

**Response to request for review**

**China Chuandongxia Small Hydropower Project (1773)**

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 project activity 1773 "China Chuandongxia Small Hydropower Project" and would like to provide below initial response to these requests for review:

**Issue 1: The DOE shall clarify how it has validated that the input values used in the investment analysis are consistently applied and appropriate in the economic context of the underlying project activity considering: (a) that the values applied for net electricity generations and value added tax (VAT) between version 3 (dated 8 July 2007) and version 5 (dated 7 April 2008) of the PDD are inconsistent, although all the values are derived from the same PDR approved on 18 November 2004; and (b) the guidance provided in EB 38 paragraph 54. In doing so, the DOE shall cross-check the estimated input values (based on PDR) with the actual contracts, invoices and payments made already (where available).**

**PP's initial comments:**

(a) The VAT in version 3 of the PDD is 6%, which is quoted from Preliminary Design Report (PDR) of both projects; while, the VAT in version 5 of the PDD is 17%, which is quoted *Tax Bureau of Sangzhi County* at investment decision. The VAT of 17% can also be cross checked and confirmed by electricity sales receipts.

The annual net electricity generation of 20,363 MWh in version 3 of the PDD is a typo. During the validation period of the project, the inconsistency was detected by DOE and PP was requested to correct the data. The data was corrected in version 5 of the PDD. According to PDR, the annual net electricity generation of the project should be 22,835MWh, in which the net electricity generation of Liao Zhuwan plant is 8,110 MWh and the net electricity generation of Chuandongxia plant is 14,725.2 MWh.

(b) All the input parameters except value added tax (VAT) used in the financial analysis are derived from the PDR of both projects, which were developed by the third party entity i.e. *Xupu County Environmental Design Institute*. Both of the PDRs were approved by Sangzhi County Water Conservancy Bureau on 18 November 2004. The VAT is derived from Tax Bureau of Sangzhi County document issued on 15 January 2005, which was before investment decision in February 2005. The project



starting date was in April 2005, thus the timeline between the PDR and the actual starting date of the project is within half a year. Therefore, the data used at investment decision are credible and valid. The requirement in the guidance provided in EB 38 paragraph 54 is fully met.

The total investment of the project is derived from page 157 of PDR for Liao Zhuwan plant and page 207 of PDR for Chuandongxia plant. According to Financial Audit Report conducted by Jincheng Office for Accountant, Zhangjiajie on 28 December 2007, the actual fixed assets investment (not including the interests during construction period) spent on both projects is 38.37 million RMB until end of December 2007 in accordance with actual contracts, invoices and payments made already. The actual total fixed assets investment spent is 2.6% higher than PDR (37.40 million RMB in PDR, not including interests during construction period) and it is also higher than the total investment in PDR (including the interests during the construction period, 37.612 million RMB). Jincheng Office for Accountant, Zhangjiajie is certified and authorized by Bureau of Finance of Hunan Province to conduct financial settlement and audit works. Thus the Financial Audit Report provided by the agent is credible and authoritative.

The electricity tariff is also derived from the project PDR. The actual electricity tariff of the project is 0.258 RMB/kWh by cross-checking the Power Purchase Agreement and Electricity Transmission Line Renting Agreement<sup>1</sup>. The actual electricity tariff is 3.2% higher than that in the PDR for Chuandongxia project (0.25 RMB/kWh) and 0.77% lower for Liao Zhuwan project (0.26 RMB/kWh). However, they are both in the scope of sensitivity analysis of electricity tariff, in which the IRR will reach the benchmark only when the electricity tariff increases by 45.9% for Chuandongxia project and by 25.1% for Liao Zhuwan project.

The power generation for both projects is calculated through decades of water flow data. Thus power generation will unlikely exceed the estimated ones. According to Electricity Transaction Notes and sales receipts, the latest annual total power supply (July 2007 to June 2008) by both projects is 11130.43 MWh, which is much less than the estimated ones in PDR (22,835 MWh). The reason for the extremely low power supply is due to the arid and snow disaster happened in Hunan Province<sup>2</sup>.

For O&M costs, it can be found from PDD that the project IRR will not be above the benchmark even the O&M costs is zero.

All the materials mentioned above have been submitted to DOE already.

<sup>1</sup> The electricity transmission line was invested by Sangzhi Chuanglian Hydropower Generation Plant (SCHGP), the project owner has to pay transmission line utilization fee to SCHGP. The fee is deducted directly from electricity tariff. The final actual electricity tariff can be cross checked by the electricity sales receipts.

<sup>2</sup> <http://hn.rednet.cn/c/2008/07/22/1556536.htm>

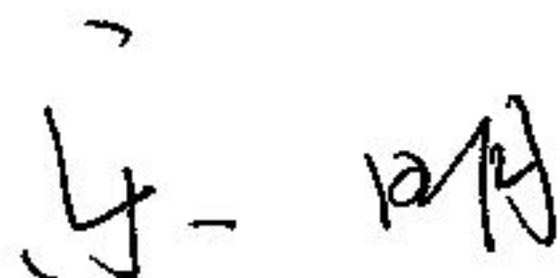
[http://news.h2o-china.com/information/china/676121200624835\\_1.shtml](http://news.h2o-china.com/information/china/676121200624835_1.shtml)

[http://www.hunan.gov.cn/zwqk/tjsj/fxyc/200805/t20080508\\_106287.htm](http://www.hunan.gov.cn/zwqk/tjsj/fxyc/200805/t20080508_106287.htm)

Therefore, we hereby think by cross-checking the estimated input values (based on PDR) with the actual contracts, invoices and payments made already, the parameters and assumptions used in IRR calculation are appropriate.

With the above clarification, we wish that the CDM Executive Board would be satisfactory and will approve the registration of our project activity.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Y - MY'.

Ming Yue

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