



L'ENERGIA CHE TI ASCOLTA.

DIVISIONE GENERAZIONE ED ENERGY MANAGEMENT
AREA TECNICA ANALISI MERCATI E CAPACITY STRATEGY

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Response to request for review for project 2122 “Hubei Xuan’en Tongziying Hydropower Station”

Issue 1: The DOE is requested to clarify how it has validated that the project start date complies with the CDM Glossary of terms and to confirm that continuing and real actions were taken to secure CDM status for the project activity in parallel with its implementation in line with EB41, Annex 46, para. 5(b) guidance.

Response from the project participant:

Background:

EB 41, Annex 46, Paragraph 5

(b) The project participant must indicate, by means of reliable evidence, that continuing and real actions were taken to secure CDM status for the project in parallel with its implementation. Evidence to support this should include, inter alia, contracts with consultants for CDM/PDD/methodology services, Emission Reduction Purchase Agreements or other documentation related to the sale of the potential CERs (including correspondence with multilateral financial institutions or carbon funds), evidence of agreements or negotiations with a DOE for validation services, submission of a new methodology to the CDM Executive Board, publication in newspaper, interviews with DNA, earlier correspondence on the project with the DNA or the UNFCCC secretariat;

And

The Glossary of CDM Terms' and EB41 guidance, paragraph 67 shows “the earliest date at which either the implementation or construction or real action of a project activity begins”.

The Preliminary Design Report (PDR) was completed by Hubei Province Jinlang Survey and Design Co., Ltd. in October 2004, but the IRR of the project was low. And then local Development and Reform Committee suggested the project owner to apply for CDM on October 4, 2004. After serious consideration, the project owner held a directorate meeting and decided to apply for CDM project on October 8, 2004. Since then, the project owner began to look for the CDM consulting enterprises. Soon, the project owner started discussions with local Electricity Enterprises Association on CDM application and signed commission letter on October 11, 2004. Then the project owner signed the purchase agreement of turbines and generators on October 31, 2004 (the earliest starting date of the project, which complies with the Glossary of CDM Term). From the analysis mentioned above, it is evident that the project owner has considered CDM seriously before starting the project.

However due to lack of English professionals and capable PDD writers, the local Electricity Enterprises Association can not fulfill their responsibility on CDM project application. Considering the important role of the CDM revenues on the implementation of the project, the project owner had to decide to change Consult Company for accelerate the CDM application process. Therefore, the project owner started to look for other CDM consultant company, and in April 2005, the project owner consigned Beijing Tianqing Power International CDM Consulting Co., Ltd (hereafter referred to as “Tianqing”) to assist applying CDM. At the same time, the project was approved to start construction by Hubei Province Water Resource Ministry on April 30, 2005.

During this period, the project owner signed PDD Development Contract with Tianqing on June 15, 2005, and then Tianqing started the document collecting for PDD writing. But considering the failure lesson above and the important role of CDM revenues on the implementation of the project, the project owner required the Tianqing to submit the PINs and draft PDDs for guaranteeing the project registration in time. Based on the requirement of the

project owner, Tianqing started to write PIN and draft PDD, which had been submitted to the project owner several months later. Considering the efficiency and quality of the PIN and draft PDD, the project owner decided to continue cooperation with Tianqing and signed Cooperation Agreement of CDM Application with Tianqing on October 12, 2005. Afterwards, Tianqing began to seek for buyer, and recommended the project to ENEL Trade SpA soon. After several-month serious due diligence, the ENEL Trade SpA signed ERPA with project owner on January 18, 2006.

Since then the Tianqing began to prepare the applying work for CDM application. Afterwards, the project owner publicized the meeting bulletin via the www.tqcdmchina.com website on February 2006 and also published a bulletin for the meeting of stakeholders on the newspaper of *Enshi Evening Paper* on May 11, 2006, and announced that the CDM stakeholder consultation meeting would be held on May 18, 2006. And then, the project owner and Tianqing submitted the PDD to National Development and Reform Committee for application on August 7, 2006. After several months, the project was listed on China DNA official website as approved on December 31, 2006. One month later, the project owner also acquired LoA (paper pattern) issued by China DNA. Since then, the ENEL Trade SpA started to look for DOE for the project's validation, after serious investigation, the DOE has been consigned. On June 28, 2007, the PDD started GSP and DOE performed interviews on-site on August 3, 2007. Afterwards, the CDM application work was going smoothly. Please find below detailed timeline of project implementation in the table below.

Date	Main events	Source
10-2004	The Preliminary Design Report was completed by Hubei Province Jinlang Survey and Design Co., Ltd.	Preliminary Design Report
4-10-2004	Local Development and Reform Committee suggested the project owner to apply CDM.	Letter supporting the project application to CDM issued by Xuanen Development and Reform Bureau
8-10-2004	The project owner decided to apply for CDM to overcome barrier.	Shareholder Minutes of Meeting of Xuan'en Tongziying Hydroelectric Power Development Co. Ltd
11-10-2004	The project owner started discussions with local Electricity Enterprises Association on CDM application and signed commission letter.	Letter of cooperation agreement between the project participant and Enshi Tujia-Miao Autonomous Prefecture Electricity Enterprises Association for CDM application
31-10-2004	The project owner signed the purchase agreement of turbines and generators (the earliest starting date of the project).	Purchase agreement signed between the project owner and Zhejiang Fuchunjiang Hydropower Equipment Manufacture Co., Ltd

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23-3-2005	The Preliminary Design Report was approved by Hubei Province Water Resource Ministry.	Letter of Approval of the Preliminary Design Report of the project issued Hubei Province Water Resource Ministry
25-4-2005	Due to lack of English professionals and capable PDD writers, the local Electricity Enterprises Association can not fulfill their responsibility on CDM project application. The project owner consigned the Tianqing to complete application work of the project again.	Letter of Commitment for CDM application
30-4-2005	The project was approved to start construction by Hubei Province Water Resource Ministry.	Start Construction permit issued by Hubei Province Water Resource Ministry
31-5-2005	The first payment of the turbines and generators through China Construction Bank.	The relative to the first payment through China Construction Bank
15-6-2005	The project owner signed PDD Development Contract with Tianqing.	PDD Development Contract signed between the project owner and Tianqing
12-10-2005	The project owner and Tianqing signed Cooperation Agreement of CDM Application.	Cooperation Agreement for CDM application signed between the project participant and Tianqing
18-1-2006	The project owner signed ERPA with ENEL Trade SpA.	CDM ERPA signed between the project owner and ENEL Trade SpA
2-2006	The project owner publicized the CDM stakeholder consultation meeting bulletin via the website of Tianqing.	http://www.tqcdmchina.com/cn/html/NewsView.asp?ID=93
11-5-2006	The CDM stakeholder consultation meeting was announced on the newspaper of Enshi Evening Paper.	Enshi Evening Paper
18-5-2006	The CDM stakeholder consultation meeting was organized.	Enshi Evening Paper
7-8-2006	The project owner submitted CDM application of the project to the National Development and Reform Commission.	Application Form for Administrative Consent presented by the Project owner
31-12-2006	The project was listed on China DNA official website as approved.	http://cdm.ccchina.gov.cn/web/NewsInfo.asp?NewsId=1460
21-2-2007	ENEL Trade SpA signed a Short Framework Agreement with DNV, and entrusted DNV to proceed with the validation for the proposed project	a Short Framework Agreement
5-3-2007	The project owner received LOA of China DNA.	LOA form China DNA

28-6-2007	The project started GSP.	
3-8-2007	DOE performed interviews on-site.	
27-3-2008	The project received Letter of Approval (LOA) of the Netherlands DNA.	
7-2009	The project will begin to commissioning.	

From the above table and description, it can also be concluded that the earliest starting date of the proposed project activity is the signed date of the purchase agreement of turbines and generators on October 31, 2004, which is appropriate to the requirements of 'Glossary of CDM Terms' as per the EB41 guidance, paragraph 67.

From the analysis above, it can also be concluded that the CDM played a crucial function on the decision of implement of the project. And real and concrete actions to secure registration as a CDM project activity have been continuously taken in parallel with its implementation. Therefore the project meets the requirement of EB 41, Annex 46, paragraph 5b.

Issue 2: Further clarification is required on how the DOE has validated the suitability of the input values to the investment analysis, as per the requirement of EB 38, paragraph 54 guidance.

Response from the project participant:

According to paragraph 54 of the EB 38 report:

“54. The Board clarified that in cases where project participants rely on values from Feasibility Study Reports (FSR) that are approved by national authorities for proposed project activities, DOEs are required to ensure that:

(a) The FSR has been the basis of the decision to proceed with the investment in the project, i.e. that the period of time between the finalization of the FSR and the investment decision is sufficiently short for the DOE to confirm that it is unlikely in the context of the underlying project activity that the input values would have materially changed.

(b) The values used in the PDD and associated annexes are fully consistent with the FSR, and where inconsistencies occur the DOE should validate the appropriateness of the values.

(c) On the basis of its specific local and sectoral expertise, confirmation is provided, by cross-checking or other appropriate manner, that the input values from the FSR are valid and applicable at the time of the investment decision.”

All the input values are sourced from approved PDR, which was completed by Hubei Province Jinlang Survey and Design Co., Ltd. (hereafter referred to as 'Institute'). This Institute is an independent organization which is qualified to compile design reports for hydropower projects (it has obtained a grade B Certificate in Engineering Design issued by the Ministry of Construction of the People's Republic of China). In Addition, the PDR was also approved by Hubei Province Water Resource Ministry later. Furthermore, the PDR was completed in October 2004 and the period between the finalization of the PDR and investment decision (October 31, 2004, the signed date of the purchase agreement of turbines and generators) is sufficiently short. And the input values used in the PDD are fully consistent with the approved PDR. Therefore, the PDR can be considered as an independent and realistic assessment of the proposed project activity, including the parameters listed therein which are used as input values in the investment analysis of PDD requesting for registration.

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The project will start commissioning in July 2009. In order to prove the conservative of the input values in the PDD for requesting registration, the important input values in PDD can be cross-checked.

Static total investment

According to the Finance Audit Report completed by the Enshi Shuangxin Certified Public Accountants Co. Ltd, the actual total investment of the project is 207,214,650 Yuan RMB, which is higher than the investment in the PDD (178,217,800 Yuan RMB). In addition, the project construction is not yet completed (expected to be completed in July 2009), and therefore the actual investment will be higher. Therefore, the investment in PDD is conservative and applicable. The relevant evidence has been provided to DOE.

Grid price

The project will start commissioning in July 2009. The project owner hasn't sign the PPA till now, so actual grid price can not obtained. However, there are three-level hydropower stations (the project, Dongping project and Longdong project) in Zhongjian River, which the project located. The Longdong project began to operation in 1983 and according to the document of grid price issued by Hubei Province Price Bureau, its grid price is 0.35864 Yuan RMB/kWh. The Dongping project¹ began to operation in 2006, and according to the power invoices, its grid price is 0.367 Yuan RMB/kWh from 2006 to 2009. The project will get a similar grid price with Dongping and Longdong projects. The grid price of 0.39 Yuan RMB /kWh in PDR is higher than the expected price of the project. Therefore, the grid price in PDD is conservative and applicable.

Annual utilization hour

The annual utilization hour in the PDD is calculated based on water resource data of 43 years (1959~2002) in the approved PDR, so the dramatic change of electricity generation of the project in the whole crediting period will rarely happen. Therefore, the value of annual utilization hour is reasonable and applicable to be used for IRR calculation. The relevant evidence of water resource statistical has been provided to DOE.

Annual O&M cost

Even if the annual operational cost decreases to zero, the IRR of the project can't reach benchmark of 10%. Therefore, it is impossible to adjust annual O&M cost to raise the IRR significantly. Therefore, the value of annual O&M cost is reasonable and applicable to be used for IRR calculation.

Therefore, it is concluded that the input values to the investment analysis is comply with the requirement of EB 38, paragraph 54 guidance.

Issue 3: The data used to calculate the grid emission factor in the PDD submitted for registration was not available at the commencement of validation (June 2007). The PP and DOE are therefore requested to amend

¹ The Dongping project (Ref: 1433) has been registered as CDM project.

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the grid emission factor using data, which was available at this date and provide the corresponding calculation of the emission reductions.

Response from the project participant:

The PDD was published on UNFCCC website on June 28, 2007 for global stakeholder consultation, at that time, the available grid emission factor is published by China DNA on 15 December 2006 which also was used in GSP PDD. Then the DOE conducted validation on August 3, 2007. Afterwards, according to the requirement of DOE, the most recent data should be considered to calculate the grid emission factor. Further, China DNA updated the emission factor of “*Bulletin on Baseline Emission Factors of China’s Regional Grids*” on August 9, 2007, which was published before the PDD submitted to EB. Therefore the updated baseline emission factor was used in PDD requesting for registration.



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