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Att: CDM Executive Board

Your ref.:
CDM Ref 1135

Our ref.:
MRSA/MLEH

Date:
21 August 2007

Response to request for review

“Jiangxi Fengcheng Mining Administration CMM Utilization Project” (1135)

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by three Board members concerning DNV's request for registration of the “Jiangxi Fengcheng Mining Administration CMM Utilization Project” (1135), and we would like to provide the following response to the issues raised by the requests for review.

Comment 1:

“Further clarification is required on how the benchmark rate, including its components, was validated”

DNV Response:

Three different suitable benchmark rate of returns were analyzed during the validation process:

- 1) The benchmark proposed by the China NDRC and the National Construction Committee for the coal and gas industry in China of 13% (“*Economic Evaluation Code and Parameter for Construction Project. Version 03*”). Minimum internal rates of returns proposed by NDRC are commonly used as a benchmark for the financial analysis of proposed CDM project activities in China
- 2) A benchmark of 11.8% as result of an average cost of capital¹ in energy related sectors of 6.8% plus a risk premium² for project investments in China of 5%.
- 3) A benchmark of 13.5% as conclude by the Confederation of British Industry (CBI) in a survey done in 2001 among more than 337 industrial investors.

The most conservative of the 3 values, i.e. 11.8%, was selected as the IRR benchmark. Apart of being the most conservative option, the adopted benchmark better represents funding aspects of the proposed project activity. The references provided by the project developer were assessed by DNV and found correct.

¹ (“Cost of Capital by Sector” http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/wacc.htm)

² Corporate Finance survey.

Comment 2:

“The DOE validated the OM emission coefficient as 0.9279 tCO₂/MWh (p.36), while the value in the PDD is 1.2775 tCO₂/MWh. Clarification is required from the DOE”.

DNV Response:

The correct value is 1.2775 tCO₂/MWh. The 0.9279 tCO₂/MWh (p.36) in our validation report is actually the $EF_{Thermal}$, which is used in the PDD. We apologize for this mistake. The detailed calculations of the emission factor are included in the annex to the PDD and are correct.

We sincerely hope that the Board accepts our above explanations.

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Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS

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