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Att: CDM Executive Board

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Response to request for review ‘‘24MW power generation from coking waste heat generated in the clean-type heat-recovery coke ovens at Shanxi Province Gaoping City Sanjia Coking Co., Ltd. in China’’ (1710)

Dear Members of the CDM Executive Board,

We refer to the requests for review by three Board members concerning DNV’s request for registration of project activity 1710 “24MW power generation from coking waste heat generated in the clean-type heat-recovery coke ovens at Shanxi Province Gaoping City Sanjia Coking Co., Ltd. in China” and would like to provide the following initial response to the issues raised by the requests for review.

Comment 1: *Considering that the investment being made is in the power sector, further substantiation that the benchmark reflects the risk profile of this project activity is required.*

DNV Response:
As stated in our validation report, the benchmark chosen for the project activity is the benchmark financial IRR for the coking industry as per the *Economic Assessment Method and Parameters for Project Construction* 03 edition (2006)[1], hereafter referred to as “Economic Assessment Methods”.

The proposed project activity is a waste heat recovery project, where waste heat generated during coke production is utilized for electricity production. As the waste heat is a bi-product from the coke production and the power plant must be located at the coke factory, the electricity generation depends totally on the output of the coking factory, hence the project owner is the only possible project developer for this project. According to the “Tool for the demonstration and assessment of additionality” version 4 which has been applied for the project, a company internal benchmark could be used when there is only one potential project developer. The project developer has chosen the benchmark for the project activity as per the Economic Assessment Methods, stating that the benchmark financial IRR for the coking industry is 12%. Furthermore, this documents states that when a project owner invests in a project with key characteristics of another sector rather than of its own core business, the sectoral benchmark of its core business should be applied**Error! Bookmark not defined.**.

[1] Economic Assessment Method and Parameters for Project Construction 03 edition (2006) published by China’s National Development and Reform Commission and Construction Ministry, December 2006, paragraph 2, point 2, page 197.

DNV has assessed and accepts the benchmark used, based on the application of the “Tool for the demonstration and assessment of additionality”, and the risk profile related to the project activity. Since the electricity generation project relies on the coking facility’s production output to be maintained, the proposed project is exposed to very similar risks as of the coking industry and the sectoral benchmark of power industry should not apply. The core business of the Shanxi Shouyang County Boda Industries Co., Ltd is the coking industry and investment into the project will thus be evaluated against other investment opportunities by the company. As such, DNV finds it reasonable to assume that a project developer will have a similar return expectation for investing into the project activity compared to any other investment opportunity by the project developer. Hence, the expected return and the benchmark is in our opinion different for the project developer in question compared to the benchmark for the power sector which represents the expected return for an investor that has specialized in investing and operating power generation projects.

Comment 2: *Further clarification is required on how the DOE has validated the suitability of the input values, as per the guidance of EB38 paragraph 54(c).*

DNV Response:
As now required by paragraph 54 (c) of EB 38 report and again as stated in our validation report, DNV has validated the consistency and appropriateness of the input values during the project investment decision making stage. It should be noted that the validation report for the project activity was submitted on 5 March 2008 and thus prior to EB 38. Nonetheless, DNV re-assessed the suitability of the input values in light of paragraph 54 (a) of EB 38 report.

The investment analysis is, except from the electricity tariff, based on the revised feasibility study report (FSR) of April 2005, while the starting date of the project activity is 1 November 2005, evidenced by the construction agreement[2]. Therefore, the revised FSR was seven months old and input values were not likely to have changed at the time of the decision to proceed with the investment in the project activity. Both the FSR and the construction permit have been received and checked by DNV. The electricity tariff was taken from the “Notice on Adjustment of the Electricity Price in Shanxi”[3] published in 2004 and checked by DNV, and the same value was also applied in the FSR. Electricity tariffs are highly regulated and controlled by the Chinese government, and do not fluctuate in a large degree, hence the tariff was not likely to change before the project starting date. In order to ensure that the input values to the investment analysis were valid and applicable at the time of the investment decision, the values were included in an analysis of similar projects validated by DNV, and were found to be within a reasonable range for the sector and location of the proposed project.

We sincerely hope that the Board accepts our aforementioned explanations.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS

[2] Agreement for the construction of the proposed project activity between Gaoping Sanjia Coking Plant Co., Ltd and Shanxi No. 5 Construction Company, dated 1 November 2005.
[3] “Notice on Adjustment of the Electricity Price in Shanxi” by Shanxi Provincial Pricing Bureau, 2004.

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