



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

DET NORSKE VERITAS
CERTIFICATION AS

International Climate Change Services
Veritasveien 1
NO-1322 Høvik
Norway
Tel: +47-6757 9900
Fax: +47-6757 9911
<http://www.dnv.com>
NO 945 748 931 MVA

Att: CDM Executive Board

Your ref.:
CDM Ref 1432

Our ref.:
MLEH

Date:
11 March 2008

Response to request for review Ganluo Kaijianqiao Hydropower Project, P.R.China (1432)

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 project activity 1432 "Ganluo Kaijianqiao Hydropower Project, P.R. China" and would like to provide the below initial response.

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 adequately reflect the true economic situation of the project activity.

DNV response:

The input data for the financial analysis of project 1432 were largely taken from the design amendment report, which was completed in October 2005 and approved by Sichuan Province Development and Reform Committee on 2 December 2005ⁱ. The total investment parameter was derived from the Engineering Estimation Amendment Report approved by Ganluo County Development Reform and Economy Bureauⁱⁱ and the electricity tariff is from "Electricity Generation Agreement with Sichuan Province Power Company". All documents have been assessed and verified by DNV while developing the validation report and this response to the request for review.

In DNV's opinion, these data adequately represent the true economic situation of the project activity, for the following reasons:

- As pointed out in the PDD section C.1, the start date of the project has been defined as 18 November 2003, corresponding to the original start of construction. However, after this time, project construction was stopped twice. In 2005, key investors withdrew from the project, and additional financing was secured only after CDM came into the pictureⁱⁱⁱ.

ⁱ The project design amendment report of expanding installed capacity in October 2005 approved by Sichuan Province Development and Reform Committee, 2 December 2005, No.[2005]699

ⁱⁱ Proof letter from Ganluo County Development Reform and Economy Bureau on Engineering Estimation Amendment Report of the proposed project, 28 Feb 2006.

ⁱⁱⁱ Letter on loan to the project, Agricultural Bank of China Ganluo Branch, 27 June 2005.

- On this basis, DNV considers that additionality can only be justified if based on a financial analysis using input data from the point in time when the relevant decision to proceed with the project was made, i.e. when construction was resumed in 2005.
- When construction was resumed, a design amendment report was issued to account for the changes made in project construction. Generally, a preliminary design report or design amendment report is issued if one or more items in a feasibility study report needs to be modified before construction starts. The design amendment report is therefore the most relevant source reflecting the financial situation at the time of resuming construction.
- Like the feasibility study itself, the design amendment report has to be developed by an accredited, independent technical entity and needs approval by the government. An approval letter is issued by the government only after the report passes the public assessment of the sector experts designated by the government.

On this basis, in DNV's opinion the reports from which the input data for the financial analysis have been taken, represent information from independent and recognized sources. Hence, DNV has not further validated the input values used in the investment analysis.

While the Board in some cases has accepted that DOEs are only cross-checking the values in the PDD towards the values in the feasibility study report without independently evaluating these valuesⁱ, we also notice that the Board for other projects has requested DOEs to independently validate such parameters. Hence, further guidance is requested from the Board on whether DOEs are expected to perform an independent evaluation of the values contained in feasibility study reports or equivalent reports issued by third parties and approved by the government.

2. *The investment analysis which indicates the project not to be attractive, the decision to proceed with the project activity and the start date of construction are all prior to the CDM consideration. Therefore the DOE should confirm with what level of assurance it is stated that this project activity is additional.*

DNV response:

As discussed under issue 1; and further detailed in the project participants' response letter; project construction stopped twice after the start of construction on the project on 18 November 2003. Until early 2005 only some road construction and tunnel excavating had been done, accounting for a small part of the total construction workload. The actual investment of these works added up to about 21 million RMB, thereby accounting for only 6.37% of total investmentⁱⁱ. Meanwhile, the project design amendment report and the engineering estimation amendment report were developed in 2005 to reflect the updated project situation such as addition of installed capacity addition from 48 MW to 52.5 MW, and a change in investment costs. These changes were approved by Sichuan Province Development and Reform Committee in December 2005 and by Ganluo County Development Reform and Economy Bureau in February 2006 respectively.

ⁱ At EB 37 the Board for example accepted DNV's initial response to the issues raised in the requests for review of project activity 1264 where one comment was that "further information is required to show how the investment analysis has been validated". DNV provided the same arguments as for this request for review and the Board "agreed to register the project activity (a) "Sandaowan Hydropower Project in Gansu Province, P.R. China" (1264), taking note of the initial comments provided by the project participant and the DOE (DNV Certification AS) in response to the request for review".

ⁱⁱ Proof letter from the project monitoring authority, Sichuan Xinchuan International Engineering Consulting Co., Ltd, about explanation on construction status of Ganluo Kaijianqiao project, 28 January 2007

Compared to the original project that started in 2003, the current project can be regarded as new and the decision to finally go ahead with the project was taken in August 2005. The developments in the project have also been detailed in the project participants' response to the request for review.

DNV has verified the documentation of the developments in the project progress, especially of the different construction stages, according to the PDD of the proposed project and the project participants' response to this request for review.

DNV has verified that CDM was considered in May 2005, when a contract for CDM development was signed with a consulting companyⁱ. As pointed out in response to issue 1, CDM consideration also caused new investors to co-finance the project. This was before the decision was made to resume construction of the project. In DNV's opinion, it has been demonstrated that CDM benefits were seriously considered in the decision to restart and complete the construction of the new project in August 2005.

As discussed in the response to issue 1, detailed above, DNV has verified the input values of the financial analysis, and found that the IRR calculation is correct. DNV therefore finds it sufficiently justified that without the consideration of CER revenue, the project would not be financially feasible, and on this basis concludes that the project can be regarded as additional.

We sincerely hope that the Board accepts our aforementioned explanations.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS



Michael Lehmann
Technical Director
International Climate Change Services

ⁱ CDM development contract between project participant and Hunan province Sangzhi County Southern Hydropower Development Co. Ltd., 8 May 2005