Members of the CDM Executive Board
UNFCCC Secretariat
Martin Luther King Strasse 8
P.O. Box 260124, D-53153, Bonn Germany

31 July 2008

Your ref.: CDM Ref 1728

Response to the request for review:
"Jingdezhen Kaimenzi Ceramics Chemical Industry Group Limited Company CDQ Technology-Reform Project "(1728)

Dear Members of the CDM Executive Board,

In response to the request for review raised by the Board members for the "Jingdezhen Kaimenzi Ceramics Chemical Industry Group Limited Company CDQ Technology-Reform Project "(1728), ***ORBEO***, as the project participant, would like to provide further clarifications to Comment 2 in order to achieve the immediate registration of the Project.

Comment 2: Further clarification is required on why only the investment costs of a CDQ compared to wet quenching in the baseline are considered while ignoring the cost saving of power production.

Project Participant Response:

Although the cost saving of power production is not clearly described in the PDD, in addition to the comparison of investment costs between the coke dry quenching (CDQ) and coke wet quenching (CWQ) processes, the Feasibility Study Report (FSR)[1] of the proposed project does include the calculation of cost saving of power production. And this had been validated during the validation process.

The cost saving of power production is described as "product sales revenue" in the FSR. From the commissioning of the Project, the CDQ process will require 20,200,000 kwh of electricity and could generate 156,990,000 kwh electricity from its power generator[2]. Therefore, the Project is able to provide an annual amount of 136,790,000 kwh electricity to the gird. Multiplying by 0.28 RMB/kwh, the Project will generate sales revenues of RMB 38,300,000 in each normal year[3].

While considering the power consumption in the CWQ, there will be no power generation and only power consumption from the process. There are 2 hypotheses about the amount of power consumption from the CWQ process could be discussed:

- CWQ (1) - The CWQ consuming the same amount of electricity as the proposed CDQ project, i.e. 20,200,000 kwh per year; or
- CWQ (2) - Using the amount of power consumption from the current CWQ process of the project owner, i.e. 8,345,000 kwh per year[4].

A Comparison about the costs of power consumption and generation between the CDQ and CWQ processes are summarize as below:

Descriptions		Annual Volume (kwh)	Unit Price (RMB)	CDQ Process (RMB)	CWQ process (1) (RMB)	CWQ process (2) (RMB)
Power Consumption	**Proposed CDQ project (1)**	20 200 000	0,54[5]	10 908 000	10 908 000	-
	Current CWQ process (2)	8 345 000	0,54	-	-	4 506 300
Power Generation (only for CDQ process)		156 990 000	-	-	-	-
Power to Grid (only for CDQ process)		136 790 000	0,28	38 301 200	-	-
Estimated Annual Power Costs		-	-	0	10 908 000	4 506 300
Estimated Annual Power Revenues		-	-	38 301 200	0	0

Now, considering the upfront investments for the CDQ and CWQ processes, as described in Section B.5.1 Investment Barriers (page 10) of the PDD, the initial upfront budget (= (A)+(B)) between the CDQ & CWQ processes are given by the following table.

Descriptions		CDQ Process (RMB)	CWQ process (1) (RMB)	CWQ process (2) (RMB)
Equipment Costs /set		111 762 200[6]	7 500 000[7]	7 500 000
Operation & Maintenance Costs /year		10 090 000[8]	200 000[9]	200 000
Initial Upfront Investment (A)		**121 852 200**	**7 700 000**	**7 700 000**
Power Budget /year (B)	**Costs**	0	10 908 000	4 506 300
	Savings	38 301 200	0	0
Initial Upfront Budget =(A)+(B)		**83 551 000**	**18 608 000**	**12 206 300**
% (compare to CDQ process)		100%	22,27%	14,61%

As it is illustrated above, taking into account of the cost saving from power generation from the CDQ process, a CWQ process is still much cheaper. Installation of one set of the CWQ process only represents 14.61% or 22.27% of the initial upfront budget needed for the CDQ process. Having had account of the power budgets does not change the interests of investment favoring to a CWQ process than a CDQ project.

Therefore the investment barriers for installing the CDQ project without the incentive CDM revenues could be concluded, same as the PDD stated for baseline determination.

[1] Feasibility Study Report for the Jindezhen Kaimenzi Ceramics Chemical Industry Group Ltd., Co. CDQ project (CDQ - FSR), Beijing Shougang Design Institute / Beijing China & Japan Energy Saving & Environment Protection Engineering Co., Ltd., dated:12/2005
[2] Section 3.2.2 - Power Supply, CDQ-FSR, p10
[3] Section 13.3.2.2 - Calculation of product sales revenue, CDQ-FSR, p97
[4] Feasibility Study Report (FSR) for the CWQ project, Beijing Shougang Design Institute, dated:1/2004
[5] Invoice Specially for Electricity in Jiangxi Province to Kaimenzi Ceramics Chemical Industry Group, date:19/03/2006
[6] Section 11.2 – Investment Breakdown, CDQ-FSR, p91
[7] Meeting minutes of the 2004 Year End Meeting of Kaimenzi Group, date: 22/12/2004
[8] Table 13.-3 – Incremental Total Cost Estimation, CDQ-FSR, p100
[9] same as Reference 7