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Att: CDM Executive Board

Your ref.:
CDM Ref 1535

Our ref.:
MLEH

Date:
8 May 2008

— **Response to request for review –
Changwa 10 MW Small-scale Hydro Project (1535)**

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 "Changwa 10 MW Small-scale Hydro Project" (1535) and would like to provide the following initial response to the issues raised by the requests for review.

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- 1. Further clarification is required on how the DOE has validated the prior consideration of CDM.*

DNV Response:

The construction of the proposed CDM project commenced on 15 December 2003. DNV validated the starting date by checking the construction permission from Guangxi Liyuan Supervision Company Ltd of 15 December 2003. Four months later, due to the lack of funding as the loan was delayed, the supervision company required the project developer to stop construction and the Construction Suspension Order of 9 April 2004 was provided and reviewed by DNV as evidence for this. This was also double checked by reviewing the Amendatory Budget Book, which was made by Guangxi Hechi Hydro Power Investigation and Design Institute in June 2004 and which states that the investment of the project increased due to the increased price of the equipment and the raw materials, which made the IRR of the project lower than the benchmark. Guangxi Hechi Hydro Power Investigation and Design Institute can be considered as an independent and competent third party.

After the construction was suspended, the project developer applied for a loan from several banks. However, due to the bad financial status, the loan was rejected by the banks, as validated by checking the rejection letters from Industrial and Commercial Bank of China of 25 August 2004 and the rejection letter of the Agricultural Bank of China of 1 September 2004. The project developer was therefore facing financial difficulties. All the evidences mentioned above were verified by DNV.

On 21 June 2004, a board meeting was held by the project developer and the board meeting minutes document that CDM revenues were considered. After the meeting, the developer applied for the loan from Guangxi Liyuan Technology Company Ltd on 20 September 2004 by adding the CDM revenue into the financial analysis. According to the reply letter from Guangxi Liyuan Technology Company Ltd on 28 October 2004 the loan was granted.

2. *Further clarification is required regarding the treatment of costs incurred prior to the recommencement of construction; as such sunk cost should not have an impact on the decision to proceed with the project activity.*

DNV Response:

DNV refers to the response by the project participants. According to Risk Assessment Report from the construction suspension company, the actual cost incurred prior to the recommencement of construction was 1.875 million RMB that included the road and leveling the site, basic digging etc, which is only 3% of the total investment. Therefore, the sunk cost would not have an impact on the decision to proceed with the project activity.

Furthermore, according to the Risk Assessment Report, if the developer could not apply the low interest rate loan from the bank and continued running and investing in the project, the project would loose 1.20 million RMB each year in the future. The project developer then tried to apply CDM revenue for this project.

DNV reviewed the Risk Assessment Report and the report can be considered information provided by an independent and recognized source.

We sincerely hope that the Board accepts our aforementioned explanations.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS



Michael Lehmann
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