

Response to the requests for review to the request for registration of the “Sichuan Carbide Calcium Residues Based Cement Plant Project in Leshan City” (Ref. 2134),

Dear Chairman of the Board

We were informed that the project “Sichuan Carbide Calcium Residues Based Cement Plant Project” (Ref. 2134) was requested for review by CDM Executive Board. As required by the Board, we would like to answer the question and clarify the issue as raised in the request by the Board as follows:

Comment of Request for review:

The PP/DOE shall explain why the calculation of financial costs (e.g. capital and variable costs) and account cost savings due to net energy gains, if any, from the project activity is not included for the selection of the baseline scenario as stated in AM0033 methodology (page 2).

Response of PP:

In the paragraph B.4 of original PDD, due to the annual M&P cost (material and power cost) being initially selected as the financial indicator to identify the baseline scenario, the financial cost and gain of energy saving of two alternatives (baseline and project activity) had been involved but not directly and fully illuminated.

So as to better satisfy requirements of baseline identification in AM0033, in the paragraph B.4 of the revised PDD, PP has switched the financial comparison of M&P cost into a NPV analysis for the incremental investment and cost of project activity.

1. Clarification of the adjustment of financial analysis in baseline identification

Since the project activity (**Alternative 2**, substituting carbonated calcium source by CCR as non-carbonated calcium source in raw material) is regarded as an incremental investment to the **Alternative 1** that constructs a cement plant using raw materials from conventional carbonated calcium sources with New dry process technology. Only if the NPV analysis outputs a negative value, the project activity can be justified being without any financial profitability.

In the NPV analysis process, the basic parameters are based on FSR of project activity and other authorized documents, furthermore, the key parameters of both two alternatives is listed e.g. fixed asset investment and M&P cost etc. then the incremental cost or gains is achieved by a simple comparison.(please refer to Table 1)

From the basis data, obviously the NPV of the project activity is negative, given that no additional revenue is brought by the significant incremental investment and the additional cost.

Table 1. key parameters of NPV analysis of project activity.

No.	Basic financial parameters	Unit	Alternative 1	Alternative 2 (project)	Incremental Cost or Gains	Remarks	Source
1	fixed asset investment	million RMB	206.74	218.95	12.21	<i>Incremental fixed asset investment of raw material switching.</i>	Certificate from the design institute
2	Material & Power cost	million RMB	105.30	109.78	4.48	<i>Total additional M&P cost of raw material switching.</i>	FSR
2.1	<i>Material cost</i>	million RMB	31.25	39,09	7.84	<i>Additional material cost of raw material switching.</i>	FSR
2.2	<i>Fuel and Power cost</i>	million RMB	74,05	70,69	3.36	<i>Gain of energy saving of raw material switching.</i>	FSR
3	Estimated annual sales income	million RMB	166.80	166.80	0	<i>No additional revenue occurred</i>	FSR
4	A discount rate	--	12%	12%	N/A	--	Sector benchmark
5	Lifetime of project	years	21	21	N/A	--	FSR
6	VAT	--	17%	17%	N/A	--	FSR
7	urban maintenance and construction tax	--	7%	7%	N/A	--	FSR
8	surtax for education	--	4%	4%	N/A	--	FSR
9	Income Tax	--	33%	33% (5 years free)	N/A	<i>5 years Tax free income has been considered in NPV calculation.</i>	FSR

(For detail data and calculation process, please refer to the sheets of financial analysis of the project activity as an independent annex.)

2. result of the NPV analysis in baseline identification

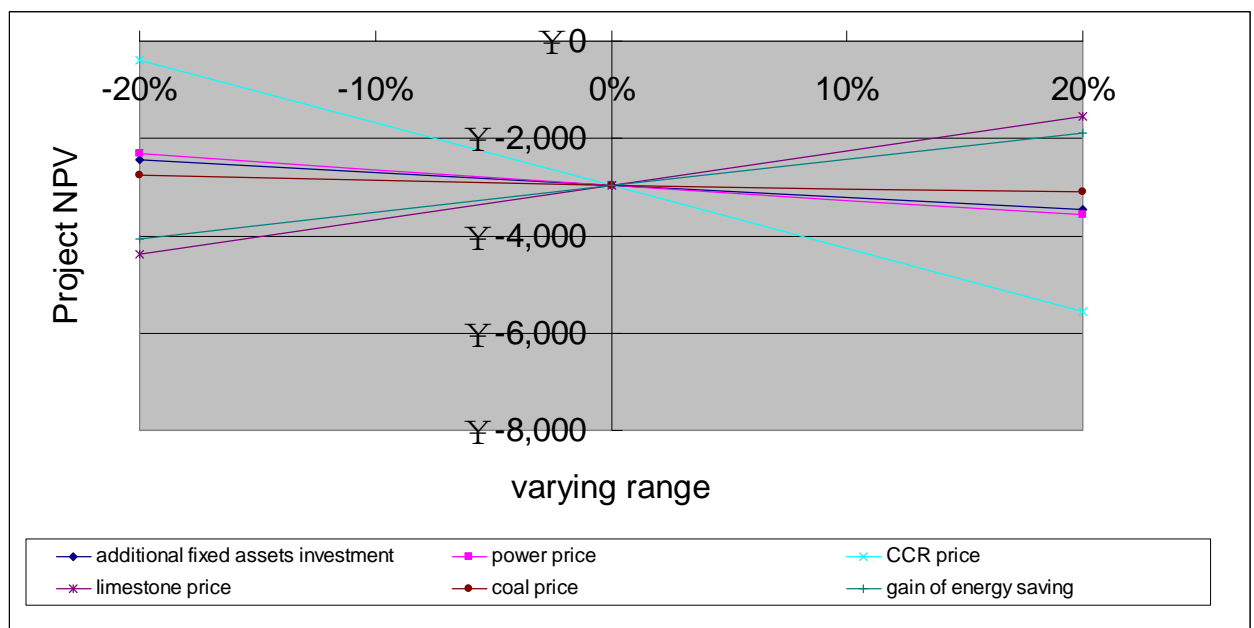
According to calculation based on the above data, without CERs sales revenues, the NPV is -29.7 million RMB, thus the Project is not profitable.

Besides, in sensitivity analysis processes, while following financial parameters vary with a reasonable range (-20% to 20%), the NPV of the Project is always negative.

A. financial parameters:

- Additional fixed asset investment
- CCR price
- limestone price
- coal price
- power price
- gain of energy saving

A. result of sensitivity analysis:



Drawing on the above results, it is evident that Alternative 2 is not financial profitable, thereby being excluded as a baseline scenario. Therefore, as a more financial feasible alternative, the Alternative 1 is identified as the baseline scenario.

3. Other relevant correction in the revised PDD.

3.1 Given above corrections of financial analysis of baseline identification in paragraph B.4, the counterpart of that in B.5 is also adjusted accordingly. The NPV analysis in B.5 is changed to focus on the incremental investment and cost, the same as that in B.4.

3.2 Since in the process of selecting baseline scenario, the project activity is regarded as a

incremental investment to the baseline scenario, relevant description in part A.2 is revised accordingly.

3.3 Some detailed information in PDD is updated, although not directly related to the RfR. For example, three milestones of the project activity are supplemented in the timeline to support the project's starting date, and the quality standard of clinker is updated to the current national standard.

(Above statement has been included in the revised PDD, as an independent annex)

Sincerely yours

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(On the behalf of PP, Sichuan Yongxiang Co., Ltd. (Owner) and PEAR Carbon Offset Initiative, Ltd. (Buyer))