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Att: CDM Executive Board

Your ref.:
 CDM Ref 2154

Our ref.:
 BRINKS/VRI/WENBO

Date:
 16 January 2009

Response to request for review for project 2154 “Cangxi Donghe Beituo Hydropower Station Project”.

Dear Members of the CDM Executive Board,

We refer to the requests for review by three Board members concerning DNV’s request for registration of the project activity “Cangxi Donghe Beituo Hydropower Station Project” (2154) and would like to provide the following response to the issues raised.

***Question 1:** The DOE is requested to clarify how it has validated the suitability of the 10% benchmark for investment analysis, specifically the appropriateness of a 1995 benchmark when assessing an investment decision made in 2007.*

DNV Response:

The project participant has compared the project financials against the benchmark of 10%. DNV would like to indicate that the selected benchmark is in accordance with “The Economic Evaluation Code for Small Hydropower Projects” (Ref. SL16-95)¹, issued by the Ministry of Water Resources of China in 1995. Though this document was issued in 1995, it is the only source till date which clearly defines the expected minimum returns from such type of hydropower project.

The applicability of the 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 China² and at Chinese Hydraulic Engineering Society (CHES)’s website³, which provides the complete list of regulations for the hydropower sector including expired regulations, regulations under amendment and existing regulations in China. The Chinese Hydraulic Engineering Society⁴ further confirmed that the document of SL16-95 is still in effect in year 2008. Since the start date of the project activity is on 20 April 2007, which has been evidenced by the construction permit verified by DNV during the validation process, DNV is therefore able to confirm that benchmark of year 1995 is still valid when assessing the additionality of investment decision made in April 2007.

¹ <http://www.cws.net.cn/guifan/bz/SL16-95/>

² <http://www.mwr.gov.cn/tzgg/qt/20060926000000479251.aspx> issued on 9 September 2006

³ www.ches.org.cn/jishubiao/hun/001.asp issued on 9 September 2006

⁴ <http://www.giwp.org.cn/index.do?act=mess&modu=160&mess=361> issued on 18 July 2008

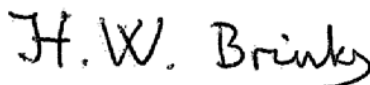
Furthermore the benchmark of 10% is most commonly used in China for assessing the hydropower projects. This can also be seen from other similar small hydropower projects in China, recently registered (from October 2008 to December 2008) under CDM such as Lushui Zijihe Small Hydropower Project (2146), Macaohe 9.8MW Hydro Power Project in Guizhou Province (2207), Yulong County Jinzhuang River Third Level Hydropower Project (2160), Hunan Yangmingshan Three Level Hydropower Project (2145), all of which referring to the “Economic Evaluation Code for Small Hydropower Projects – SL16-95”.

DNV would also like to state that in the approved Feasibility Study Report (FSR) and in the Financial Supplementary Report (FISUR), the financial projections of the project activity have also been compared against the same benchmark of 10%. Both the FSR and the FISUR was prepared by a third party; the FSR was prepared by the Water Bureau Hydropower Institution of Tai Zhou in August 2005 and approved by the Sichuan Province Guangyuan City on 12 September 2005; the FISUR was prepared by the Taizhou City Institute of Hydro Power in September 2005 and approved by the Development and Reform Commission of Guangyuan City on 15 December 2006. DNV verified the approval letters during the validation process. The approval of the FSR and FISUR by local governments 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 projects.

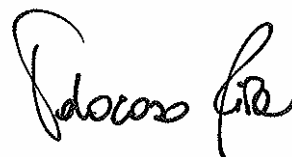
According to the “Economic Evaluation Code for Small Hydropower Projects” the benchmark of 10% is applicable to small scale hydropower projects with an installed capacity below 25 MW, and to small scale hydropower projects with an installed capacity below 50 MW in the rural hydropower region. Thus DNV deems that the 10% benchmark is appropriate considering the fact that the project activity has an installed capacity of 10 MW, which is way below the installed capacity of 25 MW.

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

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS



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