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Att: CDM Executive Board

Your ref.:
CDM Ref 1589

Our ref.:
MLEH

Date:
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Response to request for review Sichuan Chenjiaheba 20MW Hydropower Project (1589)

Dear Members of the CDM Executive Board:

We refer to the requests for review raised by three Board members concerning the request for registration of project activity 1589 “Sichuan Chenjiaheba 20MW Hydropower Project” and would like to provide the below initial response.

Question 1: The DOE shall describe how the reliability of the input values used in the investment analysis has been validated in accordance with the guidance of EB38 paragraph 54(c).

DNV response:

DNV has assessed the reliability of the input values used in the investment analysis in the following manner.

The input parameters for the investment analysis of the project were, except for the feed-in-tariff, taken from the feasibility study report (FSR). The FSR was completed in 30 December 2005 and approved by Ganzi Tibetan Autonomous Prefecture Development and Reform Commission on 3 March 2006. All documents have been assessed and verified by DNV while developing the validation report and this response to the request for review.

In China a feasibility study report is required to be prepared by a third party that is accredited for this task directly by the government. An approval letter of the FSR is issued by the government only after the report passes the public assessment of the sector experts designated by the government. The feasibility study report of the project was developed by the Hydro Power Reconnaissance & Design Institute of Zigong City, a qualified neutral organisation certified by Ministry of Construction of the People’s Republic of China on 16 December 2005. In DNV’s opinion the feasibility study report from which the input data for the financial analysis have been taken represent information from an independent and recognized sources.

DNV has verified the input values of the financial analysis by comparing them with the values in the FSR and found them to be consistent. Reasonableness of the parameters used in the IRR analysis, such as the investment per MW, annual net electricity generation and operating cost as a fraction of investment costs were compared and found to be in line with similar projects in

Sichuan province in China validated by DNV. The IRR calculation spreadsheet has been provided and checked by DNV, and found that the IRR calculation is correct.

Based on these assessments, DNV considered the input values to be reliable.

As mentioned above, the input value for feed-in-tariff was not derived from the FSR but from the Power Supply Agreement, confirmed by Kangding Power Company in December 2006. DNV has accepted the use of Power Supply Agreement information because it reflects actual circumstances of the proposed project.

In the light of the EB38 paragraph 54 guidance, DNV acknowledges that the reference source for the parameter of feed-in-tariff was not necessarily valid at the time of the investment decision in that the Power Supply Agreement was reached later than the project start (December 2005). Hence the project proponent has revised Table B-1 in the PDD of parameters for calculation of key financial indicators. Relevant copy of the page in the FSR was provided and DNV confirmed that feed-in-tariff in the FSR was also 0.186RMB/kWh.

Hence, even when revising the source of the input value for feed-in-tariff, the IRR analysis demonstrates that the project is financially unattractive.

Question 2: Further clarification is required on how the common practice analysis has been validated by the DOE.

DNV response:

DNV has assessed the credibility of the common practice analysis in the following manner.

The common practice analysis has been conducted based on the Yearbook of China Water Resources 2006 which is an official statistic yearbook issued by China Water Conservancy and Hydro Power Press in November 2006. Hence, the data source was considered reliable and relevant.

Comparable hydropower plants have been selected within Sichuan province. Geographical area of individual province in China is quite large. Besides, policies and regulations differ from province to province even though the general requirements of the Chinese central government are the same. With these reasons, the geographical boundary was considered reasonable.

Within 40 hydropower plants listed in the Yearbook, those with installed capacity of 20MW ± 10MW have been taken into account for the common practice analysis. Because projects whose installed capacity is less than 15MW are considered small scale in the CDM, power plants of 10MW-15MW was excluded. Hence, even though the title of Table B-4 in the PDD says 25MW – 30MW, the criteria was in fact set as between 15MW and 30MW. The project proponent's definition of similarity was considered appropriate. One plant (Zhongju) was screened out of the analysis because it was a CDM project. Such decision was in line with the requirement of the additionality tool.

Nine hydropower plants fitted the criteria above. The annual operation of the nine plants were compared to each other. Six plants had more operating hours than the proposed project (4386 hours) whereas three plants had poorer performances. The three power plants with lower operating hours were completed before 2002, and thus enjoyed governments support. This was clearly different from the circumstances in which the project 1589 has been developed. The other six plants, with a higher number of operating hours, can expect higher income raised from annual electricity output. Further elaboration by the project proponent showed that those projects were also built before 2002 except Niujiaowan Cascade-3, hence they enjoyed governments support as well. The project 1589 could not use these benefits. The Niujiaowan Cascade-3 entailed less cost

compared with the project 1589. All these analysis were made referring to reliable sources. DNV cross-checked the input values in the Table B-4 with the Yearbook and confirmed the above assessment is valid.

For these reasons outlined, the proposed project 1589 cannot be deemed as common practice thus is considered 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