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Att: CDM Executive Board

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CDM Ref 1470	MLEH/ SSY	30 May 2008

Response to requests for review
'Chuanwei Group 24 MW Waste Gas based Captive Power Plant' (1470)

Dear Members of the CDM Executive Board,

We refer to the issue raised by the requests for review by three Board members regarding project activity 1470 "Chuanwei Group 24 MW Waste Gas based Captive Power Plant" in China and would like to herewith provide our initial response to the issue raised.

Comment 1:

Evidence is required to support the existence of an investment barrier for this project activity and the DOE should describe the means of validation employed to assess this evidence.

DNV Response:

Investing in a waste gas based captive power plant is not a typical investment by heChuanwei Group. This is pointed out in the meeting minutes No.8, 2004 of Chuanwei Group which has been validated by DNV (refer to translation of this document included as Annex 1 to the response by the PP).

As described in the PDD, when Chuanwei Group considered applying loan for the project, Working Conference on Economic Issues held by the central government and No.47 Standing Conference of the State Council on 09/04/2004 instructed that tighter macro regulations be imposed on loans to iron and steel industry. The National Development and Reform Committee of Chinese government has also announced warnings on risks of surplus capacity of 11 industries including the steel industry. The documents had been provided to DNV during validation.

The project needed a capital investment of about 30 million RMB for completion. However, ICBC withdrew the loans previously made to the project. This is demonstrated by the link reference in the PDD, where the announcement was policed by ICBC with the purpose of strictly control loan in industries included in the iron and steel sector.

The project is an energy-saving project implemented in an iron and steel company. Several of the supporting documents regarding the facts and the reasons for loan application difficulties from the following sources has been provided to DNV during validation. Based on the information provided, it is in our opinion demonstrated that there were difficulties for loan application for the project.

i. China Construction News, published by the Ministry of Housing and Urban-Rural Development;
ii. Prof. Dai Yande, deputy director of Energy Research Institute of National Development and Reform Commission and director of the World Bank/GEF China Energy Efficiency Projects Promotion Office;
iii. Mr. Xu Qiuwen, representative of World Bank and Senior Executive Officer and Project Manager of Energy Efficiency Financing in China of International Finance Company;
iv. Energy Conservation Information Dissemination Center of National Development and Reform Commission.

The project owner started to consider CDM in early 2004 and contracted Chengdu Saiensi Energy Investment & Management Co., Ltd. to undertake the CDM development and search for outside fund source for the project in May 2004. The contract with Chengdu Saiensi Energy Investment & Management Co., Ltd had been validated by DNV during on-site interview. Paralleled with the CDM progress, Saiensi also introduced the equity capital for the project from Neijiang Xingyuan Power Generation Group by convincing them that the CDM revenue can guarantee a satisfied financial return from the project. Letters between Saiensi and Neijiang Xingyuan Power Generation Group and the letter from Neijiang Xingyuan Power Generation Group to the project owner from May 2004 to January 2005 have been validated by DNV.

Eventually, the project was constructed using equity only as it failed to get any loan. The bank rejection notice has been validated by DNV. Shanghai Pudong Development Bank's reasons for the rejection are insufficient mortgage, low return and long repayment period.

Comment 2:

Further evidence is required to support the existence of technological barriers to the implementation of this project activity as the VR (p15) states that combusting BFG in boilers is a technology patented in China.

DNV Response:

The patented technology requires competent staff and it is not obvious that it can be employed without additional measures. Technical barriers have been encountered during demonstration of the technology, including: low theoretical combustion temperature, large amount of flue gas leading to a series of changes in the convection heat transfer characteristics and difficulties for both ignition and stable combustion. Most project staff will come from former laid-off-workers, who lack the knowledge to operate the various instrumentations applied. Hence, before the project is put into production, comprehensive and intensive training will have to be implemented, which will incur additional investment and operational costs. Literature supporting these descriptions have been validated by DNV. The authors of the relevant literature, such as Prof. Wang Zhenming (Secretary-general of Commission for Thermal Electricity of China Society for Electrical Engineering) and Prof. Wang Weixing, are well-renowned in China's iron and steel forging industry.

Comment 3:

The DOE is requested to provide further description regarding how the common practice analysis has been validated, in particular how limits applied in defining similar projects have been considered appropriate.

DNV Response:

The technology adopted by the project only uses BFG as fuel and it is not CCPP, which make it different from other waste gas based power plants in China. There are no comparable projects within the CCPG. This is demonstrated by the confirmation from the Central Iron & Steel Research Institute in China. It is not a common practice due to its waste gas based power generation technology by combusting solely blast furnace gas in boilers.

Also as described in step 4a of the PDD, activities similar to the Project are identified as BFG power generation projects implemented by similar iron & steel enterprises. Similar iron & steel enterprises here are identified as iron & steel enterprises,

within the same region,

In this case, the region for common practice analysis is limited to Central China. The spatial scope of power system of the project is determined to be the Central China Grid and it is confirmed to be in line with the geographic scope of Central China Gird as Central China, and based on the consolidated baseline methodology ACM0002 with reference to the Notification on Determining Baseline Emission Factor of China's Grid (issued by China's DNA). Central China is composed of Henan Province, Hubei Province, Hunan Province, Jiangxi Province, Sichuan Province and Chongqing City.

with the same company ownership characteristic,

Share holding companies and state-owned companies in China are facing different financing environment and applying different management manners. The project owner, Chuanwei Group, is a share holding company. The decision makers of share holding companies have to suffer much more risk in company operation, so they would not like to employ technologies with barriers and risks while the decision makers of state-owned companies undertake less risk in company operation and have to be more obedient to the governmental guidance. , new technologies are usually applied in state-owned companies, because any failure wouldn't bring as much pressure to those decision makers. Therefore, the common practice analysis is limited to share holding companies.

with the similar production scale to the project owner (Chuanwei Group).

The production scale for this common practice analysis is limited to 1~5 million tons of steel per year because these iron & steel companies with the production scale between 1~5 million tons of steel per year are similar in policy environment. The production scale of the project owner (Chuanwei Group) is 3 million tons of steel per year. According to Policies on the Development of the Iron and Steel Industry, only a steel company with a production capacity of more than 5 million tons is licensed to implement a trans-regional investment. According to Qualification Criteria of Iron Ore Importer in 2007 issued by China Iron & Steel Association and China Chamber of Commerce of Metals Minerals & Chemicals Importers & Exporters, only a steel company with a production capacity of more than 1 million tons is licensed to import iron ore. The sources of the information to support this statement had been verified by DNV during validation process.

The evidence for identifying similar projects to the project has been verified by DNV through public accessible web-site (including in footnote 51, 52 and 53 of the PDD) and hence validated by the DOE.

According to the confirmation letter from China Central Iron & Steel Research Institute, 10% of the iron & steel plants of similar scale to the Chuanwei Group have applied that technology. The confirmation letter was validated by DNV and is attached to the response from the PP as Annex 7.

We sincerely hope that the Board find our elaboration on the above satisfactory.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS

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