

Mr.Kai-Uwe Barani
Chair, CDM Executive Board
UNFCCC Secretariat
CDMinfo@unfccc.int

May 6, 2008

Re: Request for Review “Changwa 10 MW Small-scale Hydro Project “(Ref. No. 1535)

Dear Mr. Kai-Uwe,

Please find below the response of the project participants to the request for review for the above mentioned project, no. 1535.

We sincerely hope that the response below answers satisfactorily all of the issues raised but if you have any further questions or need further clarification, please do not hesitate to contact us. We hope that with this response, all issues have been addressed and the Board will approve this project for registration.

Yours sincerely,

Xuanmao Li
president
Gaungxi Yizhou Changmao Power Co., Ltd.

Masahiko Otsuki
President
Daiwa Securities SMBC Principal Investments Co.
Ltd.

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

The construction of the project was commenced on 15 December 2003, However, the construction of the project was suspended on April 10, 2004, due to lack of financing ^[1], because the banks who previously promised to give loan on the proposed project finally refused as the project's poor financial index and investing risk. We tried our best to obtain loan from banks in that period, but the finally we got rejected replies from banks, which could be the evidences to demonstrate the financial barrier of the project ^[2]^[3]. On the other hand, the initial investment cost of the project was increased than initial investigation according the Amendatory Budget Book ^[4] (The total static investment increased from 49.39 Million RMB Yuan to

[1] Pls. refer to the <Construction Suspension Order> issued by the Supervising Company (Guangxi Liyuan Construction Supervising Co., Ltd, who supervised the whole construction process as a third party)

[2] Yizhou Subsidiary bank of China Industrial and Commercial Bank: Reply on the load application of Changwa hydro power project, 25/08/2004

[3] Yizhou Subsidiary bank of China Agriculture Bank: Reply on the load application of Changwa hydro power project, 01/09/2004

[4] The Amendatory Budget Book was completed by the Institute of water conversation & hydroelectric engineering exploration & design of Hechi city, especially for the amended project investment.

61.75 Million RMB Yuan, 25% raised accordingly), as the construction material and equipment price increased a lot than expected in the Preliminary Design Report.

Until June 15, 2004, in the reply letter from the *Institute of water conversation & hydroelectric engineering exploration & design of Hechi city*, we were suggested to apply CDM for the proposed project⁵. Followed this idea⁶, we successfully got loan reply letter, in which the finance entity agreed to lend on the consideration of CDM on 20 October 2004. And finally the proposed project can be recommenced on October 28, 2004.

Appendix of the time schedule:

Time Schedule		
Item	Date	Reference
Start Construction	December 15, 2003	construction permission
Suspend	April 10, 2004	Announcement of construction Suspend
CDM considering	June 16, 2004	Guangxi Hechi Water Resources Power Explosion & Design Institute: Reply letter of editing <Amendatory Budget Book>.
	June 21, 2004	Meeting Minutes of the 2nd shareholders' meeting of Gaungxi Yizhou Changmao Power Co., Ltd
	October 20, 2004	The reply letter from Guangxi Liyuan Technology Co. Ltd. for providing the financing loan on considering of CDM revenue.
Recommencement	October 28, 2004.	The announcement of the date when the construction restarted.

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

The construction of the project was commenced on December 15, 2003, and suspended on April 10, 2004, During this short period (4 Months), only the basic work including the construction of road and levelling the building site were produced, according to the *<Risk Assessment Report of the construction suspension of Changwa Hydro Power project>* which was implemented by the Guangxi Liyuan Construction Supervising Co., Ltd, who supervised the whole construction process as a third party, only 1.88 Million cost incurred prior to the recommencement of construction, which means only 3.0% of the total investment.

Furthermore, also based on the *<Risk Assessment Report of the construction suspension of Changwa Hydro Power project>*, 1.20 Million annul loss would be incurred in the future if there is no low interest rate

[5] *Guangxi Hechi Water Resources Power Explosion & Design Institute*: Reply letter of editing <Amendatory Budget Book>. June 16, 2004.

[6] Meeting Minutes of the 2nd shareholders' meeting of Gaungxi Yizhou Changmao Power Co., Ltd held on June 21, 2004

loan from bank. Finally we were suggested to consider the investment risk seriously, and try the best to obtain loan with low interest rate, however, our loan requests were refused as the project's poor financial index and big potential risk as described in the issue 1. So under this terrible financial barrier, the proposed project could not restart and the best option for us is to give up the project construction.

Therefore, such sunk costs had no an impact on the decision to proceed with the project activity.

The CDM revenue of the proposed project is about 2.89Million every year, which would cover the loss of 1.20Million totally and get profitable.