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Ref: Response to request for review "Shaanxi Baiguoshu 13MW Hydropower Project" with the Reference Number 2179

1st December 2008

UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany

Attention: CDM Executive Board

Dear Sir or Madam,

We were informed that our project "*Shaanxi Baiguoshu 13MW Hydropower Project*" (reference number 2179) was requested for review by CDM Executive Board. As required by the Executive Board and on behalf of the project participants, we would like to answer the questions and clarify the issues raised in the requests for review as follows:

Question 1:

"The DOE is requested to justify the suitability of the 10% benchmark, the appropriateness of a benchmark of year 1995 when assessing the additionality with investment decision made in 2006. In particular the DOE should justify why an 8% benchmark was accepted for previous project activities submitted for registration (e.g.1875)."

Response by PP

Baiguoshu 13MW Hydropower Project is a small scale hydropower project under CDM rules (below 15MW). We believe that a benchmark of 10% is suitable for the following reasons:

- The benchmark of 10% is published in the "*Economic Evaluation Code for Small Hydropower Projects*" ("the Code"), issued by Ministry of Water Resources in 1995

(Document No.SL16-95). [1] The Code was approved and issued by the Ministry of Water Resources of the PRC as the sector standard for China small scale hydropower projects with installed capacity of up to 25MW (or up to 50MW in rural areas). Therefore 10% is the officially published relevant power sector benchmark for small scale hydropower project in China, such as this project. The benchmark meets the criteria set out in the *Tool for the Demonstration and Assessment of Additionality*, specifically Step 2, Section (6), which states that benchmarks can be derived from *"(d) Government/official approved benchmark where such benchmarks are used for investment decisions."*

- Although the Code was issued in 1995, it is still valid. There has been no revocation and there has been no new code published to replace it.
- The PPs have undertaken a review of a sample of the hydro projects registered this year. It is clear that the use of the 10% benchmark is the standard approach used by project owners in the market.
- It can be seen that most projects registered this year were commenced between the years 2004 and 2006. This is in line with our project which started construction in January 2006.
- 8% mentioned by EB for the previously accepted project activity submitted for registration is not the official benchmark for small scale hydropower project in China. The said registered project with reference number 1875 is a large hydropower project with an installed capacity of 32MW,[2] and therefore different from our project. As explained above the 10% benchmark is the offical benchmark for small scale hydro projects.This 8% from page 34 of Interim Rules on Economic Assessment of Electrical Engineering Retrofit Project, Beijing, China Electric Power Press 2003 is commonly used as the benchmark for China large hydropower projects under CDM, not small scale hydropower projects.

To conclude, we consider 10% is suitable for our project benchmark chosen given the fact it comes from an officially published guidance for small scale hydropower projects and thus is in accordance with EB requirements. In addition it has been used in most previously registered small scale hydropower projects from China.

[1] http://apps.lib.whu.edu.cn/12/test/gfbz/2/j/xsdpj.html#附录B%20小水电设计成本、利润及还贷资金计算

[2] http://cdm.unfccc.int/UserManagement/FileStorage/P90V1F0I6PKUSY64WSP3FPHCVLRZM3

Question 2:

"The DOE should further demonstrate that CDM benefits were a decisive factor in the dicision to proceed with the project, as per guidance of EB 41, Annex 46, paragraph 5 a)."

Response by PP

The reference of serious CDM consideration has been in the PDD and it is concluded that CDM has been seriously taken into account before the start of the construction of the proposed project activity. Below we further describe in more details regarding the progress of the project implementation:

The key milestones in the development of the project are listed below:

Date	Milestone
March 2005	FSR Completion
31st May 2005	EIA Approval issued by Shaanxi Province Environmental Protection Bureau
27th June 2005	Notice on Adjusting on-grid Tariff in Shaanxi issued by Shaanxi Province Price Bureau
22nd August 2005	Board meeting resolution to suspend the project and research on CDM
17th October 2005	FSR Approval issued by Shaanxi Province Development and Reform Commission
15th November 2005	Board Meeting Resolution to apply the project for CDM
20th January 2006	Bank Loan Offer Letter issued by Chenggu County Industrial and Commercial Bank
31st April 2006	CDM Consulting Agreement between project owner and China National Water Resources & Electric Power Materials & Equipment Co., Ltd CDM Office
12th August 2006	Project Construction Command issued by Shaanxi Da'an Supervising Company Xushui River Supervising Division – **Project Start Date**
16th October 2006	Termsheet Signed with the CER buyer
30th March 2007	Validation Agreement with DOE
18th April 2007	Emission Reduction Purchase Agreement signed between the project owner and the buyer
13th July 2007	Project approved published at China NDRC CDM website[3]
7th September 2007	PDD published at UNFCCC website for **global stakeholder consultation**

Following the instruction in paragraph 5a), Annex 46 as per EB41, we provided below explanation:

[3] http://cdm.ccchina.gov.cn/WebSite/CDM/UpFile/File1347.pdf

- **The project owner was aware of CDM prior to the project activity start date, and that the benefits of CDM were a decisive factor in the decision to proceed with the project.**

  On 22nd, August 2005 the shareholders of Shaanxi Hengfa Hydropwer Development Co., Ltd held their fith board meeting. It was agreed to suspend the development of the project due to the expected poor financial return despite the increase on the tariff newly published by Shaanxi Province Price Bureau[4]. The project owner at that time was aware of CDM development in China[5] and it was decided to have the general manager of the company research CDM to see if their project can qualify. On 15th November 2005 at the sixth board meeting, the General Manager reported back on the possibility for the project to be registered under the CDM and secure further financing. .

  The project owner then applied for bank loan with consideration of CDM revenue to the project. On 20th January 2006 Chenggu County Industiral and Commerical Bank confirmed a loan to the project would be provided if the owner agreed to develop the project under the CDM. With the first small hydro project from China registered in December 2005[6], the parties involved had confidence that CDM would deliver meaningful revenue for the project. The project owner signed Baiguoshu with another project Shiba with a consultant for helping those projects' registration for CDM in April 2006. The project got started in August 2006. Two months later a termsheet was agreed by the project owner and the Buyer. And in March 2007 the Buyer contacted DOE for validation of the project.

  It shall be noted that in the early months of the project, given the fact the project owner was a small company with limited resources, it focused on getting the project underway. CDM registration at the time did not appear to take a long time and the project would only benefit from CDM after it was operating. So getting the project construction under way was a logical priority.

Yours faithfully,

Des Godson, Director

Enclosure: Appendix I – Representative sample of benchmark adopted in the small scale hydropower projects registered in 2008

[4] Notice on Shaanxi Province Price Bureau Adjusting Tariff to Shaanxi Grid [Shaan Jia Jia Fa [2005] No.100]

[5] http://cdm.ccchina.gov.cn/web/Main.asp?ColumnId=18&ScrollAction=3; http://cdm.ccchina.gov.cn/web/NewsInfo.asp?NewsId=387

[6] http://cdm.unfccc.int/Projects/DB/DNV-CUK1131715798.81/view

Appendix I -- Representative sample of benchmark adopted in the small scale hydropower projects registered in 2008

Project Name	Ref No.	Installed Capacity	Registration Date	Project Construction Date	Adopted benchmark
Yunnan Lincang Zhenai Hydropower Project	**1994**	**9.6MW**	**8-Nov-08**	**May-06**	**10%**
Dongliuxi Erji 12.6MW Hydropower Project in Hubei Province	1960	12.6MW	27-Oct-08	May-05	10%
Lijiang Xinzhuhe Second Level Hydropower Project	**1879**	**12.6MW**	**27-Oct-08**	**Dec-06**	**10%**
Changshatou 10MW Hydropower Project	**1962**	**10MW**	**20-Oct-08**	**Jan-06**	**10%**
Yuexi Dayan Small Hydropower Project	**1814**	**12.6MW**	**1-Oct-08**	**Jul-06**	**10%**
14MW Bundle Small Hydropower Project in Xiping and Puhe	1513	14MW	12-Sep-08	Mar-05	10%
Shimen Suojie Small Hydropower project in Changde	1766	15MW	29-Aug-08	Dec-04	10%
Guizhou Zhenyuan Putian Hydropower Station	1785	6.4MW	24-Aug-08	Jun-05	10%
China Tuojiang Small Hydropower Project	1782	12.8MW	17-Aug-08	May-05	10%
China Xinhuang Xinchun Small Hydropower Project	1763	7.4MW	8-Aug-08	Dec-05	10%
Yunnan Yuanjiang Lutong Hydropower Station	1743	10MW	7-Aug-08	Feb-04	10%
Liyutang Small Hydropower Project	**1539**	**15MW**	**9-Jul-08**	**Jul-06**	**10%**
Yunnan Zemahe 15MW Small Hydropower Project	**1511**	**15MW**	**30-Jun-08**	**Jan-06**	**10%**
Mujiajia Erji 10MW Hydropower Project	**1504**	**10MW**	**25-Jun-08**	**Jan-06**	**10%**
Yunnan Dehong Longchuan Bienaihe 1st and 2nd level Hydropower Stations	1507	10.5MW	25-Jun-08	Jan-05	10%
Caoying Small Hydropower Project	1515	4.8MW	18-Jun-08	Jan-05	10%
Daguan Hongshayan 9.6MW Small Hydropower Project in Yunnan Province	1523	9.6MW	17-Jun-08	Dec-05	10%
Pihe 9.6MW Small Hydropower Project in Yunnan Province	1496	9.6MW	12-Jun-08	Mar-05	10%

Project Name	Ref No.	Installed Capacity	Registration Date	Project Construction Date	Adopted benchmark
Lishiluo Erji 6.4MW Small Hydropower Project	1485	6.4MW	12-Jun-08	Dec-05	10%
Douhuang 12.6MW Small Hydropower Project	1538	12.6MW	4-May-08	Mar-05	10%
Yunnan Mopo River 12.5MW Hydropower Project	**1510**	**12.5MW**	**29-Apr-08**	**Dec-06**	**10%**
Jielong Cascade Small Scale Hydropower Project	**1537**	**10.4MW**	**26-Apr-08**	**Jul-06**	**10%**
Guangdong Longtan 2*7MW Hydropower Project	1536	14MW	18-Apr-08	Sep-05	10%
China Zhijiang Peace Small Hydropower Project	**1555**	**13.5MW**	**13-Apr-08**	**May-06**	**10%**
Liujiashan 10MW Small Hydropower Project in Jiangxi	1477	10MW	10-Apr-08	Oct-04	10%
Yuejiang Small Hydropower Project	1490	12MW	9-Apr-08	Nov-04	10%
Bapan 12.7MW Hydropower Project	1522	12.7MW	7-Apr-08	Nov-05	10%
Baji River Stage I 10MW Hydropower Project	1498	10MW	5-Apr-08	Jun-05	10%
Aluhe 12.6MW Small Hydropower	**1438**	**12.6MW**	**3-Apr-08**	**Jul-06**	**10%**
Pushihe Erji 10MW Hydropower Project	**1430**	**10MW**	**3-Apr-08**	**Jan-06**	**10%**
Changpinghe Yiji and Erji 10.4MW Bundle Small Hydropower	**1524**	**10.4MW**	**31-Mar-08**	**Nov-06**	**10%**
Maocaoping 8MW Small Hydropower Project	**1489**	**8MW**	**31-Mar-08**	**Jul-06**	**10%**
Daguan Linguanyan Small Hydropower Project	1533	9.6MW	21-Mar-08	Jun-04	10%
Hubei Hefeng Yanzi Town Baishun Village Taohuashan Hydropower	1438	12.6MW	18-Feb-08	Aug-05	10%
Qinghai Dongxuerji 8MW Hydropower Project	**1426**	**8MW**	**16-Feb-08**	**Dec-07**	**10%**