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Reference CDM Ref 0786
Attention UNFCCC Secretariat

Response to request for review

“Durgun Hydropower Project in Mongolia” (0786)

Dear Members of the CDM Executive Board,

Mitsubishi UFJ Securities Co., Ltd. (MUS) refers to the requests for review raised by three Board members concerning the request for registration of the “Durgun Hydropower Project in Mongolia” project (0786).

The issues raised by the review requested and MUS’ response to each issue are as follows:

Reason for Request 1

The PDD (version 02, 10/11/2006) lacks explaining cross-checking of monitored electricity generation data; provision for any back-up metering in case of routine calibration; auxiliary electricity consumption; import electricity if there is a need.

Response from MUS

The exported electricity will be monitored using electricity meters at the Project site. To cross-check the monitored electricity, it will be compared with the records from the substation and/or grid system.

In case of routine calibration, back-up meters, which will be periodically calibrated, will be used to monitor electricity exported or the calibration will be conducted when turbines are not operating.

There will be no auxiliary fuel consumption in the Project activity. The electricity consumed

on-site will be provided by the Project activity or imported when the hydropower plant cannot provide parasitic electricity consumption. For the electricity imported, the monitored amount will be compared with the receipt and/or the records from the grid system. CERs will be claimed only for the net electricity exported, i.e. electricity exported minus electricity imported.. These facts have been clearly stated in the revised PDD.

The PDD has also been revised to reflect the effects of parasitic power consumption, which were not explicitly accounted for in the original version.

Reason for Request 2

The project's additionality has been assessed based on IRR only, (PDD lacks showing IRR with CDM revenue).

Response from MUS

Attachment A (information on additionality) to the Appendix B of "Simplified modalities and procedures for small-scale clean development mechanism project activities" does not provide a specific guideline for IRR calculation. Based on the guideline in the "Tool for the demonstration and assessment of additionality," it was our understanding that the PDD is not required to show the IRR with CDM revenue.

However, in response to the review comment, we confirm that under the assumption of CER price of 10 Euro/CER, the IRR will increase by 1.02 % to 6.00%. While the increase in the IRR is relatively small, the CDM is essential for the implementation of the Project.

Together with the Taishir project that has also filed a request for registration for the CDM, the Project represents the first hydropower project to be commissioned in Mongolia. As the first of its kind in the country, the Project activity faced much scepticism as well as numerous technological barriers. CERs revenues, estimated to be approximately Euro 300,000 annually, could total Euro 1.5 million before the end of the first commitment period. This is a sizable amount in Mongolia and corresponds to more than 5% of the initial investment. Without the expected CER revenue and the prestige associated with CDM status, a favourable decision for the Project could not have been reached.

Reason for Request 3

The PDD (version 02, 10/11/2006) lacks references on Mongolian electricity generation data in order to estimate combined margin emission factor.

Response from MUS

The estimation of combined margin emission factor is provided in the Appendix 3 of the PDD. Operating margin is calculated based on the simple OM since dispatch data is not available and low-cost/must run resources constitute less than 50% of total grid generation. As indicated in the footnote 4 of ACM0002 (version 06), aggregated generation and fuel consumption data is used for the OM calculation since there is no disaggregated data for the year of 2003 and 2004. The information used for the estimation of combined margin emission factor is official data provided by Mongolian Government (Ministry of Fuel and Energy). These facts have been added in the revised PDD.

Reason for Request 4

The PDD (version 02 10/11/2006) lacks explaining how the generated electricity will be utilized or will be despatched to national grid.

Response from MUS

The electricity produced in Durgun hydropower plant will be used in Bayan Ulgii, Khovd and Uvs provinces. The main use of the electricity generated is for commercial and residential purposes. The electricity generated in Durgun hydropower plant will be dispatched to the grid (Myangad substation) by 110 kV transmission line. The length of transmission line is approximately 76 km. This information has been clearly stated in the revised PDD.

We hope that the Board accepts the above explanations and we look forward to the registration of the project activity.

Sincerely yours,

Hatano Junji

Chairman

Clean Energy Finance Committee

Mitsubishi UFJ Securities Co., Ltd.