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Att: CDM Executive Board

Your ref.:	Our ref.:	Date:
CDM Ref 2033	BRINKS/Guo Kang	15 December 2008

Response to request for review "Jiadu River Zhentong Power Plant Project" (2033)

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 2033 "Jiadu River Zhentong Power Plant Project", and would like to provide the below initial response to the issues raised in the requests.

Question 1: The DOE is requested to justify the suitability of the 10% benchmark, in particular, the appropriateness of a benchmark of year 1995 when assessing the additionality with investment decision made in 2006.

DNV Response: The project proponent has compared the project financials against the benchmark of 10%. DNV would like to indicate that the applied IRR benchmark is in accordance with *"Economic evaluation code for small hydropower projects"* (Document No.SL16-95), issued by Ministry of Water Resources in 1995. In "Economic evaluation code for small hydropower projects" Section 1.2, it states that the "code" is applicable to all hydropower projects with an installed capacity below 25 MW, and to hydropower projects with an installed capacity below 50 MW located in rural regions. The project site is located in Yunnan province with the installed capacity of 8 MW, and DNV has verified that the "Economic evaluation code for small hydropower projects" is applicable to the project activity.

Although this document of *"Economic evaluation code for small hydropower projects"* was issued by the Chinese Ministry of Water Resources in 1995, it is the only source till date that clearly defines the expected minimum returns from such type of hydropower projects. The benchmark of 10% is most commonly used in China for assessing the financial viability of such projects since 1995. This can also be seen from other similar small hydropower projects in China, recently registered under CDM, such as Hunan Yangmingshan Three Level Hydropower Project (2145), Yunnan Lincang Zhenai Hydropower Project (1994), Fujian Wuyishan Wenlin River 2nd

and 3rd Level Hydropower Station (1831) and Lijiang Xinzhuhe Second Level Hydropower Project (1879), etc., all of which refer to the document No.SL16-95.

The applicability of 10% benchmark for the proposed CDM project activity can further be demonstrated from the list of existing regulations for hydropower plants in China provided in the "Notice on the current technical standard of water resources ([2006] No.05)", published by the division for construction and management, Ministry of Water Resources of China[1] and Chinese Hydraulic Engineering Society (CHES)'s website[2] dated 9 September 2006, which provides the complete list of regulations for the hydropower sector including expired regulations, regulations under amendment and existing regulations in China. *Economic evaluation code for small hydropower projects"* (Document No.SL16-95) is listed in these two official references as valid document. The start date of the project activity is on 26 March 2006, which has been evidenced by the construction start permission letter the project activity, and DNV has verified the construction permission during the validation process. As a conclusion, DNV is able to confirm benchmark of year 1995 is still valid when assessing the additionality with investment decision made in March 2006.

DNV would also like to state that in the approved feasibility study report (FSR), the financial projections of the project activity have also been compared against the same benchmark of 10%. The economic assessment report (part of the FSR) by an officially qualified designing institute "Hunan Xiangtan Hydropower Design Institute" was updated on 25 January 2006 and approved by the Dehong Development and Reform Commission (DRC) on 6 March 2006 (please refer to annexure I, II and III). DNV verified the approval letter during the validation process. The approval of the FSR by the Dehong DRC also adds to the fact that the benchmark of 10% is still considered appropriate in China, as the benchmark is a decisive factor in China for the rejection or approval of the projects.

Therefore, we believe that the use of a 10% benchmark for assessing the additionality of the investment decision made in 2006 is appropriate.

We sincerely hope that the Board find our elaboration on the above satisfactory.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS

H.W. Brinks

Hendrik W. Brinks
Technical Director for CDM

Guo Kang
Project Manager

1 http://www.mwr.gov.cn/tzgg/qt/20060926000000479251.aspx
2 www.ches.org.cn/jishubiaozhun/001.asp