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Att: CDM Executive Board

Your ref.:
 CDM Ref

Our ref.:
 PETMO/BRINKS

Date:
 16 January 2009

Response to request for review “25MW Liangwan Hydropower Development Project” (2131)

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 the “25 MW Liangwan Hydropower Development Project” (2131), and we would like to provide the following initial response to the issues raised by the requests for review.

Request 1: *The DOE is requested to confirm how a benchmark from 1995 is valid for an investment made in 2005, and what authority the Chinese Hydraulic Engineering Society has to confirm such a benchmark.*

DNV Response:

The project proponent has compared the project financials against a benchmark of 10%. DNV would like to indicate that the selected benchmark is in accordance with the document SL16-95 – “*Economic evaluation code for small hydropower projects*”, issued by the Ministry of Water Resources of China. Even though this document was issued by the Chinese ministry in the year 1995, it is the only source till date which 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. 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 them referring to the document SL16-95.

The applicability of the same 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 annexure of “*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 China¹ and Chinese Hydraulic Engineering Society’s website², which provides the complete list of regulations for the hydropower sector including expired regulations, regulations under amendment and existing regulations in

¹ <http://www.mwr.gov.cn/tzgg/qt/20060926000000479251.aspx>

² www.ches.org.cn/jishubiaoazhun/001.asp

China. DNV would also like to state that in the approved feasibility study report, the financial projections of the proposed project activity have also been compared against the same benchmark of 10%. The approval of the FSR by the State DRC also adds to the fact that the benchmark of 10% is still considered appropriate in China. This benchmark is a decisive factor in China for the rejection or approval of the projects.

Furthermore, according to the “*Economic evaluation code for small hydropower projects*”, the code of 10% is applicable to small scale hydropower projects with an installed capacity below 25 MW, and to small scale hydropower projects with an installed capacity below 50 MW in the rural hydropower region. DNV finds it appropriate to use a benchmark of 10%, considering the fact that the project activity is 25 MW and situated in a rural area, as confirmed during site visit.

Request 2: *The DOE is requested to explain why CL5 requested the project participants to use the latest available data when the applied methodology requires that the data be the latest available at the point of validation.*

DNV Response:

In the PDD submitted for validation and published for the global stakeholder’s consultation in July 2007, data vintages from 2002 – 2004 and 1996 IPCC Guidelines were used for calculating the combined margin emission factor. As the China Electric Power Yearbook 2006 and China Energy Statistical Yearbook 2006, both containing 2005 data, were available in December 2006 and March 2007 respectively, DNV requested the project proponent to use the data vintages 2003 – 2005 as the latest available at the time of PDD submission. Furthermore, the project participant was requested to update data from 1996 IPCC Guidelines to 2006 IPCC Guidelines.

At the time of the validation of this project, DNV interpreted the methodology as to require the latest available data sources to be used at the time of submission of the PDD for registration. Because of this the data source used for the “best technology efficiency level” was the *Notification on Determining Baseline Emission Factor of China’s Grid*, published by the Chinese DNA on 9 August 2007³. This was erroneously referred to as *China Climate Change Country Study* in the PDD submitted for registration. A revised PDD using the prior version of the *Notification on Determining Baseline Emission Factor of China’s Grid*, published in December 2006, has been attached to the project proponent’s response to this request for review.

Request 3: *The data used to calculate the grid emission factor in the PDD submitted for registration was not available at the commencement of validation (July 2007). The PP and DOE are therefore requested to amend the grid emission factor using data which was available at this date.*

DNV Response:

A revised PDD has been submitted as an attachment to the project proponent’s response to this request for review, basing the calculation of the grid emission factor upon the following sources:

1. China Electric Power Yearbook 2004 – 2006 (published December 2006)
2. China Energy Statistical Yearbook 2004 – 2006 (published March 2007)
3. 2006 IPCC guidelines (final version published end of 2006)

³ <http://cdm.ccchina.gov.cn/web/NewsInfo.asp?NewsId=2193>

4. Notification on Determining Baseline Emission Factor of China's Grid (published December 2006)

The listed sources were the latest available at the commencement of the validation, and are in DNV's opinion correctly used as the sources for the calculation of the grid emission factor.

Request 4: *The monitoring plan should contain a parameter for the recording of the surface area of the reservoir at the start of the project activity.*

DNV Response:

DNV would like to refer to the revised PDD submitted along with the PP's response to this request for review.

We sincerely hope that the Board accepts our above explanations.

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Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS

H.W. Brinks

Hendrik W. Brinks
Technical Director for CDM
International Climate Change Service
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