

Mr. Rajesh Kumar Sethi
Chair, CDM Executive Board
UNFCCC Secretariat
CDMinfo@unfccc.int

Jan 21st 2009

Re: *Request for review of the request for registration for the CDM project activity "Zhoujiayuan Hydropower Project in Hubei Province" (Ref. No. 2212).*

Dear Mr. Sethi,

Zhuxi Zhoujiayuan Hydropower Development Co., Ltd has been informed that the request for registration for the CDM project activity "Zhoujiayuan Hydropower Project in Hubei Province" (Ref. No. 2212) was put under consideration for review.

In response to the four issues raised from the request for review by the CDM Executive Board, we would like to provide to you, and through you, to the CDM Executive Board, our clarifications and explanations to address the concerns by the Executive Board, as following.

The first issue raised in the request for review is:

"Further clarification is required on how the DOE has validated the prior consideration of the CDM as the PPs mention that the first CDM consultancy agreement was made in early 2006, while the DOE has validated it to be made in November 2005. The PP/DOE is requested to provide evidence that continuing and real actions were taken to secure CDM status (EB41, Annex 46, para 5 (b))."

The prior consideration of CDM benefits were seriously considered and decided before the construction of the project. In year 2004, the relevant design reports (Environmental Impact Assessment Report, Feasibility Study Report and Preliminary Design Report etc.) and their approvals of the proposed project were all completed by the project entity (at time the main stakeholder was Wuhan Honglin Group Co., Ltd). On Nov 15th 2005, the Agreement for CDM project development and project financing of this project was signed between the project entity and the first consultant. For the reason that Wuhan Honglin Group Co., Ltd had transferred all the shares of the project entity to Shiyan City Jinlutong Motor Trade Co., Ltd on Nov 07th 2005 and the project did not start to be construction within the deadline date of the local authority (Zhuxi County Government) resulting from the financing barriers and lower financial indicators, the local government removed the construction contract with the Wuhan Honglin Group Co., Ltd about the project on Nov 20th 2005. After that, on Nov 24th 2005, suggested by the design entity of Preliminary Design Report (PDR) and also considering that CDM revenues could increase the financial feasibility of the project, the Shiyan City Jinlutong Motor Trade Co., Ltd (the current main stakeholder of the project entity) reached agreement with Zhuxi County Government on the project development, which permitted the construction started within 45 days. In this agreement, the project entity also regarded the future CDM revenues as the part of financing plan, and then the project development took place under the CDM. On Dec 26th 2005, the project entity changed the registration again in Zhuxi County Administration for Industry and Commerce, and its main stakeholder changed as Shiyan City Jinlutong Motor Trade Co., Ltd.

Here, in view of this issue raised by CDM EB, we are sorry to the mistake in requesting for registration PDD of the first CDM consultancy agreement made in early 2006. As per the requirements of EB41, Annex 46, paragraph 5(b), we also would like to provide these following chronicles for this project so as to indicate that the awareness of CDM prior to the project activity start date, the benefits of CDM were a decisive factor in the decision to proceed with the project, as well as continuing and real actions were taken to ensure CDM status for the project in parallel with its implementation. And also we hope that the consideration of CDM for this project prior to the start date and continuing real action taken for securing CDM status in parallel with the implementation of each station have been justified clearly.

	Timeline	Milestone
1	Mar 2004	The report of Environmental Impact Assessment (EIA) for this project was carried out by the Second Navigation Design Institute of Transport Department.
2	Apr 2004	The PDR was completed by Water Resource and Hydropower Reconnaissance Design Institute in Shiyan City.
3	Apr 09 th 2004	The EIA report was approved by Hubei Provincial Environmental Protection Bureau.
4	Jun 28 th 2004	The PDR was approved by Hubei Provincial Development and Reform Committee
5	Nov 07 th 2005	The main stakeholder of the project entity, Wuhan Honglin Group Co., Ltd had transferred all the shares of the project entity to Shiyan City Jinlutong Motor Trade Co., Ltd.
6	Nov 15 th 2005	The Agreement for CDM project development and project financing of this project was signed between the project entity and the first consultant.
7	Nov 20 th 2005	The Letter to remove the construction contract of the project with the Wuhan Honglin Group Co., Ltd was issued by Zhuxi County Government, in view of Wuhan Honglin Group Co., Ltd had transferred all the shares of the project entity to Shiyan City Jinlutong Motor Trade Co., Ltd and the project did not start to be construction within the deadline date of the local authority (Zhuxi County Government).
8	Nov 21 st 2005	The notice about the assessment of investment parameters in PDR of Zhoujiayuan Hydropower Station was issued by design entity of PDR, entrusted by the Shiyan City Jinlutong Motor Trade Co., Ltd (the main stakeholder of the project entity). In this notice, the project entity was suggested by the design entity to apply for CDM to overcome the approval risks of feed-in tariff.
9	Nov 24 th 2005	The Development Agreement of Zhoujiayuan Hydropower Station was signed between the Shiyan City Jinlutong Motor Trade Co., Ltd (the main stakeholder of the project entity) and the Zhuxi County Government. In this agreement, the project entity also regarded the future CDM revenues as the part of financing plan.
10	Nov 30 th 2005	The Supervision Contract was signed between the project entity and Xiangfan City Water Resources Planning and Design Institute in Hubei Province, which agreed to start construction of the project.
11	Dec 26 th 2005	The project entity changed the registration again in Zhuxi County Administration for Industry and Commerce, and its main stakeholder was changed as Shiyan City Jinlutong Motor Trade

		Co., Ltd.
12	Apr 21 st 2007	The project entity contracted the current consultant (Gansu Huike Centre for Technology Transferring on Resource and Environment), for CDM development consulting, but due to the fact the previous consultant could not make any progress within the committed timeline set in the contract.
13	Jul 30 th 2007	The project was submitted to the 34 th meeting of CDM Executive Board of China for registration.
14	Jun 20 th 2007	The Term Sheet for the Purchase of Certified Emission Reductions was signed between the project entity and MGM Carbon Portfolio S.a.R.L.
15	Jul 12 th 2007	The Emission Reduction Purchase Agreement was signed between the project entity and MGM Carbon Portfolio S.a.R.L.
16	Sep 30 th 2007	The Letter of Approval of China DNA was issued.
17	Oct 07 th 2007	The PDD version 02 was made publicly available on DNV's climate change website.
18	Aug 13 th 2008	The project is submitted to UNFCCC Secretariat requesting registration.

The second issue raised in the request for review is:

“Further clarification is required on how the DOE has validated the suitability of the input values to the investment analysis, as per the requirements of EB 38 paragraph 54(c) guidance.”

In view of this issue from CDM EB, here, we would like to give an elaboration for the justification of the major input values selected for the IRR analysis at the time of the investment decision.

1. Annual output to the grid

The input value-172,405 MWh/year

For the reason that the value of electricity output based on the water availability assessment (such as the installed capacity, annual generating hours, water head utilized and the feed water flow etc.) from 41 years measurement of Huiwan River in PDR, this value would not have materially changed given the 17 months gap between the approval of PDR on Jun 18th 2004 and the starting date of the project on Nov 30th 2005. Therefore, this value is valid and applicable at the time of investment decision.

2. Total Static Investment

The input value-385.223 Million RMB Yuan

The value of total static investment to the IRR calculation sourced from PDR, which can be considered still valid at the starting date of the project activity referring to the notice about the assessment of investment parameters in PDR of Zhoujiayuan Hydropower Station by design entity on Nov 21st 2005 and the Supervision Contract on Nov 30th 2005. In these two materials above, the total static investment was clearly indicated 385.223 Million RMB Yuan, and has not changed at the time of investment decision.

Based on the expertise on hydro in China, the hydropower project in China during “eleventh five-year developing session (from 2006 to 2010)” is about 9000 RMB Yuan per unit kW¹, and for this

¹ Wang Minhao. Strengthening the Study on the Hydropower Project Cost to Ensure the Essence Safety of

project, the per unit KW investment is 8025 RMB Yuan in PDD. Furthermore, this per unit KW of 8025 RMB Yuan is lower than the values of all the two similar hydropower projects registered by CDM EB in Hubei Province (Ref. No. 0904 with 9786 RMB Yuan and Ref. No. 1607 with 8401RMB Yuan) until now. Therefore, this further shows that the investment of the proposed project is not an extraordinary case and can be considered as valid and conservative.

3. Feed-in Tariff

The input value-0.3440 RMB Yuan/kWh

It is well-known that the tariff is strictly regulated by relevant authorities in China. The Feed-in Tariff sourced the Notice on the feed-in tariff of water source & hydropower project in Huiwan River basin by Hubei Provincial Price Bureau (File No. Ejianengjiaohan [2003] 118) on Sep 1st 2003, and also can be confirmed in the “Notice about the Feed-in Tariff of the newly operational hydropower turbines” by Hubei Provincial Price Bureau on Nov 22nd 2006 (File No. Ejianengjiao[2006] 257). Therefore, based on these two documents above, it is unlikely in the context of the project that the input values would have materially changed, and thus is applicable and the basis of the decision to proceed with the investment in the project.

4. O&M cost

The input value-8.2452 Million RMB Yuan

The O&M costs have been compared with the data reported for other hydropower projects registered by CDM EB in the Hubei province. The input value of O&M accounted for 2.14% of the total static investment of this project, which is in the fluctuate range of 1.86%-2.25% of the six hydropower projects registered by CDM EB in Hubei Province (the statistics detailed as the following table), and therefore it can be considered reasonable and applicable.

	Project Name	Reference No.	Percentage
1	Dongliuxi Erji 12.6 MW Hydropower Project in Hubei Province	1960	2.11%
2	Hubei Hefeng Yanzi Town Baishun Village Taohuashan Hydropower Station	1438	2.15%
3	Guangrun Hydropower Project in Hubei Province, P.R. China	904	2.14%
4	Changshatou 10MW Hydropower Project in Hubei Province	1962	1.50%
5	Hubei Xuanen Dongping Hydropower Station	1433	2.25%
6	Hubei Xiakou Hydropower Project of Nanzhang County, Xiangfan City, Hubei Province, P.R. China	1607	1.86%

In summary, it can be concluded that the input values from the PDR and other independent sources are still valid and applicable at the time of investment decision, even if the 17 months gap between the approval of PDR and the starting date of the project, and therefore can be used in the IRR calculation of the project. Therefore, this is in consistent with the requirements of paragraph 54 (c) in EB 38 meeting report.

The third issue raised in the request for review is:

“The DOE is requested to justify the suitability of the benchmark, in particular, appropriateness of a benchmark of 1995 when assessing the additionality of a project activity with investment decision made in 2005.”

The chosen benchmark 10% of this project is from the “Economic evaluation code for small hydropower projects (Document No.SL16-95)”, which was issued by Ministry of Water Resources of China in year 1995, and can be justified still in use and applicable by publicly available resource from the Notice on the current effective technical standard of water resources ([2006] No.05) issued by Ministry of Water Resources of China in year 2006². According to the applicability of “Economic evaluation code for small hydropower projects (Document No.SL16-95)”, the code was applied to the small scale hydropower projects with the installed capacity below 25MW, and the small scale hydropower projects with the installed capacity below 50MW in the rural hydropower region can be referred to this code. This benchmark 10% of financial internal rate of return (FIRR) on the total investment is representing the common practice for investment decision processes for small scale hydro projects in China, and that no other specific benchmark for this type of project has been proposed more recently. Therefore, in view of the project is small scale hydropower and also located in the remote rural region, the project consultant used this benchmark in PDD, and further can be justified as suitability when investment decision made in the end of 2005.

The Fourth issue raised in the request for review is:

“The DOE is requested to confirm that the ex-ante emission factor of 0.97455tCO₂/MWh complies with the requirements of the methodology regarding the use of the most up-to-date data at the time of validation as the PDD for the global stakeholder process used a different emission factor (0.9636tCO₂/MWh). If not, the emission factor should be based on the latest available data at the time of commencing validation.”

The PDD version 02 for the global stakeholder process was completed by the consultant on Jun 15th 2007. At that time, the grid baseline emission factor was calculated as 0.9636 tCO₂e/MWh in PDD, which was referred to the grid baseline emission factor of Central China Power Grid (CCPG) published by the China’s DNA of National Development and Reform Committee (NDRC) based on the available data till year 2006³. On Aug 9th 2007, the NDRC published the authoritative ex-ante baseline emission factor of CCPG with the value of 0.97065tCO₂e/MWh with the OM of 1.2899 tCO₂e/MWh and BM of 0.6514tCO₂e/MWh, which was based on the data available till year 2007. However, the project consultant found a few faults of BM according to China Energy Statistical Yearbook 2006, and the recalculated data was 0.97455tCO₂e/MWh which had been verified by DOE. Therefore, the PDD version 04 to CDM EB requesting for registration completed on Jul 09th 2008, selected this value as the grid baseline emission factor based on the latest the available data at the time of validation, which also is in consistent with the emission factors selected by the recently registered project (such as the Reference No.1960 registered on Oct 27th 2008 and No.1962 registered on Oct 20th 2008) by CDM EB.

The main documents supporting the justification above can be referred as follows:

1. The notice about the assessment of investment parameters in PDR of Zhoujiayuan Hydropower Station by design entity of PDR dated 11-21-2005 as Annex1

² <http://www.mwr.gov.cn/tzgg/qt/20060926000000479251.aspx>

³ <http://cdm.ccchina.gov.cn/web/NewsInfo.asp?NewsId=1850>

2. The Development Agreement of Zhoujiayuan Hydropower Station between the Shiyang City Jinlutong Motor Trade Co., Ltd (the main stakeholder of the project entity) and the Zhuxi County Government dated 11-24-2005 as Annex 2
3. The Supervision Contract between the project entity and Xiangfan City Water Resources Planning and Design Institute in Hubei Province dated 11-30-2005 as Annex 3
4. The CDM development agreement between the project entity and the current consultant (now act as Gansu Huike Centre for Technology Transferring on Resource and Environment) dated 04-21-2007 as Annex 4
5. The Emission Reduction Purchase Agreement between the project entity and MGM Carbon Portfolio S.a.R.L dated 07-12-2007 as Annex 5

All the materials mentioned have been submitted to DOE for verification. We sincerely hope that with above clarifications and explanations and more information as provided above, the CDM EB would accept approve our project and register it in a timely manner.