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Att: Registration and Issuance Team

Your ref.:

CDM Ref: 2179

Our ref.:

PETMO

Date:

9 December 2008

Response to request for review Shaanxi Baiguoshu 13MW Hydropower Project (2179)

Dear Members of the UNFCCC Secretariat,

We refer to the requests for review by three Board members concerning DNV's request for registration of project activity "Shaanxi Baiguoshu 13MW Hydropower Project" and would like to provide the following initial response to the issues raised by the requests for review.

Comment 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. In particular the DOE should justify why an 8% benchmark was accepted for previous project activities submitted for registration (e.g. 1875).*

DNV Response:

The project proponent has compared the project financials against the benchmark of 10%. DNV would like to indicate that the selected benchmark is in accordance with the document No.SL16-95 (Economic evaluation code for small hydropower projects), issued by the Ministry of Water Resources of China. 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 No.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 (CHES)'s website², which provides the complete list of regulations for the hydropower sector including expired regulations, regulations under amendment and existing regulations in China.

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

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

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 (Document No.SL16-95)”, 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 would like to indicate that it is appropriate to use a benchmark of 10%, considering the fact that the project activity has an installed capacity of 13 MW, which is below the installed capacity of 25 MW.

With reference to the project referred to by the Executive Board (1875) “Sanchawan 32 MW Hydro Power Project in Guizhou Province China”, the benchmark of 8% is used in line with the “Interim Rules on Economic Assessment of Electrical Engineering Retrofit Project” (China Electric Power Press, 2003). Since the project activity (i) has an installed capacity of 32 MW, which is above 25 MW and is considered large scale in China, and (ii) is not located in a rural hydropower region, it would not be correct to apply the 10% benchmark.

Comment 2: *The DOE should further demonstrate that CDM benefits were a decisive factor in the decision to proceed with the project, as per guidance of EB 41, Annex 46, paragraph 5 a).*

DNV Response:

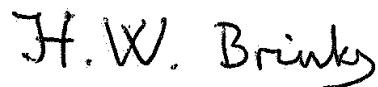
The prior consideration of the CDM project has been demonstrated by PP and verified by DNV by reviewing the below listed documents:

- In March 2005, the Feasibility Study Report (FSR) was completed by Survey and Design Institute of the tenth engineering Bureau of China Water Conservancy and Hydropower. This FSR of 2005 has been provided and reviewed by DNV during validation.
- On 31st May 2005, the EIA Approval was issued by Shaanxi Province Environmental Protection. This has been provided and reviewed by DNV during validation.
- On 22nd August 2005 the shareholders of Shaanxi Hengfa Hydropower Development Co.,Ltd held their 5th board meeting. Their decision was to suspend the two projects, Shiba and Baiguoshu, due to the expected poor financial return identified in the FSR. It was decided to look if the project could be qualified as CDM. Evidence of the board minutes has been provided by the PP and reviewed by DNV.
- On 15th November 2005 the shareholders of Shaanxi Hengfa Hydropower Development Co.,Ltd held their 6th board meeting and there was a resolution to apply for the projects Shiba and Baiguoshu as CDM projects after the General Manager reported that the project could be registered under CDM. Evidence of the board minutes has been provided by the PP and reviewed by DNV. Following this approval of the shareholders of the proposed project, the project owner applied for bank loan.
- On 20th January 2006 Chenggu County Industrial and Commercial Bank confirmed a loan to the project if the project owner agrees to develop the project under the CDM. Evidence of the loan confirmation under CDM consideration has been provided by the PP and reviewed by DNV during validation.

- On 31st April 2006 the project owner signed an agreement with CDM consultant China National Water Resources & Electric Power Materials & Equipment Co., Ltd. Evidence has been provided by PP and reviewed by DNV.
- On 12th August 2006 the project construction permit was issued by Shaanxi Daan Supervision Company Xushui River Hydropower Supervision Department. Evidence of the command has been provided by PP and checked by DNV. This date has been taken as **project start date** by the project developer.
- On 30th March 2007 validation contract for the project was signed by DNV.
- On 7th September 2007 the PDD was published at UNFCCC website for global stakeholder consultation.

We sincerely hope that the Board accepts our aforementioned explanations.

Yours faithfully
for DET NORSKE VERITAS CERTIFICATION AS



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