



JAPAN CONSULTING INSTITUTE

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Ref. No. : JCI-CDM-08-029

CDM Executive Board
c/o Mr. Kai-Uwe Barani Schmit
Manager CDM Section

Subject : Response on the Request for review for registration request

(Reference No. 1604: Guangxi Xiafu Hydro Power Project)

Dear Sirs,

Please find the attached document which shows our response on the request for review to the CDM project with the reference number 1604.

In case you have any further question or request, please let us know by phone call or Email.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'H. Sato', is written over a horizontal line.

Hideyuki Sato

Manager of Assessment Group

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Initial Response of DOE to Review Requests

(Reference No. 1604: Guangxi Xiafu Hydro Power Project)

Issue 1: *Further clarification should be provided regarding how the DOE has validated the project activity start date, in particular how it has been validated that construction had been abandoned in March 2005.*

Response of JCI:

JCI considers that the starting date of the project activity specified in both PDD-Guidelines (ver.6.2) and Glossary of CDM terms (ver.03) is the starting date of the project as a CDM project activity. Since the re-starting of the construction of the project is the first action conducted to aim registration as a CDM project after the decision of CDM consideration, the definition of the “starting date” is believed to meet those provided in both of the documents mentioned above.

JCI concentrated the validation effort to confirm the background situations of the Project including quantitative values that made the Project financially unattractive and stop construction, and their relevancies to the project design, rather than simply justifying the means of validation of the date of stop construction as described in the original version of the validation report.

The progress of construction before the stop of construction is rather significant but still far less than 50% as explained by Project Participant (PP) during on-site survey and in its response to the Review Requests. However, the construction of the Project would not have been resumed without the support of CDM under the financial situation of the project owner as explained by PP. This is clearly justified by the additionality test of the project with the “Tool for the demonstration and assessment of Additionality (version 03)” as provided in PDD-Ver. 05. It shall be mentioned that the additionality test was conducted without taking account of the steep rise of construction materials during construction period as indicated in the original Validation Report. Therefore the re-starting date is deemed eligible for the “starting date” of the CDM project activity.

The date of stop construction, 15 March 2005, is provided in the revised version of the validation report in page 17 of the section “4.4 Additionality” and revised other relevant section, pages 5 and 6, as well as the initial starting date of the construction, 29 September 2003.

The dates of stop of construction, 15 March 2005, and re-start of construction, 19 August 2005, were confirmed on the document of work order during site visit. The evidences of the “Stop of the Construction” and the “Re-starting of the Construction” are provided as a part of this response.



Issue 2: Further clarification is also required regarding whether costs incurred before 19 August 2005 have been included in the investment analysis, and if so justification should be provided for this.

Response of JCI:

As can be found in both PDD and VR that the project started as a business without CDM support in September 2003 and this phase of construction stopped in March 2005 due to the financial difficulties. The major financial issues encountered are application of Value Added Tax rate of 17 % and low fee-in tariff of 0.26 RMB/kWh, which were assumed as 6% and 0.27 RMB/kWh in the “Initial Feasibility Study”, respectively. The “Initial Feasibility Study” was employed for loan decision and also decision to proceed with the project in 2003. Another financial issue of the Project was a step rise in construction materials that was provided in the “Appendix C” to the original Validation Report. Such factors except the last one, increase of construction materials, were taken into account to revise the feasibility study of the Project in June 2005. The financial parameters specified in the “Revised Feasibility Study Report” are confirmed to be employed in the financial analysis for request of registration of the Project as specified in the original Validation Report.

Financial analysis including sensitivity analysis employed in the Project includes investment costs for both initial phase up to the re-starting date of 19 August 2005 and remaining phase of construction. Generally, financial performance of a specific part of the project may be individually evaluated if investment and return from the respective part of the product can be clearly separated. Otherwise the financial performance of a project is to be evaluated at any point of time during construction phase on the basis of all the investment costs that is necessary to complete the construction. In this specific case, the revenue from the sales of electricity cannot be separated for each part, i.e. initial phase and the remaining phase. Therefore the financial performance of this specific Project shall be evaluated on the basis of the total investment that is necessary for both initial phase and the remaining phase.

Wuzhou Subsidiary of China Agricultural Bank who provides the loan decided to resume financing the Project by the IRR calculation on the basis of the total investment covering both initial phase and the remaining phase. Project owner also decided to apply for CDM on the basis of financial performance evaluated in the Revised Feasibility Study in which the total investment costs were employed as provided in the design of the Project.

JCI considers that the scheme of evaluation of the financial performance of the Project employed in the current project design is reasonable.

***Other issue:** The RIT member has a concern that the validation requirement under the paragraph 37 of CDM M&P requiring contractual arrangement between PP and the DOE has not been met as DOE has been contracted by Coway International TechTrans Co. Ltd., which is the CDM consultant and not the project participant.*

Response of JCI:

Coway International TechTrans Co. Ltd. (Coway) that entrusted the validation activity to JCI is not a project participant. However, Coway undertook setting up CDM projects including validation under the contractual arrangement on behalf of project participants, Zhaoping



Guihai Electric Power Co. Ltd. (project owner) and Marubeni. JCI therefore considered that the contractual arrangement for the project is in compliance with the paragraph 37 of CDM M&P.

Attachment: Evidences of “Stop of the Construction” and “Re-starting of the Construction”.