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Att: CDM Executive Board

Your ref.:
CDM Ref 1504

Our ref.:
MLEH

Date:
29 April 2008

Response to request for review
Mujiajia Erji 10MW Small Hydropower Project in Yunnan Province (1504)

Dear Members of the CDM Executive Board,

We refer to the requests for review raised by five Board members concerning DNV's request for registration of project activity 1504 entitled "Mujiajia Erji 10MW Small Hydropower Project in Yunnan Province", and we would like to provide the following initial response to the issues raised by the requests for review.

Request for review:

Comment 1:

The DOE shall confirm the validity of the input values used in the investment analysis as required by EB38 paragraph 54 (c).

and

The DOE shall confirm how it has validated the relevance and appropriateness of the input values from the feasibility study report used in the computation of the IRR.

DNV's response:

Below is an assessment in accordance with the guidance adopted by the Board at its 38th meeting (paragraph 54) for cases where project participants rely on values from Feasibility Study Reports (FSR) that are approved by national authorities for proposed project activities.

- a) The input values used in the investment analysis of the project 1504 are taken from the FSR developed by Kunming Canhui Hydropower Design Co., Ltd. in July 2005 and approved by Nujiang Prefecture Development and Reform Committee on 08 November 2005¹. DNV was able to confirm that the values of the FSR of July 2005 are the same values as the ones of the approved FSR of November 2005. The static total investment (RMB 48.1622 million Yuan) has been sourced from both the above FSR (RMB 43.2897 million Yuan) and the budgetary estimate report (RMB 4.8725 million Yuan) for 110 kV transmission line engineering from Mujiajia to Maji of Nujiang State of Yunnan province developed by the Institute of hydropower reconnaissance design, University of Kunming Technology in March 2005 and approved by Yunnan Nujiang Grid Co., Ltd. in March 2005². DNV was able to confirm that both Kunming Canhui Hydropower Design Co., Ltd. (certificate no: 232136-sb) and Institute of hydropower reconnaissance design, University of Kunming Technology (certificate no: 230112-sb) are officially approved design entities with a level III qualification in the field of water conservancy, power industry

¹ The Feasibility Study Report (FSR) by Kunming Canhui Hydropower Design Co., Ltd. in July 2005 and the approval letter by Nujiang Prefecture Development and Reform Committee dated 08 November 2005 (Doc. No.: NuFaGaiNengYuan[2005]369#).

² The feasibility study report for 110 kV transmission line engineering from Mujiajia to Maji plant of Nujiang State of Yunnan province by Institute of hydropower reconnaissance design, University of Kunming Technology in March 2005 and approved by Yunnan Nujiang Grid Co., Ltd. in March 2005

etc. The input values used in the investment analysis can thus be considered information provided by an independent and recognized source.

- b) DNV has compared the input values for the investment analysis included in the PDD with the values stated in the FSR approved in November 2005 and the above mentioned FSR of March 2005 for the transmission line. DNV confirms that the values applied are consistent with the values stated in these two reports. The FSR of March 2005 for the transmission line was available at the time when the decision to proceed with the project was made on 29 January 2006.
- c) The FSR was approved on 08 November 2005 and thus only less than 3 months prior to the decision to proceed with the project activity which was on 29 January 2006. Given this relative short period of time between approval of the FSR and the decision to proceed with the project activity it is unlikely in the context of the project that the input values would have materially changed and that it is thus reasonable to assume that the FSR has been the basis of the decision to proceed with the investment in the project.
- d) The input values used in the investment analyses were compared with the data reported for other similar CDM hydropower projects in the Yunnan province, by comparing investment costs per MW, electricity tariff, PLF and percentage of O&M costs relative to total investment costs, etc. DNV was able to confirm that the input values used in the investment analysis are reasonable.

All the relevant documents mentioned above have been assessed and verified by DNV during the validation of the project. In DNV's opinion, these data adequately reflect the actual financial situation of the project activity.

It must be noted that project activity 1504 was submitted for registration prior to the Board's 38th meeting and even prior to the Board's 37th meeting, at which the EB started to request that values taken from FSRs are independently assessed by DOEs.

Comment 2:

It should be clarified how the net electricity exported to the grid will be monitored, and if this is being done based on different meters for import export and auxiliary consumption then the monitoring plan should be revised to include separate parameters for each variable being monitored.

DNV's response:

The net electricity supplied to the grid by the project 1504 will be monitored through one bidirectional meter installed at the project site. This meter can monitor both the electricity exported to the grid and the electricity imported from the grid. The net electricity exported to the grid is then calculated by subtracting the import from the export.

The auxiliary consumption takes place before the transformation from low voltage to high voltage (110 kV). The low voltage part is not included in the monitoring plan.

We sincerely hope that the Board accepts our above explanations.

Yours faithfully
for Det Norske Veritas Certification AS



Michael Lehmann
Technical Director

Climate Change Services