TJ. This should sustain that the OM & BM calculations for the project are sufficiently conservative. Furthermore, we refer to the recent CDM EB-28 decision about project 0561 and 0576 that both received similar argumentation comment as reason for a review request, but also got registered when the above explanation was presented. We have enclosed a revised validation report where the explicit reference to the EB guidance on the deviation for the Chinese grid is included, and the above discussions are elaborated.

We sincerely hope that the Board accepts our aforementioned explanations.

Yours faithfully



Einar Telnes
Director
International Climate Change Services



Michael Lehmann
Technical Director

Enclosure: Revised validation report.

References.

1. Feasibility Study report in July 2001 and its approval by Yanling County Development and Planning Bureau on 26 January 2003
2. Construction Permit for the tunnel from the Zhejiang Dongzhou Construction Supervision Company on 8 March 2004 (Starting date of the construction of the tunnel was determined to be 10 March 2004).
3. Construction Permit for the dam from the Zhejiang Dongzhou Construction Supervision Company on 30 September 2004 (Starting date of the construction of the dam was determined to be 5 October 2004).
4. Contract on the manufacturing of generating engines and auxiliary equipment between project owner and Zhejiang Fuchunjiang Hydrolic Equipment Facotory on 15 January 2005.
5. Suggestion to expand the capacity of Yanling Shendu hydropower plant by Yanling County Hydropower Bureau on 15 May 2003.

These references are all in Chinese language, hence not provided here.